

NUTRACEA  
Form POS AM  
April 30, 2008

As filed with the Securities and Exchange Commission on April 30, 2008

Registration No. 333-141744

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

POST-EFFECTIVE AMENDMENT NO. 1  
on Form S-1

REGISTRATION STATEMENT UNDER THE  
SECURITIES ACT OF 1933

NUTRACEA  
(Name of Small Business Issuer in Its Charter)

California (State or Other Jurisdiction of Incorporation or Organization)	2040 (Primary Standard Industrial Classification Code Number)	87-0673375 (I.R.S. Employer Identification No.)
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5090 N. 40th Street, Suite 400, Phoenix, Arizona 85018  
(602) 522-6000  
(Address and Telephone Number of Principal Executive Offices)

Bradley D. Edson  
5090 N. 40th Street, Suite 400, Phoenix, Arizona 85018  
(602) 522-6000  
(Name, Address and Telephone Number of Agent For Service)

Copy to:

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

Approximate Date of Commencement of Proposed Sale to the Public: from time to time after the effective date of this Registration Statement.

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

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

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statement for the same offering. " \_\_\_\_\_

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

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

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

Large accelerated filer " Accelerated filer

Non-accelerated filer " (Do not check if a smaller reporting company) Smaller reporting company "

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

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

#### EXPLANATORY NOTE

This Post-Effective Amendment is being filed to include updated financial, business and other information for NutraCea as required by Section 10(a)(3) of the Securities Act of 1933 and to update the section entitled "Selling Security Holders" beginning on page 68 of the prospectus which is a part of this registration statement to reflect earlier sales or dispositions made by the named Selling Security Holders.

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

SUBJECT TO COMPLETION, DATED APRIL 30, 2008.

PROSPECTUS

NutraCea

14,830,540 Shares of Common Stock

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This prospectus relates to the disposition of up to 14,830,540 shares of NutraCea common stock or interests therein by the shareholders named in this prospectus under the heading "Selling Security Holders". We will not receive any of the proceeds from the disposition of the shares covered hereby or interests therein, although we will receive the proceeds from the cash exercise of warrants to acquire certain of these shares.

Our common stock is quoted on the Over-the-Counter ("OTC") Bulletin Board under the symbol "NTRZ.OB". On April 24, 2008, the last sale price of our common stock on the OTC Bulletin Board was \$1.13 per share.

Our principal executive offices are located at 5090 N. 40th Street, Suite 400, Phoenix, Arizona 85018, and our telephone number is (602) 522-6000.

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INVESTING IN THE COMMON STOCK OFFERED HEREIN INVOLVES A HIGH DEGREE OF RISK. YOU SHOULD PURCHASE SHARES ONLY IF YOU CAN AFFORD A COMPLETE LOSS OF YOUR INVESTMENT. YOU SHOULD CONSIDER CAREFULLY THE "RISK FACTORS" CONTAINED IN THIS PROSPECTUS BEGINNING ON PAGE 5.

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

The date of this prospectus is April 30, 2008.

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ABOUT THIS PROSPECTUS

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

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

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

Any forward looking statements contained in this prospectus or any prospectus supplement are only estimates or predictions of future events based on information currently available to our management and management’s current beliefs about the potential outcome of future events. Whether these future events will occur as management anticipates, whether we will achieve our business objectives, and whether our revenues, operating results, or financial condition will improve in future periods are subject to numerous risks. The section of this prospectus captioned “Risk Factors,” beginning on page 5, provides a summary of the various risks that could cause our actual results or future financial condition to differ materially from forward-looking statements made in this prospectus. The factors discussed in this section are not intended to represent a complete list of all the factors that could adversely affect our business, revenues, operating results, or financial condition. Other factors that we have not considered may also have an adverse effect on our business, revenues, operating results, or financial condition, and the factors we have identified could affect us to a greater extent than we currently anticipate. Before making any investment in our securities, we encourage you to carefully read the information contained under the caption “Risk Factors,” as well the other information contained in this prospectus and any prospectus supplement we may file.

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

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

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PROSPECTUS SUMMARY

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

Issuer: NutraCea  
5090 N. 40th Street, Suite 400  
Phoenix, Arizona 85018  
(602) 522-6000

Description of Business: We are a developer, formulator and distributor of nutraceutical, health, cosmetic and nutrition products using stabilized rice bran and specially formulated rice bran oil. We have also developed dietary products that provide the benefits of stabilized rice bran and rice bran oil as a nutritional supplement for humans and animals. Consumer products are marketed under the TheraFoods® name. Medical supplements are marketed under the NutraCea® name. Products for veterinary and animal use are marketed under the NutraGlo® name. Cosmetics are marketed under the NutraBeautical® name. A description of our business begins on page 25 of this prospectus.

On October 4, 2005, we acquired The RiceX Company. The RiceX Company manufactures and distributes nutritionally dense foods and food ingredients made from stabilized rice bran for supply to the global food manufacturing and equine feed industries.

The Offering: This offering relates to the disposition of shares of our common stock, or interests therein, that are outstanding and shares of our common stock that may be acquired from time to time upon exercise of outstanding options and warrants. The selling shareholders and the number of shares that may be disposed of by each are set forth on page 68 of this prospectus.

Shares: 14,830,540 shares of our common stock. A description of our common stock is set forth on page 67 of this prospectus.

Manner of Sale: The selling shareholders may sell, transfer or otherwise dispose of any or all of their shares of common stock or interests in shares of common stock on any stock exchange, market or trading facility on which the shares are traded or in private transactions. These dispositions may be at fixed prices, at prevailing market prices at the time of sale, at prices related to the prevailing market price, at varying prices determined at the time of sale, or at negotiated prices. A description of the manner in which sales may be made is set forth in this prospectus beginning on page 73 of this prospectus.

Use of Proceeds: We will not receive any of the proceeds from the disposition of our common stock, or interest therein, by the selling shareholders.

Risk Factors: The securities offered hereby involve a high degree of risk and will result in immediate and substantial dilution. A discussion of additional risk factors relating to our stock, our business and this offering begins on page 5 of this prospectus.

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RISK FACTORS

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

Risks Related to Our Business

We have a limited operating history and have generated losses in each quarter of 2007, except the second, and in each quarter before 2006.

We began operations in February 2000 and incurred losses in each reporting period until the second fiscal quarter of 2006, and we incurred losses in each quarter of 2007 except the second. 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.

There are significant market risks associated with our business.

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

We depend on a limited number of customers.

During 2007, we received approximately 59% of product sales revenue from six customers. During 2006, we received approximately 67% of product sales revenue from five customers and approximately 48% of our revenue from one customer. A loss of any of these customers could have a material adverse effect on our revenues and results of operations.

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 December 31, 2007, 6 customers accounted for 28% of our \$2,346,000 trade accounts receivable and 2 debtors accounted for 81% of \$7,975,000 notes receivables reflected on our December 31, 2007 balance sheet. In addition, we acquired secured promissory notes of Vital Living, Inc. with aggregate principal amounts of \$4,226,000 in connection



with our entering into an asset purchase agreement with Vital Living to acquire Vital Living's assets. While we obtain personal guarantees and security interests backing these obligation when possible, many of these obligations are not guaranteed or secured. The inability of our significant customers and obligors to meet their obligations to us, or, in the case of Vital Living, the deterioration of Vital Living's financial condition or assets before we are able to consummate our asset purchase, may adversely affect our financial condition and results of operations.

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We rely upon a limited number of product offerings.

The majority of the products that we have sold as of December 31, 2007 have been based on stabilized rice bran. Although we will market stabilized rice bran as a dietary supplement, as an active food ingredient for inclusion in our products and in other companies' products, and in other ways, a decline in the market demand for our stabilized rice bran products, as well as the products of other companies utilizing our stabilized rice bran products, could have a significant adverse impact on us.

We are dependent upon our marketing efforts.

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

We rely upon an adequate supply of raw rice bran.

All of our current products depend on our proprietary technology using unstabilized or raw rice bran, which is a by-product from milling paddy rice to white rice. Our ability to manufacture stabilized rice bran raw is currently limited to the production capability of our production equipment at Farmers' Rice Co-operative, Archer Daniels Midland, our own plants located next to the Louisiana Rice Mill in Mermentau, LA, and American Rice, Inc. in Freeport, TX, and our single value-added products plant in Dillon, Montana. We currently are capable of producing enough finished products at our facilities to meet current demand. With the exception of our new rice oil facility in Pelotas, Brazil, our existing facilities do not allow for dramatic expansion of product demand, therefore additional production capacity is needed. While we believe our facilities should meet our production needs for 2008, but we do not anticipate that they will meet our longer term supply needs. Therefore, we anticipate building new facilities to meet the forecasted demand for our products and envision we will be able to execute on this initiative. In the event we are unable to create additional production capacity to produce more stabilized rice bran products to fulfill our current and future requirements this could materially and adversely affect our business, results from operations, and financial condition.

We are pursuing other supply sources in the United States and in foreign countries and anticipate being able to secure alternatives and back-up sources of rice bran, however, there can be no assurance that we will continue to secure adequate sources of raw rice bran to meet our requirements to produce stabilized rice bran products. Since rice bran has a limited shelf life, the supply of rice bran is affected by the amount of rice planted and harvested each year. If economic or weather conditions adversely affect the amount of rice planted or harvested, the cost of rice bran products that we use may increase. We are not generally able to immediately pass cost increases to our customers and any increase in the cost of stabilized rice bran products would have an adverse effect on our results of operations.

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

An important component of our business strategy is to build rice bran stabilization facilities in foreign countries and to market and sell our products internationally. For example, we recently entered into a joint venture with an Indonesian company produce and market our SRB products in Southeast Asia and purchased a company in Brazil that manufactures rice bran oil. There are risks in operating stabilization 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, power 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.

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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;

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- 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;
- 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.

We have identified material weaknesses in our internal control over financial reporting, which could impact negatively our ability to report our results of operations and financial condition accurately and in a timely manner.

As required by Section 404 of the Sarbanes-Oxley Act of 2002, management has conducted an evaluation of the effectiveness of our internal control over financial reporting at December 31, 2007. We identified two material weaknesses in our internal control over financial reporting and concluded that, as of December 31, 2007, we did not maintain effective control over financial reporting based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Each of our material weaknesses results in reasonable possibility that a material misstatement of the annual or interim financial statements that we prepare will not be prevented or detected on a timely basis. As a result, we must perform additional work to obtain reasonable assurance regarding the reliability of our financial statements.

If we are unsuccessful in implementing or following our remediation plan, or fail to update our internal control over financial reporting as our business evolves or to integrate acquired businesses into our controls system, we may not be able to timely or accurately report our financial condition, results of operations or cash flows or to maintain effective disclosure controls and procedures. If we are unable to report financial information in a timely and accurate manner or to maintain effective disclosure controls and procedures, we could be subject to, among other things, regulatory or enforcement actions by the SEC, securities litigation and a general loss of investor confidence, any one of which could adversely affect our business prospects and the market value of our common stock.

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 may face difficulties integrating businesses that we acquire.

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

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

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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 purchase in the future.

**We Have Not Yet Achieved Positive Cash Flow**

We have not generated a positive cash flow from operations continuous period to period since commencing operations and have relied primarily on cash raised from private offerings of our securities to fund capital investments and acquisitions. For example, we raised in private placements of equity approximately \$50,000,000 in a February 2007, \$17,560,000 in May 2006, and \$8,000,000 in October 2005. While we believe that we have adequate cash reserves and working capital to fund current operations, our ability to meet long term business objectives may be dependent upon our ability to raise additional financing through public or private equity financings, establish increasing cash flow from operations, enter into collaborative or other arrangements with corporate sources, or secure other sources of financing to fund long-term operations. There is no assurance that external funds will be available on terms acceptable to us in sufficient amount to finance operations until we do reach sufficient positive cash flow to fund our capital expenditures. In addition, any issuance of securities to obtain such funds would dilute percentage ownership of our shareholders. Such dilution could also have an adverse impact on our earnings per share and reduce the price of our common stock. Incurring additional debt may involve restrictive covenants and increased interest costs and demand on future cash flow. Our inability to obtain sufficient financing may require us to delay, scale back or eliminate some or all of our product development and marketing programs.

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

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

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

We have one patent entitled Methods for Treating Joint Inflammation, Pain and Loss of Mobility, which covers both humans and mammals. In addition, our subsidiary RiceX has five United States patents and may decide to file

corresponding international applications. RiceX holds patents to the production of Beta Glucan and to a micro nutrient enriched rice bran oil process. RiceX also holds patents to a method to treat high cholesterol, to a method to treat diabetes and to a process for producing Higher Value Fractions from stabilized rice bran. We also have filed a number of provisional patent applications for our technology. 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.

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

We are dependent on key employees and consultants.

Our success depends upon the efforts of our top management team, including the efforts of Bradley D. Edson, our President and Chief Executive Officer, Todd C. Crow, our Chief Financial Officer, Leo Gingras, our Chief Operating Officer, Margie D. Adelman, our Secretary and Senior Vice President and Kody K. Newland, our Senior Vice President of Sales and Marketing. Although we have written employment agreements with each of the foregoing individuals other than Ms. Adelman, 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. There is no assurance that we will be able to recruit and employ such executives at times and on terms acceptable to us.

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

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

Risks Related to Our Stock

Our Stock Price is Volatile.

The market price of a share of our common stock has fluctuated significantly in the past and may continue to fluctuate significantly in the future. The high and low closing sales prices of a share of our common stock for the following periods were:

	High	Low
Twelve months ended December 31, 2007	\$ 5.00	\$ 0.75
Twelve months ended December 31, 2006	\$ 2.74	\$ 0.60
Twelve months ended December 31, 2005	\$ 1.81	\$ 0.30

- announcements of new products or product enhancements by us or our competitors;



- fluctuations in our quarterly or annual operating results;
- developments in our relationships with customers and suppliers;
- the loss of services of one or more of our executive officers or other key employees;
- announcements of technological innovations or new systems or enhancements used by us or its competitors;
  - developments in our or our competitors intellectual property rights;
  - adverse effects to our operating results due to impairment of goodwill;

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- failure to meet the expectation of securities analysts' or the public; and
- general economic and market conditions.

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

As of March 3, 2008, we had approximately 145,418,965 shares of common stock outstanding. Additionally, as of March 3, 2008, options and warrants to purchase a total of approximately 41,981,000 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.

Sales of Our Stock Pursuant to Registration Statements May Hurt Our Stock Price

We granted registration rights to the investors in our October 2005, May 2006 and February 2007 capital stock and warrant financings. As of March 3, 2008, a total of approximately 25,319,000 shares of our common stock remained eligible for resale pursuant to outstanding registration statements filed for investors. Sales or potential sales of a significant number of shares into the public markets may negatively affect our stock price.

The Exercise of Outstanding Options and Warrants May Dilute Current Shareholders

As of March 3, 2008, there were outstanding options and warrants to purchase a total of 41,981,000 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 may need to raise funds through debt or equity financings in the future, which would dilute the ownership of our existing shareholders and possibly subordinate certain of their rights to the rights of new investors.

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

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

We may, without further action or vote by holders of our common stock, designate and issue shares of our preferred stock. The terms of any series of preferred stock could adversely affect the rights of holders of our common stock and thereby reduce the value of our common stock. The designation and issuance of preferred stock favorable to current management or shareholders could make it more difficult to gain control of 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.

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.

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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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RECENT EVENTS

We identified two material weaknesses in our internal control over financial reporting as of December 31, 2007. Solely based upon these material weaknesses, our management concluded that as of December 31, 2007 we did not maintain effective internal control over financial reporting based on the criteria established in Internal Control—Integrated Framework, issued by the Committee of Sponsoring Organizations of the Treadway Commission. A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of the annual or interim financial statements will not be prevented or detected on a timely basis. The material weakness that we reported related to the inadequacy of our procedures for (i) hiring third-party financial and valuation experts and (ii) timely analyzing and reviewing the accounting treatment of significant and complex transactions. Notwithstanding the existence of these material weaknesses, we concluded that the consolidated financial statements contained in our annual report on Form 10-K for 2007 presented fairly, in all material respects, our consolidated financial condition as of December 31, 2007 and 2006, and consolidated results of its operations and cash flows for the years ended December 31, 2007, 2006 and 2005, in conformity with U.S. generally accepted accounting principles.

We have actively engaged in the development and implementation of a remediation plan to address the material weaknesses in internal controls over financial reporting and oversight thereof as of December 31, 2007.

1. For the material weakness concerning retention of experts, we have developed a written policy and procedures that document the processes relating to retention of expert service providers for assistance with valuations and significant financial transactions of NutraCea. Included in the process is an analysis to verify and document the extent of any past relationships with the service providers and to confirm the lack of apparent conflicts of interest. Since December 31, 2007, we have revised these procedures as follows:

- For transactions or valuations with aggregate amounts ranging from two to five percent of net equity (“Reporting Threshold”), management will report to the Board of Directors the retention and qualifications of selected experts.
- For transactions or valuations with aggregate values greater than five percent of net equity (“Approval Threshold”), management will report to the Board of Directors its recommendation for the retention of experts and seek approval to retain expert service providers.

Our expert retention policy in effect as of December 31, 2007 (i) did not apply to the engagement of experts for the purpose of providing valuation and (ii) maintained a Reporting Threshold of five to ten percent of net equity and an Approval Threshold of over ten percent of net equity. These percentage thresholds will be monitored and revised as appropriate.

2. For the material weakness concerning performing timely, comprehensive review of financial transactions, we have developed the following remediation plan that will enhance our current policies and procedures:

- Assess and evaluate our chief executive officer’s authorization thresholds to enter into agreements that has been delegated by our board of directors and make appropriate recommendations. Additionally, we will recommend that our board of directors expand its documentation requirements and receive analysis from our chief financial officer and chief operating officer when reviewing proposed transactions.
- Continue to enhance and improve month-end and quarter-end closing procedures by having reviewers analyze and monitor financial information in a consistent and thorough manner. We plan to continue to enhance and improve the documentation and review of required information associated with the preparation of our quarterly and annual

filings.

- Perform SAB 104 analysis of significant revenue transactions in excess of \$100,000 per customer per quarter, or over \$250,000 in any one year to assess if collectibility is reasonable assured and to ensure proper period revenue recognition.
- Prepare accounting memos within twenty days after the end of each quarter analyzing our allowance for doubtful accounts for all accounts receivable that exceed ten percent of our total accounts receivable.

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- Prepare accounting memos to summarize all significant transactions and the accounting treatment therefore within forty days after the completion of such transactions.

We recognize that continued improvement in our internal controls is necessary and are committed to continuing our significant investments as necessary to make these improvements in our internal controls over financial reporting.

## USE OF PROCEEDS

The shares covered by this prospectus are being registered for the account of the selling shareholders. We will not receive any proceeds from the disposition of common stock, or the interests therein, by the selling shareholders.

## PRICE RANGE OF COMMON STOCK

Our common stock currently trades on the Over-the-Counter Bulletin Board (“OTCBB”) under the symbol “NTRZ.OB”. The following table sets forth the range of high and low sales prices for our common stock as reported on the OTCBB for the periods indicated below. The quotations below reflect inter-dealer prices, without retail mark-up, markdown or commission, and may not represent actual transactions.

NUTRACEA COMMON STOCK	Low	High
Year Ending December 31, 2008		
Second Quarter (through April 24, 2008)	\$ 0.81	\$ 1.23
First Quarter	\$ 0.82	\$ 1.71
Year Ended December 31, 2007		
Fourth Quarter	\$ 0.74	\$ 1.87
Third Quarter	\$ 1.15	\$ 3.43
Second Quarter	\$ 2.60	\$ 5.04
First Quarter	\$ 2.17	\$ 3.42
Year Ended December 31, 2006		
Fourth Quarter	\$ 1.30	\$ 2.74
Third Quarter	\$ 0.80	\$ 1.38
Second Quarter	\$ 0.60	\$ 1.45
First Quarter	\$ 0.65	\$ 1.42

As of March 3, 2008, there were approximately 276 holders of record of our common stock.

## DIVIDEND POLICY

We have never declared or paid any cash dividends on our common stock. We currently anticipate that we will retain all future earnings for the expansion and operation of our business and do not anticipate paying cash dividends in the foreseeable future.

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## SELECTED CONSOLIDATED FINANCIAL DATA

The following unaudited selected historical information has been derived from the audited consolidated financial statements of NutraCea. The selected consolidated financial information as of December 31, 2007 and 2006 and for each of the three years in the period ended December 31, 2007 are derived from our audited consolidated financial statements included elsewhere in this prospectus. The selected consolidated financial information as of December 31, 2005, 2004 and 2003 and for each of the two years in the period ended December 31, 2004 have been derived from our audited consolidated financial statements that are not included in this prospectus. The information set forth below should be read in conjunction with the financial statements, related Notes thereto, and the section entitled “Management’s Discussion and Analysis of Financial Condition and Results of Operations” included elsewhere in this Prospectus.

## Annual Summary

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

Statements of Operations Data: (In thousands, except per share data)

	Years Ended December 31,				
	2007	2006	2005	2004	2003
Revenues	\$ 22,161	\$ 18,090	\$ 5,564	\$ 1,225	\$ 1,536
Costs and expenses	37,291	17,038	8,556	24,776	9,763
(Loss) income from operations	(15,130)	1,052	(2,992)	(23,551)	(8,227)
Other income (expense)	3,239	538	(878)	(24)	(4,309)
Net (loss) income	\$ (11,911)	\$ 1,585	\$ (3,872)	\$ (23,575)	\$ (12,536)
Basic (loss) net income per common share	\$ (0.09)	\$ 0.02	\$ (0.10)	\$ (1.18)	\$ (2.05)
Diluted (loss) net income per common share	\$ (0.09)	\$ 0.02	\$ (0.10)	(1.18)	(2.05)

Weighted average number of shares outstanding	2007	2006	2005	2004	2003
	125,938	76,692	38,615	19,906	6,107

Balance Sheet data: (In thousands)

	As of December 31,				
	2007	2006	2005	2004	2003
Cash, cash equivalents, restricted cash and investments	\$ 43,847	\$ 15,235	\$ 3,636	\$ 2,112	\$ 100
Total assets	124,293	73,255	47,464	3,338	541
Current liabilities	7,619	2,881	1,261	441	1,028
Long-term debt	77	-	9	1,635	—
Accumulated deficit	(61,216)	(49,305)	(50,890)(1)	(44,928)	(21,345)
Total shareholders’ equity (deficit)	\$ 116,597	\$ 70,374	\$ 38,893	\$ 1,167	\$ (487)

(1) The Company adopted Securities and Exchange Commission, Staff Accounting Bulletin No. 108 in 2006. As a result, the Company increased accumulated deficit at December 31, 2005 by \$2,090,000. See Note 3 to the consolidated financial statements.





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

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

Note Regarding Forward-Looking Statements

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

Comparison of Results for the Years Ended December 31, 2007 and 2006

For the year ended December 31, 2007, our net loss was \$11,911,000, or (\$0.09) per share, compared to net income of \$1,585,000, or \$0.02 per share, in 2006, showing a decrease of \$13,496,000. The decrease for the year ended December 31, 2007 was primarily due to a net increase in revenue of \$4,071,000, with a corresponding increase in cost of goods sold of \$768,000, resulting in an increase in gross margins of \$3,303,000 for 2007 compared to 2006, which was offset by a \$10,244,000 increase in Selling, General, and Administrative, or SG&A, costs, a \$3,224,000 increase in allowance for bad debt, a \$1,000,000 charge for a separation agreement with our former Chief Executive Officer, an increase of \$3,216,000 in professional fees, and an increase in Research and Development, or R&D, costs of \$501,000. Other income (net of expenses) for the twelve month period increased \$2,701,000 consisting of a \$2,264,000 increase in interest income and a \$1,250,000 gain on the settlement of a lawsuit, offset by a \$347,000 loss on the retirement of assets, a \$309,000 loss on an equity investment, and a \$163,000 loss on the sale of marketable equity securities.

Revenues, cost of goods sold and gross margin:

Consolidated revenues for the year ended December 31, 2007 were \$22,161,000, an increase of \$4,071,000, or 23%, from consolidated revenues of \$18,090,000 in 2006. The increased revenue was a result of a \$7,386,000 increase in our core SRB and related products categories and an increase of \$4,355,000 in royalty and licensing fees, offset by a \$7,670,000 decrease in infomercial sales (net of a \$1,551,000 sales return).

During the second quarter of 2007 we granted to Pacific Holdings Advisors Limited, or PAHL, an exclusive, perpetual, royalty-free right and license to use and distribute SRB and SRB derivative products in certain Southeast Asian countries. PAHL paid a one-time fee of \$5,000,000 for these rights. PAHL paid the license fee by issuing to NutraCea an interest bearing promissory note payable over five years. In January 2008, in conjunction with another agreement (see Note 20 of the Consolidated Financial Statements) we amended this note to provide that PAHL will pay us the \$5,000,000 license fee by March 31, 2008 in full satisfaction of its obligations under the Note. In consideration for this accelerated payment, NutraCea agrees to waive all accrued interest owed by PAHL (\$118,000 at December 31, 2007).

Cost of goods sold increased \$768,000 from \$9,130,000 in 2006 to \$9,898,000 in 2007 due primarily to the corresponding increase in product sales in the twelve months ended December 31, 2007. Cost of goods sold on our

various product lines vary widely and the gross margins are impacted from period to period by sales mix and utilization of production capacity.

Gross margins increased \$3,303,000 to \$12,263,000 in 2007, from \$8,960,000 in 2006 due to a \$4,355,000 increase in licensing and royalty revenues, which has no associated cost of goods, offset by a \$768,000, or 2%, increase in cost of goods sold from \$9,130,000 (53% of sales) to \$9,898,000 (55% of sales) in the twelve months ended December 31, 2007 and 2006, respectively. The following table summarizes the changes in revenue, cost of goods sold, and our gross margin.

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	2007	2006	Increase / Decrease
Product, net of discounts	\$ 15,970,000	\$ 8,584,000	\$ 7,386,000
Infomercial	2,402,000	8,521,000	(6,119,000)
Less infomercial sales return	(1,551,000)	-	(1,551,000)
Net infomercial sales	851,000	8,521,000	(7,670,000)
Royalty and licensing fees	5,340,000	985,000	4,355,000
Total revenues	22,161,000	18,090,000	4,071,000
Cost of goods sold	10,166,000	9,130,000	1,036,000
Cost of goods sold, returns	(268,000)	-	(268,000)
Net cost of goods sold	9,898,000	9,130,000	768,000
Gross margin	\$ 12,263,000	\$ 8,960,000	\$ 3,303,000

## Operating expenses:

Research and Development (R&D) expenses increased \$501,000 in 2007 to \$878,000 from \$377,000 in 2006, due to on-going product development activities.

Sales, General and Administrative (SG&A) expenses increased \$10,244,000 from \$6,018,000 in 2006 to \$16,262,000 in 2007. The increase was mostly due to expanded investment in personnel, infrastructure, and sales and marketing activities to meet anticipated future demands (with certain exceptions as noted below). Specific changes in SG&A expense is detailed in the following schedule:

	Twelve Months Ended December 31, 2007	Twelve Months Ended December 31, 2006	Increase / Decrease
Payroll	\$ 5,159,000	\$ 1,814,000	\$ 3,345,000
Employee benefits, payroll taxes, and hiring costs	1,216,000	520,000	696,000
Sales and marketing	2,661,000	624,000	2,037,000
Operations	1,341,000	394,000	947,000
Travel and entertainment	829,000	505,000	324,000
Rent and facility costs	1,104,000	124,000	980,000
Stock based compensation	1,679,000	704,000	975,000
Depreciation and amortization, net of allocation to cost of goods sold	1,114,000	608,000	506,000
Administration, insurance, and other	1,159,000	725,000	434,000
Total selling, general and administrative expenses	\$ 16,262,000	\$ 6,018,000	\$ 10,244,000

Included in our total increase in selling, general and administrative costs were \$448,000 for payroll, \$169,000 for marketing, and \$267,000 for other administrative costs (total \$884,000) due to the inclusion in our results of operations the results of Vital Living, Inc.'s operations for the period of April 20, 2007 through December 31, 2007 which are consolidated under Variable Interest Entity rules (see Note 10 of the Consolidated Financial Statements).



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In the twelve months ended December 31, 2007 our provision for the allowance for bad debt expense was \$3,233,000 compared to \$9,000 in the same period of the prior year. This increase is the result of additional provisions for doubtful accounts receivable of \$1,601,000 and \$1,378,000 and doubtful notes receivable of \$250,000 for two customers and one note maker, respectively. Additionally, we wrote off \$4,000 of accounts receivable deemed to be un-collectible.

Total goodwill recorded on our financial statements as of result of our purchase of certain debt securities and preferred stock securities of Vital Living, Inc. (see Note 10 to the Consolidated Financial Statements) amounted to \$7,579,000. We evaluated the value of this goodwill and determined that it is \$6,279,000. Accordingly we have recorded an intangible impairment of \$1,300,000.

In November 2007, we reached an accord with our former Chief Executive Officer, Ms. McPeak, under which we agreed to pay her \$1,000,000 in a separation agreement under which she surrendered all prior claims to patents and other rights relating to products developed for RiceX and NutraCea during her employment, and grants us a right of first refusal for ten years to any patent, process, or product she might develop that are derived from stabilized rice bran ingredients.

Professional fees increased \$3,216,000 from \$1,504,000 in 2006 to \$4,720,000 in 2007. In 2007, professional expenses were associated with consultants, accounting, SOX 404 compliance, legal, investor relations and stock-based compensation expenses. We incurred investor relations costs of \$580,000 in 2007 compared to \$251,000 in 2006, an increase of \$329,000 associated with an investor relations firm and fees associated with SEC filing requirements. Stock-based compensation on stock and warrant issued to consultants for services was \$379,000 in 2007 and \$213,000 in 2006. We incurred a \$750,000 cost associated with developing our joint venture with Grain Enhancements LLC (see Note 10 of the consolidated financial statements). Our increase in professional fees also includes a \$624,000 charge due to the inclusion of the results of Vital Living for the period of April 20, 2007 through December 31, 2007 (see Note 10 of the Consolidated Financial Statements).

Other income (expense):

Interest income increased \$2,264,000 to \$2,809,000 from \$545,000 in the twelve month period ended December 31, 2007 over the same period in the prior year due to the higher cash balance available.

The gain on a settlement increased \$1,250,000 due to the settlement of a lawsuit in relation to the investment in Langley (see Note 4 of the Consolidated Financial Statements).

The loss on an equity investment increased \$309,000 as a result of our investment in Grain Enhancements LLC (see Note 10 of the Consolidated Financial Statements).

The loss on retirement of assets increased \$347,000 due to the sale or retirement of assets.

The loss on disposition of marketable equity securities increased \$162,000 due to the sale of Langley (see Note 4 of the Consolidated Financial Statements).

Income taxes:

Income tax expense for the year ended December 31, 2007 increased \$15,000 to \$20,000 from \$5,000 for the prior year due to a payment for State of California corporate income taxes.

Deferred taxes arise from temporary differences in the recognition of certain expenses for tax and financial reporting purposes. At December 31, 2007 and 2006, management determined that realization of these benefits is not assured and has provided a valuation allowance for the entire amount of such benefits. At December 31, 2007, net operating loss carry-forwards were approximately \$37,488,000 for federal tax purposes that expire at various dates from 2011 through 2021 and \$10,087,000 for state tax purposes that expire in 2010 through 2016.

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The Company has an unrecorded income tax benefit of \$9,015,000 resulting from the exercise of options during 2007. This benefit can only be recognized if the net operating losses are used in future periods or if net operating losses expire, and will be recorded in equity.

Utilization of net operating loss carry forwards may be subject to substantial annual limitations due to the “change in ownership” provisions of the Internal Revenue Code of 1986, as amended, and similar state regulations. The annual limitation may result in expiration of net operating loss carry forwards before utilization.

Comparison of Results for the Years Ended December 31, 2006 and 2005

For the year ended December 31, 2006, our net income was \$1,585,000, or \$0.02 per share, compared to a loss of \$3,872,000, or (\$0.10) loss per share, in 2005, showing an improvement of \$5,457,000. The improvement for the year ended December 31, 2006 was primarily due to increased revenue of \$12,526,000, offset by increased cost of sales of \$6,252,000, resulting in an increase in gross margins of \$6,274,000 for 2006 compared to 2005. The favorable increase of \$5,457,000 was primarily due to increased total revenues combined with new product sales and new license and royalty fees. There were positive trends in our infomercial products, domestic animal product lines primarily sold to the equine market and our domestic functional foods and nutraceutical product lines. Assuming the merger with RiceX was effective for the entire year of 2005, the unaudited pro forma condensed combined consolidated net loss for year ended December 31, 2005 would have been \$7,506,000 (NutraCea year ended December 31, 2005 net loss \$3,567,000, RiceX year ended December 31, 2005 net loss \$3,994,000 and \$55,000 intercompany adjustment).

Revenue, cost of goods sold and gross margin

Consolidated revenues for the year ended December 31, 2006 were \$18,090,000, an increase of \$12,526,000, or 225%, from consolidated revenues of \$5,564,000 in 2005. The increased revenue was a result of increased volume in all categories, including a \$5,044,000 increase in the infomercial market, a \$2,500,000 increase in the equine market, and a \$2,000,000 increase in sales of the nutraceutical products. Also contributing to our revenue increase was license fees, royalties and other income in the amount of \$985,000. Assuming the merger with RiceX was effective for the entire year of 2005, the unaudited pro forma condensed combined consolidated revenues for year ended December 31, 2005 would have been \$8,082,000 (NutraCea year ended December 31, 2005 consolidated revenues \$4,569,000, RiceX year ended December 31, 2005 consolidated revenues \$3,838,000 and \$325,000 intercompany adjustment).

Cost of goods sold increased \$6,252,000 from \$2,878,000 in 2005 to \$9,130,000 in 2006 due primarily to the significant increase in product sold in 2006. Gross margins increased \$6,274,000 to \$8,960,000 in 2006, from \$2,686,000 in 2005. This 233% increase was due to new sales in the infomercial market and increased sales in the equine market and nutraceutical markets. Assuming the merger with RiceX was effective for the entire year of 2005, the unaudited pro forma condensed combined consolidated gross margins for the year ended December 31, 2005 would have been \$4,351,000 (NutraCea year ended December 31, 2005 gross margins at \$2,046,000 and RiceX year ended December 31, 2005 gross margins at \$2,305,000).

Operating expenses:

Research and Development (R&D) expenses increased \$186,000 in 2006 to \$377,000 due to increased product development costs.

Sales, General and Administrative (SG&A) expenses increased \$2,158,000 from \$3,860,000 in 2005 to \$6,018,000 in 2006. The increase was mostly due to added employee-related, travel, office, commission, and other general operating expenses. Included in SG&A category is stock-based compensation for employees, directors and consultants.



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Stock-based compensation decreased \$142,000 from \$868,000 in 2005 to \$726,000 in 2006. Stock-based compensation expenses decreased \$420,000 from \$1,511,000 in 2005 to \$1,091,000 in 2006. These non-cash charges relate to issuances of common stock and common stock warrants and options in 2006 and 2005. The higher issuances of restricted stock, options and warrants during 2005 was deemed necessary by management to retain and compensate officers, directors, consultants and employees while conserving cash assets that would otherwise have been expended for these purposes.

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Professional fees decreased \$123,000 from \$1,627,000 in 2005 to \$1,504,000 in 2006. In 2006, professional expenses were associated with consultants, accounting, SOX 404 compliance, legal, investor relations and stock-based compensation expenses. We incurred investor relations costs of \$251,000 in 2006 compared to \$307,000 in 2005, a decrease of \$56,000 associated with an investor relations firm and fees associated with SEC filing requirements. Stock-based compensation on stock and warrant issues to consultants for services decreased \$278,000 from \$643,000 in 2005 to \$365,000 in 2006

Other income and expense:

Interest income increased by \$527,000 from \$18,000 to \$545,000 due to the higher balance of cash available.

Interest expense decreased by \$889,000 to \$7,000 in 2006 due to the payoff of a note of \$2,400,000 at 7% interest compounded quarterly on October 4, 2005. Interest expense in 2006 primarily consisted of interest on a loan for equipment.

Income tax:

The provision for income tax expense increased \$3,000 from \$2,000 to \$5,000 due to a payment for State of California corporate income taxes.

Deferred taxes arise from temporary differences in the recognition of certain expenses for tax and financial reporting purposes. At December 31, 2006 and 2005, management determined that realization of these benefits is not assured and has provided a valuation allowance for the entire amount of such benefits. At December 31, 2006, net operating loss carry forwards were approximately \$25,018,000 for federal tax purposes that expire at various dates from 2011 through 2020 and \$12,230,000 for state tax purposes that expire in 2010 through 2015.

The Company has an unrecorded income tax benefit of \$14,100,000 resulting from the exercise of options during 2006. This benefit can only be recognized if the net operating losses are used in future periods or if net operating losses expire, and will be recorded in equity.

Utilization of net operating loss carry forwards may be subject to substantial annual limitations due to the "change in ownership" provisions of the Internal Revenue Code of 1986, as amended, and similar state regulations. The annual limitation may result in expiration of net operating loss carry forwards before utilization.

## Liquidity and Capital Resources

Our cash and cash equivalents were \$41,298,000 and \$14,867,000 at December 31, 2007 and 2006, respectively.

We have \$2,549,000 of restricted cash (\$758,000 and \$1,791,000 classified as current and non-current asset, respectively), of which \$310,000 is in 3rd party escrow to be paid in April, 2008 as the final payment on our Grainnovations purchase (see Note 10 to the consolidated Financial Statements). The \$2,239,000 balance is restricted by contract as security on our office lease in Phoenix. The amount of restricted cash relating to the office lease reduces yearly for five years per the lease agreement. The lease itself expires in 2016.

For the year ended December 31, 2007, net cash used in operations was \$2,353,000, compared to net cash used in operations in the same period of 2006 of \$629,000, an increase of \$1,724,000. This increase in cash used by operations resulted primarily from the \$13,496,000 increase in our net loss, offset by non-cash charges of: a \$2,202,000 for depreciation and amortization, \$1,300,000 for the impairment of goodwill, a \$3,229,000 increase in

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allowance for doubtful accounts, a \$2,166,000 charge for stock-based compensation, a \$347,000 loss on the retirement of assets, a \$309,000 loss on equity investments, a \$290,000 loss on marketable equity securities, an \$886,000 increase in accounts receivable, a \$971,000 increase in inventories and a \$1,167,000 increase in deposits and other current assets, offset by a \$2,738,000 increase in accounts payable and accrued liabilities.

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Cash used in investing activities for the year ended December 31, 2007 was \$27,261,000, compared to \$9,698,000 for the same period of 2006. This increase of \$17,563,000 was caused primarily by our current plant expansion projects. We invested \$11,652,000 in the purchase of property and equipment at several locations, an increase of \$6,970,000 over the year ended December 31, 2006, including our Mermentau, LA facility which became operational in the second quarter of 2007. We invested \$2,169,000 in the acquisition of Graininnovations, Inc., and \$5,143,000 in our acquisition of certain securities of Vital Living, Inc. We invested \$1,500,000 in Grain Enhancements LLC, a joint venture we formed in the second quarter of 2007. We placed restrictions on \$2,239,000 of cash and purchased \$2,225,000 of other assets. Additionally, we issued notes receivable to several strategic customers and others totaling \$7,828,000 and received payments against outstanding notes receivable of \$5,410,000.

Cash provided from financing activities for the year ended December 31, 2007 was \$56,045,000, an increase of \$34,342,000 over the year ended December 31, 2006. The increase is due to a \$46,805,000 private placement financing (see below), an increase of \$30,871,000 over 2006, and proceeds of \$9,240,000 from the exercise of common stock options and warrants, an increase of \$3,456,000 over 2006.

Our working capital position was \$45,863,000 and \$23,320,000 as of December 31, 2007 and 2006, respectively.

Equity financing:

On February 15, 2007, we sold an aggregate of 20,000,000 shares of our common stock at a price of \$2.50 per share in connection with a private placement for aggregate gross proceeds of \$50,000,000 (\$46,805,000 after offering expenses). Additionally, the investors were issued warrants to purchase an aggregate of 10,000,000 shares of our common stock at an exercise price of \$3.25 per share. An advisor for the financing received a customary 6% cash-fee, based on aggregate gross proceeds received from the investors, reasonable expenses and a warrant to purchase 1,200,000 shares of common stock at an exercise price per share of \$3.25. The warrants have a term of five years and are exercisable after August 16, 2007.

On May 12, 2006, we sold an aggregate of 17,560 shares of our Series C Convertible Preferred Stock at a price of \$1,000 per share in a private placement transaction. This private placement of securities generated aggregate gross proceeds of approximately \$17,560,000 (\$15,934,000 net after offering and related expenses). The preferred shares can be converted to shares of our common stock at a conversion rate of approximately 1,176 shares of common stock for each preferred share issued in the transaction. Additionally, the investors were issued warrants to purchase an aggregate of 10,329,412 shares of our common stock at an exercise price of \$1.35 per share. The warrants have a term of five years and are immediately exercisable. An advisor for the financing received a customary fee based on aggregate gross proceeds received from the investors and a warrant to purchase 500,000 shares of common stock at an exercise price per share of \$1.35 and a term of five years.

Subsequent expenditures (see Note 20 - Subsequent Events, to the consolidated financial statements):

In January, 2008, through our newly formed subsidiary, Medan, LLC, we purchased 51% of the stock of PT Panganmas Inti Nusantara, an Indonesian company for \$10,675,000

In February 2008, we purchased Irgovel, a Brazilian company which operates a rice bran oil processing plant, for approximately \$14,492,000. Additionally, we agreed to fund as necessary up to \$5,300,000 to pay deferred taxes due to the Brazilian government. These deferred taxes are payable over a period of 10 years.

Purchase commitments:

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In January 2008 we signed a letter of intent to purchase a building in Phoenix for our planned SRB stage II processing facility for \$8,250,000. We expect to close escrow in March 2008. Additionally, we estimate our costs to equip the facility for the production of our products to be \$5,000,000. We plan for the facility to be operational in the fourth quarter of 2008.

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### Domestic Initiatives

We continued an initiative to expand our Dillon, Montana plant to increase production capacity to meet the growing market demand for our value-added products made from stabilized Rice Bran. We ordered additional equipment and expanded the Dillon Montana facility. The plant was increased from its initial annual capacity of 900 tons to a capacity of 2,700 tons by the end of the second quarter of 2007.

We have existing financial liquidity from cash on hand and current cash flow to complete the expansion. Strong market interest in our proprietary stabilized Rice Bran derivatives has prompted the need for increased manufacturing capability and is consistent with our goal of meeting growing customer demands and a new awareness of our products' value. This increase in manufacturing capacity is the most efficient and economical means of boosting capacity as quickly as possible to meet the increasing demands of the marketplace.

We entered into a raw rice bran supply agreement with Louisiana Rice Mill LLC, (LRM) and completed the construction of a stabilization facility with an annual capacity of 30,000 tons of stabilized rice bran. The agreement quadrupled our previous annual supply of raw rice bran in the United States. In addition, we announced the construction of an additional stabilization facility at Lake Charles, LA that will provide an additional 30,000 tons of annual capacity, which we expect to become operational in the second quarter of 2008. We funded these projects from existing capital resources.

### International Initiatives

On September 13, 2005, we entered into an agreement with a Dominican Republic rice mill whereby the two companies agreed to form a joint venture. The terms of the agreement allows us the option to install equipment to produce annually at least 5,000 metric tons of stabilized rice bran in the Dominican Republic, or in the alternative to produce the product in the United States and ship the raw ingredients to the Dominican Republic and package it in final form there. The joint venture will be equally owned by the two companies and will commercially sell stabilized rice bran products through retail and government in the Dominican Republic and Haiti. NutraCea has shipped product directly rather than utilize the joint venture since the company chose not to build a processing facility in the Dominican Republic at this time. We are shipping product from the United States facilities to honor obligations in the Dominican Republic.

On October 28, 2005, we entered into a binding letter of intent with an Ecuadorian company to determine whether we should enter into a working arrangement that will allow the Ecuadorian company the right to utilize our proprietary ingredients and value-added processing in their multi-faceted food business, which includes animal feed, poultry and cereals. We are currently servicing this company with product shipped from the United States although we have not entered into a definitive agreement as of March 3, 2008, as we chose not to locate facilities in Ecuador at this time.

On December 19, 2006, NutraCea began distributing product to thousands of orphans through community-based organizations in Malawi as part of an extraordinary collaborative effort with Feed the Children, Raising Malawi and The Malaria Solution Foundation. The mission was to provide direct physical assistance, long-term sustainability and support to many of Malawi's two million orphans and vulnerable children. Approximately ten thousand children at the Consol Homes-Raising Malawi Orphan Care Center received our product to help improve their overall nutrition. The initial product distribution was made possible through funding raised by The Malaria Solution Foundation with a purchase and donation of NutraCea's products.

In June, 2007 we began distributing product to thousands of children in Indonesia as part of a humanitarian feeding program sponsored by Feed the Children.

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In June 2007, we entered into a joint venture with an Indonesian company to construct Rice Bran Stabilization facilities in Southeast Asia. We expect the first such facility to be operation in the fourth quarter of 2008.

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

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## 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 risks, 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.

## Contractual Obligations

As part of the normal course of business, the Company incurs certain contractual obligations and commitments which will require future cash payments. The following tables summarize the significant obligations and commitments.

	Total	Payments Due by Period				
		2008	2009	2010	2011	2012
	(\$ in thousands)					
Long-term debt	\$ 100	\$ 26	\$ 26	\$ 26	\$ 22	\$ —
Capital lease	—	—	—	—	—	—
Operating leases	7,801	1,303	1,608	1,637	1,655	1,598
Purchase obligations	250	50	50	50	50	50
Total contractual obligations	\$ 8,151	\$ 1,379	\$ 1,684	\$ 1,713	\$ 1,727	\$ 1,648

## Critical Accounting Policies

A summary of our significant accounting policies is included in Note 2, Part II - Item 8, FINANCIAL STATEMENTS. We believe the application of these accounting policies on a consistent basis enables us to provide timely and reliable financial information about our earnings results, financial condition and cash flows.

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

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

## Revenue Recognition

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

## Allowance for Doubtful Accounts



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

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Valuation of long-lived assets

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

Factors we consider important that could trigger a review for impairment include the following:

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

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

Marketable Securities

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

Inventory

Inventory is stated at the lower of cost (first-in, first-out) or market and consists of nutraceutical products. While we have an inventory of these products, any significant prolonged shortage of these ingredients or of the supplies used to enhance these ingredients could materially adversely affect our results of operations.

Property and Equipment

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

Furniture and equipment	3-7 years
Automobile	5 years
Software	3 years
Leasehold improvements	7 years
Property and equipment	7-10 years

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



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Fair Value of Financial Instruments

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

Stock-Based Compensation

On January 1, 2006, NutraCea adopted SFAS No. 123(R), "Share-Based Payment" ("SFAS 123(R)"). SFAS 123(R) replaced SFAS No. 123 and supersedes APB Opinion No. 25. SFAS 123(R) requires all share-based payments to employees, including grants of employee stock options, to be recognized in the financial statements based on their fair values. The pro forma disclosures previously permitted under SFAS 123 are no longer an alternative to financial statement recognition. NutraCea adopted SFAS 123(R) using the modified prospective method which requires the application of the accounting standard as of January 1, 2006. The consolidated financial statements as of and for the year ended December 31, 2006 reflect the impact of adopting SFAS 123(R). In accordance with the modified prospective method, the consolidated financial statements for prior periods have not been restated to reflect, and do not include, the impact of SFAS 123(R). For stock-based compensation grants to consultants, we recognize as compensation expense the fair value of such grants, recognized over the related service period. Prior to 2006, we recorded stock-based compensation grants to employees based on the excess of the estimated fair value of the common stock on the measurement date over the exercise price.

Quantitative and Qualitative Disclosures About Market Risk

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 December 31, 2007, there was one note payable outstanding which bears interest of 8% and is payable over 4 years (see Note 12 of the consolidated financial statements). 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.

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OUR BUSINESS

GENERAL

NutraCea (“we,” “us,” “our,” or the “Company”) is a California corporation formerly known as Alliance Consumer International, Inc. As a result of the reorganization transaction discussed below, we conduct the business previously carried on by NutraStar Technologies Incorporated (“NTI”), a Nevada corporation that was formed and started doing business in February 2000 and is a wholly-owned subsidiary. In addition, we conduct business through our wholly-owned subsidiary, The RiceX Company, or RiceX, a Delaware corporation that we acquired on October 4, 2005.

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

The RiceX subsidiary is primarily engaged in the manufacturing of stabilized rice bran (“SRB”) at its Sacramento facility for various consumptive uses, and the custom manufacturing of various grain based products for food ingredient companies at its production facility in Dillon, Montana. RiceX Nutrients, Inc. has specialized processing equipment and techniques for the treatment of rice grain products to cook, convert, isolate, dry and package finished food ingredients used in the formulation of health food and consumer food finished products. NutraCea RiSolubles, a highly nutritious, carbohydrate and lipid rich fraction, is produced at the 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.

Through the acquisition of The RiceX Company by NutraCea on October 4, 2005, the combined company, known as NutraCea, has created a vertically integrated company combining the manufacture, product development and marketing of a variety of products based upon the use of stabilized rice bran and rice bran formulations. We generated approximately \$22,161,000, \$18,090,000, and \$5,564,000 in revenue for the years ended December 31, 2007, 2006 and 2005, respectively. We reported a net loss for the year ended December 31, 2007 of \$11,911,000, a net income of \$1,585,000 for the year ended December 31, 2006, and a net loss of \$3,872,000 for the year ended December 31, 2005. Our net operating loss, or NOL, carry-forwards expire for federal tax purposes at various dates from 2011 through 2021, and expire for state tax purposes in 2010 through 2016. See Part II — Item 8. FINANCIAL STATEMENTS, Note 13 - Income Taxes.

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

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The Company relocated its headquarters to Phoenix, Arizona in April 2007, replacing the office space previously occupied in El Dorado Hills, California. Our corporate offices are located at 5090 N. 40th St., Phoenix, AZ 85018. Our telephone number is (602) 522-3000. As of December 31, 2007, we occupy approximately 50,000 square feet of executive offices in Phoenix, and 28,000 square feet of laboratory, warehouse and production facilities in West Sacramento, California. Additionally, we own operating production facilities in Dillon, MT, Mermentau, LA, and Freeport, TX. Our other production facilities are co-located within supplier rice mills in Arbuckle and West Sacramento, CA.

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At the end of December 31, 2007, we had three wholly-owned subsidiaries, NTI, which in turn wholly owns NutraGlo Incorporated, a Nevada corporation, RiceX, which wholly owns RiceX Nutrients, Inc., a Montana corporation and Nutramercials, Inc., a Nevada corporation that owns 100% of Infomaxx, LLC. We also own part of NutraStarSport, Inc., an inactive Nevada corporation. We own 90% of NutraCea/Cura LLC, a joint venture we entered in 2007 to buy and market pharmaceutical grade products. Additionally, we have a 47.5% interest in Grain Enhancements LLC, a joint venture to produce and distribute SRB products in Southeast Asia, which was formed in June 2007. In December, 2007, we formed Rice RX, LLC, and Rice Science, LLC, in which we hold a 50%, and 80% interest, respectively.

In February 2008, we acquired 100% of Irgovel - Industria Riograndens De Oleos Vegetais Ltda., a limited liability company organized under the laws of the Federative Republic of Brazil (“Irgovel”). Irgovel, located in Brazil, owns and operates a rice bran oil processing facility in South America.

## HISTORY

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

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

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

On October 4, 2005, we acquired RiceX in a merger transaction in which our wholly-owned subsidiary, Red Acquisition Corporation, merged with and into RiceX, with RiceX surviving the merger as our wholly-owned subsidiary. In the merger, the shareholders of RiceX received 28,272,064 shares of NutraCea common stock in exchange for 100% of the shares of RiceX common stock, and NutraCea assumed the outstanding RiceX options and warrants, which became options and warrant to purchase a total of 11,810,507 shares of NutraCea common stock.

## PRODUCTS

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

The NutraCea Process has enabled the Company to develop a variety of nutritional food products, including its primary product, NutraCea® Stabilized Rice Bran. NutraCea® Stabilized Rice Bran meets microbiological standards

for human consumption. Our customers include consumer nutrition and healthcare companies, domestic and international food companies, and companion animal feed manufacturers. We believe that the NutraCea process of stabilizing rice bran may be used to stabilize other cereal brans, such as wheat bran. The Company has ongoing research in this area expects to provide industrial proof of concept soon.



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We produce stabilized, nutrient-rich rice bran and derivatives that are used in a wide variety of new products. These include:

**NutraCea Stabilized Rice Bran:** Stable whole rice bran and germ. This is our basic stabilized rice bran product that is both a food supplement and an ingredient for cereals, baked goods, companion animal feed, health bars, etc. It is also the base material for producing NutraCea Solubles, oils and NutraCea Fiber Complex.

**NutraCea Stabilized Rice Bran Fine:** This is the same product as the NutraCea Stabilized Rice Bran, except that it has been ground to a particle size that will pass through a 20 mesh screen. It is used primarily in baking and pasta applications.

**NutraCea Stabilized Rice Bran Extra Fine:** This is the same product as the NutraCea Stabilized Rice Bran, except that it has been ground to a particle size that will pass through a 80 mesh screen. It is used primarily in baking and pasta applications.

**Dextrinized Rice Bran:** A modified carbohydrate converted NutraCea Stabilized Rice Bran that is more functional in baking and mixed health drink applications. This product contains all of the nutrient-rich components of NutraCea Stabilized Rice Bran.

**NutraCea RiSolubles:** A highly concentrated water dispersible carbohydrate and lipid rich fraction component of NutraCea Stabilized Rice Bran. This product contains only a small amount of fiber and is a concentrated form of the vitamins and nutrients found in NutraCea Stabilized Rice Bran.

**NutraCea Fiber Complex:** Nutrient-rich insoluble fiber source with associated nutrients. This product, designed for use by the baking and health food markets, is the remaining ingredient when NutraCea Stabilized Rice Bran is processed to form NutraCea Solubles.

In addition to the above, further refining NutraCea Stabilized Rice Bran into oil and its by-products can produce NutraCea Oil, NutraCea Defatted Bran and Higher Value Fractions.

**NutraCea Rice Bran Oil:** Nutrient-rich oil made from NutraCea Stabilized Rice Bran. This oil has high smoke and flash points, which provides a very long fry life, is not readily absorbed into food, is naturally trans fat free and provides excellent nutritional qualities. It is sold into consumer, food services, and industrial segments.

**NutraCea Defatted Bran:** Low fat bran that does not contain rice bran oil. This is a product designed for use by the baking industry for its high fiber nutritional benefits which include a balanced amino acid profile, high fiber content, and high mineral content.

**Higher Value Fractions:** Nutraceutical-like compounds naturally occurring in NutraCea Stabilized Rice Bran and Rice Bran Oil that provide specific health benefits. Tocopherols, tocotrienols, and gamma oryzanol, lecithin and phytosterols are some of the antioxidant-rich fractions that are found in rice bran and are enhanced by stabilization. Gamma oryzanol has a variety of uses as a nutraceutical and is unique to rice bran in terms of the quantity available.

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

## INDUSTRY BACKGROUND

By definition, nutraceuticals are products from natural sources that have biologically therapeutic effects in humans and animals. These compounds include vitamins, antioxidants, polyphenols, phytosterols, oryzanols, as well as macro and trace minerals. The NutraCea Process provides stabilized rice bran and rice bran oil that are good sources for some of these compounds, including tocotrienols, a highly potent antioxidant form of vitamin E, and gamma-oryzanol, which is found in significant amounts in rice bran. Among other things, these compounds act as potent antioxidants. Stabilized rice bran and its derivatives also contain high levels of B-complex vitamins and beta-carotene, a vitamin A precursor. Stabilized rice bran also contains high levels of carotenoids and phytosterols, both essential fatty acids, a balanced amino acid profile and soluble and insoluble fiber which promote colon health. See section “Benefits of NutraCea Stabilized Bran” for additional information.

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

As the market becomes more aware of the value of our ingredients and proprietary formulations we believe demand for our products will increase materially. Since stabilized rice bran is a safe food product, we believe that its beneficial effects can be obtained with no known deleterious side effects, such as those that may be present in pharmaceuticals. Many physicians have taken an interest in our nutraceutical products as a means of offering alternative or complementary approaches for treating serious healthcare problems. If further clinical trials support the beneficial effects of our nutraceutical and medical foods products and if the medical community widely endorses such use of our products, we believe that our products in certain situations, may be used as a nutritional therapy either prior to or as a complement to traditional pharmaceutical therapies for the treatment of a variety of ailments including diabetes and coronary heart disease. NutraCea has recently begun collaborating with Herbal Science, a manufacturer of nutraceutical products, to further explore the pharmaceutical potential of the thousands of compounds found within rice bran.

## THE IMPORTANCE OF RICE

Rice is the staple food for approximately 70% of the world's population, and is the staple food source for several of the world's largest countries. World rice production is expected to be more than 615 million metric tons in the 2006-2007 crop year (according to the United States Department of Agriculture), constituting more than one quarter of all cereal grains produced worldwide. The United States accounts for less than 2% of the world's rice production. 90% of world rice tonnage is produced in 13 countries with aggregate populations of 3.2 billion people (according to the USA Rice Federation, Rice Notes). Approximately 75% of all rice production occurs in China, India, South East Asia, Africa and South America. Combined, these regions have a population of 2.3 billion people (nearly 50% of the world's population), and an average per capita gross domestic product of \$2,000 (less than one tenth of the U.S. average).

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

Despite the importance of rice as a worldwide food source and the problems associated with nutritional deficiencies in rice-dependent nations, approximately 65% of the nutrients found in rice are destroyed during milling. Most of the rice nutrients are contained in the outer brown layer of the rice kernel known as the bran layer, which, because of poor stability, becomes inedible due to lipase-induced rancidity or microbiological spoilage shortly after the milling process.

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### RICE PROCESSING AND RICE BRAN STABILIZATION

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

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

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

### THE NUTRACEA SOLUTION

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

Our processing equipment is designed to be installed on the premises of any two or three-stage rice mill and is located downstream from the rice polishers. After de-hulling, the rice is transported pneumatically to the rice polishing room where the brown rice kernels are tumbled between abrasive surfaces and the rice bran is polished from the surface of each kernel. The bran is separated from the denser polished rice grain and is transported pneumatically to a loop conveyor system of NutraCea design. The loop conveyor system immediately carries the fresh, unstabilized rice bran to the NutraCea stabilizer. Stabilization is achieved by feeding the fresh rice bran into a specially designed and proprietary technological process. The result is a selectively deactivated lipase enzyme and reduced microbiological load. Process controllers that maintain process conditions within the prescribed pressure/temperature regime control the system. In case of power failure or interruption of the flow of fresh bran into the system, the electronic control system is designed to purge our equipment of materials in process and resume production only after proper operating conditions are re-established.

Bran leaving our stabilization system is treated through an additional proprietary technological process that further tempers and reduces the moisture. This bran is then discharged onto our proprietary cooling unit specifically controlling air pressure and humidity. The cooled bran is then loaded into one ton shipping containers for transportation to other processing facilities or is transported by pneumatic conveyor to a bagging unit for packaging in 30, 40, 50 and 2,000 pound sacks. NutraCea Stabilized Rice Bran (NutraCea SRB) has a shelf life of at least one year and is rich in tocopherols, tocotrienols, oryzanols, a complete and balanced amino acid profile and other nutritional and natural compounds that exhibit positive health properties.

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

NutraCea also produces proprietary value-added products in its Dillon, Montana facility. In Dillon, NutraCea has established a production facility which has the ability to isolate components of the Stabilized Rice Bran into value-added products with impressive nutritional profiles. The primary isolate is NutraCea RiSolubles which is a nutritionally-dense pleasant tasting ingredient. RiSolubles can be used in nutritional finished goods like beverages, bars, powders and pastes. RiSolubles can also be served as a stand-alone nutrition supplement in feeding programs designed to address malnutrition in pregnant/lactating mothers and infant to adolescent children. Another isolate produced in Dillon is Fiber Complex. Fiber complex is an excellent source of hypoallergenic fiber which can be used in dietary supplement formats like a fiber powders, capsules, wafers, baked products and fiber bars.

**BENEFITS OF NUTRACEA STABILIZED RICE BRAN**

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

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

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

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

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

**BUSINESS STRATEGY**

Our goal is to become a significant global supplier of Stabilized Rice Bran and rice bran based products in the premium consumer food and animal feed sectors of the marketplace. We produce stabilized rice bran and related products in manufacturing facilities we own or through other arrangements. See SUPPLY AND MANUFACTURING below. We intend to vigorously protect our process and products through both trade secret protection and through patent and trademark protection. See PATENTS AND TRADEMARKS below.

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

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DEVELOPED NATIONS

In developed nations, our focus is on producing and selling ingredients to large consumer product marketers as health-enhancing ingredients for existing or newly-developed products, and as stand-alone products to consumers. In addition, we have continuing relationships with U.S., European, North American, South American, and Japanese companies to introduce our products into these regions. Although there can be no assurance that our products will continue to be successfully introduced into these regions, we believe that our current sales and continued interest from these countries validates the potential opportunity. In addition, we believe that the relationship reflects the strategy for our foreign ventures. We intend to seek other opportunities in developed nations to convert stabilized rice bran grown in those countries into finished goods and into HVF's with demonstrated health or nutritional benefits.

DEVELOPING NATIONS

Our strategic development, using the NutraCea model, has been focused on making our nutrient-dense stabilized rice bran products available to developing countries where nutritional deficiencies are a major concern, particularly among school-aged children. We remain on the cutting edge in developing nations by reducing malnutrition and enhancing nutritional growth potential of school-aged children. The school nutritional and diet upgrading programs in developing countries worldwide represent a multi-billion dollar market, which provides us with an opportunity to make significant sales. The Food and Agriculture Organization of the United Nations and the Foreign Agricultural Service of the United States Department of Agriculture have targeted over 800 million nutritionally deficient humans for assistance in the worldwide program titled "American Special Supplemental Food Programs for Women, Infants and Children".

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

We are broadening our presence in the international markets. Building on our 2001 successful proof-of-concept program in Guatemala, we continue to develop and expand international market development activities in Central and South America. We have initiated discussions with governmental agencies within various Central and South America countries to explore securing contracts for the introduction of our highly nutritious and proprietary food supplements for use in local and national school feeding initiatives and family nutritional support programs. We are pursuing a strategy to introduce our technology to both the public and private sectors simultaneously using the strength of our local partners in foreign markets. In the year ended December 31, 2007, we initiated feeding programs in Malawaii, Afrca, and Indonesia with support and assistance from Feed the Children and Happy Hearts that supplied nutritional supplementation to over 200,000 children.

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



We continue to work with major rescue and relief agencies, congressional supporters and government offices of the USDA and the United States Agency for International Development to bring a multi-year program to provide nutritional drinks to substantial numbers of children each school day from either a U.S. based facility or some future international facilities.

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

We continue to hold discussions regarding the demonstration of our system and the end products for our technology with a number of companies and governments, including countries in Central America, India, China, Brazil, and certain African countries. We currently have signed letters of intent with companies in the food processing business and rice milling business in Central and South America countries as well as the Far East. See Part II - Item 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION - "International Initiatives", for additional discussions. However, there can be no assurance that these letters of intent and discussions will lead to implementation of the NutraCea Process with these companies or governments.

## SALES AND MARKETING

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

During fiscal 2007, approximately four percent of our net products sales were to regions outside of the United States. Information on net sales to unaffiliated customers and long-lived assets attributable to our geographic regions is included in Note 22 of Notes to Consolidated Financial Statements.

Our overall marketing plans in each of the target markets are discussed below.

### Nutraceuticals

Nutraceuticals are plant-derived substances with pharmaceutical-like properties, including vitamins and dietary supplements. NutraCea Bran can be used as a nutraceutical to provide certain specific nutrients or food components (including antioxidants, oryzanols, Vitamin E, Vitamin B, and bran fiber) or to address specific health applications such as cardiovascular health, diabetes control, fighting free radicals and general nutritional supplementation. Our ingredient products are sold to consumer nutrition and healthcare companies, national nutritional retailers, multi-level personal product marketers, and an infomercial company.

### Functional Food Ingredients

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

products and for development of new products.

The functional food market in the United States is \$16 billion and we estimate that this represents more than a \$100 million annual market share opportunity for us. Premium ingredient manufacturers are in high demand and we are strategically positioned to take advantage of this growing and sustainable market opportunity. Our proprietary technology and product patents represent extremely valuable assets for achieving strategic leverage in this industry segment.

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### Performance Feed and Companion Pet Food Supplements

We also market NutraCea Bran as a feed supplement for animals. NutraCea Stabilized Bran is used as an equine feed supplement and has proven to provide greater muscle mass, improved stamina, and hair-coat luster when added to a normal diet. Show and performance horses represent the premium end of the equine market and present more than a \$100 million annual market share opportunity for our future revenue growth. During 2003, NutraCea launched its own equine supplement label “Max E Glo”. In 2004, NutraCea entered into a license and distribution agreement with MannaPro, a national feed distributor, for this brand. We continued to hold numerous discussions with several major domestic equine feed manufacturers and distributors.

### Rice Bran Oils

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

## MARKETING METHODS

As of March 3, 2008, we have a Senior Vice-President of Sales and Marketing and seven domestic sales representatives. In addition, we have several marketing and distribution agreements with distributors in Mexico, South America, Western and Eastern Europe and Africa, for developing and marketing NutraCea Bran products. In addition, we have retained a firm to provide and assist in potential qualified customer introductions. We also have a non-exclusive agreement with a firm granting rights to advertise, promote, market, sell and distribute some of our products world-wide. We continue to work to develop additional significant alliances in efforts to increase our sales volume.

Pursuant to the Stabilized Rice Bran Processing Sales and Marketing Agreement between NutraCea and Farmers Rice Cooperative (“FRC”), a cooperative association organized under the California Food and Agriculture Code, dated September 1, 2005, we granted a license to Farmers to use our rice bran processing equipment to produce stabilized rice bran for a limited number of Farmers’ customers. Our Nutrition Supplements are currently marketed domestically through various distribution channels. In addition, we distribute products under the names FlexProtex™, Rice’n Shine™, Flex Protex Cream™, SuperSolubles®, ZymeBoost® and CeaBars™ through ITV Global, Inc. (“ITV”), a direct response marketing company. We and ITV entered into a Private Label Supply Agreement (the “Supply Agreement”) and Strategic Alliance on August 24, 2005. Pursuant to this agreement, ITV markets and sells our products through infomercials. In 2007, we generated \$851,000 in sales from these infomercials (net of a \$1,551,000 sales return of infomercial products from another customer). The Supply Agreement has an initial term of two years and allows for a subsequent one-year term renewal. We have agreed in the Supply Agreement to fulfill ITV’s requirements for the products specified in the agreement while ITV will use its best efforts to market, distribute and sell such products. The contracts have specific unit and dollar minimums in order for them to maintain limited exclusivity.

Our nutraceutical equine products are distributed under the name “Absorbine Flex+®” by W.F. Young, Inc. We and W.F. Young entered into a distribution agreement on May 1, 2001 which provides for NutraGlo to manufacture, package and ship all W.F. Young’s sales requirements while W.F. Young is granted a license to use and market our equine products. NutraGlo has agreed to sell its equine healthcare products exclusively through W.F. Young at preferred product prices. W.F. Young has agreed to use its best efforts to promote NutraGlo’s current and future equine products and make minimum product purchases. In May of 2003, the purchase requirements for the three-year contract had been met. The distribution agreement was for an initial term of three years ending on August 31, 2004.

On September 18, 2003, NutraCea, W.F. Young and Wolcott Farms, Inc. entered into a Technology Agreement which, among other things, extended the initial term of the distribution agreement through September 12, 2006. On April 12, 2005, NutraCea and W.F. Young entered into a Manufacturing Agreement which granted to us the exclusive worldwide rights to manufacture certain equine products for W.F. Young. Additionally, on April 12, 2005, NutraCea and W.F. Young entered into a Distribution Agreement under which we granted W.F. Young (i) the right of first offer and right of first refusal to market our stabilized rice bran food supplements (other than Equine Flex+) for the equine market and (ii) the right of first offer and right of first refusal to market the Flex+ product and Flex+ technology for the non-equine, non-human market.

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

### CUSTOMERS

During year ended December 31, 2007 we had revenues of \$22,161,000. Excluding revenues of \$5,340,000 for license and royalty fees, we had 6 customers that accounted for 59% of the remaining \$16,821,000 sales generated during 2007. Of these, three customers, Bi-Coastal, Wellness Watchers Global, LLC, and ITV Global, Inc., accounted for 19%, 18% and 12% of sales, respectively.

During year ended December 31, 2006 we had revenues of \$18,090,000. We had one customer that represented more than ten percent of total revenues generated during 2006, that being ITV Global, Inc. with revenues reported approximately \$8,057,000, or 45%.

During year ended December 31, 2005 we had revenues of \$5,564,000. We had one customer that represented more than ten percent of total revenues generated during 2005, that being ITV Global, Inc. with revenues reported approximately \$3,013,000, or 54%.

Loss of any one of these customers could have a material adverse effect on our revenues and results of operations.

### SUPPLY AND MANUFACTURING

We purchase unstabilized rice bran from multiple suppliers. These include FRC in Sacramento, CA, ADM Rice (“ADM”) in Arbuckle, CA, and Louisiana Rice Mill in Mermentau, LA. Pursuant to our agreements our stabilization machinery is physically located within or adjacent to the rice processing plants and the rice bran by-product is directly transferred to our machinery for stabilization without the need for shipping. The relationship with the rice mills are symbiotic, as the rice manufacturer searches for raw rice bran marketing channels while we have ready access to unstabilized bran. At the end of 2007, we had three domestic suppliers of unstabilized rice bran and an additional supply contract with another rice mill in Lake Charles, LA which will be utilized when we complete construction of that SRB plant in the second quarter of 2008.

We have negotiated additional supply agreements with other rice mills within the United States and have begun engineering designs and seeking permits in preparation for additional domestic operations. We have ongoing discussions regarding entering into contracts for the supply of rice bran in Europe, Indonesia, Brazil, and throughout other areas of the world. We are continuing to seek additional relationships with rice processors, both in the United States and abroad as part of our overall business strategy. We believe suitable alternative supply arrangements are readily available if needed.

As required, we ship NutraCea Bran from our warehouse in California to our plant in Dillon, Montana for further processing into NutraCea RiSolubles, Dextrinized Rice Bran and NutraCea Fiber Complex. We ordered and installed additional equipment and have expanded the Dillon Montana facility. This additional equipment has increased our production of NutraCea Solubles and NutraCea Fiber Complex by more than 150% since the end of 2005. We plan to construct and complete an additional value-added product processing facility during 2008, in Phoenix, AZ which will initially add 5,000 tons of capacity, with room to more than quadruple that capacity over the next 18 months.

Every food product that we manufacture is produced under published FDA and USDA regulations for “Good Manufacturing Practices.” Our Chief Operating Officer oversees quality control and quality assurance testing. Product samples for each product code are frequently analyzed for adherence to a predetermined set of product

microbiological and attribute specifications and each lot is released only when it demonstrates its compliance with specifications.

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RESULTS OF TRIALS AND SCIENTIFIC RESEARCH

The beneficial attributes of stabilized rice bran, including the RiSolubles® and RiceMucil® Nutritional Supplements, have been studied and reported by several laboratories, including Medallion Laboratories, Craft's Technologies, Inc., Southern Testing & Research Laboratories, and Ralston Analytical Laboratories. NutraCea has no affiliation with any of the laboratories that performed these studies but did pay for certain portions of these studies. These analyses have verified the presence of antioxidants, polyphenols, and phytosterols, as well as beneficial macro and trace minerals, in NutraCea's stabilized rice bran products. Antioxidants are compounds which scavenge or neutralize damaging compounds called free radicals. Polyphenols are organic compounds which potentially act as direct antioxidants. Phytosterols are plant-derived sterol molecules that help improve immune response to fight certain diseases.

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

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

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

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

NutraCea has an on-going immune system response study for HIV patients at the Haddassah Medical University in Israel. This study was initiated due to mounting anecdotal evidence obtained from NutraCea's humanitarian efforts in Africa that RiSolubles seems to boost energy levels in HIV infect individuals, also helping them gain weight and regain relatively normal lifestyles. We caution that no causal relationship has yet been proven and that RiSolubles does not reverse infection by HIV. The study, with a medically reviewed, statistically validated protocol, is intended to provide a definitive answer. Assuming no unexpected delays in the study, initial results are expected toward the end of 2008.

On January 10, 2008 NutraCea announced the formation of a joint venture with Herbal Science ("HS") to develop Nutraceutical extracts and pharmaceutical chemistries from NutraCea Stabilized Rice Bran. HS utilizes very sophisticated methodologies in the identification and isolation of specific biologically active compounds that have been tested for effectiveness against specific disease conditions. Thus far, it is apparent that NutraCea Stabilized Rice Bran contains a large number of novel, potentially active compounds that will be the target of HS's methodologies. We



are hopeful that the partnership will result in biologically active Stabilized Rice Bran extracts for use in the nutraceutical industry as well as specific identified compounds targeting the pharmaceutical industry.

Late in 2007, the Cancer Biomarkers Group in the Department of Cancer Studies and Molecular Medicine, University of Leicester in Leicester, UK published a research paper evaluating the effect of NutraCea Stabilized Rice Bran in ApcMin mice (*British Journal of Cancer* (2007) 96, 248-254). These mice have been genetically modified to serve as models for mammary, prostate and intestinal carcinogenesis. They reported that consumption of Stabilized Rice Bran (30% in the diet) reduced the numbers of intestinal adenomas in these mice by 51% compared to the same mice on a control diet. The results suggest that NutraCea Stabilized Rice Bran might be further evaluated as a chemo-preventative intervention in humans. These results lead to the filing for patent protection on “Methods for Treatment of Intestinal Carcinogenesis with Rice Bran” in January 2008. A new clinical trial utilizing NutraCea Fiber Complex has been initiated at the University of Leicester to further characterize the effectiveness of this rice bran derivative as a chemo-preventative intervention against intestinal cancer in humans.

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In December, 2007 we have begun working with Herbal Science to identify and characterize compounds and extracts contained in rice bran that demonstrate effectiveness in controlling the major imbalances in serum glucose and lipid composition that typify diabetes symptoms.

### PATENTS AND TRADEMARKS

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

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

In addition to the previously identified issued patents NutraCea has been assigned several additional US patents. These include patent number 6,558,714-B2 “Method for Treating Hypercholesterolemia, Hyperlipidemia and Atherosclerosis” which issued on May 06, 2003, a Continuation in Part with the same title which issued on May 11, 2004 and patent number 6,902,739 “Methods for Treating Joint Inflammation, Pain and Loss of Mobility” which issued June 07, 2005. Also NutraCea has been issued eight additional International patents covering this subject area. As of December 31, 2007, NutraCea has filed four additional provisional patents. NutraCea currently has a number of additional patents filed and pending formal review and we do intend to apply for additional patents in the future as new products, applications and data become available.

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

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

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

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GOVERNMENT REGULATIONS

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

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

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

- Nutrient content claims are those claims that state the nutritional content of a dietary supplement and include claims such as “high in calcium” and “a good source of vitamin C.” The FFDCFA prescribes the form and content of nutritional labeling of dietary supplements and requires the marketer to list all of the ingredients contained in each product. A manufacturer is not required to file any information with the FDA regarding nutrient content claims, but must have adequate data to support any such claims.
- Nutritional support claims may be either statements about classical nutritional deficiency diseases, such as “vitamin C prevents scurvy” or statements regarding the effect of a nutrient on the structure or function of the body, such as “calcium builds strong bones.” The FFDCFA requires that any claim regarding the effect of a nutrient on a structure or function of the body must be substantiated by the manufacturer as true and not misleading. In addition, the label for such products must bear the prescribed disclaimer: “This statement has not been evaluated by the Food and Drug Administration. This product is not intended to diagnose, treat, cure, or prevent any disease.”
- Health claims state a relationship between a nutrient and a disease or a health-related condition. FDA’s regulations permit certain health claims regarding the consumption of fiber and the reduction of risk for certain diseases, such claims may relate to rice bran ingredients.

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

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



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

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

## COMPETITION

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

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

## Research and Development Expenditures

During fiscal years 2007, 2006 and 2005, we spent \$878,000, \$377,000, and \$191,000, respectively, on product research and development.

## Employees

As of March 3, 2008, we had a total of 95 full-time domestic employees. Our new subsidiary, Irgovel, in Pelotas, Brazil, acquired in February, 2008, has approximately 185 employees. Our employee count may change periodically. From year to year we experience normal variable labor fluctuation at our production facilities around the world. We consider that our relations with our employees are good.

## Description of Property

We currently lease approximately 50,000 square feet of office space in our corporate headquarters in Phoenix, AZ under a lease which expires in 2016, and 28,000 of office, laboratory and warehouse space in West Sacramento, CA, under a lease which expires in 2011. We also lease a 2,000 square foot office facility in Burly, Idaho, a 1,264 square foot office in Scottsdale, Arizona. We own a 15,000 square foot manufacturing plant in Mermentau, LA, and are constructing a 50,000 square foot manufacturing plant in Lake Charles, LA. We are planning a second rice bran

derivative manufacturing facility in Phoenix that will be over 100,000 square feet and have signed a letter of intent for the purchase of a building for that plant. Our subsidiary RiceX Nutrients, Inc., owns a 15,700 square foot production facility in Dillon, Montana. Our newly acquired rice bran oil facility in Pelotas, Brazil encompasses several operations and buildings on approximately 20 acres.

We believe that our facilities are adequate for our anticipated needs through 2008 but we anticipate the Company will need to add additional manufacturing capacity for 2009. We plan to build another production facility in 2008 to meet anticipated needs in 2009. The properties are adequately covered by insurance.

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Legal Proceedings

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

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## MANAGEMENT

## Executive Officers and Directors

The names, the ages as of March 3, 2008 and certain other information about our executive officers and directors are set forth below:

Name	Age	Position
Bradley D. Edson	48	Chief Executive Officer, President and Director
Todd C. Crow	59	Chief Financial Officer
Leo G. Gingras	50	Chief Operating Officer
Margie D. Adelman	47	Secretary and Senior Vice President
Kody Newland	51	Senior Vice President of Sales
David Bensol (1)(2)(3)	52	Director and Chairman of the Board
Wesley K. Clark	63	Director
James C. Lintzenich (1)(2)	54	Director
Edward L. McMillan (1)(3)	62	Director
Steven W. Saunders	52	Director
Kenneth L. Shropshire (2)(3)	53	Director

(1) Member of the Audit Committee.

(2) Member of the Compensation Committee.

(3) Member of the Nominating and Governance Committee

Bradley D. Edson, has served as our Chief Executive Officer and President since October 2005 and as our President and as one of our directors since December 2004. Since October 2005, Mr. Edson also serves as Chief Executive Officer of our subsidiary, The RiceX Company. From January 2004 to December 2004, he has an independent management consultant in the nutrition industry. From February 1999 to January 2004 Mr. Edson was the Chief Executive Officer and a director of Vital Living Inc. (OTC BB: VTLV), a company that primarily developed and marketed nutraceuticals. Prior to Vital Living, Mr. Edson spent a decade developing a nationwide insurance agency focused on distribution channels for specialty products for the retail market. Prior to that, Mr. Edson was a former principal and officer of a NASD broker/dealer firm.

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

Leo G. Gingras, has served as our Chief Operating Officer since April 2007. Prior to joining NutraCea, Mr. Gingras served as Vice President of Soy Processing and Technical Services for Riceland Foods, a major rice and soybean processor, from November 2000 until March 2007. Before November 2000, Mr. Gingras held various positions at Riceland Foods, including Manager of Oil Operations and Quality Assurance Manager. During his appointments at Riceland Foods, Mr. Gingras oversaw several hundred employees and business units with sales over \$320 million. Prior to Mr. Gingras' employment at Riceland Foods, he was the Research and Development Manager at Lou Ana Foods, Inc., a company with annual sales of \$120 million that processes, packages and markets edible oils.

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Kody K. Newland, has served as our Senior Vice President of Sales and Marketing since February 2006. From 1997 to 2006 Mr. Newland was a Vice President of Sales for American Modern Insurance Group Inc., a subsidiary of The Midland Company (Nasdaq: MLAN). From 1983 to 1997 Mr. Newland held various sales and marketing positions with the Foremost Corporation of America (now a division of the Zurich Company).

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

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David S. Bensol, has served as one of our directors since March 2005. Mr. Bensol has been President of Bensol Realty Corp, a commercial real estate company, since 1978, and a management consultant since January 2000. Mr. Bensol was the former CEO of Critical Home Care, a home medical equipment provider which recently merged with Arcadia Resources, Inc. (AMEX: KAD) Mr. Bensol was the Executive Vice President and Director of Arcadia Resources, Inc. from May 2004 until his resignation from those positions in December 2004. In 2000, Mr. Bensol founded what eventually became Critical Home Care, through a series of acquisitions and mergers. From 1979 to 1999 Mr. Bensol founded several public and private companies which became industry leaders in the areas of home medical equipment providers, acute care pharmacy providers and specialty support surface providers. Mr. Bensol received a BS Pharm. from St. Johns University, New York, and became a registered pharmacist in 1978.

Wesley K. Clark, has served as one of our directors since June 2007. Since March 2003 he has been the Chairman and Chief Executive Officer of Wesley K. Clark & Associates, a business services and development firm based in Little Rock, Arkansas. Mr. Clark is a Senior Fellow at UCLA's Burkle Center for International Relations and is Chairman of the Board of Rodman & Renshaw Holding, LLC, the parent company of Rodman & Renshaw, LLC. Mr. Clark also serves as a general partner in Four Seasons Ventures, an investment fund dedicated to commercializing military technology. From March 2001 to February 2003 he was a Managing Director of the Stephens Group Inc., an emerging company development firm. From July 2000 to March 2001 he was a consultant for Stephens Group Inc. Prior to that time, Mr. Clark served as the Supreme Allied Commander of NATO and Commander-in-Chief for the United States European Command and as the Director of the Pentagon's Strategic Plans and Policy operation. Mr. Clark retired from the United States Army as a four-star general in July 2000 after 38 years in the military and received many decorations and honors during his military career. Mr. Clark is a graduate of the United States Military Academy and studied as a Rhodes Scholar at the Magdalen College at the University of Oxford. Mr. Clark is a director of Argyle Security Acquisition Corp., Summit Global Logistics, Inc. and Entrust Financial Services, Inc.

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

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

Steven W. Saunders, has served as one of our directors since October 2005. He has been a director of The RiceX Company since August 1998. Mr. Saunders has been President of Saunders Construction, Inc., a commercial construction firm, since February 7, 1991, and President of Warwick Corporation, a business-consulting firm, since 1992. Mr. Saunders currently serves on the board of directors of Nano-Life Sciences, Inc., a cancer research and treatment company.

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Kenneth L. Shropshire, has served as one of our directors since April 2006. Mr. Shropshire has been a professor at the Wharton School of the University of Pennsylvania since 1986; serving as a David W. Hauck professor since 2001, the chair of the Department of Legal Studies from 2000 to 2005, and the faculty director of the Sports Business Initiative since 2004. Mr. Shropshire was of counsel at the law firm of Van Lierop, Burns & Bassett, LLP, from 1998 to 2004 and has been a practicing attorney in Los Angeles, California, focusing on sports and entertainment law. Mr. Shropshire has also taught coursework at the University of Pennsylvania School of Law, the University of San Diego School of Law and Southwestern University School of Law. Mr. Shropshire currently is a member of the board of directors of Valley Green Bank.

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### Board Composition

Our board of directors currently consists of 7 members. Messrs. Bensol, Clark, Lintzenich, McMillan and Shropshire qualify as independent directors in accordance with the listing requirements of NASDAQ. The NASDAQ definition of independence includes a series of objective tests, such as that the director is not, and has not been for at least three years, one of our employees and that neither the director, nor any of his family members, has engaged in various types of business dealings with us. In addition, as further required by the NASDAQ rules, our board of directors has made a subjective determination as to each independent director that no relationships exist that, in the opinion of our board of directors, would interfere with his exercise of independent judgment in carrying out the responsibilities of a director. In making these determinations, our directors reviewed and discussed information provided by the directors and us with regard to each director's business and personal activities as they may relate to us and our management.

Our directors are elected annually and hold office until their successors have been elected or qualified or until the earlier of their death, resignation, retirement, disqualification or removal. The remaining directors, though less than a quorum, may fill board vacancies, and persons elected to fill vacancies serve until the next annual meeting of shareholders unless they die, resign or are removed.

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

### Board Committees

#### Audit Committee

The Audit Committee assists the full Board of Directors in its general oversight of our financial reporting, internal controls, and audit functions, and is responsible for the appointment, compensation and oversight of the work of our independent registered public accounting firm. Our Audit Committee consists of Jim Lintzenich, David Bensol and Ed McMillan, each an independent director as defined under Rule 10A-3(b)(i) under the Securities and Exchange Act of 1934, as well as the listing standards of NASDAQ. Our board of directors has determined that Mr. Lintzenich meets the requirements of an "audit committee financial expert" under applicable federal securities laws and regulations, and has the "financial sophistication" required under the listing standards of NASDAQ.

#### Compensation Committee

The Compensation Committee establishes our executive compensation policy, determines the salary and bonuses of our executive officers and recommends to the Board of Directors stock option grants for our executive officers. The members of the Compensation Committee are David Bensol, chairman, James C. Lintzenich and Kenneth L. Shropshire, each an "independent" director as defined under the rules of NASDAQ.

#### Governance and Nominating Committee

The Governance and Nominating Committee is responsible for matters relating to the corporate governance of our company and the nomination of members of the board and committees thereof. The members of the Governance and Nominating Committee are David Bensol, Ed McMillan and Kenneth L. Shropshire, each an "independent" director as defined under the rules of NASDAQ.

#### Compensation Committee Interlocks and Insider Participation

During 2007, David Bensol, James C. Lintzenich and Kenneth L. Shropshire served on our compensation committee. No member of the compensation committee simultaneously served both as a member of the compensation

committee and as an officer or employee of ours during 2007. None of our executive officers serves as a member of the board of directors or the compensation committee, or committee performing an equivalent function, of any other entity that has one or more of its executive officers serving as a member of our board of directors or compensation committee.

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### Code of Business Conduct and Ethics

Our board of directors has approved and we have adopted a Code of Business Conduct and Ethics that applies to all our directors, officers and employees. We will provide any person, without charge, a copy of this Code. Requests for a copy of the Code may be made by writing to NutraCea at 1261 Hawk's Flight Court, El Dorado Hills, California 95762, Attention: Chief Financial Officer.

### Executive Compensation

#### Compensation Discussion and Analysis

##### Overview of Compensation Program and Philosophy

Our compensation program is intended to support the achievement of our specific annual and long-term operational and strategic goals by attracting and rewarding superior management personnel to achieve the ultimate objective of improving shareholder value. The compensation committee of our board of directors has responsibility for establishing, implementing and monitoring adherence to our compensation philosophy. Our compensation committee seeks to ensure that the total compensation paid to our executive officers is fair, reasonable and competitive.

Our compensation committee evaluates both performance and compensation in an effort to ensure that we maintain our ability to attract and retain individuals of superior ability and managerial talent in key positions and that compensation provided to key employees remains competitive relative to the compensation paid to similarly situated executives of our peer companies. To that end, our compensation committee believes executive compensation packages we provide to our executive officers should include both cash and stock-based compensation that rewards individual and corporate performance as measured against established goals.

Before the establishment of our compensation committee in 2006, our board of directors established our compensation policies. Other than for Leo Gingras, who was hired in 2007, the compensation of our executive officers through 2007 was determined by our board of directors at the time we hired our executive officers.

##### Role of Executive Officers in Compensation Decisions

Our compensation committee makes all compensation decisions for our executive officers. On at least an annual basis, the compensation committee approves all compensation and awards to our executive officers that are not already determined pursuant to existing employment agreements. Our chief executive officer, Bradley Edson, provides input and arranges for our compensation committee to have access to our records and personnel for purposes of its deliberations. Mr. Edson reviews the performance of each executive officer (other than his own, which is reviewed by our compensation committee) and provides input and observations to our compensation committee. The conclusions reached and recommendations based on these reviews are presented to our compensation committee. Our compensation committee can exercise its discretion in modifying any recommended adjustments or awards to executive officers.

##### Setting Executive Compensation

Based on the foregoing objectives, our compensation committee has structured our annual and long-term incentive-based cash and non-cash executive compensation in an effort to motivate our executive officers to achieve the business goals set by us and reward them for achieving such goals. Our compensation committee believes that we compete with many companies for top executive-level talent. Accordingly, our compensation committee strives to implement compensation packages for our executive officers that are competitive. Variations to this objective may

occur as dictated by the experience level of the individual and market factors. A significant percentage of total compensation for our executive officers is allocated to incentives as a result of the philosophy mentioned above. Nevertheless, strictly speaking, there is no pre-established policy or target for the allocation between either cash and non-cash or short-term and long-term incentive compensation. Income from such incentive compensation is realized as a result of our performance or the individual's performance, depending on the type of award, compared to established goals. Our compensation committee has not used industry benchmarks nor hired compensation consultants when determining the compensation to be paid to executive officers.



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Principal Components of Compensation of Our Executive Officers

The principal components of the compensation paid to our executives consist of:

- Base salary;
- Signing bonuses, paid in cash;
- cash incentive compensation under the terms of individual senior management incentive compensation plans established for our executive officers; and
- equity compensation, generally in the form of grants of stock options.

Base Salary

Our Chief Executive Officer

We hired Brad Edson as our president in December 2004, and he became our chief executive officer in October 2005 concurrently with our acquisition of RiceX. Mr. Edson's employment agreement with us provides for an initial base salary of \$50,000 per year in year one, \$150,000 in year two and \$250,000 in year three, with base salary thereafter being subject to an annual increase of 10% each year that Mr. Edson is employed with us. When structuring Mr. Edson's salary, our board considered the salary of our then chief executive officer, the amount of equity compensation that Mr. Edson required, the value that Mr. Edson could bring to NutraCea and our low cash position at the time. Based upon these criteria, the Board determined that providing Mr. Edson with base salary that started low and that grew substantially over time would allow NutraCea to preserve its available cash while ultimately providing Mr. Edson with the cash compensation appropriate for his position. The base salary paid to Mr. Edson in 2007 reflects his base salary under his original employment agreement. In January 2008, our compensation committee and our board of directors approved an amendment to Mr. Edson's employment contract to extend the term through December 31, 2010. The amendment did not change the base salary terms of Mr. Edson's original employment agreement.

Our Chief Financial Officer

We hired Todd C. Crow as our as our chief financial officer in October 2005 concurrent with our acquisition of RiceX. Mr. Crow had served as the chief financial officer of RiceX and we assumed his employment contract with RiceX pursuant to the terms of the acquisition. Mr. Crow's base salary in 2007 reflects his base salary under his original employment agreement that we assumed.

Our Chief Operating Officer

We hired Leo Gingras in February 2007 to serve as a special assistant to our then chief operating officer, and Mr. Gingras became our chief operating officer in April 2007. In determining Mr. Gingras' annual base salary of \$220,000 under his employment agreement, our compensation committee and our board of directors considered the compensation sought by Mr. Gingras in order to accept employment with us, his extensive experience directly related to our business and the base salaries of our other executive officers. In January 2008, our compensation committee and our board of directors approved an amendment to Mr. Gingras' employment contract to extend the term through February 8, 2010. The amendment did not change the base salary terms of Mr. Gingras' employment agreement.

Our Senior Vice President of Sales

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We hired Kody Newland in February 2006 to serve as our senior vice president of sales and entered into an employment agreement with him that provides for a base salary of \$150,000 with annual cost of living adjustments. The base salary paid to Mr. Newland in 2007 reflects his base salary under this employment agreement. When determining Mr. Newland's compensation in February 2006, our board of directors considered the base salary sought by Mr. Newland, Mr. Newland's wide-ranging sales experience and the base salaries of our other executive officers. In January 2008, our compensation committee and our board of directors approved an amendment to Mr. Newland's employment contract to extend the term through February 28, 2010. The amendment did not change the base salary terms of Mr. Newland's employment agreement.

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### Our Secretary and Senior Vice President

We hired Margie Adelman as our senior vice president in January 2005. Our three-year employment agreement with Ms. Adelman provides for an initial annual salary of \$150,000 with annual cost of living adjustments. The base salary paid to Ms. Adelman in 2007 reflects her base salary under this agreement. In determining her base salary in January 2005, our board of directors considered the base salary sought by Ms. Adelman, our weak financial position at that time, her educational background that directly related to our business, her relevant professional experience and the compensation then being paid to our executive officers.

### Bonus Compensation

We have not historically paid automatic or guaranteed bonuses to our executive officers. However, we have from time to time paid signing or retention bonuses in connection with our initial hiring or appointment of an executive officer. Whether a signing bonus and relocation expenses are paid and the amount thereof is determined on a case-by-case basis under the specific hiring circumstances. For example, we will consider paying signing bonuses to compensate for amounts forfeited by an executive upon terminating prior employment or to create additional incentive for an executive to join our company in a position for which there is high market demand. In 2007 we paid to Mr. Gingras a \$150,000 signing bonus when he became an employee. As Mr. Gingras' signing bonus was significant, the compensation committee required that he forfeit a pro rata portion of the bonus if he is employed with us for less than three years.

In addition to Mr. Gingras' \$150,000 signing bonus, when Mr. Gingras began employment with us we agreed to pay him \$20,000 at the end of 2007 if he remained employed by us through 2007. The compensation committee determined that this bonus was appropriate given the experience that Mr. Gingras would bring to our team and our desire for him to begin work promptly to replace our then chief operating officer, Ike Lynch, who we expected would be retiring from this position soon.

In December 2007, our compensation committee approved the payment of a holiday bonus to all employees equal to three days' pay. Our executive officers participated in the bonus.

### Compensation under Individual Senior Management Incentive Compensation Plans

We entered into an employee incentive compensation plan with Brad Edson when Mr. Edson executed his employment agreement with us. Under the plan, Mr. Edson is entitled to an annual incentive bonus based upon objective performance criteria of NutraCea during a fiscal year. The annual bonus is equal to one percent of our gross sales over \$25,000,000 in a year, but only if we report a positive EBITDA (earnings before interest, taxes, depreciation and amortization) for the year, disregarding the effect of non-cash charges. The bonus amount is limited to a maximum of \$750,000 in any calendar year. Mr. Edson has not earned a bonus under the incentive compensation plan because we have not had gross sales of \$25,000,000 in any year. Given his low initial base salary, Mr. Edson required that we provide him with incentive compensation plan as a condition to his accepting employment with us in December 2004. Also, since low sales were a primary impediment to our success at the time, our board determined that paying compensation to Mr. Edson that was tied to our revenues would align NutraCea's and Mr. Edson's goals. In January 2008, our compensation committee approved an amendment to Mr. Edson's incentive compensation plan to remove the \$750,000 annual cap on this bonus. The compensation committee determined that since NutraCea and our shareholders would benefit from greater sales, Mr. Edson's sales-based incentive compensation should provide marginal benefit to Mr. Edson, regardless of how large our sales grew.

### Equity Compensation

Our board of directors' historical practice has been to grant equity-based awards to attract, retain, motivate and reward our employees, particularly our executive officers, and to encourage their ownership of an equity interest in us. Through March 12, 2008, such grants have consisted primarily of stock options, specifically non-qualified stock options, that is, options that do not qualify as incentive stock options under Section 422 of the Internal Revenue Code of 1986, as amended. Prior to 2008, we granted awards of stock options to our executive officers only upon their appointment as executive officers, with our obligation to grant the options typically memorialized in the offer letter or employment agreement, or an addendum to an employment agreement, entered into with the applicable executive officer. In 2004, 2005, 2006 and 2007, each of Mr. Edson, Ms. Adelman, Mr. Newland and Mr. Gingras received stock option grants under these circumstances.

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The terms of the initial stock options granted to our executives varied executive by executive. Mr. Edson's initial stock option was fully vested when granted as required by Mr. Edson in order to begin employment with us. Ms. Adelman's initial stock option grant vested as to 25% of the shares when she was hired and vested as to 25% of the shares on the one year anniversary of her hire date. Our board of directors determined that the remainder of her shares should only vest if we achieved certain performance results. Accordingly, the remaining 50% of the shares underlying her initial option grant will vest only if we achieve during her employment with us both (i) gross sales over \$25,000,000 in a year and (ii) a positive EBITDA (earnings before interest, taxes, depreciation and amortization) for the year, disregarding the effect of non-cash charges. We did not grant a new stock option to Mr. Crow when he became our chief financial officer. However, pursuant to the terms of the RiceX acquisition we assumed all outstanding RiceX stock options, including the stock options held by Mr. Crow. The terms of the stock options initially granted to Messrs. Gingras and Newland were determined based upon negotiations with Mr. Gingras and Mr. Newland and were consistent with the stock options granted to and held by our other executive officers.

In January 2008, our compensation committee and directors approved the grant of new stock options to each of our executive officers (the "2008 Options"). Mr. Edson received an option to purchase 1,000,000 shares, Mr. Gingras received an option to purchase 350,000 shares and Todd Crow, Kody Newland and Margie Adelman each received an option to purchase 100,000 shares. Our compensation committee and board of directors determined the number of option shares underlying each executive's options based upon the relative positions and responsibilities of the executives. The current level of option holdings by the executives was not considered when these grants were made. Each of the 2008 option grants to executives is performance based in order to incentivize the executives to achieve positive financial results and to align the interests of our executives with our shareholders. One half of the underlying shares will vest only if our gross revenues exceeds 85% of targeted gross revenues in 2008 and 2009 and the other half of the underlying shares will vest only if our net income exceeds 85% of targeted net income for 2008 and 2009. We believe that these performance targets are achievable in 2008 and 2009.

We do not have any program, plan or practice that requires us to grant equity-based awards on specified dates. Authority to make equity-based awards to executive officers rests with our compensation committee, which considers the recommendations of our chief executive officer. If we become listed on a national securities exchange like NASDAQ in the future, we will be subject to NASDAQ listing standards that, in general, require shareholder approval of equity-based plans.

Each of our executive officers are eligible to receive stock option grants under our 2005 Equity Incentive Plan, or the 2005 Plan.

## Severance and Change of Control Payments

In 2007 and 2008, our board of directors and compensation committee approved severance arrangements in the amended employment agreements of Mr. Edson, Mr. Gingras and Mr. Newland and accelerated vesting provisions for the 2008 Options upon our change in control. We believe that we should provide reasonable severance benefits to key employees, recognizing that it may be difficult for them to find comparable employment within a short period of time. We further want our executive officers to be free to think creatively and promote our best interests without worrying about the impact of those decisions on their employment. Accordingly, we implement severance and change of control arrangements in our executives' compensation packages to align executive and shareholder interests by enabling executives to consider corporate transactions that are in the best interests of our shareholders without undue concern about whether the transaction may jeopardize their employment or the continued vesting of their stock options. For a description of the termination and change in control arrangements that we have made with our executive officers, see "Executive Employment Agreements" and "Potential Payments Upon Termination or Change in Control."

## Other Benefits

We believe establishing competitive benefit packages for our employees is an important factor in attracting and retaining highly qualified personnel. Executive officers are eligible to participate in all of our employee benefit plans, such as medical, dental, long-term disability, group life insurance and our 401(k) plan, in each case on the same basis as other employees. We provide a matching contribution under our 401(k) plan, but we do not offer other retirement benefits.

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### Perquisites

Each of our executive officers receives similar perquisites. Under the terms of the employment agreements with our executive officers, we are obligated to reimburse each executive officer for all reasonable travel, entertainment and other expenses incurred by the officer in connection with the performance of his duties and obligations under the agreement. When necessary and appropriate, upon the hire of new executives, we may pay additional amounts in reimbursement of relocations costs. The most significant ongoing perquisite that our executive officers receive is an automobile allowance and other automobile expenses, including insurance costs.

### Tax and Accounting Considerations

All equity-based awards have been reflected in our consolidated financial statements, based upon the applicable accounting guidance. Previously, we accounted for equity compensation paid to our employees under SFAS No. 123 and compensation was recorded for option grants based on the excess of the estimated fair value of the common stock on the vesting date over the exercise price. Effective January 1, 2006, we adopted FAS 123R using the modified prospective transition method. Under this method, stock-based compensation expense is recognized using the fair-value based method for all awards granted on or after the date of adoption of FAS 123R. FAS 123R requires us to estimate and record an expense over the service period of the stock-based award. In 2007, our compensation committee, conscious of the less favorable accounting treatment for stock options resulting from adoption of FAS 123R, took a more deliberate approach to the granting of awards of stock options.

We currently intend that all cash compensation paid to our executive officers will be tax deductible for us. However, with respect to equity-based awards, while any gain recognized by our executive officers and other employees from non-qualified stock options generally should be deductible, subject to limitations imposed under Section 162(m) of the Internal Revenue Code, to the extent that in the future we grant incentive stock options, any gain recognized by the optionee related to such options will not be deductible by us if there is no disqualifying disposition by the optionee.

We may not be able to deduct a portion of the equity compensation earned by our executive officers. Section 162(m) of the Internal Revenue Code generally prohibits us from deducting the compensation of an executive officer that exceeds \$1,000,000 in a year unless that compensation is based on the satisfaction of objective performance goals. None of the stock options held by our executive officers qualify as performance based compensation under Section 162(m). Accordingly, if any of our executive officers recognizes income in excess of \$1,000,000, including amounts includible in income from the exercise of stock options currently outstanding, this excess will not be tax deductible by us.

Under certain circumstances, an accelerated vesting or the cash out of stock options or the payment of severance awards in connection with a change of control might be deemed an “excess parachute payment” under Section 280G of the Internal Revenue Code. To the extent payments are considered to be “excess parachute payments,” the executive receiving the benefit may be subject to an excise tax and we may be denied a tax deduction. We do not consider the potential impact of Section 280G when designing our compensation programs.

### Compensation Committee Interlocks and Insider Participation

The members of the Compensation Committee for the 2007 fiscal year were David Bensol, James Lintzenich and Kenneth L. Shropshire. All members of the Compensation Committee during 2007 were independent directors, and none of them were our employees or former employees. During 2007, none of our executive officers served on the compensation committee (or equivalent), or the board of directors, of another entity whose executive officer(s) served on our Compensation Committee or Board of Directors.





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## Summary Compensation Table

The following table sets forth information regarding compensation earned in or with respect to our fiscal year 2007 by:

- each person who served as our chief executive officer in 2007;
- each person who served as our chief financial officer in 2007; and
- our three most highly compensated executive officers, other than our chief executive officer and our chief financial officer, who were serving as executive officers at the end of 2007 and, at that time, were our only other executive officers.

We refer to these officers collectively as our named executive officers.

Name and Principal Position	Year	Salary (\$)	Bonus (\$)	Option Awards (\$)(1)	All Other Compensation (\$)(2)(3)	Total (\$)
Bradley Edson, President and Chief Executive Officer	2007	255,769	3,173	—	24,909	283,851
	2006	159,723	—	—	22,307	182,030
Todd C. Crow, Chief Financial Officer	2007	159,362	1,863	—	26,584	187,809
	2006	153,427	—	—	19,062	172,489
Leo G. Gingras, Chief Operating Officer	2007	177,479	152,538	438,550	13,051	781,618
Margie D. Adelman, Secretary and Senior Vice President	2007	157,901	1,830	—	22,352	182,083
	2006	154,504	—	—	16,324	170,828
Kody Newland, Senior Vice President of Sales	2007	152,412	1,793	182,488	18,711	336,944
	2006	121,754	—	250,228	14,545	386,526

(1) The amounts in this column represent the dollar amount recognized for financial statement reporting purposes with respect to the fiscal year in accordance with SFAS 123(R). The assumptions used to calculate the value of option awards are set forth in Note 17 of the Notes to Consolidated Financial Statements contained elsewhere in this prospectus.

(2) Consists of the following amounts for 2006: (i) for Mr. Edson, an automobile allowance (\$7,200), life insurance premium payments (\$381), payment for unused personal time (\$8,294) and a matching 401(k) contribution (\$6,432); (ii) for Mr. Crow, an automobile allowance (\$9,600), automobile insurance payments (\$1,000), life insurance premium payments (\$400), payment for unused personal time (\$3,362) and a matching 401(k) contribution (\$4,700); (iii) for Ms. Adelman, an automobile allowance (\$7,200), life insurance premium payments (\$381), payment for unused personal time (\$2,522) and a matching 401(k) contribution (\$6,221); and (iv) for Mr. Newland, an automobile allowance (\$7,200), life insurance premium payments (\$318), payment for unused personal time (\$3,606) and a matching 401(k) contribution (\$3,421).

(3) Consists of the following amounts for 2007: (i) for Mr. Edson, an automobile allowance (\$7,200), life insurance premium payments (\$381), payment for unused personal time (\$3,222) and a matching 401(k) contribution

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(\$14,106); (ii) for Mr. Crow, an automobile allowance (\$9,600), automobile insurance payments (\$852), life insurance premium payments (\$381), payment for unused personal time (\$3,105) and a matching 401(k) contribution (\$12,646); (iii) for Mr. Gingras, an automobile allowance (\$6,300), life insurance premium payments (\$381), payment for unused personal time (\$3,966.35) and a matching 401(k) contribution (\$2,403.64); (iv) for Ms. Adelman, an automobile allowance (\$7,200), life insurance premium payments (\$381), payment for unused personal time (\$3,813) and a matching 401(k) contribution (\$10,958); and (v) for Mr. Newland, an automobile allowance (\$7,200), life insurance premium payments (\$381), payment for unused personal time (\$2,988) and a matching 401(k) contribution (\$8,142).

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## 2007 Grants Of Plan-Based Awards

Set forth in the table below is information regarding a stock option award granted to a named executive officer in 2007. This stock option grant represents all of the grants of awards to our named executive officers under any plan during or with respect to 2007.

Name	Grant Date	All Other	Exercise Price of Options (\$/Sh)	Close Price on Grant Date (\$/Sh)	Grant Date Fair Value of Option Awards
		Option Awards: # of Shares Underlying Options			
Leo G. Gingras	2/08/2007	250,000	\$ 2.63	\$ 2.63	\$ 438,560

The fair market value that is used to determine the exercise price for option grants is the closing price of NutraCea's stock on the last market trading day prior to the grant date as reported on the OTC Bulletin Board. The stock option granted to Mr. Gingras during 2007 expires on February 8, 2017, and the shares subject to the option vest as to 1/36th of the shares at the end of each successive calendar month in which Mr. Gingras remains a service provider for us. The grant date fair value of the option awards is calculated using the Black-Scholes valuation model using the following assumptions:

Assumption	Rate
Average risk free interest rate	4.75%
Average expected term (years)	6.2
Average expected volatility	69%

## Outstanding Equity Awards As Of December 31, 2007

The following table provides information as of December 31, 2007 regarding unexercised stock options held by each of our named executive officers.

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Name	Outstanding Equity Awards at 12/31/07				Option Expiration Date
	# of Securities Underlying Unexercised Options (# Exercisable)	# of Securities Underlying Unexercised Options (# Un-exercisable)	Option Exercise Price (\$/sh)		
Bradley Edson	6,000,000	—	\$ 0.30		12/16/2014
Todd C. Crow(1)	46,079	—	0.30		10/04/2008
	38,399	—	0.30		10/04/2008
	691,191	—	0.30		10/31/2009
	76,799	—	0.30		2/22/2011
	38,399	—	0.30		2/22/2011
	38,399	—	0.30		1/28/2012
	95,998	—	0.30		1/02/2012
	507,807	29,871	0.30		3/31/2015
Leo G. Gingras(2)	76,389	173,602	2.63		2/08/2017
Margie Adelman(3)	1,000,000	—	0.30		1/24/2015
	—	1,000,000	0.30		1/24/2015
Kody Newland(4)	450,000	50,000	1.00		12/31/2015

(1) For the option expiring on March 31, 2015, one half of the shares subject to the option vested upon grant and 1/36th of the remaining shares vest monthly over three years.

(2) For the option expiring on February 8, 2017, 1/36th of the shares subject to the option vest monthly over three years.

(3) The un-exercisable option vests as to all 1,000,000 shares if we achieve while Ms. Adelman is employed with us, annual gross sales of at least \$25,000,000 and a positive EBITDA, disregarding noncash charges, over the same period.

(4) 100,000 of the shares subject to the option vested upon grant and 50,000 shares vest each calendar quarter thereafter over two years.

#### 2007 Option Exercises and Stock Vested

In 2007, none of our named executive officers exercised any stock options or similar awards we granted to them, nor did any stock or similar award granted by us to any of our named executive officers vest.

#### Pension Benefits

None of our named executive officers are covered by a pension plan or other similar benefit plan that provides for payments or other benefits at, following, or in connection with retirement.

#### Nonqualified Deferred Compensation

None of our named executive officers are covered by a defined contribution or other plan that provides for the deferral of compensation on a basis that is not tax-qualified.



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Executive Employment Agreements

Brad Edson

On December 17, 2004, we entered into an employment agreement with our current President and Chief Executive Officer, Bradley D. Edson, pursuant to which we agreed to pay Mr. Edson a base salary of \$50,000 in year one; a base salary of \$150,000 in year two; a base salary of \$250,000 in year three; and a base salary that increases by 10% a year each year thereafter. The initial term of this agreement was three years and automatically extends for up to two additional one year terms unless either NutraCea or Mr. Edson gives written notice to terminate this agreement at least 180 days before the end of the preceding term. This agreement provided that Mr. Edson be entitled to an annual incentive bonus based upon performance ("Edson Incentive Bonus") and to be provided a car allowance of \$600 per month. The incentive bonus is payable annually within 10 days of the completion of our annual independent audit. The bonus is one percent of our "Gross Sales over \$25,000,000," but only if we report a positive EBITDA for the period. The bonus amount was limited to a maximum of \$750,000 in any calendar year. In addition, Mr. Edson was issued a warrant to purchase 6,000,000 shares of our common stock at an exercise price of \$0.30 per share in connection with his initial employment with us. The warrant is immediately exercisable as to all underlying shares and expires ten years from the date of issuance.

On January 8, 2008, we amended the employment agreement to remove the \$750,000 cap on the Edson Incentive Bonus and extended the initial term of the agreement to December 31, 2010. In connection with this amendment, we granted to Mr. Edson an option to purchase 1,000,000 shares of our common stock at an exercise price per share of \$1.49. This option will vest as follows so long as Mr. Edson is employed by us on each vesting date: (1) ¼ of the option shares vest on December 31, 2008 so long as we achieve for 2008 gross revenue that equals or exceeds 85% of gross revenue budgeted for 2008, (2) ¼ of the option shares vest on December 31, 2009 so long as we achieve for 2009 gross revenue that equals or exceeds 85% of gross revenue budgeted for 2009, (3) ¼ of the option shares vest on December 31, 2008 so long as we achieve for 2008 net income that equals or exceeds 85% of net income budgeted for 2008, and (4) ¼ of the option shares vest on December 31, 2009 so long as we achieve for 2009 net income that equals or exceeds 85% of net income budgeted for 2009.

For a description of the termination and change in control provisions of Mr. Edson's employment agreement, see "Potential Payments Upon Termination or Change in Control."

Todd C. Crow

In September 2005, we entered into a first amendment to employment agreement with Todd C. Crow, pursuant to which we assumed the employment agreement between Mr. Crow and The RiceX Company. The employment agreement, as amended, provides that Mr. Crow will serve as Chief Financial Officer of NutraCea and the RiceX Company. Mr. Crow's employment agreement, as amended, provides that Mr. Crow will receive an annual base salary of \$150,000, which salary will be reviewed annually and be adjusted to compensate for cost of living adjustments in the Sacramento metropolitan area. The agreement terminates on October 4, 2008. The term will be automatically extended for an additional one-year term unless either party delivers notice of election not to extend the employment at least 90 days prior to the expiration of the initial term. On January 8, 2008, we issued to Mr. Crow an option to purchase 100,000 shares of our common stock at an exercise price per share of \$1.49. This option will vest as follows so long as Mr. Crow is employed by us on each vesting date: (1) 1/2 of the option shares vest on December 31, 2008 so long as we achieve for 2008 gross revenue that equal or exceed 85% of gross revenue budgeted for 2008, (2) 1/2 of the option shares vest on December 31, 2009 so long as we achieve for 2009 net income that equals or exceeds 85% of net income budgeted for 2009.

For a description of the termination and change in control provisions of Mr. Crow's employment agreement, see "Potential Payments Upon Termination or Change in Control."

Leo Gingras

On February 8, 2007, we entered into an employment agreement with Leo Gingras, our current Chief Operating Officer. Leo served as special assistant to our former Chief Operating Officer until he became our Chief Operating Officer on April 11, 2007. Pursuant to the employment agreement, we agreed to pay Mr. Gingras an annual salary of \$220,000. In addition, we paid to Mr. Gingras a sign-on bonus of \$150,000. If Mr. Gingras voluntarily resigns before March 15, 2010, Mr. Gingras will be required to repay to NutraCea a proportionate amount of this sign-on bonus based upon the time he is employed by us between March 15, 2007 and March 15, 2010. The employment agreement further requires that NutraCea pay to Mr. Gingras a bonus of \$20,000 for 2007 and a \$600 per month car allowance. In connection with him becoming one of our employees, Mr. Gingras was issued an option to purchase 250,000 shares of NutraCea's common stock at an exercise price of \$2.63 per share that vested monthly as to 1/36th of the underlying shares over three years.

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On January 8, 2008, Mr. Gingras' employment agreement was amended to provide an employment term that ends on February 8, 2010, to increase the monthly car allowance to \$850 and to provide for an annual cost of living adjustment for his base salary. Concurrently with the execution of this amendment, we granted to Mr. Gingras an option to purchase 350,000 shares of our common stock at an exercise price per share of \$1.49. This option will vest as follows so long as Mr. Newland is employed by us on each vesting date: (1) ¼ of the option shares vest on December 31, 2008 so long as we achieve for 2008 gross revenue that equals or exceeds 85% of gross revenue budgeted for 2008, (2) ¼ of the option shares vest on December 31, 2009 so long as we achieve for 2009 gross revenue that equals or exceeds 85% of gross revenue budgeted for 2009, (3) ¼ of the option shares vest on December 31, 2008 so long as we achieve for 2008 net income that equals or exceeds 85% of net income budgeted for 2008, and (4) ¼ of the option shares vest on December 31, 2009 so long as we achieve for 2008 net income that equals or exceeds 85% of net income budgeted for 2008.

For a description of the termination and change in control provisions of Mr. Gingras' employment agreement, see "Potential Payments Upon Termination or Change in Control."

Kody Newland

On February 27, 2006, NutraCea entered into a two year employment agreement with Kody Newland, NutraCea's Senior Vice President of Sales, pursuant to which NutraCea is to pay Mr. Newland a base salary of \$150,000 per year which will be reviewed annually and adjusted to compensate for cost of living adjustments in the Sacramento metropolitan area. The term of agreement may be extended by mutual agreement of the parties on a month to month basis. The agreement provides that Mr. Newland is eligible for future incentive bonuses based solely on the discretion of NutraCea's Chief Executive Officer or President and the approval of NutraCea's Compensation Committee. In addition, the agreement includes a car allowance of \$600 per month. In connection with Mr. Newland's employment with us, we issued to him an option to purchase 500,000 shares of NutraCea's common stock at an exercise price of one dollar per share.

On January 8, 2008, we amended Mr. Newland's employment agreement to extend the initial term to February 27, 2010 and to increase the monthly car allowance to \$850. In connection with this amendment, we granted to Mr. Newland an option to purchase 100,000 shares of our common stock at an exercise price per share of \$1.49. This option will vest as follows so long as Mr. Newland is employed by us on each vesting date: (1) ¼ of the option shares vest on December 31, 2008 so long as we achieve for 2008 gross revenue that equals or exceeds 85% of gross revenue budgeted for 2008, (2) ¼ of the option shares vest on December 31, 2009 so long as we achieve for 2009 gross revenue that equals or exceeds 85% of gross revenue budgeted for 2009, (3) ¼ of the option shares vest on December 31, 2008 so long as we achieve for 2008 net income that equals or exceeds 85% of net income budgeted for 2008, and (4) ¼ of the option shares vest on December 31, 2008 so long as we achieve for 2009 net income that equals or exceeds 85% of net income budgeted for 2009.

For a description of the termination and change in control provisions of Mr. Newland's employment agreement, see "Potential Payments Upon Termination or Change in Control."

Margie D. Adelman

On January 25, 2005, we entered into a three year employment agreement with Margie D. Adelman, our Senior Vice President and Secretary, pursuant to which we agreed to pay Ms. Adelman a base salary of \$150,000 per year. The agreement also provides that Ms. Adelman is entitled to a one-time initial bonus of \$25,000 and will be eligible for future incentive bonuses based solely on the discretion of our Chief Executive Officer or President and the approval of our Compensation Committee. Ms. Adelman was issued a warrant to purchase 1,000,000 shares of our common stock at an exercise price of \$0.30 per share, 500,000 shares of which vested upon signing and 500,000 shares of which



vested on January 25, 2006. In addition, Ms Adelman was issued a warrant to purchase 1,000,000 shares of NutraCea's common stock at an exercise price of \$0.30 that will vest if we achieve both annual gross sales over \$25,000,000 and report a positive annual EBITDA, excluding the effect of noncash charges, during Ms. Adelman's employment with NutraCea. All warrants expire ten years from the date of issuance. On February 26, 2006, the agreement was modified to include a car allowance of \$600 per month and a cost of living increase for the balance of the term of her agreement. On January 8, 2008, we issued to Ms. Adelman an option to purchase 100,000 shares of our common stock at an exercise price per share of \$1.49. This options will vest as follows so long as Ms. Adelman is employed by us on each vesting date: (1) 1/2 of the option shares vest on December 31, 2008 so long as we achieve for 2008 gross revenue that equal or exceed 85% of gross revenue budgeted for 2008, (2) 1/2 of the option shares vest on December 31, 2009 so long as we achieve for 2009 net income that equals or exceeds 85% of net income budgeted for 2009.

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For a description of the termination and change in control provisions of Ms. Adelman's employment agreement, see "Potential Payments Upon Termination or Change in Control."

Potential Payments Upon Termination or Change in Control

We have entered into employment agreements and stock option agreements with our named executive officers that require us to provide compensation to them upon termination of their employment with us or a change in control of NutraCea. Regardless of the manner in which a named executive officer's employment terminates, the executive officer will be entitled to receive amounts earned during the term of employment. Such amounts include:

- the portion of the officer's current annual base salary which has accrued through the date of termination;
- vested stock options; and
- payment for accrued but unused vacation.

In addition to these payments, the amount of compensation payable to each named executive officer upon voluntary termination, involuntary termination without cause, termination following a change of control and in the event of disability or death of the executive is discussed below.

Bradley Edson

Resignation for Good Reason. In the event Mr. Edson resigns for "good reason," Mr. Edson is entitled to:

- 100% of his base salary through the end of the term of the agreement, but no less than the base salary paid to him in the previous 12 months, to be paid immediately following termination;
- a proportionate share of any bonus he would be entitled to receive for the year in which the termination occurred, based upon the time he was employed by us that year, payable at the regular time such bonus is paid; and
- immediate vesting of all his unvested stock options.

"Good reason" is defined as (i) the assignment to Mr. Edson of duties that are inconsistent with his position and nature of employment, (ii) the reduction of the duties which are inconsistent with his position and nature of employment, (iii) a change in Mr. Edson's title, (iv) a reduction in Mr. Edson's compensation and benefits, (v) a successor company not agreeing to assume the agreement or (vi) a "change of control."

"Change of control" is defined as (i) a merger or consolidation approved by our shareholders in which shares possessing more than 50% of the total combined voting power of our outstanding stock are transferred to a person or persons different from the persons holding those shares immediately before such merger or consolidation, (ii) the transfer of more than 50% of the total combined voting power of our outstanding stock to a person or persons different from the persons holding those shares immediately before such transaction, or (iii) the sale, transfer or other disposition of all or substantially all of our assets in our complete liquidation or dissolution.

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Disability or Death. In the event Mr. Edson is terminated because of his disability or death, Mr. Edson is entitled to:

- six months of his base salary payable in regular installments;
- incentive compensation through the end of the fiscal year; and
- six months vesting of unvested options.

“Disability” is defined as Mr. Edson’s inability to carry on substantially all of his normal duties and obligations under the agreement for a continuous period of one hundred eighty (180) days due to accident, illness or other disability.

Resignation Without Good Reason and Termination for Cause. In the event Mr. Edson resigns without “good reason” or is terminated by us for “cause,” Mr. Edson is entitled to:

- a proportionate share of any bonus he would be entitled to receive for the year in which the termination occurred, based upon the time he was employed by us that year, payable at the regular time such bonus is paid; and

“Cause” is defined as the conviction of a felony, a crime involving moral turpitude causing material harm to our standing and reputation or fraud against us.

Termination Without Cause. In the event the agreement is terminated by reason of Mr. Edson’s termination without “cause,” Mr. Edson is entitled to:

- 100% of his base salary through the end of the term of the agreement, but no less than the base salary paid to him in the previous 12 months, to be paid immediately following termination;
- incentive compensation through the end of the term of the agreement, payable at the regular time for such incentive compensation;
- immediate vesting of all his unvested stock options.

Change of Control Benefit (Option for 1,000,000 Shares). In the event of a “change of control”, Mr. Edson’s stock option to purchase 1,000,000 shares of our common stock, which was granted to him on January 8, 2008, will immediately vest as to all unvested shares.

“Change of control” is defined as (i) our merger or consolidation with any other corporation which results in our voting stock outstanding immediately before the transaction failing to represent more than fifty percent (50%) of the total voting power represented by the surviving entity immediately after the merger or consolidation or (ii) our sale or disposal of all or substantially all of our assets.

Todd Crow

Termination Without Cause. In the event Mr. Crow is terminated without “cause,” Mr. Crow is entitled to:

- the greater of (i) Mr. Crow’s monthly base salary times the number of months remaining on the terms of the agreement or (ii) one year of Mr. Crow’s base salary.

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“Cause” is defined as (i) Mr. Crow’s willful and continued failure substantially to perform his duties and obligations under the agreement after written demand for substantial performance has been delivered to him by us which sets forth with reasonable specificity the deficiencies in Mr. Crow’s performance and giving Mr. Crow at least thirty (30) days to correct such deficiencies, (ii) Mr. Crow committing fraud or making intentionally material misrepresentations, (iii) Mr. Crow’s unauthorized disclosure or use of our trade secrets or confidential information, (iv) Mr. Crow’s conviction of a felony, (v) theft or conversion of our property by Mr. Crow, or (vi) Mr. Crow’s habitual misuse of alcohol, illegal narcotics, or other intoxicant.

Termination in Connection with a Change in Control. In the event Mr. Crow is terminated as a result of a “change in control” and Mr. Crow is not employed in the same capacity or being paid the same base salary by the successor entity, Mr. Crow is entitled to:

- the greater of (i) two years of base salary or (ii) the base salary remaining to be paid through the term of the agreement;
  - continued medical and dental benefits for two years after the change of control; and
  - immediate vesting of any unvested shares under his option to purchase 537,678 shares.

“Change in control” is defined as (i) a merger or acquisition in which we are not the surviving entity, except for (a) a transaction the principal purpose of which is to change the state of our incorporation, or (b) a transaction in which our shareholders immediately before such transaction hold, immediately after such transaction, at least 50% of the voting power of the surviving entity; (ii) a shareholder approved sale, transfer or other disposition of all or substantially all of our assets; (iii) a transfer of all or substantially all of our assets pursuant to a partnership or joint venture agreement or similar arrangement where our resulting interest is less than fifty percent (50%); (iv) any reverse merger in which we are the surviving entity but in which fifty percent (50%) or more of our outstanding voting stock is transferred to holders different from those who held the stock immediately before such merger; (v) a change in ownership of our stock through an action or series of transactions, such that any person is or becomes the beneficial owner, directly or indirectly, of our stock representing fifty percent (50%) or more of the voting power of our outstanding stock; or (vi) a majority of the members of our board of directors are replaced during any twelve (12) month period by directors whose appointment or election is not endorsed by a majority of the members of our board of directors before the date of such appointment or election.

Change of Control Benefit (Option for 100,000 shares). In the event of a “change of control”, Mr. Crow’s stock option to purchase 100,000 shares of our common stock, which was granted to him on January 8, 2008, will vest as to all unvested shares.

“Change of control” is defined as (i) our merger or consolidation with any other corporation which results in our voting stock outstanding immediately before the transaction failing to represent more than fifty percent (50%) of the total voting power represented by the surviving entity immediately after the merger or consolidation or (ii) our sale or disposal of all or substantially all of our assets.

Leo Gingras

Termination Without Cause. In the event we terminate Mr. Gingras’ without “cause,” Mr. Gingras is entitled to:

- an amount equal to twelve months of his base salary.

“Cause” is defined as (i) a material breach of the terms of his employment agreement, (ii) a determination by the board of directors that Mr. Gingras has been grossly negligent or has engaged in material willful or gross misconduct in the performance of his duties, (iii) Mr. Gingras having failed to meet written standards established by us for performance of duties under the employment agreement, (iv) Mr. Gingras has committed, as determined by our board of directors, or has been convicted of fraud, moral turpitude, embezzlement, theft, or dishonesty or other criminal conduct, (v) Mr. Gingras has taken or failed to take any actions such that such action or failure constitutes legal cause for termination under California law, or (vi) Mr. Gingras misuses alcohol or any non prescribed drug.

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Termination in Connection with a Change of Control (Option for 250,000 Shares). If Mr. Gingras is terminated other than for “cause”, “death”, or “disability” in the 12 month period following a “change of control”, Mr. Gingras’ stock option to purchase 250,000 shares of our common stock will vest as to all unvested shares.

Under this option to purchase 250,000 shares:

“change of control” is defined as (i) our merger or consolidation with any other corporation which results in our voting stock outstanding immediately before the transaction failing to represent more than fifty percent (50%) of the total voting power represented by the surviving entity immediately after the merger or consolidation or (ii) our sale or disposal of all or substantially all of our assets;

“cause” is defined as (i) Mr. Gingras’ failure to perform his assigned duties or responsibilities after notice thereof from us describing his failure to perform such duties or responsibilities; (ii) Mr. Gingras engages in any act of dishonesty, fraud or misrepresentation; (iii) Mr. Gingras’ violation of any federal or state law or regulation applicable to our business; (iv) Mr. Gingras’ breach of any confidentiality agreement or invention assignment agreement; or (v) Mr. Gingras being convicted of, or entering a plea of nolo contendere to, any crime or committing any act of moral turpitude; and

“disability” is defined as an inability to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment which can be expected to result in death or which has lasted or can be expected to last for a continuous period of not less than 12 months.

Change of Control Benefit (Option for 350,000 Shares). In the event of a “change of control”, Mr. Gingras’ stock option to purchase 350,000 shares of our common stock, which was granted to him on January 8, 2008, will immediately vest as to all unvested shares. Under this option, “change of control” has the same definition for such term as is set forth in the 250,000 share option.

Kody Newland

Termination Without Cause. In the event we terminate Mr. Newland without “cause,” Mr. Newland is entitled to:

- an amount equal to his base salary for the remainder of the term of his employment agreement, not to exceed 12 months.

“Cause” is defined in his employment agreement as (i) a determination by the board of directors that Mr. Newland has been grossly negligent or has engaged in material willful or gross misconduct in the performance of his duties and we have filed a civil lawsuit against him for the same claims, (ii) Mr. Newland has taken or failed to take any actions such that such action or failure constitutes legal cause for termination under California law, (iii) Mr. Newland has been convicted by a court of law of fraud, moral turpitude, embezzlement, theft, or dishonesty or other criminal conduct, (iv) Mr. Newland having materially breached the terms of his employment agreement and not cured the breach in 10 days after receipt of written notice or (v) Mr. Newland having failed to meet written standards established by us for performance of duties and not cured this failure within 10 days after receipt of written notice.

Change of Control Benefit (Options to Purchase 500,000 and 100,000 Shares). In the event of a “change of control”, Mr. Newland’s stock options to purchase 500,000 shares and 100,000 shares of our common stock, respectively, will vest as to all unvested shares.

“Change of control” is defined as (i) our merger or consolidation with any other corporation which results in our voting stock outstanding immediately before the transaction failing to represent more than fifty percent (50%) of the total

voting power represented by the surviving entity immediately after the merger or consolidation or (ii) our sale or disposal of all or substantially all of our assets.

Margie Adelman

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Termination Without Cause. In the event Ms. Adelman is terminated by us without “cause,” Ms. Adelman is entitled to:

- an amount equal to 12 months of her then base salary, to be paid immediately following termination.

“Cause” is defined as (i) a determination by the board of directors that Ms. Adelman has been grossly negligent or has engaged in material willful or gross misconduct in the performance of her duties and we have filed a civil lawsuit against her for the same claims, (ii) Ms. Adelman has taken or failed to take any actions such that such action or failure constitutes legal cause for termination under California law, (iii) Ms. Adelman has been convicted by a court of law of fraud, moral turpitude, embezzlement, theft, or dishonesty or other criminal conduct, (iv) Ms. Adelman having materially breached the terms of her employment agreement and not cured the breach in 10 days after receipt of written notice or (v) Ms. Adelman having failed to meet written standards established by us for performance of duties and not cured this failure within 10 days after receipt of written notice.

Disability. In the event the agreement is terminated by reason of Ms. Adelman’s “disability,” Ms. Adelman is entitled to:

- twelve months of his base salary payable in a lump sum; and
- continued benefits for six months following termination.

Under the agreement, Ms. Adelman is considered “disabled” if she is incapable of substantially fulfilling her duties because of physical, mental or emotional incapacity from injury, sickness or disease for a period of three (3) months in a twelve month period.

Change of Control Benefit (Option for 100,000 Shares). In the event of a “change of control”, Ms. Adelman’s stock option to purchase 100,000 shares of our common stock, which was granted to her on January 8, 2008, will vest as to all unvested shares.

“Change of control” is defined as (i) our merger or consolidation with any other corporation which results in our voting stock outstanding immediately before the transaction failing to represent more than fifty percent (50%) of the total voting power represented by the surviving entity immediately after the merger or consolidation or (ii) our sale or disposal of all or substantially all of our assets.

## Quantified Benefits

The following tables indicate the potential payments and benefits to which our named executive officers will be entitled upon termination of employment or upon a change of control. Calculations for the following tables are based on the following assumptions: (i) the triggering event occurred on December 31, 2007; and (ii) salaries were paid through December 31, 2007.

## Voluntary Termination, Involuntary For Cause Termination

If on December 31, 2007 we terminated our named executive officers with cause or they voluntarily terminated their employment with us without good reason, they would have be entitled to receive as compensation, all amounts earned during the term of employment that were not previously paid.



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## Termination Because of Death or Disability

Name	Salary	Bonus	Stock Options	Benefits	Total Benefits
Bradley Edson	\$ 137,500(1)	—	—	—	\$ 137,500
Todd C. Crow	—	—	—	—	—
Leo Gingras	—	—	—	—	—
Kody Newland	—	—	—	—	—
Margie Adelman(2)	\$ 161,460(3)	—	—	—\$ 5,511(4)	\$ 166,971

(1) Represents six months of base salary.

(2) Ms. Adelman's benefits described above are payable in the event of disability, but not death.

(3) Represents twelve months of base salary.

(4) Represents six months of health and dental insurance premiums.

## Voluntary or Involuntary Termination as a Result of or Following a Change of Control

Name	Salary	Bonus	Stock Options	Benefits	Total Benefits
Bradley Edson	\$ 255,769(1)	—	—	—	\$ 255,769
Todd C. Crow	\$ 322,920(2)	—	\$ 32,858(3)	\$ 21,643(4)	\$ 377,421
Leo Gingras	—	—	—	—(5)	—
Kody Newland	—	—	—	—	—
Margie Adelman	—	—	—	—	—

(1) Represents an amount equal to the salary paid to Mr. Edson in 2007. Mr. Edson's employment agreement was amended on January 8, 2008 to extend the term of his employment through December 31, 2010. If the amended employment agreement were in effect on December 31, 2007 and Mr. Edson was terminated on December 31, 2007 without cause, he would have been entitled to receive an immediate payment of all base salary under the remaining three years of the term (\$825,000) instead of an amount equal to the remaining eleven months of base salary shown above.

(2) Represents two years of base salary.

(3) Represents six months of health and dental insurance premiums.

(4) Represents the benefit that Mr. Crow would have received from the vesting of the 29,871 unvested shares underlying his option to purchase 537,678 shares. The benefit to Mr. Crow for the accelerated vesting of his stock option was calculated by multiplying the 29,871 unvested shares by the difference between the closing price of our common stock on December 31, 2007 (\$1.40) and the per share exercise price of the stock option (\$0.30).

(5) Mr. Gingras' option to purchase 250,000 shares vests as to all unvested shares if Mr. Gingras is terminated following a change of control other than for cause, disability or death. The benefit that Mr. Gingras would have

received upon the vesting of these option shares is not included above because the exercise price of his option exceeds the closing price of our common stock on December 31, 2007.

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## Voluntary Termination for Good Reason

Name	Salary	Bonus	Stock Options	Benefits	Total Benefits
Bradley Edson	\$ 255,769(1)	—	—	—	—\$ 255,769
Todd C. Crow	—	—	—	—	—
Leo Gingras	—	—	—	—	—
Kody Newland	—	—	—	—	—
Margie Adelman	—	—	—	—	—

(1) Represents an amount equal to the salary paid to Mr. Edson in 2007. Mr. Edson's employment agreement was amended on January 8, 2008 to extend the term of his employment through December 31, 2010. If the amended employment agreement were in effect on December 31, 2007 and Mr. Edson was terminated on December 31, 2007 without cause, he would have been entitled to receive an immediate payment of all base salary under the remaining three years of the term (\$825,000) instead of an amount equal to the remaining eleven months of base salary shown above.

## Involuntary Not For Cause Termination

Name	Salary	Bonus	Stock Options	Benefits	Total Benefits
Bradley Edson	\$ 255,769(1)	—	—	—	—\$ 255,769
Todd C. Crow	\$ 161,460(3)	—	—	—	—\$ 161,460
Leo Gingras	\$ 220,000(3)	—	—	—	—\$ 220,000
Kody Newland	\$ 25,900(4)	—	—	—	—\$ 29,900
Margie Adelman	\$ 161,460(3)	—	—	—	—\$ 161,460

(1) Represents an amount equal to the salary paid to Mr. Edson in 2007. Mr. Edson's employment agreement was amended on January 8, 2008 to extend the term of his employment through December 31, 2010. If the amended employment agreement were in effect on December 31, 2007 and Mr. Edson was terminated on December 31, 2007 without cause, he would have been entitled to receive an immediate payment of all base salary under the remaining three years of the term (\$825,000) instead of an amount equal to the remaining eleven months of base salary shown above.

(2) Assumes our gross revenue for 2008 will be the same as it was in 2007.

(3) Represents one year of base salary.

(4) Represents the remaining two months of salary under Mr. Newland's employment agreement as of December 31, 2007. Mr. Newland's employment agreement was amended on January 8, 2008 to extend the term of his employment by two years. If the amended employment agreement were in effect on December 31, 2007 and Mr. Newland was terminated on December 31, 2007 without cause, he would have been entitled to receive an immediate payment of twelve months base salary (\$155,400) instead of two months salary as shown above.

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## Change of Control Not Involving a Termination

Name	Salary	Bonus	Stock Options	Benefits	Total Benefits
Bradley Edson	—	—	—(1)	—	—
Todd C. Crow	—	—	—(1)	—	—
Leo Gingras	—	—	—(1)	—	—
Kody Newland	—	—\$	20,000(2)	—\$	20,000
Margie Adelman	—	—	—(1)	—	—

(1) Msrs. Edson, Crow, Gingras, and Newland and Ms. Adelman were granted options to purchase 1,000,000, 100,000, 350,000, 100,000 and 100,000 shares of common stock, respectively, on January 8, 2008. Each of these options vest as to all unvested shares upon a change of control. As these options were granted after December 31, 2007, the change of control benefits that they would have received with respect to these options is not included in the table.

(2) Represents the benefit that Mr. Newland would have received from the vesting of the 25,000 unvested shares underlying his option to purchase 500,000 shares. The benefit to Mr. Newland for the accelerated vesting of his stock option was calculated by multiplying the 25,000 unvested shares by the difference between the closing price of our common stock on December 31, 2007 (\$1.40) and the per share exercise price of the stock option (\$1.00).

## Equity Incentive Plans

Our board of directors adopted our 2003 Stock Compensation Plan, or the 2003 Plan, on October, 2003. Under the terms of the 2003 Plan, we may grant options to purchase common stock and shares of common stock to officers, directors, employees or consultants providing services to us on such terms as are determined by our board of directors. A total of 10,000,000 shares of our common stock are reserved for issuance under the 2003 Plan. As of December 31, 2007 a total of 9,996,207 shares were issued under the 2003 Plan, no shares underlie outstanding stock option granted pursuant to the 2003 Plan and 3,793 shares were available for future grants under the 2003 Plan. Our board of directors administers the 2003 Plan and determines vesting schedules on plan awards. The 2003 Plan has a term of 10 years and stock options granted under the plan may not have terms in excess of 10 years. The Board may accelerate unvested options if we sell substantially all of our assets or are a party to a merger or consolidation in which we are not the surviving corporation. All options will terminate in their entirety to the extent not exercised on or prior to the date specified in the written notice unless an agreement governing any change of control provides otherwise.

Under the terms of our 2005 Equity Incentive Plan, or 2005 Plan, NutraCea may grant options to purchase common stock and shares of common stock to officers, directors, employees or consultants providing services to NutraCea on such terms as are determined by the board of directors. A total of 10,000,000 shares of our common stock are reserved for issuance under the 2005 Plan. As of December 31, 2007, , options to purchase an aggregate of 210,000 shares have been granted under the 2005 Plan and an additional 9,790,000 shares remain eligible for future grants under the 2005 Plan. Our board of directors and compensation committee administers the 2005 Plan, determines vesting schedules on plan awards and may accelerate these schedules for award recipients. The 2005 Plan has a term of 10 years and stock options granted under the plan may not have terms in excess of 10 years. All options will terminate in their entirety to the extent not exercised on or prior to the date specified in the written notice unless an agreement governing any change of control provides otherwise.

## Director Compensation

Before May 2007, non-employee directors received the following amounts:

- \$12,000 annual cash retainer;
- \$1,000 for each board meeting attended in person;

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- \$500 for each telephonic board meeting attended;
- \$2,000 annual cash retainer for serving on the audit committee or the compensation committee;
  - \$4,000 annual cash retainer for the chairman of the board of directors;
  - \$1,000 annual cash retainer for serving as a committee chairman; and
- an option to purchase 35,000 shares of common stock each year pursuant to our 2005 Equity Incentive Plan.

Beginning in May 2007, the consideration payable to our non-employee directors changed to the following:

- \$40,000 annual cash retainer;
  - \$2,000 for each board meeting attended in person;
  - \$1,000 for each telephonic board meeting attended;
  - \$4,000 annual cash retainer for serving on the audit committee;
- \$2,000 annual cash retainer for serving on the compensation committee or the nominating and corporate governance committee;
  - \$25,000 annual cash retainer for the chairman of the board of directors;
  - \$10,000 annual cash retainer for serving as chairman of the audit committee;
- \$7,000 annual cash retainer for serving as chairman of the compensation committee or the nominating and corporate governance committee; and
  - an option to purchase 35,000 shares of common stock each year pursuant to our 2005 Equity Incentive Plan.

Directors are reimbursed for reasonable expenses incurred in attending meetings of the Board and Board committees. In addition, directors are eligible to receive common stock and common stock options under our 2005 Equity Incentive Plan. In January 2008, each non-employee director was granted an option to purchase 100,000 shares of common stock at an exercise price per share of \$1.49.

Director Compensation Table

The following Director Compensation Table sets forth summary information concerning the compensation paid to our non-executive officer directors in 2007 for services to our company.

Name	Fees Earned or Paid in Cash (\$)	Option Awards (\$)(1)(2)(3)	All Other Compensation (\$)	Total (\$)
David Bensol	82,833	58,225	—	141,058
Eliot Drell	4,258	—(4)	—	4,258
Wesley K. Clark	43,000	47,996	—	90,996
James C. Lintzenich	67,667	58,228	—	125,895

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Edward L. McMillan	62,833	58,227	—	121,060
Patricia McPeak	—(5)	—(5)	229,227(6)	229,227
Steven W. Saunders	56,500	58,227	—	114,727
Kenneth L Shropshire	65,167	58,227	—	123,394
Total	382,258	339,130	229,227(6)	950,615

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- (1) Amounts shown do not reflect compensation actually received by the directors. Instead, the amounts shown are the compensation costs recognized by NutraCea in 2007 for option awards as determined pursuant to Statement of Financial Accounting Standards No. 123(R), or FAS 123R. The assumptions used to calculate the value of option awards are set forth in Note 17 of the Notes to Consolidated Financial Statements contained herein.
- (2) The compensation cost recognized by NutraCea in fiscal 2007 for each stock option grant is based on the following fair values as of the grant date: \$89,066 for a stock option grant to each non-employee director other than Mr. Clark to purchase 35,000 shares of common stock made on June 19, 2007 at an exercise price of \$3.83 per share, and \$86,629 for a stock option grant to Mr. Clark to purchase 35,000 shares of common stock made on May 1, 2007 at an exercise price of \$3.76 per share.
- (3) At the end of 2007, Mr. Bensol, Mr. Clark, Mr. Drell, Mr. Lintzenich, Mr. McMillan, Ms. McPeak, Mr. Saunders and Mr. Shropshire held options to purchase an aggregate of 70,000 shares, 35,000 shares, 35,000 shares, 70,000 shares, 70,000 shares, 0 shares, 70,000 shares and 70,000 shares, respectively, as compensation for serving as NutraCea's directors. Also, at the end of 2007, Mr. Bensol, Mr. Clark, Mr. Drell, Mr. Lintzenich, Mr. McMillan, Ms. McPeak, Mr. Saunders and Mr. Shropshire held an aggregate 0 shares, 0 shares, 35,000 shares, 0 shares, 0 shares, 35,000 shares, 0 shares and 0 shares, respectively, of common stock received as compensation for serving as directors.
- (4) Mr. Drell ceased being a director on March 8, 2007.
- (5) Ms. McPeak ceased being a director on June 19, 2007. Ms. McPeak did not receive a stock option grant and was not paid for her services as a director because she was an employee of NutraCea at the time she was a director.
- (6) Reflects compensation received by Ms. McPeak for serving as an employee of NutraCea. Compensation consists of the following: \$228,846 as salary and \$381 for payment of life insurance premiums. This amount does include \$1,029,000 paid to Ms. McPeak in November, 2007 reached as part of a separation agreement (see Note 18 to the Consolidated Financial Statements).



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CERTAIN RELATIONSHIPS AND RELATED PARTY TRANSACTIONS

Review, Approval or Ratification of Transactions with Related Parties

As provided in our audit committee charter, our audit committee reviews and approves, unless otherwise approved by our compensation committee, any transaction or series of similar transactions to which we were or are to be a party in which the amount involved exceeds \$120,000 and in which any director, director nominee, executive officer or holder of more than 5% of any class of our capital stock, or members of any such person's immediate family, had or will have a direct or indirect material interest (each, a "Related Party Transaction"). Before our adoption of an audit committee charter in April 2007, Related Party Transactions were approved by our full board of directors. Each of the transactions discussed below under "Related Party Transactions" have been reviewed and approved either by our board of directors or our audit committee.

Related Party Transactions

Since January 1, 2005, we believe that there has not been any transaction or series of similar transactions to which we were or are to be a party in which the amount involved exceeds \$120,000 and in which any director, director nominee, executive officer or holder of more than 5% of any class of our capital stock, or members of any such person's immediate family, had or will have a direct or indirect material interest, other than the type of compensation described above in "Executive Compensation," and as set forth below.

- In April 2005, ITV Global, a direct response marketing company, agreed to pay Patricia McPeak, our former Chief Executive Officer and one of our directors, a royalty per unit of our products sold through infomercials that demonstrate certain of our products. Pursuant to this agreement, Ms. McPeak should have earned approximately \$270,000, \$270,000 and \$311,000 in 2005, 2006 and 2007, respectively, from ITV Global. These payments are not the obligations of NutraCea.
- On November 7, 2007, we entered into an agreement with Patricia McPeak, our founder and former Chairman and CEO, concerning our business relationship. Pursuant to the agreement, in consideration for a payment of \$1 million, we acquired certain inventions and intellectual property rights from Ms. McPeak and acquired a right of first refusal to license, manufacture and/or sell products that Ms. McPeak may formulate in the future for the retail market and for feeding programs, subject to certain exceptions and agreement on license terms. In addition Ms. McPeak agreed to assign to us her interest as a co-inventor in certain patent applications. The agreement also terminates her employment agreement with us and contains a number of other customary provisions relating to termination of employment, and also includes a general mutual release of all claims concerning any past events or conduct. The agreement also grants Ms. McPeak the non-exclusive right to sell stabilized rice bran products formulated from NutraCea ingredients in Central and South America, and via websites owned or controlled by Ms. McPeak. Additionally, we transferred to her the vehicle we purchased for her in 2004 for \$73,000 as part of the separation agreement (see Note 18 to the Consolidated Financial Statements).
- In May 2006, we sold approximately 17,560 shares of our Series C preferred stock at a price of \$1,000.00 per share, and warrants to purchase an aggregate of 10,329,412 shares of our common stock with an exercise price of \$1.35 per share, to a small number of sophisticated investors in a private placement transactions. Our Series C preferred stock can be converted to shares of our common stock at a conversion rate of approximately 1176 shares of common stock for each share of Series C preferred Stock. Gross proceeds from the offering were approximately \$17.56 million. The investors included The Pinnacle Fund, L.P., funds related to WS Management, Funds related to Enable Partners, Gryphon Master Fund, Sherleigh Associates Profit Sharing Plan, Bushido Capital Master Fund, Funds related to SRB Greenway Capital, Westpark Capital, Iroquois Master Fund and Funds related to Xerion

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Partners Equity, which purchased 3,000, 2,000, 1,150, 1,000, 1,000, 1,000, 1,000, 1,000, 1,000 and 500 shares of Series C preferred stock, respectively. At the time of this private placement, each of the aforementioned investors beneficially held greater than either 5% of our outstanding common stock or 5% of our outstanding preferred stock.

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Limitation of Liability and Indemnification of Officers and Directors

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

NutraCea carries Officers and Directors insurance. The aggregate limit of liability for the policy period (inclusive of costs of defense) is \$5,000,000.

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

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## SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table set forth certain information regarding beneficial ownership of our common stock as of February 27, 2008, by (i) each person or entity who is known by us to own beneficially more than 5% of the outstanding shares of that class or series of our stock, (ii) each of our directors, (iii) each of the named executive officers, and (iv) all directors and executive officers as a group.

The table is based on information provided to us or filed with the Securities and Exchange Commission (“SEC”) by our directors, executive officers and principal shareholders. Beneficial ownership is determined in accordance with the rules of the SEC, and includes voting and investment power with respect to shares. Shares of common stock issuable upon exercise of options and warrants that are currently exercisable or are exercisable within 60 days after February 27, 2008, are deemed outstanding for purposes of computing the percentage ownership of the person holding such options or warrants, but are not deemed outstanding for computing the percentage of any other shareholder. Unless otherwise indicated, the address for each shareholder listed in the following table is c/o NutraCea, 5090 North 40th Street, Fourth Floor, Phoenix, Arizona 85018.

Name and Address of Beneficial Owner	Shares of Common Stock Beneficially Owned	
	Number (1)	Percentage (1)
Patricia McPeak (2)	13,040,249	8.61%
Bradley D. Edson (3)	6,181,000	4.08%
James C. Lintzenich (4)	2,983,436	2.03%
Todd C. Crow (5)	1,572,642	1.07%
Margie D. Adelman (6)	1,072,207	*
Steven W. Saunders (7)	1,404,411	*
Kody Newland (8)	526,700	*
Leo G. Gingras(9)	107,167	*
Edward L. McMillan (10)	271,754	*
David Bensol (11)	145,417	*
Kenneth L. Shropshire (12)	100,417	*
Wesley K. Clark (13)	65,417	*
All directors and executive officers as a group (11 persons) (14)	14,430,568	9.17%

\* less than 1%

(1) Applicable percentage of ownership is based on 145,418,965 shares of our common stock outstanding as of February 27, 2008, together with applicable options and warrants for such shareholder exercisable within 60 days of February 27, 2008.

(2) Includes 2,002,882 shares issuable upon exercise of options held by reporting person. Also includes 153,598 common shares held by a trust controlled by the reporting person.

(3) Includes 6,000,000 shares issuable upon exercise of options.

(4) Includes 1,587,025 shares issuable upon exercise of a warrants and options.

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- (5) Includes 1,562,942 shares issuable upon exercise of options and warrants.
- (6) Includes 2,500 shares issuable upon exercise of options held by Adelman Global of which the filing person is the owner. Also includes 1,000,000 shares issuable upon exercise of options held by the reporting person.
- (7) Includes 607,609 shares issuable upon exercise of options or warrants.
- (8) Includes 500,000 shares issuable upon exercise of options.

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- (9) Includes 104,167 shares issuable upon exercise of options.
- (10) Includes 177,215 shares issuable upon exercise of options held by the reporting person. Also includes 76,799 shares issuable upon exercise of warrants jointly held by the reporting person and his spouse. Also includes 17,740 shares of common stock held by reporting person and his spouse.
- (11) Includes 100,417 shares issuable upon exercise of options.
- (12) Includes 100,417 shares issuable upon exercise of options.
- (13) Includes 65,417 shares issuable upon exercise of options.
- (14) Includes an aggregate of 11,884,508 shares issuable upon exercise of options and warrants.

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DESCRIPTION OF SECURITIES

Our authorized capital stock consists of 200,000,000 shares of common stock, no par value, 20,000,000 shares of preferred stock, no par value, of which 3,000,000 shares are designated Series A Preferred Stock, 25,000 shares are designated Series B Preferred Stock and 25,000 shares are designated Series C Preferred Stock. As of April 18, 2008, 145,471,501 shares of common stock and no shares of preferred stock were outstanding.

Common Stock

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

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

Preferred Stock

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

Transfer Agent

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

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## SELLING SECURITY HOLDERS

The table below lists the selling shareholders and other information regarding the beneficial ownership of the common stock by each of the selling shareholders. The first column lists the name of each selling shareholder. The second column lists the number of shares of common stock beneficially owned by each selling shareholder prior to this offering on March 3, 2007. The third column lists the number of shares of common stock that are covered by this prospectus. The fourth and fifth columns list the number of shares of common stock owned and the percentage of common stock owned, assuming the sale of all of the shares of common stock covered by this prospectus. The following table assumes that the number of shares beneficially owned, other than the shares offered hereby, do not change after March 3, 2007. We do not know how long the selling shareholders will hold the shares set forth in the following table or how many shares they will ultimately sell or otherwise dispose of pursuant to this offering.

Name of Selling Sharehold	Common Shares Beneficially Owned Prior to Offering	Common Shares Offered by this Prospectus	Common Shares Beneficially Owned After Offering	
			Number	Percentage
Pierce Diversified Strategy Master Fund LLC, Ena (1)	30,000	30,000	205,882	*
LibertyView Special Opportunities Fund, L.P. (2)	200,000	200,000	-	*
LibertyView Socially Responsible Fund, L.P. (2)	40,000	40,000	-	*
LibertyView Funds, L.P. (2)	260,000	260,000	-	*
Trust D (for a portion of the assets of the Kodak Retirement Income Plan) (3)	100,000	100,000	-	*
Fort Mason Partners, L.P. (4)	48,720	48,720	-	*
Fort Mason Master, L.P. (4)	751,280	751,280	-	*
Enable Opportunity Partners L.P. (5)	60,001	21,743	38,258	*
Enable Growth Partners L.P. (5)	510,000	287,337	222,663	*
RHP Master Fund, Ltd. (6)	200,000	200,000	-	*
Pandora Select Partners, L.P. (7)	300,000	300,000	-	*
Whitebox Intermarket Partners, L.P. (7)	696,010	696,010	-	*
Capital Ventures International (8)	600,000	600,000	-	*
Cranshire Capital, L.P. (9)	600,000	600,000	-	*
	600,000	600,000	-	*



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Evolution Master Fund Ltd. SPC, Segregated Portfolio M (10)				
Highbridge International LLC (11)	691,000	691,000	-	*
Midsummer Investment, Ltd. (12)	600,000	600,000	-	*
QVT Fund L.P. (13)	1,645,950	1,645,950	-	*
Radcliffe SPC, Ltd. for and on behalf of the Class A Segregated Portfolio (14)	600,000	600,000	-	*
Sandelman Partners Multi-Strategy Master Fund, Ltd. (15)	600,000	600,000	-	*
Alexandra Global Master Fund, Ltd. (16)	2,400,000	2,400,000	-	*
Credit Suisse Securities (USA) LLC (17)	1,012,500	1,012,500	-	*
Silver Oak Capital, LLC (18)	800,000	800,000	-	*

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Name of Selling Sharehold	Common Shares	Common Shares	Common Shares	
	Beneficially Owned Prior to Offering	Offered by this Prospectus	Beneficially Owned After Offering Number	Percentage
Rodman & Renshaw, LLC (19)	1,200,000	1,200,000	-	*
EXI International Inc. (20)	75,000	75,000	-	*
ITV Global (21)	100,000	100,000	-	*
White Sales and Marketing, Inc. (22)	225,000	225,000	-	*
Jeff White (23)	75,000	75,000	-	*
Wolfe Axelrod Weinberger Associates, LLC (24)	300,000	50,000	250,000	*
Michael A. Sciucco (25)	6,000	6,000	-	*
Christopher A. Wood (26)	15,000	15,000	-	*

\* Represents holdings of less than one percent

- (1) Reported ownership includes 30,000 shares of common stock underlying immediately exercisable warrants. Mitch Levine, managing member of Pierce Diversified Strategy Master Fund LLC, Ena, has voting and dispositive power for these shares. Mr. Levine disclaims beneficial ownership of the shares except for his pecuniary interest.
- (2) Reported ownership includes 200,000 shares of common stock underlying immediately exercisable warrants held by record by LibertyView Special Opportunities Fund, L.P., 40,000 shares of common stock underlying immediately exercisable held by LibertyView Socially Responsible Fund, L.P. and 260,000 shares of common stock underlying immediately exercisable held by LibertyView Funds, L.P. Richard A. Meckler has voting and dispositive power for the funds named above. LibertyView Capital Management and Mr. Meckler disclaim beneficial ownership of the shares except to the extent of its or his pecuniary interest therein. The selling security holder has indicated to the issuer that it may be considered an affiliate of a broker-dealer. The selling security holder has represented to the issuer that the securities were acquired in the ordinary course of business, and that at the time of the acquisition of securities, the selling security holder had no agreements or understandings, directly or indirectly, with any party to distribute the securities.
- (3) Reported ownership includes 100,000 shares of common stock underlying immediately exercisable warrants immediately. LibertyView Capital Management is the investment manager of the trust and Richard A. Meckler has voting and dispositive power for these shares. LibertyView Capital Management and Mr. Meckler disclaim beneficial ownership of the shares except to the extent of its or his pecuniary interest.
- (4) Reported ownership includes 1,033,010 shares of common stock underlying immediately exercisable warrants held by Fort Mason Master, L.P. and 66,990 shares of common stock underlying immediately exercisable warrants held by Fort Mason Partners, L.P. Fort Mason Capital, LLC serves as the general partner of each of the Fort Mason Funds and, in such capacity, exercises sole voting and investment authority with respect to such shares. Mr. Daniel

German serves as the sole managing member of Fort Mason Capital, LLC. Fort Mason Capital, LLC and Mr. German disclaim beneficial ownership of the shares, except to the extent of its or his pecuniary interest.

- (5) Reported ownership includes 510,000 shares of common stock underlying immediately exercisable warrants held by Enable Growth and 60,000 shares of common stock underlying immediately exercisable warrants held by Enable Opportunity. Mitch Levine is the managing member of both funds and has voting and dispositive power for such shares held by the funds. Each of Enable Growth, Enable Opportunity and Mr. Levine disclaim beneficial ownership of the shares except to the extent of its or his pecuniary interest. The selling security holder has indicated to the issuer that it may be considered an affiliate of a broker-dealer. The selling security holder has represented to the issuer that the securities were acquired in the ordinary course of business, and that at the time of the various acquisitions of the securities, the selling security holder had no agreements or understandings, directly or indirectly, with any party to distribute the securities.
- (6) Reported ownership includes 200,000 shares of common stock underlying immediately exercisable warrants. RHP Master Fund, Ltd. is a party to an investment management agreement with Rock Hill Investment Management, L.P., a limited partnership of which the general partner is RHP General partner, LLC. Pursuant to such agreement, Rock Hill Investment Management directs the voting and disposition of shares owned by RHP Master Fund. Messrs. Wayne Bloch and Peter Lockhart own all of the interests in RHP General Partner. The aforementioned entities and individuals own all of the interests in RHP General Partner. The aforementioned entities and individuals disclaim beneficial ownership of the Company's Common Stock owned by the RHP Master Fund.

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- (7) Reported ownership includes 200,000 shares of common stock underlying immediately exercisable warrants held by Pandora Select Partners, L.P. and 400,000 shares of common stock underlying immediately exercisable warrants are held by Whitebox Intermarket Partners, L.P. Jonathan Wood, Director of White Box Advisors, LLC, has voting and dispositive power for the shares held by both funds named above. White Box Advisors, LLC and Mr. Wood disclaim beneficial ownership of the shares except to the extent of its or his pecuniary interest.
- (8) Reported ownership includes 600,000 shares of common stock underlying immediately exercisable warrants. Heights Capital Management, Inc., agent of Capital Ventures International (“CVI”), has discretionary authority to vote and dispose of the shares held by CVI and may be deemed to be the beneficial owner of these shares. Martin Kobinger, in his capacity as Investment Manager of Heights Capital Management, Inc., may also be deemed to have investment discretion and voting power over the shares held by CVI. Mr. Kobinger disclaims any such beneficial ownership of the shares. CVI is affiliated with one or more registered broker-dealers. CVI purchased the shares being registered hereunder in the ordinary course of business and at the time of purchase, had no agreements or understandings, directly or indirectly, with any other person to distribute such shares.
- (9) Reported ownership includes 600,000 shares of common stock underlying immediately exercisable warrants. Mitchell P. Kopin, the president of Downsvie Capital, Inc., the general partner of Cranshire Capital, L.P., has sole voting control and investment discretion over securities held by Cranshire Capital, L.P. Each of Mitchell P. Kopin and Downsvie Capital, Inc. disclaims beneficial ownership of the shares held by Cranshire Capital, L.P.
- (10) Reported ownership includes 600,000 shares of common stock underlying immediately exercisable warrants. Evolution Capital Management LLC, the investment advisor of Evolution Master Fund Ltd. SPC, Segregated Portfolio M, the selling security holder, has voting and dispositive power for these shares. Michael Lerch is the Chief Investment Officer of Evolution Capital Management LLC. Evolution Capital Management LLC and Mr. Lerch disclaim beneficial ownership of the shares except to the extent of its or his pecuniary interest. The selling security holder has indicated to the issuer that it may be considered an affiliate of a broker-dealer. The selling security holder has represented to the issuer that the securities were acquired in the ordinary course of business, and that at the time of the acquisition of securities, the selling security holder had no agreements or understandings, directly or indirectly, with any party to distribute the securities.
- (11) Reported ownership includes 600,000 shares of common stock underlying immediately exercisable warrants. Highbridge Capital Management, LLC is the trading manager of Highbridge International LLC and has voting control and investment discretion over the securities held by Highbridge International LLC. Glenn Dubin and Henry Swieca control Highbridge Capital Management, LLC and have voting control and investment discretion over the securities held by Highbridge International LLC. Each of Highbridge Capital Management, LLC, Glenn Dubin and Henry Swieca disclaims beneficial ownership of the securities held by Highbridge International LLC.
- (12) Reported ownership includes 600,000 shares of common stock underlying immediately exercisable warrants. Michel Amsalem and Scott D. Kaufman have voting and dispositive power for these shares. Messrs. Amsalem and Kaufman disclaim beneficial ownership of the shares except to the extent of each of their respective pecuniary interests.
- (13) Reported ownership includes 600,000 shares of common stock underlying immediately exercisable warrants. Management of QVT Fund L.P. is vested in its general partner, QVT Associates GP LLC. QVT Financial L.P. is the investment manager for WVT Fund L.P. and shares voting and investment control over the Company securities held by QVT Fund L.P. QVT Financial GP LLC is the general partner of QVT Financial L.P. and as such has complete discretion in the management and control of the business affairs of QVT Financial L.P. The managing members of WVT Financial GP LLC are Daniel Gold, Lars Bader, Tracy Fu and Nicholas

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Brumm. Each of WVT Financial L.P., QVT Financial GP LLC, Daniel Gold, Lars Bader, Tracy Fu and Nicholas Brumm disclaims beneficial ownership of the Company's securities held by QVT Fund L.P.

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- (14) Reported ownership includes 600,000 shares of common stock underlying immediately exercisable warrants. Pursuant to an investment management agreement, RG Capital Management, L.P. (“RG Capital”) serves as the investment manager of Radcliffe SPC, Ltd.’s Class A Segregated Portfolio. RGC Management Company, LLC (“Management”) is the general partner of RG Capital. Steve Katznelson and Gerald Stahlecker serve as the managing members of Management. Each of RG Capital, Management and Messrs. Katznelson and Stahlecker disclaims beneficial ownership of the securities owned by Radcliffe SPC, Ltd. for and on behalf of the Class A Segregated Portfolio.
- (15) Reported ownership includes 600,000 shares of common stock underlying immediately exercisable warrants. Sandelman Partners, L.P. is the Investment Manager of the fund and the natural person who has voting and dispositive power for these shares is Jonathan Sandelman, managing member of Sandelman Partners, L.P., GP, LLC, the general partner of Sandelman Partners, L.P. Sandelman Partners, G.P. L.P. LLC and Mr. Sandelman disclaim beneficial ownership of the shares except to the extent of their or his pecuniary interest.
- (16) Reported ownership includes include 800,000 shares of common stock underlying immediately exercisable warrants. Alexandra Investment Management, LLC (“AIM”) serves as investment adviser to Alexandra Global Master Fund, Ltd. (“Alexandra”). By reason of such relationship, AIM may be deemed to share dispositive power over the shares of common stock stated as beneficially owned by Alexandra. AIM disclaims beneficial ownership of such shares of common stock. Mr. Mikhail A. Filimonov (“Filimonov”) is the Chairman, Chief Executive Officer, Chief Investment Officer and a managing member of AIM. By reason of such relationships, Filimonov may be deemed to share dispositive power over the shares of common stock stated as beneficially owned by Alexandra. Filimonov disclaims beneficial ownership of such shares of common stock.
- (17) Reported ownership includes 800,000 shares of common stock underlying immediately exercisable warrants. Jeff Andreski, Managing Director of Credit Suisse Securities (USA) LLC, has voting and dispositive power for these shares. Mr. Andreski disclaims beneficial ownership of the shares except for his pecuniary interest. The selling security holder has indicated to the issuer that it is a broker-dealer. The selling security holder has represented to the issuer that it did not receive the securities as compensation for investment banking services to the issuer and the securities were acquired in the ordinary course of business, and that at the time of the acquisition of securities, the selling security holder had no agreements or understandings, directly or indirectly, with any party to distribute the securities.
- (18) Reported ownership includes 800,000 shares of common stock underlying immediately exercisable warrants. The selling shareholder has indicated to the issuer that it is affiliated with Leonardo, L.P. Leonardo, L.P. has beneficial ownership to 2,500,000 shares of the Company’s common stock issuable upon exercise of warrants. Leonardo Capital Management Inc. (“LCMI”) is the sole general partner of Leonardo, L.P. Angelo, Gordon & Co., L.P. (“Angelo, Gordon”) is the sole director of LCMI. John M. Angelo and Michael L. Gordon are the principal executive officers of Angelo, Gordon. Messrs. Angelo and Gordon have voting and dispositive power for the selling security holder’s shares and each of them disclaims beneficial ownership of the shares except to the extent of each of their respective pecuniary interests. Additionally, the selling security holder has indicated to the issuer that it may be an affiliate of a broker-dealer. The selling security holder has represented to the issuer that the securities were acquired in the ordinary course of business, and that at the time of the acquisition of securities, the selling security holder had no agreements or understandings, directly or indirectly, with any party to distribute the securities.
- (19) Reported ownership includes 1,200,000 shares of common stock underlying immediately exercisable warrants. Thomas G. Pinou holds voting and/or dispositive power. Rodman & Renshaw, LLC (“Rodman”) is a NASD member broker-dealer. Rodman served as placement agent in connection with a financing in February 2007 pursuant to which the registration statement is being filed.

(20) Reported ownership includes 75,000 shares of common stock underlying immediately exercisable warrants. Akos Jankura has voting and dispositive power for these shares. Mr. Jankura disclaims beneficial ownership of the shares except to his pecuniary interest.

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- (21) Reported ownership includes 100,000 shares of common stock underlying immediately exercisable warrants. Christopher A. Wood, President of ITV Global, Inc. has voting and dispositive power for these shares. ITV Global and Mr. Wood disclaim beneficial ownership of the shares except to the extent of its or his pecuniary interest.
- (22) Reported ownership includes 225,000 shares of common stock underlying immediately exercisable warrants. Jeffrey R. White has voting and dispositive power for these shares. Mr. White disclaims beneficial ownership of the shares except to his pecuniary interest.
- (23) Reported ownership includes 75,000 shares of common stock underlying immediately exercisable warrants.
- (24) Reported ownership includes 300,000 common stock underlying immediately exercisable warrants. Stephen D. Axelrod has voting and dispositive power for these shares. Mr. Axelrod disclaims beneficial ownership of the shares except for his pecuniary interest.
- (25) Reported ownership includes 4,000 common stock underlying immediately exercisable warrants.
- (26) Reported ownership includes 15,000 common stock underlying immediately exercisable warrants.



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PLAN OF DISTRIBUTION

Each of the selling shareholders, and any of their donees, pledgees, transferees or other successors-in-interest selling shares of common stock or interests in shares of common stock received after the date of this prospectus from a selling shareholder as a gift, pledge, partnership distribution or other transfer, may, from time to time, sell, transfer or otherwise dispose of any or all of their shares of common stock or interests in shares of common stock on any stock exchange, market or trading facility on which the shares are traded or in private transactions. These dispositions may be at fixed prices, at prevailing market prices at the time of sale, at prices related to the prevailing market price, at varying prices determined at the time of sale, or at negotiated prices. A selling shareholder will act independently of NutraCea in making decisions with respect to the timing, manner and size of each sale.

A selling stockholder may use any one or more of the following methods when selling shares:

- ordinary brokerage transactions and transactions in which the broker-dealer solicits purchasers;
- block trades in which the broker-dealer will attempt to sell the shares as agent but may position and resell a portion of the block as principal to facilitate the transaction;
  - purchases by a broker-dealer as principal and resale by the broker-dealer for its account;
  - an exchange distribution in accordance with the rules of the applicable exchange;
  - privately negotiated transactions;
- settlement of short sales entered into after the effective date of the registration statement of which this prospectus is a part;
- broker-dealers may agree with the selling stockholders to sell a specified number of such shares at a stipulated price per share;
- through the writing or settlement of options or other hedging transactions, whether through an options exchange or otherwise;
  - a combination of any such methods of sale; or
  - any other method permitted pursuant to applicable law.

The selling stockholders may also sell shares under Rule 144 under the Securities Act, if available, rather than under this prospectus.

Broker-dealers engaged by the selling stockholders may arrange for other brokers-dealers to participate in sales. Broker-dealers may receive commissions or discounts from the selling stockholders (or, if any broker-dealer acts as agent for the purchaser of shares, from the purchaser) in amounts to be negotiated, but, except as set forth in a supplement to this Prospectus, in the case of an agency transaction not in excess of a customary brokerage commission in compliance with NASDR Rule 2440; and in the case of a principal transaction a markup or markdown in compliance with NASDR IM-2440.

In connection with the sale of the common stock or interests therein, the selling stockholders may enter into hedging transactions with broker-dealers or other financial institutions, which may in turn engage in short sales of the Common Stock in the course of hedging the positions they assume. The selling stockholders may also sell shares of the common stock short and deliver these securities to close out their short positions, or loan or pledge the common stock to broker-dealers that in turn may sell these securities. The selling stockholders may also enter into option or other transactions with broker-dealers or other financial institutions or the creation of one or more derivative securities which require the delivery to such broker-dealer or other financial institution of shares offered by this prospectus, which shares such broker-dealer or other financial institution may resell pursuant to this prospectus (as supplemented or amended to reflect such transaction).

The selling stockholders and any broker-dealers or agents that are involved in selling the shares may be deemed to be “underwriters” within the meaning of the Securities Act in connection with such sales. In such event, any commissions received by such broker-dealers or agents and any profit on the resale of the shares purchased by them may be deemed to be underwriting commissions or discounts under the Securities Act. Discounts, concessions, commissions and similar selling expenses, if any, that can be attributed to the sale of securities will be paid by the selling stockholders and/or the purchasers. Each selling stockholder has informed the Company that it does not have any written or oral agreement or understanding, directly or indirectly, with any person to distribute the Common Stock. In no event shall any broker-dealer receive fees, commissions and markups which, in the aggregate, would exceed eight percent (8%).

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The Company is required to pay certain fees and expenses incurred by the Company incident to the registration of the shares. The Company has agreed to indemnify the selling stockholders against certain losses, claims, damages and liabilities, including liabilities under the Securities Act.

Because selling stockholders may be deemed to be “underwriters” within the meaning of the Securities Act, they will be subject to the prospectus delivery requirements of the Securities Act including Rule 172 thereunder. In addition, any securities covered by this prospectus which qualify for sale pursuant to Rule 144 under the Securities Act may be sold under Rule 144 rather than under this prospectus. Each selling stockholder has advised us that they have not entered into any agreements, understandings or arrangements with any underwriter or broker dealer regarding the sale of the resale shares. There is no underwriter or coordinating broker acting in connection with the proposed sale of the resale shares by the selling stockholders.

We agreed to keep this prospectus effective until the earlier of (i) two years after the initial sale of the resale shares, (ii) the date on which the shares may be resold by the selling stockholders without registration and without regard to any volume limitations by reason of Rule 144(k) under the Securities Act or any other rule of similar effect or (iii) all of the shares have been sold pursuant to this prospectus or Rule 144 under the Securities Act or any other rule of similar effect. The resale shares will be sold only through registered or licensed brokers or dealers if required under applicable state securities laws. In addition, in certain states, the resale shares may not be sold unless they have been registered or qualified for sale in the applicable state or an exemption from the registration or qualification requirement is available and is complied with.

Under applicable rules and regulations under the Exchange Act, any person engaged in the distribution of the resale shares may not simultaneously engage in market making activities with respect to the common stock for the applicable restricted period, as defined in Regulation M, prior to the commencement of the distribution. In addition, the selling stockholders will be subject to applicable provisions of the Exchange Act and the rules and regulations thereunder, including Regulation M, which may limit the timing of purchases and sales of shares of the common stock by the selling stockholders or any other person. We will make copies of this prospectus available to the selling stockholders and have informed them of the need to deliver a copy of this prospectus to each purchaser at or prior to the time of the sale (including by compliance with Rule 172 under the Securities Act).

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LEGAL MATTERS

Weintraub Genshlea Chediak Law Corporation will pass upon legal matters in connection with the validity of the shares of common stock offered hereby for us. Certain members of, and persons associated with, Weintraub Genshlea Chediak Law Corporation own or control less than 0.1% of the shares of our common stock in the aggregate.

EXPERTS

The consolidated financial statements of NutraCea as of December 31, 2007 and 2006, and for each of the years in the two-year period ended December 31, 2007, and management's assessment of the effectiveness of internal control over financial reporting as of December 31, 2007 have been incorporated by reference herein in reliance upon the reports of Perry-Smith, LLP, independent registered public accounting firm, incorporated by reference herein and upon the authority of said firm as experts in accounting and auditing.

The consolidated financial statements of NutraCea as of December 31, 2005, and for the year ended December 31, 2005, have been incorporated by reference herein in reliance upon the reports Malone & Bailey, PC, independent registered public accounting firm, incorporated by reference herein and upon the authority of said firm as experts in accounting and auditing.

WHERE YOU CAN FIND MORE INFORMATION

We file annual, quarterly and special reports, proxy statements and other information with the Securities and Exchange Commission. You may read and copy any reports, statements or other information filed by us at the SEC's public reference room at 450 Fifth Street, N.W., Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the public reference room. Our filings with the SEC are also available to the public from commercial document retrieval services and at the SEC's web site at "<http://www.sec.gov>."

This prospectus is part of a registration statement we have filed with the SEC relating to the securities that may be offered by the selling shareholders. As permitted by SEC rules, this prospectus does not contain all of the information we have included in the registration statement and the accompanying exhibits and schedules we file with the SEC. You may refer to the registration statement, the exhibits and schedules for more information about our securities and us. The registration statement, exhibits and schedules are available at the SEC's Public Reference Room.

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REPORT OF INDEPENDENT REGISTERED  
PUBLIC ACCOUNTING FIRM

Board of Directors  
NutraCea and subsidiaries  
Phoenix, Arizona

We have audited the accompanying consolidated balance sheet of NutraCea and subsidiaries (the “Company”) as of December 31, 2007 and 2006, and the related consolidated statements of operations, comprehensive income (loss), changes in shareholders’ equity, and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Company as of December 31, 2007 and 2006, and the consolidated results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of December 31, 2007, based on “criteria established in Internal Control-Integrated Framework” issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Our report dated March 17, 2008 expressed an opinion that the company had not maintained effective internal control over financial reporting as of December 31, 2007, base on “criteria established in Internal Control-Integrated Framework issued by the committee of Sponsoring Organizations of the Treadway commission (COS)”.

/s/ Perry-Smith LLP

Perry-Smith LLP  
Sacramento, California

March 17, 2008

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM  
ON INTERNAL CONTROL OVER FINANCIAL REPORTING

The Shareholders and Board of Directors  
NutraCea, Inc. and Subsidiaries  
Phoenix, Arizona

We have audited NutraCea and subsidiaries (the "Company") internal control over financial reporting as of December 31, 2007, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the company's annual or interim financial statements will not be prevented or detected on a timely basis. The following material weaknesses have been identified and included in management's assessment. Policies were inadequate related to the retention of financial experts providing assistance in financial transactions. Additionally, the Company did not perform timely, comprehensive reviews of financial transactions, the collectibility of accounts receivable or the potential impairment of goodwill. These material weaknesses were considered in determining the nature, timing, and extent of audit tests applied in our audit of the 2007 financial statements, and this report does not affect our report dated March 17, 2008.

In our opinion, because of the effect of the material weaknesses described above on the achievement of the objectives of the control criteria, the Company has not maintained effective internal control over financial reporting as of

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December 31, 2007, based on “criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).”

/s/ Perry-Smith LLP

Perry-Smith LLP  
Sacramento, California  
March 17, 2008

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REPORT OF INDEPENDENT REGISTERED  
PUBLIC ACCOUNTING FIRM

Board of Directors  
NutraCea and subsidiaries  
El Dorado Hills, California

We have audited the accompanying consolidated statement of operations, comprehensive loss, changes in shareholders' equity, and cash flows for year ended December 31, 2005. These financial statements are the responsibility of NutraCea's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

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

/s/ Malone & Bailey, PC

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

March 15, 2006

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## NUTRACEA AND SUBSIDIARIES

## CONSOLIDATED BALANCE SHEETS

	As of December 31,	
	2007	2006
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 41,298,000	\$ 14,867,000
Restricted cash	758,000	-
Marketable securities	-	368,000
Trade accounts receivables, net of allowance for doubtful accounts of \$2,999,000 and \$20,000, respectively	2,346,000	7,093,000
Inventories	1,808,000	796,000
Notes receivable, current portion, net of allowance for doubtful notes receivable of \$250,000 and \$0, respectively	2,936,000	1,694,000
Deposits and other current assets	2,545,000	1,383,000
Total current assets	51,691,000	26,201,000
Restricted cash	1,791,000	-
Notes receivable, net of current portion	5,039,000	682,000
Property and equipment, net of accumulated depreciation	19,328,000	8,961,000
Investment in joint venture	1,191,000	-
Patents and trademarks, net of accumulated amortization	5,743,000	5,097,000
Goodwill	39,510,000	32,314,000
Total assets	\$ 124,293,000	\$ 73,255,000
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 7,506,000	\$ 2,778,000
Deferred revenue	90,000	103,000
Note payable, current portion	23,000	-
Total current liabilities	7,619,000	2,881,000
Long-term liabilities:		
Notes payable, net of current portion	77,000	-
Total liabilities	7,696,000	2,881,000
Commitments and contingencies		
Shareholder's equity:		
Convertible, series B preferred stock, no par value, \$1,000 stated value 25,000 shares authorized, 0 and 470 shares issued and outstanding	-	439,000
Convertible, series C preferred stock, no par value, \$1,000 stated value 25,000 shares authorized, 0 and 5,468 shares issued and outstanding	-	5,051,000
Common stock, no par value, 350,000,000 shares authorized, 144,108,000 and 103,978,000 shares issued and outstanding	177,813,000	114,111,000
Accumulated deficit	(61,216,000)	(49,305,000)
Accumulated other comprehensive income, unrealized gain on marketable securities	-	78,000
Total shareholders' equity		