NUTRACEA
Form 10-K
October 20, 2009

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

FORM 10-K

(Mark one)

ý ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

For the year ended December 31, 2008

¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from to

Commission File Number 0-32565

NUTRACEA
(Exact name of registrant as specified in its Charter)

California (State of Incorporation)	87-0673375 (I.R.S. Employer Identification No.)
5090 N. 40th St., Suite #400 Phoenix, AZ (Address of Principal Executive Offices)	85018 (Zip Code)

Registrant's Telephone Number, Including Area Code: (602) 522-3000

Securities registered under Section 12(b) of the Exchange Act:
NONE

Securities registered under Section 12(g) of the Exchange Act:
Common Stock, no par value
(Title of Class)

Indicate by check mark if the registrant is a well-know seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ¨ No ý

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ¨ No ý

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

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

Indicate by check mark if disclosure of delinquent filers in response to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ¨

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 definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ¨	Accelerated filer ý	Non-accelerated filer o	Smaller reporting company o

Indicate by check mark if the registrant is a shell company (as defined in Rule 12b-2 of the Securities Exchange Act of 1934, as amended). YES ¨ NO ý

State the aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was sold, or the average bid and asked prices of such common equity, as of the last business day of the registrant's most recently completed second fiscal quarter: As of June 30, 2008, the aggregate market value of the Company's common stock held by non-affiliates was $167,743,724.

Indicate the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date: As of August 31, 2009, there were 192,967,680 shares of common stock outstanding.

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FORWARD-LOOKING STATEMENTS

This Annual Report includes forward-looking statements that involve substantial risks and uncertainties. These forward-looking statements are not historical facts, but are based on current expectations, estimates and projections about our industry, our beliefs and our assumptions. Words such as “believes,” “anticipates,” “expects,” “intends” and simila expressions are intended to identify forward-looking statements, but are not the exclusive means of identifying such statements. These forward-looking statements are not guarantees of future performance and concern matters that could subsequently differ materially from those described in the forward-looking statements. Actual events or results may also differ materially from those discussed in this Annual Report. These risks and uncertainties include those described in “Risk Factors” and elsewhere in this Annual Report. Except as required by law, we undertake no obligation to revise any forward-looking statements in order to reflect events or circumstances that may arise after the date of this Annual Report.

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Explanatory Note

NutraCea ("Company") has restated its consolidated balance sheets at December 31, 2006 and 2007 and its consolidated statements of operations, stockholders' equity, and cash flows for its fiscal years ended December 31, 2006 ("fiscal 2006") and December 31, 2007 ("fiscal 2007"). In addition, certain restatement adjustments affected interim financial information for all of the quarters of fiscal 2007 and the first three quarters of the fiscal year ended December 31, 2008 ("fiscal 2008") previously filed on Form 10-Q. Such restatement adjustments are reflected in the unaudited selected quarterly financial data as disclosed in Note 25 - Quarterly Financial Data to the Consolidated Financial Statements included in Item 8, "Financial Statements and Supplementary Data" of this Annual Report on Form 10-K ("Annual Report").

The restatement adjustments reflect the correction of errors made in the application of generally accepted accounting principles ("GAAP"). For a discussion of the significant restatement adjustments and the background leading to the adjustments, see Note 2 – Audit Committee Review and Restatement of Consolidated Financial Statements to the Consolidated Financial Statements included in Item 8 of this Annual Report.

The Company has not amended its prior Annual Reports on Form 10-K or Quarterly Reports on Form 10-Q for the periods affected by the restatement adjustments. The financial statements and related interim financial information contained in such reports is superseded by the information in this Annual Report and the financial statements and related interim financial information contained in such previously filed reports should not be relied upon.

Significant Events

The filing of this Annual report for fiscal 2008 has been delayed as a result of the matters described below under the heading "Audit Committee Review and Restatement of Consolidated Financial Statements." Set forth below is a summary of certain significant events that occurred during fiscal 2008 and through the date of this filing.

Audit Committee Review and Restatement of Consolidated Financial Statements

Overview

The Company's Consolidated Financial Statements for the years ended December 31, 2006 and 2007 and quarterly information for the first three quarterly periods of fiscal 2008 have been restated to correct errors of the type identified in the course of the Audit Committee-led accounting review (discussed further below, and referred to herein as the "Audit Committee-led review") and other accounting errors identified by the Company in the course of the restatement process and more fully described in the "Background" section below.

The Audit Committee concluded that the errors were the result of the improper accounting of several revenue transactions, and the improper accounting of the Company's investment in an Indonesian wheat flour trading company. Subsequent to the conclusions addressed by the Audit Committee, the Company also determined that certain moving and rental allowance transactions associated with the occupancy of the Company's current corporate headquarters, an additional revenue transaction, and the recognition of license fee revenue associated with an Indonesian joint venture had not been accounted for properly. A summary of these subsequent transactions is described below, and is included as part of the restated Consolidated Financial Statements.

The improper accounting of the transactions was primarily the result of the internal control weaknesses which existed within the Company. Management has begun and continues to review the Company's accounting practices and its internal control over financial reporting. These are discussed under "Management Report on Internal Control over Financial Reporting" presented in Item 9A, "Controls and Procedures".

Background

During December 2008, the Audit Committee which is comprised of independent outside directors of the Board of Directors of the Company commenced an internal review of certain matters with respect to the Company's accounting and reporting practices, including the appropriateness and/or timing of recognition of revenues from certain transactions in 2007, and the adequacy of internal controls over financial reporting and disclosure controls and procedures ("Original Review"). The Audit Committee retained independent outside counsel and forensic accounting consultants to assist in the investigation.

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As a result of the preliminary findings of the investigation, the Board of Directors of the Company determined, based upon the recommendation of the Audit Committee, that the Company should restate its financial statements for the year ended December 31, 2007, including the second, third, and fourth quarters in 2007 and the first three quarters for the year ended December 31, 2008. Accordingly, on February 17, 2009, the Board of Directors determined, based upon the recommendation of the Audit Committee that the Company's previously issued Consolidated Financial Statements included in the filings with the Securities and Exchange Commission ("SEC") for these periods should no longer be relied upon. On February 23, 2009, the Company disclosed in its Current Report on Form 8-K ("Original Form 8-K") the actions and final determinations of the Company's Board of Directors and Audit Committee as outlined in this and the prior paragraph.

Following the date of the Original Form 8-K, the Audit Committee expanded its review to include the Company's accounting treatment of additional transactions in 2006, 2007, and 2008 ("Subsequent Review"). Based upon the Subsequent Review, the Audit Committee determined on April 23, 2009 that the Company would also restate its Consolidated Financial Statements for the year ended December 31, 2006, including the fourth quarter of 2006, and the first quarter of 2007, and that these Consolidated Financial Statements should not be relied upon. On April 23, 2009, the Company disclosed in its Current Report on Form 8-K ("Subsequent Form 8-K") the actions and final determinations of the Company's Board of Directors and Audit Committee as outlined in this paragraph.

Subsequent to the conclusions addressed by the Audit Committee in the Original and Subsequent Reviews, the Company also determined that certain moving and rental allowance transactions associated with the occupancy of the Company's current corporate headquarters, an additional revenue transaction, and the recognition of license fee revenue associated with an Indonesian joint venture had not been accounted for properly ("Additional Findings"). A summary of these subsequent transactions is described below, and is included as part of the restated Consolidated Financial Statements.

In connection with the Original Review, Subsequent Review, and Additional Findings, the Company determined that it improperly accounted for the following transactions in 2006, 2007 and 2008:

Original Review:

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

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

	Q1-2008	Q2-2008	Q3-2008	Q4-2008	Q1-2009

Revenues	$0.7	$0.7	$0.4	$0.1	$0.1
Cost of Goods	0.5	0.5	0.3	0.0	0.0
Net Income	$0.2	$0.2	$0.1	$0.1	$0.1

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Subsequent Review and Additional Findings:

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

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

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

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

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

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

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

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

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

The following table summarizes the impact of the restated items on our statement of operations for the periods noted and should be read in conjunction with the accompanying Consolidated Financial Statements and Notes thereto (amounts in thousands except per share data).

	Nine Months Ended 9/30/2008	12/31/07	12/31/06
Net (loss) income, as previously reported	$(17,378)	$(11,911)	$1,585
Change to revenues for product revenue recognition	1,839	(4,435)	(1,551)
Change to revenues for license fee revenue recognition		(5,000)	
Change to cost of goods sold for product revenue recognition	(1,247)	1,015	268
Change for decrease in bad debt expense	62	2,979	
Change for (increase)/decrease in other operating expenses	390	(1,015)	
Change for increase/(decrease) in other income	119	391	
Impact of restatement items	1,163	(6,065)	(1,283)
Net (loss) income, as restated	$(16,215)	$(17,976)	$302
Earnings (loss) per share			
Basic, as previously reported	$(0.12)	$(0.09)	$0.02
Impact of restatement items, net of taxes	$0.01	$(0.05)	$(0.02)
Basic, as restated	$(0.11)	$(0.14)	$0.00

Diluted, as previously reported	$(0.12)	$(0.09)	$0.02
Impact of restatement items, net of taxes	$0.01	$(0.05)	$(0.02)
Diluted, as restated	$(0.11)	$(0.14)	$0.00

The effect of the above mentioned restated items on our previously reported fiscal 2007 and 2006 consolidated balance sheets is provided below (amounts in thousands):

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CONSOLIDATED BALANCE SHEET
As of December 31, 2007

	As Previously Reported	Adjustments	As Restated
ASSETS			
Current Assets:			
Cash and cash equivalents	$ 41,298	$ (100)	$ 41,198
Restricted cash	758		758
Marketable securities	-		-
Trade receivables	5,345	(3,065)	2,280
Less: allowance for doubtful accounts	(2,999)	2,979	(20)
Inventory	1,808	91	1,899
Notes receivable, current portion	2,936		2,936
Deposits and other current assets	2,545	659	3,204
Total Current Assets	51,691	564	52,255
Restricted cash	1,791		1,791
Notes receivable, net of current portion	5,039	(5,000)	39
Property, plant and equipment, net	19,328	584	19,912
Investment in equity method investments	1,191		1,191
Intangible assets, net	5,743		5,743
Goodwill	39,510		39,510
Total non-current assets	72,602	(4,416)	68,186
Total Assets	$ 124,293	$ (3,852)	$ 120,441
LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIT)			
Current Liabilities:			
Accounts payable and accrued liabilities	$ 7,506	$ (810)	$ 6,696
Notes payable - current portion	23		23
Deferred rent incentive - current portion	-	168	168
Deferred revenue	90	1,920	2,010
Total Current Liabilities	7,619	1,278	8,897
Deferred rent incentive - net of current portion	-	1,218	1,218
Other non-current liabilities	-	1,000	1,000
Notes payable - net of current portion	77		77
Total Liabilities	7,696	3,496	11,192
Commitments and contingencies			
Minority interest			

Stockholders Equity (deficit):									
Common Stock		177,813						177,813	
Accumulated deficit - prior year		(49,305	)		(1,283	)		(50,588	)
Net income /(loss) - current year		(11,911	)		(6,065	)		(17,976	)
Accumulated deficit		(61,216	)		(7,348	)		(68,564	)
Accumulated other Comprehensive Income (Loss)		-			-			-	
Total shareholders" equity (deficit)		116,597			(7,348	)		109,249	
Total Liabilities and Equity	$	124,293		$	(3,852	)	$	120,441	

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CONSOLIDATED BALANCE SHEET
As of December 31, 2006

	As Previously Reported	Adjustments	As Restated
ASSETS			
Current Assets:			
Cash and cash equivalents	$ 14,867	$ -	$ 14,867
Restricted cash	-	-	-
Marketable securities	368	-	368
Trade receivables	7,093	-	7,093
Adjustment to AR		(1,551)	(1,551)
Less: allowance for doubtful accounts	-	-	-
Inventory	796	-	796
Adjustment to inventory	-	268	268
Notes receivable, current portion	1,694	-	1,694
Deposits and other current assets	1,383	-	1,383
Total Current Assets	26,201	(1,283)	24,918
Restricted cash	-	-	-
Notes receivable, net of current portion	682	-	682
Adjustment to long term notes receivable	-	-	-
Property, plant and equipment, net	8,961	-	8,961
Investment in equity method investments	-	-	-
Intangible assets, net	5,097	-	5,097
Goodwill	32,314	-	32,314
Total non-current assets	47,054	-	47,054
Total Assets	$ 73,255	$ (1,283)	$ 71,972
LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIT)			
Current Liabilities:			
Accounts payable and accrued liabilities	$ 2,778	$ -	$ 2,778
Notes payable - current portion	-	-	-
Deferred revenue	103	-	103
Total Current Liabilities	2,881	-	2,881
Notes payable - net of current portion	-	-	-
Total Liabilities	2,881	-	2,881
Commitments and contingencies			
Convertible, Series B Preferred Stock	439	-	439
Convertible, Series C Preferred Stock	5,051	-	5,051
Stockholders Equity (deficit)			

Common Stock		114,111		-		114,111
Accumulated deficit - prior year		(50,890)		-		(50,890)
Net income /(loss) - current year		1,585		(1,283)		302
Accumulated deficit		(49,305)		(1,283)		(50,588)
Accumulated other Comprehensive Income (Loss)		78		-		78
Total shareholders' equity (deficit)		70,374		(1,283)		69,091
Total Liabilites and Equity	$	73,255	$	(1,283)	$	71,972

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The effect of the above mentioned restated items on our previously reported results of operations and cash flows for fiscal 2007 and 2006 is provided below (amounts in thousands except for per share date):

CONSOLIDATED STATEMENT OF OPERATIONS
For the Fiscal Year Ended December 31, 2007

	As Previously Reported (1)	Adjustments	As Restated
Revenue			
Product sales	$18,372	$ (5,986)	$12,386
Less returns	(1,551)	1,551	-
Royalty and licensing fees	5,340	(5,000)	340
Total revenue	22,161	(9,435)	12,726
Cost of goods sold	9,898	(1,015)	8,883
Gross margin	12,263	(8,420)	3,843
Operating expenses			
Research and development	769		769
Selling, general, and administrative	17,243	1,015	18,258
Bad debt	3,233	(2,979)	254
Impairment of intangible assets	1,300		1,300
Separation agreement with former CEO	1,000		1,000
Professional fees	3,848		3,848
Total operating expenses	27,393	(1,964)	25,429
Loss from operations	(15,130)	(6,456)	(21,586)
Other Income (expense)			
Interest income	2,809	391	3,200
Interest expense	(1)		(1)
Gain on settlement	1,250		1,250
Loss on disposal of assets	(347)		(347)
Loss on equity method investments	(309)		(309)
Loss on sale of marketable securities	(163)		(163)
Total other income/(expense)	3,239	391	3,630
Income tax expense	(20)		(20)
Minority Interest			-
Net income/(loss)	$(11,911)	$ (6,065)	$(17,976)
Earnings per share:			
Basic income /(loss) per share	$(0.09)	$ (0.05)	$(0.14)
Fully diluted income /(loss) per share	$(0.09)	$ (0.05)	$(0.14)
Shares Outstanding:			
Weighted average basic number of shares outstanding	125,938		125,938
Weighted average diluted number of shares outstanding	125,938		125,938

(1) Certain reclassifications have been made to prior period amounts to conform to classifications adopted in the current year.

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CONSOLIDATED STATEMENT OF OPERATIONS
For the Fiscal Year Ended December 31, 2006

	As Previously Reported (1)	Adjustments	As Restated
Statement of Operations			
Revenue			
Net product sales	$ 17,105	$ (1,551)	$ 15,554
Less returns	-		-
Royalty and licensing fees	985	-	985
Total revenues	18,090	(1,551)	16,539
Cost of goods sold	9,130	(268)	8,862
Gross margin	8,960	(1,283)	7,677
Operating expenses			
Research and development	377		377
Selling, general, and administrative	6,657		6,657
Bad debt	9		9
Professional fees	865		865
Total operating expenses	7,908	-	7,908
Gain/(loss) from operations	1,052	(1,283)	(231)
Other income (expense)			
Interest income	545		545
Interest expense	(7)		(7)
Total other income/(expense)	538	-	538
Total income before income tax	1,590	(1,283)	307
Income tax expense	5		5
Net income/(loss)	$ 1,585	$ (1,283)	$ 302
Earnings per share:			
Basic income /(loss) per share	$ 0.02	$ (0.02)	$ 0.00
Fully diluted income /(loss) per share	$ 0.02	$ (0.02)	$ 0.00
Shares Outstanding:			
Weighted average basic number of shares outstanding	76,692		76,692
Weighted average diluted number of shares outstanding	102,636		102,636

(1) Certain reclassifications have been made to prior period amounts to conform to classifications adopted in the current year.

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CONSOLIDATED STATEMENT OF CASH FLOWS
For the Fiscal Year Ended December 31, 2007

	As Previously Reported	Adjusting Entries	As Restated
Cash flow from operating activities:			
Net Income (loss)	$(11,911)	$(6,065)	$(17,976)
Adjustments to reconcile net income (loss) to net cash from operating activities:			
Depreciation and amortization	2,202	70	2,272
Provision for doubtful accounts and notes	3,229	(2,979)	250
Goodwill impairment	1,300	-	1,300
Loss on retirement of assets	347	-	347
Stock-based compensation	2,166	-	2,166
Loss on equity method investments	309	-	309
Loss on sale of marketable securities	290	-	290
Changes in operating assets and liabilities:			
(Increase) decrease in			
Trade accounts receivable	(886)	1,514	628
Inventories	(971)	177	(794)
Other current assets	(1,167)	(659)	(1,826)
Accounts payable and accrued liabilities	2,739	(810)	1,929
Deferred rent incentive	-	1,386	1,386
Other non-current liabilities	-	1,000	1,000
Deferred revenue	-	1,920	1,920
Net cash used in operating activities	(2,353)	(4,446)	(6,799)
Cash flows from investing activities			
Issuance of notes receivable	(7,828)	5,000	(2,828)
Proceeds of payments from notes receivable	5,410	-	5,410
Purchases of property, plant and equipment	(11,652)	(654)	(12,306)
Investment in Grainnovation, Inc.	(2,169)	-	(2,169)
Investment in Vital Living, Inc.	(5,143)	-	(5,143)
Investment in joint venture	(1,500)	-	(1,500)
Restricted cash	(2,239)	-	(2,239)
Proceeds from issuance of long-term notes	69	-	69
Proceeds from sale of fixed assets	16	-	16
Purchases of other assets, intangibles and goodwill	(2,225)	-	(2,225)
Net cash provided by (used in) investing activities	(27,261)	4,346	(22,915)
Cash flows from financing activities			
Proceeds from private placement financing, net of expenses	46,805	-	46,805
Proceeds from exercise of common stock options and warrants	9,240	-	9,240
Net cash provided by financing activities	56,045	-	56,045
Net increase (decrease) in cash	26,431	(100)	26,331
Cash, beginning of period	14,867		14,867
Cash, end of period	$41,298	$(100)	$41,198

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CONSOLIDATED STATEMENT OF CASH FLOWS
For the Fiscal Year Ended December 31, 2006

	As Previously Reported	Adjustments	As Restated
Cash flow from operating activities:			
Net Income (loss)	$ 1,585	$ (1,283)	$ 302
Adjustments to reconcile net income (loss) to net cash from operating activities:			
Depreciation and amortization	1,150	-	1,150
Stock-based compensation	1,091	-	1,091
Net changes in operating assets and liabilities:			
(Increase) decrease in			
Trade accounts receivable	(4,578)	1,551	(3,027)
Inventories	(202)	(268)	(470)
Other current assets	(1,301)	-	(1,301)
Accounts payable and accrued liabilities	1,531	-	1,531
Advances to related parties	(3)	-	(3)
Other non-current liabilties	98	-	98
Net cash used in operating activities	(629)	-	(629)
Cash flows from investing activities			
Issuance of notes receivable	(2,376)	-	(2,376)
Purchases of property, plant and equipment	(4,682)	-	(4,682)
Purchases of other assets, intangibles and goodwill	(2,640)	-	(2,640)
Net cash provided by (used in) investing activities	(9,698)	-	(9,698)
Cash flows from financing activities			
Proceeds from private placement financing, net of expenses	15,934	-	15,934
Principal payments on notes payable, net of discount	(15)	-	(15)
Proceeds from exercise of common stock options and warrants	5,784	-	5,784
Net cash provided by financing activities	21,703	-	21,703
Net increase (decrease) in cash	11,376	-	11,376
Cash, beginning of period	3,491		3,491
Cash, end of period	$ 14,867	$ -	$ 14,867

Item 1. Business

GENERAL

NutraCea ("we", "us", "our", or the "Company"), a California corporation, 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, stabilized rice bran ("SRB") 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 product that can be sold through non-related entities with distribution into the market place, both domestically and internationally. These products include food supplements and medical foods, or “Nutraceuticals,” which provide health benefits for humans and animals based on SRB, SRB derivatives, and rice-bran oils. We believe that SRB 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.

In February 2008 we acquired 100% ownership of Industria Riograndens De Oleos Vegetais Ltda. (”Irgovel”), a limited liability company organized under the laws of the Federative Republic of Brazil, which operates a rice-bran oil manufacturing facility in Pelotas, Brazil (see Note 12 to the Consolidated Financial Statements included herein). Concurrent with that acquisition we began reporting in two business segments; the NutraCea segment which manufactures and distributes ingredients primarily derived from SRB and the Irgovel segment which manufactures rice-bran oil and fatted and defatted SRB products in Pelotas, Brazil (see Note 19 to the Consolidated Financial Statements included herein).

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Our NutraCea segment is primarily engaged in the manufacturing of SRB at five locations in California, Louisiana, and Texas (closed in May 2009) for various consumptive uses, and the custom manufacturing of various grain based products for human food ingredient companies at facilities in Dillon, Montana and Phoenix, Arizona (which became operational in February 2009). We have specialized processing equipment and techniques for the treatment of rice grain products to cook, convert, isolate, dry and package finished food ingredients used in the formulation of health food and consumer food finished products. NutraCea RiSolubles, a highly nutritious, carbohydrate and lipid rich fraction, is produced at our Dillon, Montana facility along with RiFiber, a fiber rich derivative and RiBalance, a complete rice bran nutritional package. NutraCea believes that these manufacturing capabilities are unique among grain processors, with custom processing capabilities suited to numerous food applications. In May 2008, NutraCea was granted USDA/FSIS approval to use SRB as an enhancer into meat products such as meat and poultry sausages that contain binders, nugget-shaped patties, meatballs, meatloaf, and meat and poultry patties. Sales of human food products were approximately 56% of total sales in 2008, while the balance of 44% of sales made were of animal food products.

Our Irgovel segment manufactures rice-bran oil and fatted and defatted rice bran products for both human and animal food products for consumption in Brazil and internationally. Irgovel owns the largest rice bran processing facility in South America and is the only Brazilian company to produce oil from rice for human consumption. Sales of human food products were approximately 19% of total sales in 2008, industrial oils were approximately 36% of sales, and the remaining 45% of sales were of animal food products.

The combined company is a vertically integrated company combining the manufacturing, product development, and marketing of a variety of products based upon the use of SRB and rice bran formulations. We generated approximately $35.2 million, $12.7 million, and $16.5 million in revenue for the years ended December 31, 2008, 2007 and 2006, respectively. We reported a net loss for the years ended December 31, 2008 and 2007 of $64.6 million, and $18.0 million, respectively, and a net income of $0.3 million for the year ended December 31, 2006. 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 Note 17 to the Consolidated Financial Statements included herein).

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 twenty four 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 SRB (see PATENTS AND TRADEMARKS below).

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, Arizona 85018. As of December 31, 2008, 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 rice-bran manufacturing facilities in Mermentau and Lake Charles, Louisiana, and second stage ("Stage II") production facilities in Dillon, Montana and Phoenix, Arizona. Our three other rice-bran manufacturing facilities are co-located within supplier rice mills in Arbuckle and West Sacramento, California, and Freeport, Texas (closed in May 2009). Our Irgovel subsidiary comprises of several facilities on approximately 20 acres in Pelotas, Brazil.

HISTORY

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

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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 shares of our common stock to NaturalGlo Investors L.P. in exchange for the remaining 20% of the common stock of NutraGlo. As a result, NutraGlo is now a wholly-owned subsidiary of NTI.

On October 1, 2003, NutraStar Incorporated changed its name to NutraCea and the common stock began trading on the OTCBB. Our common stock stopped trading on the OTCBB in May 2009 and is currently trading in the over-the-counter "pink sheets" under the symbol "NTRZ."

On October 4, 2005, we acquired RiceX in a merger transaction 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 warrants to purchase a total of 11,810,507 shares of NutraCea common stock. Our acquisition of RiceX provided us with our first SRB manufacturing plant in West Sacramento, California, and our first Stage II facility in Dillon, Montana.

In April 2007 we acquired 100% ownership of Grainnovations, Inc., a privately held company in Freeport, Texas, which manufactures SRB pellets for equine customers and other SRB products (see Note 12 to the Consolidated Financial Statements included herein).

In June 2007 we formed Grain Enhancements, LLC, a joint venture to produce and distribute SRB products in Southeast Asia (see Note 12 to the Consolidated Financial Statements included herein). We have a 47.5% interest in Grain Enhancements.

In December 2007, we formed Rice RX, LLC, and Rice Science, LLC, in which we hold a 50%, and 80% interest, respectively (see Note 12 to the Consolidated Financial Statements included herein). We formed Rice RX, LLC and Rice Science, LLC with a minority partner, to develop, acquire, and commercialize certain SRB isolates.

In February 2008 we acquired Irgovel, our rice-bran oil processing plant in Pelotas, Brazil (see Note 12 to the Consolidated Financial Statements included herein).

In March and June 2008 we acquired a total of 51% interest in PT Panganmus Inti Nusantara ("PIN"), an Indonesian company in order to build a wheat mill incorporating our wheat stabilization technology (see Note 12 to the Consolidated Financial Statements included herein). PIN owns land and permits necessary for the construction of such a facility in Kuala Tnajung, Medan, and North Sumatra, Indonesia. On July 23, 2009, Medan entered into a Stock Purchase Agreement with FFOL where by it sold its 12,750 shares of capital stock of PIN to FFOL, which shares represent 51% of the currently issued and outstanding capital stock of PIN (the "Agreement"). Pursuant to the Agreement, FFOL agreed to pay $1,675,000 to Medan thus completely liquidating NutraCea'a ownership in PIN. Based upon the liquidation of the Company's ownership in PIN, the Company recorded as of December 31, 2008 an impairment charge of $3,996,000 representing the difference between the carrying value of our investment and the cash to be received from FFOL.

PRODUCTS

The NutraCea Process stabilizes rice bran, which is the portion of the rice kernel that lays beneath the hull and envelopes the endosperm (white rice). Rice bran contains a significant portion 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 stabilizes the rice bran giving it a shelf life of a minimum of one year. Other competing processes have the ability to inactivate lipases to various degrees and therefore provide stability for a limited amount of time. The NutraCea Process thoroughly inactivates these enzymes leading to extended shelf stability while preserving the large array of antioxidants and other nutrients found in rice bran.

The NutraCea Process has enabled the Company to develop a variety of nutritional food products, including its primary product, NutraCea® Stabilized Rice Bran. NutraCea® SRB 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 bran, such as wheat bran. The Company has ongoing research in this area and is pursuing an industrial proof of concept.

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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 SRB 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 SRB, 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 SRB, except that it has been ground to a particle size that will pass through an 80 mesh screen. It is used primarily in baking and pasta applications.
Dextrinized Rice Bran (RiBalance):	A modified carbohydrate converted NutraCea SRB that is more functional in baking and mixed health drink applications. This product contains all of the nutrient-rich components of NutraCea SRB.
NutraCea RiSolubles:	A highly concentrated water dispersible carbohydrate and lipid rich fraction component of NutraCea SRB. This product contains only a small amount of fiber and is a concentrated form of the vitamins and nutrients found in NutraCea SRB.
NutraCea Fiber Complex (RiFiber):	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 SRB is processed to form NutraCea Solubles.
NutraCea Baby Cereal:	A comprehensive line of signature branded and private label baby cereals, marketed both to domestic and international customers. Available in Organic or conventional grains, these cereals can be fortified and/ or fruited to meet customer needs. Premium quality great tasting large flakes create a significant point of difference.

In addition to the above, further refining NutraCea SRB into oil and its by-products can produce NutraCea Rice Bran Oil, NutraCea Defatted Bran (“DRB”) and Higher Value Fractions.

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NutraCea Rice Bran Oil:	Nutrient-rich oil made from NutraCea SRB. 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 (DRB):	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 SRB and Rice Bran Oil that provide specific health benefits. Tocopherols, tocotrienols, 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 SRB 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 SRB 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. SRB and its derivatives also contain high levels of B-complex vitamins and beta-carotene, a vitamin A precursor. SRB also contains high levels of carotenoids and phytosterols, both of which are 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.

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. However, raw 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 which we believe is superior in providing a shelf life greater than one year. 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 SRB 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 most populous countries. World rice production constitutes 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 the 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).

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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.

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.

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 enzymes 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 de-activitation 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. 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, resulting in 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, raw 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 SRB 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 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 SRB 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.

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.

We have been assigned eight 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 producer and marketer of SRB. We produce SRB 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).

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We believe that clinical support for SRB 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 market segments. These areas are functional food ingredients, nutraceuticals, animal nutrition, and private label manufacturing. In pursuit of this goal, we have focused and will continue to focus our marketing and development efforts worldwide.

SALES AND MARKETING

We target four distinct market segments in which NutraCea SRB 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 segments. This strategy allows us to leverage the research, marketing and distribution strengths of our partners to more economically and efficiently introduce and market NutraCea products. We have formed alliances, or have entered into negotiations to form alliances, in each of our target segments.

As of December 31, 2008, we have a Senior Vice-President of Sales and five domestic sales representatives. In addition, we have one equine marketing representative in Europe and specialized meat and poultry consultants in the U.S. and Europe. These specialized consultants assist in meat and poultry application research and development and potential qualified customer introductions. Currently, NutraCea's international distributor network is on every continent excluding Antarctica. We will continue to develop breadth and depth of relationships in efforts to increase sales volume.

Because of the potential significance for SRB inclusion in meat and poultry, we have enlisted the services of a Strategic Protein Application Specialist from The Netherlands to help research and establish manufacturing processes, identify new SRB meat applications, and market to key international contacts. We have also secured the services of PHD Technologies LLC to focus on North American meat and poultry application development, marketing support, and customer training programs.

During fiscal 2008, approximately 9 percent of our net products sales of our NutraCea segment were to regions outside of the United States while approximately 6 percent of our net product sales of our Irgovel segment were to regions outside of Brazil. Information on net sales to unaffiliated customers and long-lived assets attributable to our geographic regions is included in Note 19 of Notes to Consolidated Financial Statements.

Nutraceuticals

Nutraceuticals are plant-derived substances with pharmaceutical-like properties, including vitamins and dietary supplements. NutraCea SRB 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 primarily sold to consumer nutrition and healthcare companies, national nutritional retailers, and multi-level personal product marketers.

Functional Food Ingredients

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.

NutraCea SRB and DRB are economical, all natural food products that contain a unique combination of oil, protein, carbohydrates, vitamins, minerals, fibers, and antioxidants that enhance the nutritional value of popular consumer products. Foods that are ideally suited for the addition of NutraCea SRB and DRB to their products include processed meats, cereals, baked goods, breadings, and batters. NutraCea's SRB inclusion in breadings and batters results in a reduction in oil uptake, higher moisture retention, improved nutritional profiles, and reduced costs.

In 2008, NutraCea received USDA/FSIS approval to provide rice bran as an enhancer into meat products such as meat and poultry sausages that contain binders, nugget-shaped patties, meatballs, meatloaf, and meat and poultry patties. NutraCea's SRB is replacing functional ingredients like soy protein isolate, soy protein concentrate, modified food starch, pea protein and mustard flour at a fraction of the costs. With strong application benefits such as reduced cost per unit, increased product yield, and reduced purge, NutraCea's SRB has a strong marketing position in the US meat market and an even stronger position outside the US where non-meat ingredients make up a larger percentage of meat products.

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Animal Nutrition

NutraCea SRB and DRB are marketed as feed ingredients in the U.S. and international animal nutrition markets. NutraCea SRB and DRB are used as equine feed ingredients and have proven to provide a safe, all natural energy source which assists in lowering glycemic response, improving stamina thru being a ready available low starch energy component, and improving overall coat bloom through its essential fatty acid and amino acid profiles. Show and performance horses represent the premium end of the equine market and represent a more than $100 million annual market share opportunity.

In 2008, NutraCea extended its Natural Glo equine products line with Natural Glo Rice Bran Oil. Current animal nutrition products include: Natural Glo, Natural Glo Rice Bran Oil, Equine Shine, Satin Finish, and Max-E-Glo. Additionally, we opened and continued to pursue new markets in the $50 billion per year Pet Food Market and are finding strong interest and rapid adoption in Wildlife (Deer & Wild Bird), Show Animal, and specialized piglet diets in both the commercial and integrated markets.

Private Label

We manufacture and market private label baby cereal to retail in the US and abroad. According to the National Association for the Specialty Food Trade, baby food experienced the largest sales growth between 2006 and 2008 out of the entire specialty food market. Specialty baby food generated $58 million in sales in the U.S. and represents a significant annual market share potential for NutraCea. Overseas interest, especially in China, is significant and in the fourth quarter we accepted purchase orders and held discussions relating to baby food manufacturing opportunities with two of China's largest food distributors and retailers. There is high demand for US products, especially baby cereal, in China and we are confident that our product quality and pricing makes us a solid player in the baby cereal market both in the US and overseas. In 2008, we manufactured all baby cereal in our Dillon, MT facility.

Domestic Initiatives

Our main domestic initiative for 2008 was to construct and open our Phoenix, Arizona plant to manufacture cereals for both infant and adult formulations. In the 2nd quarter of 2008, we purchased a facility and began retrofitting the building and land to accommodate production of baby cereal and related products. With over 124,000 square feet of manufacturing and warehousing space, the facility is a state of the art cereal manufacturing facility that initially equals Dillon in capacity with four drum driers. The intent is to expand to eight drum driers of installed capacity with room for an additional four if the business demands it.

International Initiatives

In the fourth quarter of 2008, NutraCea began negotiations with several businesses in China for different aspects of our Rice Bran products. One company has since become a customer who has placed purchase orders for our private label baby cereal. We filled the first order for this customer in May 2009.

Additionally, we have had success with product testing and small batch runs with companies in China that are interested in including SRB in meat products, specifically sausage. Initial testing indicates that a 3% inclusion of SRB requires additional water and increases yields substantially, resulting in increased profits for the producer. All indications are positive at this time, although no purchase orders have been placed.

We continue to look at ways to improve profitability at Irgovel and are now speaking with customers throughout Asia and other parts of the world to purchase the rice oil produced in Pelotas. This would provide a higher price than the current local markets and would also be a natural hedge since exports are US Dollar denominated sales. We are currently in discussion with several potential international customers at this time.

In June 2007, we entered into a joint venture with an Indonesian company to construct Rice Bran Stabilization facilities in Southeast Asia. Although we originally expected the facility to be operational in the fourth quarter of 2008, we now expect to begin construction in late 2009 or early 2010.

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

CUSTOMERS

For the twelve months ended December 31, 2008, five customers accounted for a total of 28.2% of the Company's sales: 14.8%, 6.6%, 2.4%, 2.3%, and 2.1% respectively. At December 31, 2008, three of those customers accounted for 28.2% of the Company's accounts receivable: 20%, 6.5%, and 1.7%, respectively. One other customer accounted for more than 3% of the total outstanding accounts receivable. This customer accounted for 3.5% of the total outstanding accounts receivable.

For the twelve months ended December 31, 2007, five customers accounted for a total of 29.4% of the Company's sales: 7.8%, 7.5%, 5.5%, 4.7%, and 3.9% respectively. At December 31, 2007, three of those customers accounted for 21.6% of total accounts receivable: 9.2%, 8.4% and 4.0%, respectively. Seven other customers accounted for 32.6% of the total outstanding accounts receivable, 7.8%, 5.4%, 4.4%, 4.2%, 4.1%, 3.6% and 3.1% respectively. No other customer accounted for more than 3% of the total outstanding accounts receivable.

For the twelve months ended December 31, 2006, one customer accounted for a total of 48.7% of sales. At December 31, 2006, accounts receivable due from this customer was 62.7% of the total outstanding accounts receivable. Four other customers accounted for 24.1% of the total outstanding accounts receivable, 10.2%, 6.5%, 3.8% and 3.6% respectively. No other customer accounted for more than 3% of the total outstanding accounts receivable.

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

SUPPLY AND MANUFACTURING

Initial production of SRB

We purchase raw rice bran from multiple suppliers. These include Farmers' Rice Cooperative ("FRC") in Sacramento, California, ADM Rice ("ADM") in Arbuckle, California, Louisiana Rice Mill ("LRM") in Mermentau, Louisiana, Farmers' Rice Milling ("FRM") in Lake Charles, Louisiana, and American Rice, Inc. ("ARI") in Freeport, Texas. 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 raw bran.

We have ongoing discussions regarding entering into contracts for the supply of rice bran in China, 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.

Stage II production of SRB

As required, we ship NutraCea SRB from our warehouse in California to our plant in Dillon, Montana for further processing into NutraCea RiSolubles, Dextrinized Rice Bran and NutraCea Fiber Complex. Since the end of 2005 we installed additional equipment at the Dillon, Montana facility which increased our production of NutraCea Solubles and NutraCea Fiber Complex by more than 150%, to a capacity of 5,000 tons per year. During 2008 we purchased an existing building in Phoenix, Arizona and installed equipment which added 5,000 tons of Stage II processing capacity, with room to more than quadruple that capacity.

Every food product that we manufacture is produced under published FDA and USDA regulations for “Good Manufacturing Practices.” The Company has extensive processes and programs to oversee product quality. 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 SRB, 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 SRB 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 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 SRB 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, three domestic and six international patents were issued to NutraCea on the strength of these clinical trials.

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.

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 infected 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 2009 or early 2010.

In December 2007 we formed Rice Science, LLC ("RS"), a Delaware LLC with Herbal Science Singapore PTe. Ltd. ("HS") to develop nutraceutical extracts and pharmaceutical chemistries from NutraCea SRB. HS utilizes 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 SRB 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 SRB extracts for use in the nutraceutical industry as well as specific identified compounds targeting the pharmaceutical industry.

In 2008 RS conducted a significant amount of research. The initial thrust of this work was the development of extracts from SRB that would be effective in fighting inflammation which leads to pain. A number of extracts have been tested with two identified as having significant effect based on in vitro tests. A combination of these was created to produce a third extract that exhibits a high level of Cox 1, Cox 2 and Lox 5 inhibition. This extract was used in a pharmacokinetic study to determine the speed of assimilation into the human body. Results indicated that the active compounds were rapidly assimilated with no evidence of toxic byproducts. Our next step is to conduct a human clinical trial. A number of active compounds were identified and modeled. RS has filed Patent applications for the extract along with each of the specific active compounds.

RS has also conducted preliminary work on extracts of SRB for treatment of diabetes and metabolic syndrome. This is a promising area of research which will be focused on in 2009 and beyond.

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 SRB in ApcMin mice (British Journal of Cancer (2007) 96, 248-254). The mice were genetically modified to serve as models for mammary, prostate and intestinal carcinogenesis. They reported that consumption of SRB (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 SRB might be further evaluated as a chemo-preventative intervention in humans. These results led to NutraCea filing a patent application on "Methods for Treatment of Intestinal Carcinogenesis with Rice Bran" on January 4, 2008 by assignee NutraCea. 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. The study is scheduled for completion by late 2009.

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PATENTS AND TRADEMARKS

Through our subsidiary RiceX, we have been assigned eight U.S. patents relating to the production or use of Nutraceutical or HVF products. The patents include:

1. Patent Number 5,512,287 “PRODUCTION OF BETA-GLUCAN AND BETA-GLUCAN PRODUCT,” which issued on April 30, 1996 and expires in 2014.

2. Patent Number 5,985,344 “PROCESS FOR OBTAINING MICRONUTRIENT ENRICHED RICE BRAN OIL,” which issued November 16, 1999 and expires in 2018.

3. Patent Number 6,126,943 “METHOD FOR TREATING HYPERCHOLESTEROLEMIA, HYPERLIPIDEMIA, AND ATHEROSCLEROSIS,” which issued October 3, 2000 and expires in 2018.

4. Patent Number 6,303,586 B1 “SUPPORTIVE THERAPY FOR DIABETES, HYPERGLYCEMIA AND HYPOGLYCEMIA,” which issued October 16, 2001 and expires in 2018.

5. Patent Number 6,350,473 B1 “METHOD FOR TREATING HYPERCHOLESTEROLEMIA, HYPERLIPIDEMIA AND ATHEROSCLEROSIS,” which issued February 26, 2002 and expires in 2020.

6. Patent number 6,558,714 B2 “METHOD FOR TREATING HYPERCHOLESTEROLEMIA, HYPERLIPIDEMIA AND ATHEROSCLEROSIS” which issued May 06, 2003 and expires in 2021.

7. Patent number 6,733,799 “METHOD FOR TREATING HYPERCHOLESTEROLEMIA, HYPERLIPIDEMIA AND ATHEROSCLEROSIS” which issued May 11, 2004 and expires in 2023.

8. Patent number 6,902,739 “METHODS FOR TREATING JOINT INFLAMMATION, PAIN AND LOSS OF MOBILITY” which issued June 07, 2005 and expires in 2021.

NutraCea currently has several additional patent applications 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 issued nine additional International patents covering this subject area.

1. Patent number 71377 “SUPPORTIVE THERAPY FOR DIABETES, HYPERGLYCEMIA AND HYPOGLYCEMIA” which issued by Singapore March 28, 2002.

2. Patent number 751704 “SUPPORTIVE THERAPY FOR DIABETES, HYPERGLYCEMIA AND HYPOGLYCEMIA” which issued by Australia December 5, 2002.

3. Patent number 503648 “SUPPORTIVE THERAPY FOR DIABETES, HYPERGLYCEMIA AND HYPOGLYCEMIA” which issued by New Zealand February 3, 2003.

4. Patent number 98810675.2 “SUPPORTIVE THERAPY FOR DIABETES, HYPERGLYCEMIA AND HYPOGLYCEMIA” which issued by Canada July 16, 2003.

5. Patent number 15162B1 “PROCESS FOR OBTAINING MICRONUTRIENT ENRICHED RICE BRAN OIL” which issued by Argentina October 22, 2004.

6. Patent number 232655 “SUPPORTIVE THERAPY FOR DIABETES, HYPERGLYCEMIA AND HYPOGLYCEMIA” which issued by Mexico December 6, 2003.

7. Patent number 583211 “A METHOD FOR TREATING DIABETES, HYPERGLYCEMIA AND HYPOGLYCEMIA” which issued by Korea May 18, 2006.

8. Patent number 2002315558 “METHODS FOR TREATING JOINT INFLAMMATION, PAIN AND LOSS OF MOBILITY” which issued by Australia October 18, 2007.

9. Patent number 221444 “DIABETIC FOOD KIT COMPRISING ENZYME TREATED STABILIZED RICE BRAN DERIVATIVE” which issued by India June 23, 2008

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In 2008 another 11 provisional patent applications were filed by NutraCea of which four have been submitted as formal patent filings. NutraCea currently has a number of additional patent applications filed and pending formal review and we 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 SRB 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 materially 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.

GOVERNMENT REGULATIONS

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

The FFDCA provides the statutory framework governing the manufacturing, distribution, composition and labeling of dietary supplements for human consumption. These requirements apply to our product 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 FFDCA 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 statement 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 FFDCA 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 we predict the effect of such laws or regulations on our operations. We may be required to reformulate certain of its products, recall or withdraw those products that cannot be reformulated, keep additional records, or undertake expanded scientific substantiation. Any or all of such requirements could have a material adverse effect on our business and financial condition.

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

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

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

COMPETITION

Although we believe that we are the only company to produce stabilized 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 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 SRB as well as companies that offer other food ingredients and nutritional supplements. 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. 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.

With the purchase of Irgovel we now compete in the world's edible oil market. Our competition for exports of rice bran oil resides primarily in Southeast Asia.

REASEARCH AND DEVELOPMENT EXPENDITURES

During years 2008, 2007, and 2006, we spent $1,509,000, $769,000, and $377,000, respectively, on product research and development.

SEASONALITY

Our business is not materially affected by seasonal factors.

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ENVIRONMENT

We believe that our operations comply in all material respects with applicable laws and regulations concerning the environment. While it is impossible to predict accurately the future costs associated with environmental compliance and potential remediation activities, compliance with environmental laws is not expected to require significant capital expenditures and has not had, and is not expected to have, a material adverse effect on our results of operations or competitive position.

EMPLOYEES

As of August 31, 2009, the NutraCea segment had a total of 68 full-time domestic employees and approximately 4 contract employees. The Irgovel segment had approximately 213 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.

SECURITIES EXCHANGE ACT REPORTS

The Company maintains an Internet website at the following address: www.nutracea.com. We make available on or through our Internet website certain reports and amendments to those reports that we file with the Securities and Exchange Commission (“SEC”) in accordance with the Securities Exchange Act of 1934 (Exchange Act). These include our annual reports on Form 10-K, our quarterly reports on Form 10-Q and our current reports on Form 8-K. We make this information available on our website free of charge as soon as reasonably practicable after we electronically file the information with, or furnish it to, the SEC. The contents of our website are not incorporated by reference in this report on Form 10-K and shall not be deemed “filed” under the Securities Exchange Act of 1934. The public may also read and copy any materials that we file with the SEC at the SEC’s Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549. You may obtain information about the Public Reference Room by contacting the SEC at 1-800-SEC-0330. Reports filed with the SEC are also made available on the SEC website (www.sec.gov).

Item 1A. Risk Factors

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

Risks Related to Our Business

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

We incurred net losses (excluding Goodwill impairment) of approximately $31.3 million and $16.7 million in 2008 and 2007, respectively. We cannot assure you that we will be able to achieve or sustain revenue growth, profitability, or positive cash flow on either a quarterly or annual basis or that profitability, if achieved, will be sustained. No adjustments have been made to the financial statements that might result from the outcome of this uncertainty. If we are unable to achieve or sustain profitability, we may not be financially viable in the future and may have to curtail, suspend, or cease operations, restructure existing operations to attempt to ensure future viability, or pursue other alternatives such as filing for bankruptcy, pursuing dissolution and liquidation or seeking to merge with another company or sell all or substantially all of our assets. Because of our recurring losses and negative cash flows from operations, the audit report of our independent public accountants on our financial statements for the fiscal years ended December 31, 2008 contains an explanatory paragraph stating that the independent auditor has substantial doubt about our ability to continue as a going concern.

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

As discussed elsewhere in this Annual Report and in Note 2 Audit Committee Review and Restatement of Consolidated Financial Statements to our Consolidated Financial Statements, we determined that our consolidated financial statements for our 2006 and 2007 fiscal years, each of the quarterly periods of 2007 and the first three quarters of 2008 should be restated due to, among other things, errors in our interpretation and application of generally accepted accounting principles. As a result of the restatement, we have become subject to a number of additional risks and uncertainties, including:

- We incurred substantial unanticipated costs for accounting and legal fees in connection with the restatement. Although the restatement is complete, we expect to continue to incur accounting and legal costs as noted below.
- As a result of the restatement, we have been named in a number of lawsuits as discussed in Item 3 of Part I of this Annual Report, “Legal Proceedings” and Note 18, “Commitments and Contingencies.” The plaintiffs in these lawsuits may make additional claims, expand existing claims and/or expand the time periods covered by the complaints. Other plaintiffs may bring additional actions with other claims, based on the restatement. If such events occur, we may incur substantial defense costs regardless of the outcome of these actions and insurance may not be sufficient to cover the losses we may incur. Likewise, such events might cause a diversion of our management’s time and attention. If we do not prevail in one or more of these actions, we could be required to pay substantial damages or settlement costs, which could adversely affect our business, financial condition, results of operations and liquidity.

The United States Securities and Exchange Commission (“SEC”) investigation may result in significant costs and expenses which may divert resources and could have a material adverse effect on the Company’s business and results of operations.

As further described under Item 3 — “Legal Proceedings,” in March 2009 the Company was advised by the Staff of the SEC that the SEC had commenced a formal investigation for potential violations by the Company and its current and former officers and directors, of the antifraud provisions and of the reporting and record keeping requirements, including internal controls sections, of the Securities Act of 1933 and the Securities Exchange Act of 1934. We have cooperated fully with the SEC on the formal investigation and the informal inquiry that preceded it; however, we cannot predict the outcome of the investigation. We have incurred professional fees and other costs in responding to the SEC’s previously informal inquiry and in responding to the formal investigation and expect to continue to incur professional fees and other costs, which may be significant, until resolved.

In addition, our management, Board of Directors and employees may need to expend a substantial amount of time in addressing the SEC’s investigation, which could divert a significant amount of resources and attention that would otherwise be directed toward operations, all of which could materially adversely affect our business and results of operations. Further, if the SEC were to conclude that enforcement action is appropriate, NutraCea and/or its current or former officers and directors could be sanctioned or required to pay significant civil penalties and fines. Any of these events could have a material adverse effect on the Company’s business and results of operations.

Management recently identified material weaknesses in our internal control over financial reporting with respect to control environment and revenue recognition. Additionally, management may identify material weaknesses in the future that could adversely affect investor confidence, impair the value of our common stock and increase our cost of raising capital.

In connection with the restatement, we have assessed the effectiveness of our disclosure controls and procedures. Management identified material weaknesses in our internal control over financial reporting with respect to control environment and revenue recognition. As a result of this material weakness, our Interim Chief Executive Officer and our Principal Financial Officer concluded that our disclosure controls and procedures were not effective at a reasonable assurance level as of December 31, 2008 and the date of this filing. Management has taken and is taking steps to remediate the material weakness in our internal control over financial reporting. There can be no assurance as to how quickly or effectively our remediation steps will remediate the material weakness in our internal control over financial reporting or that additional material weaknesses will not be identified in the future.

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Any failure to remedy additional deficiencies in our internal control over financial reporting that may be discovered in the future or to implement new or improved controls, or difficulties encountered in the implementation of such controls, could harm our operating results, cause us to fail to meet our reporting obligations or result in material misstatements in our financial statements. Any such failure could, in turn, affect the future ability of our management to certify that our internal control over our financial reporting is effective and, moreover, affect the results of our independent registered public accounting firm's attestation report regarding our management's assessment. Inferior internal control over financial reporting could also subject us to the scrutiny of the SEC and other regulatory bodies which could cause investors to lose confidence in our reported financial information and could subject us to civil or criminal penalties or shareholder litigation, which could have an adverse effect on the trading price of our common stock.

In addition, if we or our independent registered public accounting firm identify additional deficiencies in our internal control over financial reporting, the disclosure of that fact, even if quickly remedied, could reduce the market's confidence in our financial statements and harm our share price. Furthermore, additional deficiencies could result in future non-compliance with Section 404 of the Sarbanes-Oxley Act of 2002. Such non-compliance could subject us to a variety of administrative sanctions, including review by the SEC or other regulatory authorities.

We are subject to a securities law class action lawsuit seeking damages we may not be able to pay.

NutraCea and certain of its former and current officers and directors have been named defendants in two securities law class actions which have been consolidated into one case. These lawsuits were filed in the United States District Court District of Arizona on behalf of shareholders who acquired securities of the Company between April 2, 2007 and February 23, 2009. The lawsuits allege, among other things, that we made material false and misleading statements in publicly disseminated press releases and that our Securities and Exchange Commission filings misrepresented material facts about the business, operations and management of NutraCea. These lawsuits are in a preliminary phase and been consolidated into one class action The plaintiffs seek damages under Section 10(b) of the Securities and Exchange Act and Rule 10b-5 promulgated there under and for violations of Section 20(a) of the Exchange Act. While we intend to vigorously defend this action, it should be recognized that it is unclear what the plaintiffs claim for damages will be and if it will exceed the amount of the available D&O insurance. In addition the Company was and will continue to incur defense costs and has certain indemnification obligations which may not be covered by the D&O insurance. These claims and possible claims are at an early stage and it is not possible to determine the probability of liability, if any, or estimate the loss, if any, that might arise from these lawsuits. Accordingly, no accrual has been made at this time for these contingencies.

We have a limited operating history and have generated losses in each quarter of 2007 and 2008, and in the first and fourth quarters of 2006.

We began operations in February 2000 and incurred losses in each reporting period except for the second and third quarter of 2006, and we incurred losses in each quarter of 2007 and 2008. Our prospects for financial success are difficult to forecast because we have a relatively limited operating history. Our prospects for financial success must be considered in light of the risks, expenses and difficulties frequently encountered by companies in new, unproven and rapidly evolving markets. Our business could be subject to any or all of the problems, expenses, delays and risks inherent in the establishment of a new business enterprise, including limited capital resources, possible delays in product development, possible cost overruns due to price and cost increases in raw product and manufacturing processes, uncertain market acceptance, and inability to respond effectively to competitive developments and attract, retain and motivate qualified employees. Therefore, there can be no assurance that our business or products will be successful, that we will be able to achieve or maintain profitable operations or that we will not encounter unforeseen difficulties that may deplete our capital resources more rapidly than anticipated.

We have not yet achieved positive cash flow

We have not generated a positive cash flow from operations continuous period to period since commencing operations. We raised $5,000,000 gross proceeds in a preferred stock offering in October 2008 and $20,000,000 gross proceeds in a common stock and warrants offering in April 2008. Additionally, we raised in private placements of equity approximately $50,000,000 in February 2007, $17,560,000 in May 2006, and $8,000,000 in October 2005. We most likely will need to raise additional financing and to increase cash flow from operations to fund current operations in our NutraCea Segment. Additionally, our ability to meet long term business objectives likely will be dependent upon our ability to raise additional financing through public or private equity financings, establish increasing cash flow from operations, enter into collaborative or other arrangements with corporate sources, or secure other sources of financing to fund long-term operations. There is no assurance that external funds will be available on terms acceptable to us in sufficient amount to finance operations until we do reach sufficient positive cash flow 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 that will strain our 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, eliminate or restructure portions of our operations, restructure existing operations to attempt to ensure future viability, or pursue other alternatives such as filing for bankruptcy, pursuing dissolution and liquidation or seeking to merge with another company or sell all or substantially all of our assets. In addition, potential debt or equity funders may require that we initiate bankruptcy proceedings before providing us with additional debt or equity funding.

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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 may face difficulties integrating businesses we acquire.

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

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

These purchases also involve numerous risks, including:

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

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

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

An important component of our business strategy is to build rice bran stabilization and rice bran oil facilities in foreign countries and to market and sell our products internationally. For example, we recently entered into joint ventures to produce and market our SRB products in Southeast Asia and China 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, and legal rights may not be available as contemplated. Should any of these risks occur, we may be unable to maximize the output from these facilities and our financial results may decrease from our anticipated levels. The inherent risks of international operations could materially adversely affect our business, financial condition and results of operations. The types of risks faced in connection with international operations and sales include, among others:

- cultural differences in the conduct of business;
- fluctuations in foreign exchange rates;
- greater difficulty in accounts receivable collection and longer collection periods;
- impact of recessions in economies outside of the United States;
- reduced protection for intellectual property rights in some countries;
- unexpected changes in regulatory requirements;
- tariffs and other trade barriers;
- political conditions in each country;
- management and operation of an enterprise spread over various countries;
- the burden and administrative costs of complying with a wide variety of foreign laws; and
- currency restrictions.

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

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

We depend on a limited number of customers.

For the twelve months ended December 31, 2008, five customers accounted for a total of 28.2% of the Company’s sales: 14.8%, 6.6%, 2.4%, 2.3%, and 2.1% respectively. At December 31, 2008, three of those customers accounted for 28.2% of the Company’s accounts receivable: 20.0%, 6.5%, and 1.7%, respectively. One other customer accounted for more than 3% of the total outstanding accounts receivable. This customer accounted for 3.5% of the total outstanding accounts receivable.

For the twelve months ended December 31, 2007, five customers accounted for a total of 29.4% of the Company's sales: 7.8%, 7.5%, 5.5%, 4.7%, and 3.9% respectively. At December 31, 2007, three of those customers accounted for 21.6% of total accounts receivable: 9.2%, 8.4% and 4.0%, respectively. Seven other customers accounted for 32.6% of the total outstanding accounts receivable, 7.8%, 5.4%, 4.4%, 4.2%, 4.1%, 3.6% and 3.1% respectively. No other customer accounted for more than 3% of the total outstanding accounts receivable.

For the twelve months ended December 31, 2006, one customer accounted for a total of 48.7% of sales. At December 31, 2006, accounts receivable due from this customer was 62.7% of the total outstanding accounts receivable. Four other customers accounted for 24.1% of the total outstanding accounts receivable, 10.2%, 6.5%, 3.8% and 3.6% respectively. No other customer accounted for more than 3% of the total outstanding accounts receivable.

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

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Credit Risk Management

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

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

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

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

We rely upon a limited number of product offerings

The majority of the products that we have sold as of December 31, 2008 have been based on SRB. Although we will market SRB as a dietary supplement, as an active food ingredient for inclusion in our products and in other companies' products, and in other ways, a decline in the market demand for our SRB products, as well as the products of other companies utilizing our SRB products, could have a significant adverse impact on us.

We are dependent upon our marketing efforts.

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

We rely upon an adequate supply of raw rice bran.

All of our current products depend on our proprietary technology using raw rice bran, which is a by-product from milling paddy rice to white rice. Our ability to manufacture SRB is currently limited to the production capability of our production equipment at Farmers' Rice Co-operative and Archer Daniels Midland in California, American Rice, Inc. in Texas, and our own plants located next to Louisiana Rice Mill in Mermentau, Louisiana, and Farmer's Rice Inc. in Lake Charles, Louisiana. Along with our value-added products plants in Dillon, Montana, Phoenix, Arizona, and our facility in Pelotas, Brazil (acquired in February 2008), we currently are capable of producing enough finished products to meet current demand. If demand for our products were to increase dramatically in the future, we would need additional production capacity.

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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 future demand. Since rice bran has a limited shelf life, the supply of rice bran is affected by the amount of rice planted and harvested each year. If economic or weather conditions adversely affect the amount of rice planted or harvested, the cost of rice bran products that we use may increase. We are not generally able to immediately pass cost increases to our customers and any increase in the cost of SRB products would have an adverse effect on our results of operations.

We face risks in our wheat bran stabilization efforts.

In January 2008, through a newly formed wholly owned subsidiary, we entered into an agreement to develop and lease wheat bran stabilization equipment to an Indonesian company. We cannot guarantee that our efforts to develop wheat bran stabilization equipment will be successful.

We face competition.

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

We must comply with our contractual obligations.

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

Concentration of Credit Risk

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

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

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

Debt covenant obligations, if triggered, may affect our financial condition.

Our long-term debt obligations and committed short-term lines of credit contain financial covenants related to debt-to-capital ratios and interest-coverage ratios. Failure to comply with any of these covenants could result in an event of default which, if not cured or waived, could result in the acceleration of outstanding debt obligations or the inability to borrow under certain credit agreements. Any such acceleration could cause a material adverse change in NutraCea's financial condition. We entered into a forbearance agreement with Wells Fargo Bank NA pursuant to which Wells Fargo agreed to forbear from exercising its rights and remedies with respect to existing defaults. We have determined it is probable that we will not be in compliance with the terms of the forbearance agreement as of October 31, 2009 which may result in the acceleration of outstanding debt obligation.

A downgrade in our credit rating could adversely affect our access to capital markets.

Our ability to obtain adequate and cost-effective capital depends upon our credit ratings, which are greatly affected by our financial performance and the liquidity of financial markets. A downgrade in our current credit ratings could adversely affect our access to capital markets, as well as our cost of capital.

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

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

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

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

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

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

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

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

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

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We are dependent on key employees and consultants.

Our success depends upon the efforts of our top management team, including the efforts of John Short, President, Jim Lintzenich, our Interim Chief Executive Officer, Interim Principal Financial Officer and Interim Chief Accounting Officer, Leo Gingras, our Chief Operating Officer, Eliseu Batista, Executive Vice President - Latin America, 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 Jim Lintzenich, 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.

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Risks Related to Our Stock

Our Stock Price is Volatile.

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

NutraCea Common Stock	Low	High
Year Ended December 31, 2009		
Third Quarter	$ 0.17	$ 0.26
Second Quarter	$ 0.16	$ 0.38
First Quarter	$ 0.19	$ 0.50
Year Ended December 31, 2008		
Fourth Quarter	$ 0.31	$ 0.52
Third Quarter	$ 0.39	$ 0.70
Second Quarter	$ 0.69	$ 1.13
First Quarter	$ 0.89	$ 1.56
Year Ended December 31, 2007		
Fourth Quarter	$ 0.75	$ 1.76
Third Quarter	$ 1.34	$ 3.31
Second Quarter	$ 3.03	$ 5.00
First Quarter	$ 2.21	$ 3.39
Year Ended December 31, 2006		
Fourth Quarter	$ 1.32	$ 2.65
Third Quarter	$ 0.86	$ 1.32
Second Quarter	$ 0.81	$ 1.42
First Quarter	$ 0.65	$ 1.27

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

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

- failure to meet the expectation of securities analysts' or the public;
- general economic and market conditions;
- our ability to expand our operations, domestically and internationally, and the amount and timing of expenditures related to this expansion;
- litigation involving us, our industry or both;
- actual or anticipated changes in expectations regarding our performance by investors or securities analysts; and
- price and volume fluctuations in the overall stock market from time to time.

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

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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 August 31, 2009, NutraCea had 192,967,680 shares of our common stock was outstanding. Additionally, as of August 31, 2009, options and warrants to purchase approximately 71,127,000 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 August 31, 2009, approximately 27,162,602 shares of our common stock remained eligible for resale pursuant to outstanding registration statements filed for these investors. In addition, we have filed a shelf registration statement to cover our issuance and sale of up to $125,000,000 of common stock, preferred stock and warrants to purchase common or preferred stock. Pursuant to that shelf registration statement we sold an aggregate of 22,222,223 shares of common stock and warrants to purchase an aggregate of 6,666,664 shares of our common stock for gross proceeds of $20,000,000 in April 2008 and we sold 5,000 shares of our Series D Preferred Stock and warrants to purchase 4,545,455 shares of our common stock for gross proceeds of $5,000,000 in October 2008. 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 August 31, 2009, there were outstanding options and warrants to purchase approximately 71,127,000 shares of our common stock. Holders of these options and warrants may exercise them at a time when we would otherwise be able to obtain additional equity capital on terms more favorable to us. Moreover, while these options and warrants are outstanding, our ability to obtain financing on favorable terms may be adversely affected.

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

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

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

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

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

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

Our officers and directors have limited liability and have indemnification rights

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

Item 1B. Unresolved Staff Comments

On June 30, 2008, we received a letter from the Staff of the SEC's Division of Corporation Finance ("Staff") as part of its review of our Form 10-K for the fiscal year ended December 31, 2007, and our Form 10-Q for the fiscal quarter ended March 31, 2008. The Company responded to that letter, which has been followed by a series of new letters and comments from the Staff and our responses. Many of the Staff's comments have been resolved. The Staff's unresolved comments that we believe are material relate primarily to the following:

- Our disclosure of background information relating to our purchase of outstanding secured promissory notes and Series D Preferred Stock of Vital Living, Inc;
- Our accounting for $1 million of cash that we received in connection with a $2.6 million sale in the second quarter of 2007, which sale we are reversing in the restatement and which $1 million was sourced from a former officer of NutraCea;
- Disclosure of the relationship between Vital Living and NutraCea and Vital Living's primary distributor, Wellness Watchers Global, and a consolidated entity of Vital Living, Wellness Watchers Systems;
- Our recognition of $2.5 million of revenue relating to a sale to Wellness Watchers Global in the second quarter of 2007, and the accounting standards that we applied to the sale;
- Our recognition of $365,000 of revenue relating to a sale to a customer in December 2006 and our determination that the amounts recognized were collectible and fixed and determinable at the time of sale;
- Our recognition of $8.1 and $1.9 million of revenue from a customer in 2006 and 2007, respectively, our determination that the amounts recognized were collectible and fixed and determinable at the time of sale and our application of the bill and hold revenue recognition method with this customer;
- The impact of the restatement items on the goodwill impairment analysis for Vital Living as of December 31, 2007 and for fiscal year 2008;
- Our consolidation of Vital Living and our allocation of the purchase price of the outstanding promissory notes and Series D Preferred Stock of Vital Living; and
- Our accounting in 2004 and 2005 with respect to our investment in Langley Park.

The Company believes it has addressed each of these comments in its most recent response to the Staff on October 16, 2009. However, The Company can provide no assurance that the Staff will have no further comments on these matters.

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Item 2. Description of Property

We maintain various facilities that are used for manufacturing, warehousing, research and development, distribution, and administrative functions. These facilities consist of both owned and leased properties.

The following summarizes the properties used to conduct our operations:

Primary Segment	Location	Status	Primary Use
NutraCea	West Sacramento, California	Leased	Warehousing, and Administrative
	Mermentau, Louisiana	Owned	Manufacturing (temporarily idled May 2009)
	Lake Charles, Louisiana	Building – Owned Land - Leased	Manufacturing (temporarily idled May 2009)
	Dillon, Montana	Owned	Manufacturing
	Freeport, Texas	Leased	Manufacturing (closed in May 2009)
	Phoenix, Arizona	Owned	Manufacturing and Warehousing
	Burley, Idaho	Leased	Administrative
	Phoenix, Arizona	Leased	Administrative – corporate offices
Irgovel	Pelotas, Brazil	Owned	Manufacturing, R&D, Administrative

We believe that all facilities are in good operating condition, the machinery and equipment are well-maintained, the facilities are suitable for their intended purposes and they have capacities adequate for current operations. The properties are covered by insurance but properties in the Gulf Coast are subject to high deductibles and limitations on damages due to tropical storms.

Item 3. Legal Proceedings

Various lawsuits, claims, proceedings and investigations are pending involving us as described below in this section. In accordance with SFAS No. 5, Accounting for Contingencies, when applicable, we record accruals for contingencies when it is probable that a liability will be incurred and the amount of loss can be reasonably estimated. In addition to the matters described herein, we are involved in or subject to, or may become involved in or subject to, routine litigation, claims, disputes, proceedings and investigations in the ordinary course of business, which in our opinion will not have a material adverse effect on our financial condition, cash flows or results of operations.

Shareholder Class Action

On February 27, 2009, a shareholder securities class action was filed against the Company and certain of its current and former officers and directors in the U.S. District Court for the District of Arizona Case No. CV 09-00406-PHX-FJM. The class action is purportedly brought on behalf of a class consisting of all persons who purchased common stock of NutraCea between August 14, 2007 and February 23, 2009. The Complaint alleges that the Company filed material misstatements in publicly disseminated press releases and Securities Exchange Commission filings misstating the Company's financial condition during the period in question. The plaintiffs assert two causes of action under Section 10(b) and 20(a) of the Securities and Exchange Act (15 U.S.C. §78j(b) and 78t(a)) and Rule 10b-5 promulgated thereunder (17 C.F.R. §240.10b-5).

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On April 27, 2009, a second shareholder securities class action was filed against the Company and certain of its current and former officers and directors in the U.S. District Court for the District of Arizona, Case No. CV 09-00880-SRB. The class action is purportedly brought on behalf of a class consisting of all persons who purchased common stock of NutraCea between April 2, 2007 and February 23, 2009. The Complaint alleges that the Company filed material misstatements in publicly disseminated press releases and Securities and Exchange Commission filings misstating the Company's financial condition during the period in question. The plaintiffs assert four causes of action under Section 10(b) and 20(a) of the Securities and Exchange Act (15 U.S.C. §78j(b) and 78t(a)) and Rule 10b-5 promulgated thereunder (17 C.F.R. §240.10b-5) and under the Arizona Revised Statutes.

On May 29, 2009, the court presiding over the first filed case consolidated these two actions into one action under the case name Burritt v. NutraCea, et al., Case No. CV 09-00406-PHX-FJM (the "Federal Action") and appointed Harvey Pensack, represented by The Rosen Law Firm P.A., as lead plaintiff and lead counsel.

On July 1, 2009, lead plaintiff filed a consolidated class action complaint, alleging that, among other things, defendants violated Sections 10(b) and 20(a) of the Securities Exchange Act of 1934 and Sections 44-1991(A)(3), 44-2003(A), and 44-1999(B) of the Arizona Revised Statutes. The complaint generally alleges that NutraCea and the individual defendants made false and misleading statements in NutraCea's financial statements and seek unspecified monetary damages and other relief against the defendants. Defendants moved to dismiss this complaint on August 3, 2009. On August 14, 2009, lead plaintiff filed a motion for leave to amend the consolidated class action complaint. On September 25, 2009, the court granted plaintiff's motion to amend and denied defendants' motion to dismiss as moot in light of the amended complaint. Motions to dismiss the amended complaint were filed on October 7, 2009.

Shareholder Derivative Action

In addition to the shareholder class actions, on March 30, 2009 and May 9, 2009, two shareholder derivative lawsuits were filed in the Superior Court of Arizona, County of Maricopa, by persons identifying themselves as shareholders of the Company and purporting to act on its behalf, naming the Company as a nominal defendant and naming its former Chief Executive Officer and its current Board of Directors as defendants.

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

By an order entered on June 3, 2009, the superior court consolidated these two cases into one action captioned In re: NutraCea Derivative Litigation, Case No. CV2009-051495. Although the parties entered into a stipulation staying the derivative action, the court has ordered that the matter proceed and the parties are discussing a briefing schedule.

SEC Enforcement Investigation

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

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Irgovel Stockholders lawsuit

On August 28, 2008, former Irgovel stockholder David Resyng filed an indemnification suit against Irgovel, Osmar Brito and the remaining Irgovel stockholders ("Sellers"), requesting: (i) the freezing of the escrow account maintained in connection with the transfer of Irgovel's corporate control to the Company and the presentation of all documentation related to the transaction, and (ii) damages in the amount of the difference between (a) the sum received by David Resyng in connection with the judicial settlement agreement executed in the action for the partial dissolution of limited liability company filed by David Resyng against Irgovel and the Sellers and (b) the amount received by the Sellers in connection with the sale of Irgovel's corporate control to the Company, in addition to moral damages as determined in the court's discretion. The amount in dispute is estimated to be approximately USD $2,000,000, plus any moral damages as determined by the court.

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

On February 6, 2009, the Sellers filed a collection lawsuit against the Company seeking payment of the second installment of the purchase price under the Purchase Agreement, which was indicated by the Sellers to be approximately USD $853,000. The Company is holding back payment of the second installment until the resolution of the Resyng lawsuit noted above. The Company has not been served with any formal notices in regard to this matter so far. In addition, the Purchase Agreement requires that all disputes between the Company and the Sellers are subject to arbitration. As part of the purchase agreement $1,905,000 was deposited into an escrow account to cover contingencies and is payable to the sellers upon resolution of all contingencies. The Company believes any payout due to the lawsuit will be made out of the escrow account.

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

On April 30, 2009, W.D. Manor Mechanical Contractors, Inc. (“W.D.”) filed a complaint against NutraPhoenix, LLC, the Company and other unrelated defendants in Superior Court of Arizona, Maricopa County (CV2009-013957) arising out of the construction of a facility in Phoenix, Arizona that is owned by NutraPhoenix, LLC and at which the Company is the tenant. W.D. seeks to foreclose a mechanic’s lien and alleges unjust enrichment arising out of the alleged non-payment of $399,589 in regard to labor and materials allegedly performed/provided by W.D. The Company and NutraPhoenix, LLC are attempting to negotiate a settlement. The company is subject to various related claims from sub-contractors totaling to $437,000. These claims have been accrued and expensed in our consolidated financial statements as of December 31, 2008. The settlement of these claims is expected to be equal or less than the accrued amount.

Halpern

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

Famers’ Rice Milling

Farmers’ Rice Milling (“FRM”) contends that the Company has defaulted by failing to pay the rentals due under two leases between the parties: (i) March 15, 2009 ground lease, as amended by November 1, 2008 and (ii) April 15, 2007 Warehouse lease (collectively the “Leases”). FRM seeks to terminate the leases and recover both back and future rent there under. The Company has filed an Answer and Counterclaim and deposited into the registry of the court the sum of $60,425 constituting the rental due under both the Leases, a late fee due under the Warehouse lease plus accrued interest. This suit was filed in the 14th Judicial District Court on June 24, 2009 and was timely removed to the United States District Court, Western District of Louisiana, Lakes Charles division where it is presently pending.

Management believes that it has meritorious defenses and plans on defending the suit vigorously. Management has not accrued an estimated loss. However, if FRM prevails in the case, the Company will lose the building and permanent fixtures which cannot be removed, totaling approximately $ 3,377,000 as of December 31, 2008.

Item 4. Submission of Matters to a Vote of Security Holders

Not applicable.

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PART II

Item 5. Market for Registrant's Common Equity, Related Shareholder Matters and Issuer Purchases of Equity Securities

PRICE RANGE OF COMMON STOCK

The Company's common stock is traded on the pink sheets, a centralized electronic quotation service for over-the-counter securities, under the symbol "NTRZ.PK" Our CUSIP No. is 45776L100. Our common stock previously traded on the OTCBB until May 1, 2009. The following table sets forth the range of high and low closing 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 Ended December 31, 2009		
Third Quarter	$0.17	$0.26
Second Quarter	$0.16	$0.38
First Quarter	$0.19	$0.50
Year Ended December 31, 2008		
Fourth Quarter	$0.31	$0.52
Third Quarter	$0.39	$0.70
Second Quarter	$0.69	$1.13
First Quarter	$0.89	$1.56
Year Ended December 31, 2007		
Fourth Quarter	$0.75	$1.76
Third Quarter	$1.34	$3.31
Second Quarter	$3.03	$5.00
First Quarter	$2.21	$3.39
Year Ended December 31, 2006		
Fourth Quarter	$1.32	$2.65
Third Quarter	$0.86	$1.32
Second Quarter	$0.81	$1.42
First Quarter	$0.65	$1.27

HOLDERS

As of August 31, 2009 there were approximately 276 holders of record of our common stock.

DIVIDENDS

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

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Pursuant to our credit agreement with Wells Fargo Bank, we may not pay cash dividends on our common stock so long as we have a line of credit with, or owe any debt to, Wells Fargo Bank.

RECENT SALES OF UNREGISTERED SECURITIES

During the three months ended December 31, 2008, we did not issue any securities without registration under the Securities Act of 1933.

Sales of unregistered securities during the first three quarters of 2008 have previously been reported in quarterly reports on Form 10-Q or current reports on Form 8-K that we have filed with the SEC.

SHARE REPURCHASES

We did not repurchase any of our securities in 2008.

PERFORMANCE GRAPH

The following graph compares the cumulative total return on our common stock, the NASDAQ Composite Index and a peer group over the period commencing on December 31, 2003 and ending on December 31, 2008. The Company does not believe there are any publicly traded companies that represent strict peers. However, each of the companies in the peer group offers similar products in one or more segments of its business. The peer group consists of Martek Biosciences Corp., Conagra Foods Inc., Kraft Foods Inc., Nutraceutical International Corp., and Synovics Pharmaceuticals Inc.

The performance graph assumes the value of the investment in the common stock of each index was $100 and that all dividends were reinvested. This graph is not necessarily indicative of future price performance.

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The performance graph in this Item 5 shall not be deemed to be "soliciting material" or to be "filed" with the SEC or subject to Regulation 14A or 14C under the Exchange Act or to the liabilities of Section 18 of the Exchange Act, and will not be deemed to be incorporated by reference into any filings under the Securities Act of 1933, as amended, or the Exchange Act, except to the extent we specifically incorporate it by reference into such a filing.

Item 6. Selected Financial Data

The following table sets forth our selected consolidated statement of operations, balance sheet, and operating data. The selected statement of operations and balance sheets are derived from our Consolidated Financial Statements for the fiscal years of 2007 and 2006 and have been restated to reflect adjustments discussed in footnote 2 to the table below. The data presented below should be read in conjunction with our restated Consolidated Financial Statements and related notes included in Item 8, "Financial Statements and Supplementary Data," and the information in Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations," below.

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

	Years Ended December 31,				
	2008	2007	2006	2005	2004
		Restated (1)		Correction (2)	
Revenues	$35,224	$12,726	$16,539	$5,564	$1,225
Cost of goods sold	30,416	8,883	8,862	2,878	600
Gross profit	4,808	3,843	7,677	2,686	625
Operating expenses	68,466	25,429	7,908	5,678	24,176
(Loss) profit from operations	(63,658)	(21,586)	(231)	(2,992)	(23,551)
Interest income/(expense)	122	3,199	538	(878)	(23)
Other income/(expense)	(1,052)	431	-	(78)	(2,012)
Income tax expense	(64)	(20)	(5)	(2)	-
Minority Interest	80	-			
Net (loss) income	$(64,572)	$(17,976)	$302	$(3,950)	$(25,586)
Basic (loss) net income per common share	$(0.40)	$(0.14)	$0.00	$(0.10)	$(1.18)
Diluted (loss) net income per common share	$(0.40)	$(0.14)	$0.00	$(0.10)	$(1.18)
Weighted ave basic number of shares outstanding	160,585	125,938	76,692	38,615	
Weighted ave diluted number of shares outstanding	160,585	125,938	102,636	38,615	

Balance Sheet Data: (end of period)

	As of December 31,				
	2008	2007	2006	2005	2004
Cash, cash equivalents, restricted cash and investments	$10,064	$43,747	$14,867	$3,636	$2,112
Total Assets	$102,380	$120,441	71,982	47,464	3,338
Current Liabilities	$18,799	$8,897	2,881	1,261	2,170
Long Term Debt	$9,217	$77	-	9	-
Accumulated Deficit	$(133,136)	$(68,564)	(50,588)	(50,890)(2)	(46,940)(2)
Total shareholders equity (deficit)	$68,206	$109,249	$69,091	$38,893	$1,167

(1) As set forth below, we have restated our previously reported financial statements to correct certain errors in our accounting for revenue recognition, rental allowances, and investment in an Indonesian joint venture as discussed in Item 7, "Management's Discussion and Analysis of Financial Conditions and Results of Operations" and Note 2 – Audit Committee Review and Restatement of Consolidated Financial Statements to our Consolidated Financial Statements included in Item 8 in this Annual Report.

(2) 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. The corrected statements of operations data is presented above for the years ended December 31, 2004 and 2005 report the results of operations for those years as if the $2,090,000 decline in investment had been classified as other than temporary. See Note 4 Implementation of Staff Accounting Bulleting No. 108 to the Consolidated Financial Statements.

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

	Years Ended December 31, 2007	2006
Revenues, as previously reported	$22,161	$18,090
Change to revenues for product revenue recognition	(4,435)	(1,551)
Change to revenues for license fee revenue recognition	(5,000)	-
Revenues, as restated	$12,726	$16,539
Cost of Goods Sold, as previously reported	$9,898	$9,130
Change to cost of goods sold for product revenue recognition	(1,015)	(268)
Cost of Goods Sold, as restated	$8,883	$8,862
Gross Profit, as reported	$12,263	$8,960
Gross Profit, as restated	$3,843	$7,677
Operating Expenses, as reported	$27,393	$7,908
Change for increase in general SG&A expense	890	$-
Change for decrease in bad debt expense	(2,979)	
Change for increase in rent expense	55	
Change for increase in depreciation expense	70	
Operating Expenses, as restated	$25,429	$7,908
Other Income/(Expense) as reported	$3,239	$538
Change for decrease in interest income	391	
Other Income/(Expense) as restated	$3,630	$538
Income Tax Expense, as reported	$20	$5
Income Tax Expense, as restated	$20	$5
Minority Interest as reported	$-	$-
Minority Interest as restated	$-	$-
Net Income/(Loss), as reported	$(11,911)	$1,585
Net Income/(Loss), as restated	$(17,976)	$302
Earnings/(Loss) per Share		
Basic, as previously Reported	$(0.09)	$0.02
Change to income for product revenue recognition	-	(0.02)
Change to revenues for license fee revenue recognition	(0.05)	
Change to operating expenses for various items	-	
Basic, as restated	$(0.14)	$-
Diluted, as previously Reported	$(0.09)	$0.02
Change to income for product revenue recognition	-	$(0.02)
Change to revenues for license fee revenue recognition	(0.05)	
Change to operating expenses for various items	-	
Diluted, as restated	$(0.14)	$-

Weighted average basic number of shares outstanding, as reported/restated	125,938	76,692
Weighted average diluted number of shares outstanding, as reported/restated	125,938	102,636

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Balance Sheet Data: (In thousands)

	As of December 31, 2007	2006
Cash, cash equivalents, restricted cash and investments, as reported	$43,847	$14,867
Change to cash equivalents - removal of Rice RX	(100)	
Cash, cash equivalents, restricted cash and investments, as restated	$43,747	$14,867
Total Assets, as reported	$124,293	$73,255
Change to cash equivalents - removal of Rice RX	(100)	
Change to revenues for product revenue recognition	$(86)	(1,551)
Change to notes receivable, net of current portion - revenues for license fee revenue recognition	(5,000)	
Change to inventory - COGS for product revenue recognition	91	268
Change to other assets - removal of Rice RX	659	
Change to property and equipment, net of accumulated depreciation	584	
Total Assets, as restated	$120,441	$71,972
Current Liabilities, as reported	$7,619	$2,881
Change to accounts payable	(810)	
Change to deferred rent incentive	168	
Change to deferred revenue	1,920	
Current Liabilities, as restated	$8,897	$2,881
Long Term Debt, as reported	$77	$-
Change to deferred rent incentive - long-term	1,218	
Long Tern debt, as restated	$1,295	$-
Minority interest as reported	$-	$-
Change to minority interest	-	-
Minority interest as restated	$-	$-
Accumulated Deficit, as reported	$(61,216)	$(49,305)
Change to revenues for product revenue recognition	(5,986)	(1,551)
Change to revenues for license fee revenue recognition	(5,000)	
Change to cost of goods sold for product revenue recognition	1,283	268
Change for decrease in bad debt expense	2,979	
Change for increase in operating expenses	(1,015)	
Change to other income/(expense)	391	
Accumulated Deficit, as restated	$(68,564)	$(50,588)

Item 7. Management's Discussion and Analysis of Financial Conditions and Results of Operation

The following discussion should be read in conjunction with the Consolidated Financial Statements and related notes thereto included in Item 8 of this Form 10-K.

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

Executive Summary

The year ended December 31, 2008 was a busy and challenging year for NutraCea and an important phase in our growth. Our acquisition of Irgovel, a rice-bran oil manufacturing facility in Pelotas, Brazil, established us as a major source of rice-bran oil. During 2008, we completed our rice-bran stabilization facility in Lake Charles, Louisiana and acquired a manufacturing property in Phoenix, AZ which we converted into a Stage II processing operation. We entered into new distribution agreements that underscored the demand for our core product, stabilized rice bran (“SRB”), and marked a number of operating achievements that positioned NutraCea for success in 2009 and beyond.

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Basis of Presentation and Going Concern

Our financial statements have been prepared assuming the Company will continue as a going concern based on the realization of assets and the satisfaction of liabilities in the normal course of business. The Company has experienced recurring losses and negative cash flows from operations raising substantial doubt as to our ability to continue as a going concern. Due to defaults under its credit agreement with Wells Fargo Bank, the Company's credit lines were reduced to approximately $3,500,000, which was the level of the current outstanding loans and obligations at that time. NutraCea also entered into a forbearance agreement with Wells Fargo pursuant to which Wells Fargo agreed to forbear from exercising its rights and remedies with respect to the existing defaults. NutraCea is behind on its payments to vendors and has defaulted on several agreements due to non-payment. Expenses have been reduced where possible. In the past the Company has turned to the equity markets for additional liquidity. This is not a likely source of funds at this time due to the Company's financial position and the state of the equity markets.

The Company's management intends to provide the necessary cash to continue operations through the monetization of certain assets and the growth of revenues. The monetization of assets is expected to include some or all of the following:

- sale or a sale/ lease back of certain of the Company's facilities;
- sale of a minority interest in one or more of the Company's subsidiaries;
- sale of certain trademarks to strategic buyers that could become long-term buyers of bulk SRB; or
- sale of surplus equipment.

The growth of revenues is expected to include the following:

- licensing of the Company's intellectual properties;
- growing sales in existing markets, including bulk SRB, rice bran oil and baby cereal; and
- aligning with strategic partners who can provide channels for additional sales of our products.

We have already taken steps to pursue several of these potential sources of cash. Successful monetization of one or more of the assets identified above could yield sufficient cash to enable the Company to remain a going concern. Some of these sales could result in non-cash write downs of asset values. These potential write downs have not been recorded in the accompanying financial statements. Although management believes that they will be able to obtain the funds necessary for us to continue as a going concern there can be no assurances that the means for maintaining this objective will prove successful.

Acquisition of Irgovel

In February, 2008 we acquired 100% ownership of Industria Riograndens De Oleos Vegetais Ltda. ("Irgovel"), a limited liability company organized under the laws of the Federative Republic of Brazil, which operates a rice-bran oil manufacturing facility in Pelotas, Brazil (see Note 12 Acquisition and Joint Ventures to the Consolidated Financial Statements included herein).

Segments

With the acquisition of Irgovel the Company now operates in two reporting segments; the NutraCea segment, which manufactures and distributes ingredients primarily derived from SRB, utilizing our unique and proprietary technology and the Irgovel segment, which consists of our rice-bran oil and fatted and de-fatted SRB manufacturing subsidiary in Pelotas, Brazil.

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Significant Events

Below is a summary of certain significant events that occurred during fiscal 2008 and through the date of this filing.

Audit Committee Review and Restatement of Consolidated Financial Statements

Overview

The Company's Consolidated Financial Statements for the years ended December 31, 2006 and 2007 and quarterly information for the first three quarterly periods of fiscal 2008 have been restated to correct errors identified in the course of the Audit Committee-led accounting review (discussed further below, and referred to herein as the "Audit Committee-led review") and other accounting errors identified by the Company in the course of the restatement process and more fully described in the "Background" section below.

The Audit Committee concluded that the errors were the result of the improper accounting of several revenue transactions, and the improper accounting of the Company's investment in an Indonesian wheat flour trading company. Subsequent to the conclusions addressed by the Audit Committee, the Company also determined that certain moving and rental allowance transactions associated with the occupancy of the Company's current corporate headquarters, an additional revenue transaction, and the recognition of license fee revenue associated with an Indonesian joint venture had not been accounted for properly. A summary of these subsequent transactions is described below, and is included as part of the restated Consolidated Financial Statements.

The improper accounting of the transactions was primarily the result of the internal control weaknesses which existed within the Company. Management has begun and continues to review the Company's accounting practices and its internal control over financial reporting. These are discussed under "Management Report on Internal Control over Financial Reporting" presented in Item 9A, "Controls and Procedures".

Background

During December 2008, the Audit Committee which is comprised of independent outside directors of the Board of Directors of the Company commenced an internal review of certain matters with respect to the Company's accounting and reporting practices, including the appropriateness and/or timing of recognition of revenues from certain transactions in 2007, and the adequacy of internal controls over financial reporting and disclosure controls and procedures ("Original Review"). The Audit Committee retained independent outside counsel and forensic accounting consultants to assist in the investigation.

As a result of the preliminary findings of the investigation, the Board of Directors of the Company determined, based upon the recommendation of the Audit Committee, that the Company should restate its financial statements for the year ended December 31, 2007, including the second, third, and fourth quarters in 2007 and the first three quarters for the year ended December 31, 2008. Accordingly, on February 17, 2009, the Board of Directors determined, based upon the recommendation of the Audit Committee that the Company's previously issued Consolidated Financial Statements included in the filings with the SEC for these periods should no longer be relied upon. On February 23, 2009, the Company disclosed in its Current Report on Form 8-K ("Original Form 8-K") the actions and final determinations of the Company's Board of Directors and Audit Committee as outlined in this and the prior paragraph.

Following the date of the Original Form 8-K, the Audit Committee expanded its review to include the Company's accounting treatment of additional transactions in 2006, 2007, and 2008 ("Subsequent Review"). Based upon the Subsequent Review, the Audit Committee determined on April 23, 2009 that the Company would also restate its Consolidated Financial Statements for the year ended December 31, 2006, including the fourth quarter of 2006, and the first quarter of 2007, and that these Consolidated Financial Statements should not be relied upon. On April 23, 2009, the Company disclosed in its Current Report on Form 8-K the actions and final determinations of the Company's Board of Directors and Audit Committee as outlined in this paragraph.

Subsequent to the conclusions addressed by the Audit Committee in the Original and Subsequent Reviews, the Company also determined that certain moving and rental allowance transactions associated with the occupancy of the Company's current corporate headquarters, an additional revenue transaction, and the recognition of license fee revenue associated with an Indonesian joint venture had not been accounted for properly ("Additional Findings"). A summary of these subsequent transactions is described below, and is included as part of the restated Consolidated Financial Statements.

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In connection with the Original Review, Subsequent Review, and Additional Findings, the Company determined that it improperly accounted for the following transactions in 2006, 2007 and 2008:

Original Review:

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

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

	Q1-2008	Q2-2008	Q3-2008	Q4-2008	Q1-2009
Revenues	$0.70	$0.70	$0.40	$0.10	$0.10
Cost of Goods	0.50	0.50	0.30	-	-
Net Income	$0.20	$0.20	$0.10	$0.10	$0.10

Subsequent Review and Additional Findings:

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

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

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

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

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

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

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

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

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

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The following table summarizes the impact of the restated items on our statement of operations for the periods noted and should be read in conjunction with the accompanying Consolidated Financial Statements and notes thereto (amounts in thousands except per share data).

	Nine Months Ended 9/30/2008	12/31/07	12/31/06
Net (loss) income, as previously reported	$(17,378)	$(11,911)	$1,585
Change to revenues for product revenue recognition	1,839	(4,435)	(1,551)
Change to revenues for license fee revenue recognition		(5,000)	
Change to cost of goods sold for product revenue recognition	(1,247)	1,015	268
Change for decrease in bad debt expense	62	2,979	
Change for (increase)/decrease in other operating expenses	390	(1,015)	
Change for increase/(decrease) in other income	119	391	
Impact of restatement items	1,163	(6,065)	(1,283)
Net (loss) income, as restated	$(16,215)	$(17,976)	$302
Earnings (loss) per share			
Basic, as previously reported	$(0.12)	$(0.09)	$0.02
Impact of restatement items, net of taxes	$0.01	$(0.05)	$(0.02)
Basic, as restated	$(0.11)	$(0.14)	$0.00
Diluted, as previously reported	$(0.12)	$(0.09)	$0.02
Impact of restatement items, net of taxes	$0.01	$(0.05)	$(0.02)
Diluted, as restated	$(0.11)	$(0.14)	$0.00

The effect of the above mentioned restated items on our previously reported fiscal 2007 and 2006 consolidated balance sheets is provided below (amounts in thousands):

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CONSOLIDATED BALANCE SHEET
As of December 31, 2007

	As Previously Reported	Adjustments	As Restated
ASSETS			
Current Assets:			
Cash and cash equivalents	$ 41,298	$ (100)	$ 41,198
Restricted cash	758		758
Marketable securities	-		-
Trade receivables	5,345	(3,065)	2,280
Less: allowance for doubtful accounts	(2,999)	2,979	(20)
Inventory	1,808	91	1,899
Notes receivable, current portion	2,936		2,936
Deposits and other current assets	2,545	659	3,204
Total Current Assets	51,691	564	52,255
Restricted cash	1,791		1,791
Notes receivable, net of current portion	5,039	(5,000)	39
Property, plant and equipment, net	19,328	584	19,912
Investment in equity method investments	1,191		1,191
Intangible assets, net	5,743		5,743
Goodwill	39,510		39,510
Total non-current assets	72,602	(4,416)	68,186
Total Assets	$ 124,293	$ (3,852)	$ 120,441
LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIT)			
Current Liabilities:			
Accounts payable and accrued liabilities	$ 7,506	$ (810)	$ 6,696
Notes payable - current portion	23		23
Deferred rent incentive - current portion	-	168	168
Deferred revenue	90	1,920	2,010
Total Current Liabilities	7,619	1,278	8,897
Deferred rent incentive - net of current portion	-	1,218	1,218
Other non-current liabilities	-	1,000	1,000
Notes payable - net of current portion	77		77
Total Liabilities	7,696	3,496	11,192
Commitments and contingencies			
Minority interest			
Stockholders Equity (deficit):			
Common Stock	177,813		177,813

Accumulated deficit - prior year		(49,305	)		(1,283	)		(50,588	)
Net income /(loss) - current year		(11,911	)		(6,065	)		(17,976	)
Accumulated deficit		(61,216	)		(7,348	)		(68,564	)
Accumulated other Comprehensive Income (Loss)		-			-			-	
Total shareholders" equity (deficit)		116,597			(7,348	)		109,249	
Total Liabilities and Equity	$	124,293		$	(3,852	)	$	120,441	

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CONSOLIDATED BALANCE SHEET
As of December 31, 2006

	As Previously Reported	Adjustments	As Restated
ASSETS			
Current Assets:			
Cash and cash equivalents	$ 14,867	$ -	$ 14,867
Restricted cash	-	-	-
Marketable securities	368	-	368
Trade receivables	7,093	-	7,093
Adjustment to AR		(1,551)	(1,551)
Less: allowance for doubtful accounts	-	-	-
Inventory	796	-	796
Adjustment to inventory	-	268	268
Notes receivable, current portion	1,694	-	1,694
Deposits and other current assets	1,383	-	1,383
Total Current Assets	26,201	(1,283)	24,918
Restricted cash	-	-	-
Notes receivable, net of current portion	682	-	682
Adjustment to long term notes receivable	-	-	-
Property, plant and equipment, net	8,961	-	8,961
Investment in equity method investments	-	-	-
Intangible assets, net	5,097	-	5,097
Goodwill	32,314	-	32,314
Total non-current assets	47,054	-	47,054
Total Assets	$ 73,255	$ (1,283)	$ 71,972
LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIT)			
Current Liabilities:			
Accounts payable and accrued liabilities	$ 2,778	$ -	$ 2,778
Notes payable - current portion	-	-	-
Deferred revenue	103	-	103
Total Current Liabilities	2,881	-	2,881
Notes payable - net of current portion	-	-	-
Total Liabilities	2,881	-	2,881
Commitments and contingencies			
Convertible, Series B Preferred Stock	439	-	439
Convertible, Series C Preferred Stock	5,051	-	5,051
Stockholders Equity (deficit)			
Common Stock	114,111	-	114,111

Accumulated deficit - prior year		(50,890)		-		(50,890)
Net income /(loss) - current year		1,585		(1,283)		302
Accumulated deficit		(49,305)		(1,283)		(50,588)
Accumulated other Comprehensive Income (Loss)		78		-		78
Total shareholders' equity (deficit)		70,374		(1,283)		69,091
Total Liabilites and Equity	$	73,255	$	(1,283)	$	71,972

The effect of the above mentioned restated items on our previously reported results of operations and cash flows for fiscal 2007 and 2006 is provided below (amounts in thousands except for per share data):

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CONSOLIDATED STATEMENT OF OPERATIONS
For the Fiscal Year Ended December 31, 2007

	As Previously Reported (1)	Adjustments	As Restated
Revenue			
Product sales	$18,372	$(5,986)	$12,386
Less returns	(1,551)	1,551	-
Royalty and licensing fees	5,340	(5,000)	340
Total revenue	22,161	(9,435)	12,726
Cost of goods sold	9,898	(1,015)	8,883
Gross margin	12,263	(8,420)	3,843
Operating expenses			
Research and development	769		769
Selling, general, and administrative	17,243	1,015	18,258
Bad debt	3,233	(2,979)	254
Impairment of intangible assets	1,300		1,300
Separation agreement with former CEO	1,000		1,000
Professional fees	3,848		3,848
Total operating expenses	27,393	(1,964)	25,429
Loss from operations	(15,130)	(6,456)	(21,586)
Other Income (expense)			
Interest income	2,809	391	3,200
Interest expense	(1)		(1)
Gain on settlement	1,250		1,250
Loss on disposal of assets	(347)		(347)
Loss on equity method investments	(309)		(309)
Loss on sale of marketable securities	(163)		(163)
Total other income/(expense)	3,239	391	3,630
Income tax expense	(20)		(20)
Minority Interest			-
Net income/(loss)	$(11,911)	$(6,065)	$(17,976)
Earnings per share:			
Basic income /(loss) per share	$(0.09)	$(0.05)	$(0.14)
Fully diluted income /(loss) per share	$(0.09)	$(0.05)	$(0.14)
Shares Outstanding:			
Weighted average basic number of shares outstanding	125,938		125,938
Weighted average diluted number of shares outstanding	125,938		125,938

(1) Certain reclassifications have been made to prior period amounts to conform to classifications adopted in the current year.

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CONSOLIDATED STATEMENT OF OPERATIONS
For the Fiscal Year Ended December 31, 2006

	As Previously Reported (1)	Adjustments	As Restated
Statement of Operations			
Revenue			
Net product sales	$ 17,105	$ (1,551)	$ 15,554
Less returns	-		-
Royalty and licensing fees	985	-	985
Total revenues	18,090	(1,551)	16,539
Cost of goods sold	9,130	(268)	8,862
Gross margin	8,960	(1,283)	7,677
Operating expenses			
Research and development	377		377
Selling, general, and administrative	6,657		6,657
Bad debt	9		9
Professional fees	865		865
Total operating expenses	7,908	-	7,908
Gain/(loss) from operations	1,052	(1,283)	(231)
Other income (expense)			
Interest income	545		545
Interest expense	(7)		(7)
Total other income/(expense)	538	-	538
Total income before income tax	1,590	(1,283)	307
Income tax expense	5		5
Net income/(loss)	$ 1,585	$ (1,283)	$ 302
Earnings per share:			
Basic income /(loss) per share	$ 0.02	$ (0.02)	$ 0.00
Fully diluted income /(loss) per share	$ 0.02	$ (0.02)	$ 0.00
Shares Outstanding:			
Weighted average basic number of shares outstanding	76,692		76,692
Weighted average diluted number of shares outstanding	102,636		102,636

(1) Certain reclassifications have been made to prior period amounts to conform to classifications adopted in the current year.

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CONSOLIDATED STATEMENT OF CASH FLOWS
For the Fiscal Year Ended December 31, 2007

	As Previously Reported	Adjusting Entries	As Restated
Cash flow from operating activities:			
Net Income (loss)	$(11,911)	$(6,065)	$(17,976)
Adjustments to reconcile net income (loss) to net cash from operating activities:			
Depreciation and amortization	2,202	70	2,272
Provision for doubtful accounts and notes	3,229	(2,979)	250
Goodwill impairment	1,300	-	1,300
Loss on retirement of assets	347	-	347
Stock-based compensation	2,166	-	2,166
Loss on equity method investments	309	-	309
Loss on sale of marketable securities	290	-	290
Changes in operating assets and liabilities:			
(Increase) decrease in			
Trade accounts receivable	(886)	1,514	628
Inventories	(971)	177	(794)
Other current assets	(1,167)	(659)	(1,826)
Accounts payable and accrued liabilities	2,739	(810)	1,929
Deferred rent incentive	-	1,386	1,386
Other non-current liabilities	-	1,000	1,000
Deferred revenue	-	1,920	1,920
Net cash used in operating activities	(2,353)	(4,446)	(6,799)
Cash flows from investing activities			
Issuance of notes receivable	(7,828)	5,000	(2,828)
Proceeds of payments from notes receivable	5,410	-	5,410
Purchases of property, plant and equipment	(11,652)	(654)	(12,306)
Investment in Grainnovation, Inc.	(2,169)	-	(2,169)
Investment in Vital Living, Inc.	(5,143)	-	(5,143)
Investment in joint venture	(1,500)	-	(1,500)
Restricted cash	(2,239)	-	(2,239)
Proceeds from issuance of long-term notes	69	-	69
Proceeds from sale of fixed assets	16	-	16
Purchases of other assets, intangibles and goodwill	(2,225)	-	(2,225)
Net cash provided by (used in) investing activities	(27,261)	4,346	(22,915)
Cash flows from financing activities			
Proceeds from private placement financing, net of expenses	46,805	-	46,805
Proceeds from exercise of common stock options and warrants	9,240	-	9,240
Net cash provided by financing activities	56,045	-	56,045
Net increase (decrease) in cash	26,431	(100)	26,331
Cash, beginning of period	14,867		14,867
Cash, end of period	$41,298	$(100)	$41,198

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CONSOLIDATED STATEMENT OF CASH FLOWS
For the Fiscal Year Ended December 31, 2006

	As Previously Reported	Adjustments	As Restated
Cash flow from operating activities:			
Net Income (loss)	$1,585	$(1,283)	$302
Adjustments to reconcile net income (loss) to net cash from operating activities:			
Depreciation and amortization	1,150	-	1,150
Stock-based compensation	1,091	-	1,091
Net changes in operating assets and liabilities:			
(Increase) decrease in			
Trade accounts receivable	(4,578)	1,551	(3,027)
Inventories	(202)	(268)	(470)
Other current assets	(1,301)	-	(1,301)
Accounts payable and accrued liabilities	1,531	-	1,531
Advances to related parties	(3)	-	(3)
Other non-current liabilties	98	-	98
Net cash used in operating activities	(629)	-	(629)
Cash flows from investing activities			
Issuance of notes receivable	(2,376)	-	(2,376)
Purchases of property, plant and equipment	(4,682)	-	(4,682)
Purchases of other assets, intangibles and goodwill	(2,640)	-	(2,640)
Net cash provided by (used in) investing activities	(9,698)	-	(9,698)
Cash flows from financing activities			
Proceeds from private placement financing, net of expenses	15,934	-	15,934
Principal payments on notes payable, net of discount	(15)	-	(15)
Proceeds from exercise of common stock options and warrants	5,784	-	5,784
Net cash provided by financing activities	21,703	-	21,703
Net increase (decrease) in cash	11,376	-	11,376
Cash, beginning of period	3,491		3,491
Cash, end of period	$14,867	$ -	$14,867

Results of Operations

The following is a detailed discussion of our consolidated financial condition as of December 31, 2008 and 2007 and the results of operations for fiscal years ended December 31, 2008, 2007 and 2006, which should be read in conjunction with, and is qualified in its entirety by, the Consolidated Financial Statements and notes thereto included elsewhere in this report. The Consolidated Financial Statements (see Part II - Item 8. FINANCIAL STATEMENTS) represent annual results for NutraCea.

Year Ended DECEMBER 31, 2008 Compared to Year Ended DECEMBER 31, 2007

Total Revenue and Gross Profit

For the period ended December 31, 2008, total revenues were $35,224,000 compared to $12,726,000 in the comparable period. This represents an increase of $22,498,000 or 177%. The acquisition of Irgovel contributed revenues of $20,201,000. The NutraCea segment experienced an increase in total revenue of $2,297,000 or 18%. Included in the 2008 NutraCea segment results are sales returns of $667,000 due primarily to prior year sales to one customer in our private label product line. The increase in revenue in the NutraCea segment is primarily due to increased sales in our core SRB product lines and the recognition of RiceNShine revenue in 2008 associated with the bill and hold transaction originally recorded in 2007 (see Note 2 Audit Committee Review and Restatement of Consolidated Financial Statements to the Consolidated Financial Statements contained herein).

Royalty, label and licensing fees revenue for the period ended December 31, 2008 was $48,000 compared to $340,000 in the comparable period. The decrease of $292,000 is primarily the result of recognizing $300,000 from Herbal Science in the comparable period.

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In arriving at total revenues, gross revenues are reduced by provisions for estimates, including discounts, performance and promotions, price adjustments and returns.

Cost of goods sold for the period ended December 31, 2008 was $30,416,000 as compared to $8,883,000 for the period ended December 31, 2007. This represents an increase of $21,533,000 or 242%. The acquisition of Irgovel contributed costs of goods sold of $15,783,000. Our NutraCea segment experienced an increase of $5,750,000 or 65% primarily due to historically high raw bran prices, higher energy and transportation costs, continued investment in production capacity, low capacity utilization rates, charges related to slow moving product, and the phasing out of the high margin infomercial product line. During the year 2008 our NutraCea segment operated at 30% of capacity. Our Mermentau plant was idle May through July due to the rice mill that supplies the plant not milling rice because of business conditions at their mill not related to our operations. Our Lake Charles plant began operations in May 2008; however, full production levels have not been reached. Additionally, hurricane weather disrupted normal operations at all three of our gulf cost facilities, Lake Charles, Mermentau, and Freeport. Based on the level of demand for SRB and our ability to meet that demand with our production facilities in California, the Company permanently closed its Freeport facility in May 2009 and temporarily idled the Mermentau and Lake Charles facilities in May 2009.

Gross profit for the period ended December 31, 2008 was $4,808,000 as compared to $3,843,000 for the period ended December 31, 2007. The acquisition of Irgovel contributed $4,418,000 to gross profit. The NutraCea segment experienced a decrease of $3,453,000 primarily due to historically high raw bran prices, higher energy and transportation costs, continued investment in production capacity, low capacity utilization rates, charges related to slow moving product, and the phasing out of the high margin infomercial product line. While we were not able to pass through 100% of the raw material price increases, we successfully implemented some pricing increases in the fourth quarter and continue to evaluate our pricing strategy, cost structure, and underperforming production assets on a go-forward basis. Gross margins were 14% for the period ended December 31, 2008 as compared to 30% for the comparable period ended December 31, 2007.

The following table illustrates the gross profit contribution by each of our segments for the years ended December 31:

	December 31, 2008						December 31, 2007		Increase/ (Decrease)
	Consolidated	%	NutraCea	%	Irgovel	%	NutraCea	%	
Net product sales	$35,176,000		$14,975,000		$20,201,000		$12,386,000		$22,790,000
Royalty and licensing	48,000		48,000		-		340,000		(292,000)
Total revenues	$35,224,000	100	$15,023,000	100	$20,201,000	100	$12,726,000	100	$22,498,000
Cost of sales	30,416,000	86	14,633,000	97	15,783,000	78	8,883,000	70	21,533,000
Gross profit	$4,808,000	14	$390,000	3	$4,418,000	22	$3,843,000	30	$965,000

Operating expenses

Sales, General and Administrative (SG&A) expenses were $23,785,000 and $18,258,000 in 2008 and 2007, respectively. The acquisition of Irgovel added $3,746,000 of incremental SG&A. Excluding this amount, the NutraCea segment SG&A expense increased by $1,781,000 or 10%. The majority of increase was due to expanded investment in personnel and production capacity. Depreciation and amortization increased $846,000 due to the completion of our Lake Charles facility and the leasehold improvements completed at our corporate office. Sales and Marketing expense decreased $1,385,000 due to exiting the infomercial sales channel and targeting marketing dollars more effectively. Stock Option and Warrant expense was $2,510,000 and $2,166,000 for the twelve months ended December 31, 2008 and 2007, respectively which represents stock options and warrants granted to individuals or companies for services rendered in lieu of cash (see Note 6 Stock-based Compensation to the Consolidated Financial Statements contained herein). Below is a breakdown of SG&A for the years ended December 31:

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	2008	2007	Increase (Decrease)
Payroll and Benefits	$ 8,049,000	$ 6,478,000	$ 1,571,000
Sales & Marketing	1,190,000	2,575,000	(1,385,000)
Operations	1,076,000	1,035,000	41,000
Depreciation and Amortization	2,030,000	1,184,000	846,000
Stock Option and Warrant Expense	2,510,000	2,166,000	344,000
Other SG&A	5,184,000	4,820,000	364,000
Total NutraCea Segment SG&A	20,039,000	18,258,000	1,781,000
Irgovel SG&A	3,746,000	-	3,746,000
Total Consolidated SG&A	$ 23,785,000	$ 18,258,000	$ 5,527,000

Research and Development (R&D) expenses were $1,509,000 and $769,000 in 2008 and 2007, respectively. The increase was attributed to higher product development costs and employee related expenses due to increased R&D activities and expanded scientific staff compared to the same period last year. Additionally, we paid $400,000 to Herbal Science for on-going research programs to commercialize SRB isolates. The Company expects to continue research and development expenditures to establish the scientific basis for health claims of existing products and to develop new products and applications.

Bad debt expense was $2,222,000 for the twelve months ended December 31, 2008, an increase of $1,968,000 over 2007. A significant portion of bad debt expense in 2008, $2,198,000, was related to VLI (see Note 11 Notes Receivable to the Consolidated Financial Statements) and customers we no longer do business with or product lines we no longer sell. We expect to experience more normalized bad debt expense going forward.

Professional fees were $4,922,000 and $3,848,000 for the twelve months ended December 31, 2008 and 2007, respectively. Professional fees are expenses associated with consultants, accounting, SOX 404 compliance, and outside legal counsel. The increase of $1,074,000 or 28% was mainly due to the settlement agreement with Halpern (see note 18 Commitments and Contingencies to the Consolidated Financial Statements included herein).

Impairment of goodwill was $33,231,000 and $1,300,000 in the twelve months ended December 31, 2008 and 2007, respectively (see Note 26 Impairment of Goodwill to the Consolidated Financial Statements included herein). Impairment of our investment in PIN was $3,996,000 in 2008 (see Note 12 Acquisition and Joint Ventures to the Consolidated Financial Statements) and our gain on deconsolidation of VLI was $1,199,000 (see Note 12 Acquisition and Joint Ventures to the Consolidated Financial Statements contained herein).

Other income (expense)

Total other income (expense) decreased by $4,560,000 to ($930,000) for the year ended December 31, 2008 as compared to $3,630,000 for the year ended December 31, 2007. Below is the detail by each of our segments for the years ended December 31:

	2008			2007	Increase (Decrease)
	Consolidated	NutraCea	Irgovel	NutraCea	
Interest income	$850,000	$716,000	$134,000	$3,200,000	$(2,350,000)
Interest expense	(728,000)	(315,000)	(413,000)	(1,000)	(727,000)
Gain on settlement	47,000	47,000	-	1,250,000	(1,203,000)
Loss on equity investments	(240,000)	(240,000)	-	(309,000)	69,000

Loss, net of gains, on retirement of assets	(399,000)	(399,000)	-	(347,000)	(52,000)
Other income (expense)	(460,000)	(297,000)	(163,000)		(460,000)
Loss on sale of marketable securities	-	-	-	(163,000)	163,000
Total other (expenses) income	$(930,000)	$(488,000)	$(442,000)	$3,630,000	$(4,560,000)

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Interest income decreased $2,350,000 due to lower cash balances available for investment in 2008.

Interest expense was $728,000 and $1,000 for the year ended December 31, 2008 and 2007, respectively. The increase of $727,000 is primarily due to increased debt levels. The most significant items were the issuance of Series D Preferred Stock in October 2008 and the establishment of a new credit facility with Wells Fargo (see Liquidity and Capital Resources for further discussion).

Gain on settlement decreased $1,203,000 as a result of the settlement in 2007 of a lawsuit related to our investment in Langley Park (see Note 5 Marketable Securities of the Consolidated Financial Statements).

Income taxes

Income tax expense for the year ended December 31, 2008 increased $44,000 to $64,000 from $20,000 for the prior year due to a payment of Brazil and state of California corporate income taxes.

As of December 31, 2008 the Company recorded a deferred tax liability of $4,187,000. Deferred taxes arise from temporary differences in the recognition of certain expenses for tax and financial reporting purposes. At December 31, 2008 and 2007, 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, 2008, net operating loss carry-forwards were approximately $81,831,000 for federal tax purposes that expire at various dates from 2011 through 2022 and $59,445,000 for state tax purposes that expire in 2010 through 2017.

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 next operating loss carry-forwards before utilization.

YEAR ENDED DECEMBER 31, 2007 AND DECEMBER 31, 2006

Total Revenue and Gross Profit

Consolidated revenues for the year ended December 31, 2007 were $12,726,000, a decrease of $3,813,000, or 23%, from consolidated revenues of $16,539,000 in 2006. The decreased revenue was a result of an $8,061,000 decrease in the infomercial products line partially offset by an increase of $601,000 due to the consolidation of VLI, and $2,122,000 in revenue growth in our core SRB related products.

Cost of goods sold for the period ended December 31, 2007 was $8,883,000 as compared to $8,862,000 for the period ended December 31, 2006. This represents an increase of $21,000. 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 profit decreased $3,834,000 to $3,843,000 in 2007, from $7,677,000 in 2006 due primarily to the decrease in revenue in our high margin infomercial products line. Gross margins were 30% for the period ended December 31, 2007 as compared to 46% for the comparable period ended December 31, 2006. The following table illustrates the gross profit contribution for the years ended December 31:

	December 31, 2007 NutraCea	%	December 31, 2006 NutraCea	%	Increase/ (Decrease)
Net product sales	$ 12,386,000		$ 15,554,000		$ (3,168,000)

Royalty and licensing		340,000			985,000			(645,000)
Total revenues		12,726,000	100		16,539,000	100		(3,813,000)
Cost of sales		8,883,000	69.8		8,862,000	53.6		21,000
Gross profit	$	3,843,000	30.2	$	7,677,000	46.4	$	(3,834,000)

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Operating expenses

Sales, General and Administrative (SG&A) expenses were $18,258,000 and $6,657,000 for the twelve months ended December 31, 2007 and 2006, respectively. The increase of $11,601,000 was primarily due to expanded investment in personnel, infrastructure, and sales and marketing activities to meet anticipated future demands (with certain exceptions as noted below). Stock Option and Warrant expense was $2,166,000 and $1,091,000 for the twelve months ended December 31, 2007 and 2006, respectively which represents stock options and warrants granted to individuals or companies for services rendered in lieu of cash (see Note 6 Stock-based Compensation to the Consolidated Financial Statements contained herein). Included in our 2007 SG&A expense is $884,000 due to the inclusion in our results of operations the results of VLI for the period of April 20, 2007 through December 31, 2007 (see Note 12 Acquisition and Joint Ventures to the Consolidated Financial Statements included herein). Below is a breakdown of SG&A for the years ended December 31:

	2007	2006	Increase (Decrease)
Payroll and Benefits	$ 6,478,000	$ 2,328,000	$ 4,150,000
Sales & Marketing	2,575,000	622,000	1,953,000
Operations	1,035,000	321,000	714,000
Depreciation and Amortization	1,184,000	608,000	576,000
Stock Option and Warrant Expense	2,166,000	1,091,000	1,075,000
Other SG&A	4,820,000	1,687,000	3,133,000
Total Consolidated SG&A	$ 18,258,000	$ 6,657,000	$ 11,601,000

Research and Development (R&D) expenses increased $392,000 in 2007 to $769,000 from $377,000 in 2006, due to on-going product development activities and an increase in R&D staff.

Professional fees increased $2,983,000 from $865,000 in 2006 to $3,848,000 in 2007. The increase in professional fees is primarily due to the Grain Enhancements, LLC joint venture development, the consolidation of VLI in 2007, and increased accounting and SOX 404 compliance. We incurred $750,000 associated with developing our joint venture with Grain Enhancements (see Note 12 Acquisition and Joint Ventures to the Consolidated Financial Statements). Included in professional fees for 2007 is $624,000 due to the inclusion of the results of VLI for the period of April 20, 2007 through December 31, 2007 (see Note 12 Acquisition and Joint Ventures to the Consolidated Financial Statements included herein).

Other income (expense)

Total other income (expense) increased by $3,092,000 to $3,630,000 for the year ended December 31, 2007 as compared to $538,000 for the year ended December 31, 2006.

	December 31, 2007 NutraCea	December 31, 2006 NutraCea	Increase (Decrease)
Interest income	$3,200,000	$545,000	$2,655,000
Interest expense	(1,000)	(7,000)	6,000
Gain on settlement	1,250,000	-	1,250,000
Loss on equity method investments	(309,000)	-	(309,000)
Loss, net of gains, on retirement of assets	(347,000)	-	(347,000)

Loss on sale of marketable securities	(163,000)	-	(163,000)
Total other (expenses) income	$3,630,000	$538,000	$3,092,000

Interest income increased $2,655,000 to $3,200,000 from $545,000 due to the higher cash balances available for investment.

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Gain on a settlement increased $1,250,000 due to the settlement of a lawsuit in relation to the investment in Langley Park (see Note 5 Marketable Securities to the Consolidated Financial Statements contained herein).

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 $55,957,000 for federal tax purposes that expire at various dates from 2011 through 2021 and $33,596,000 for state tax purposes that expire in 2010 through 2016.

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.

LIQUIDITY AND CAPITAL RESOURCES

Our cash and cash equivalents were $4,867,000 and $41,198,000 at December 31, 2008 and 2007, respectively.

At December 31, 2008, we had $5,197,000 of restricted cash; $2,353,000 and $2,844,000 classified as current and non-current assets respectively (see Note 16 Restricted Cash to the Consolidated Financial Statements included herein). The restricted cash amount includes a balance of approximately $1,792,000 which is restricted by contract as security on our corporate office lease in Phoenix. The amount of restricted cash required under the office lease decreases annually over the period of five years per the terms of the lease agreement. The lease expires in 2016. The restricted cash amount also includes a balance of $1,500,000 associated with our credit and security agreement with Wells Fargo. Under the terms of the agreement, the Company is required to maintain the restricted cash balance unless it meets certain levels of debt service coverage ratios and is not in default of the agreement. The remaining amount of approximately $1,905,000 represents restricted cash to cover certain acquired litigation matters under the purchase agreement terms of the acquisition of Irgovel.

Cash used in operating activities was $16,560,000 for the year ended December 31, 2008, compared to net cash used in operations in the same period of 2007 of $6,799,000, an increase of $9,761,000. This increase in cash used by operations resulted primarily from our $64,572,000 net loss, offset by non-cash charges of: $5,962,000 for depreciation and amortization, the impairment of goodwill of $33,231,000, the impairment of Senior Notes and Preferred Stock of $1,600,000, the impairment of PIN of $3,996,000, stock-based compensation of $2,510,000, and a gain on deconsolidation of $2,799,000.

The changes in our operating assets and liabilities and the associated impacts on our net cash used in operations during the period ended December 31, 2008 as compared to the changes during the year ended December 31, 2007 are primarily due to the increase in accounts payable and accrued liabilities of $3,607,000, an increase in inventories of $1,494,000, an increase in deferred tax liability of $1,264,000, and a decrease in deferred revenue of $1,874,000.

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Cash used in investing activities was $48,339,000 and $22,915,000 for the years ended December 31, 2008 and 2007, respectively. This increase of $25,424,000 primarily was due to our current plant expansion projects and our investments in subsidiaries. We invested $26,446,000 in the purchase of property, plant and equipment at several locations including our Lake Charles, Louisiana and Phoenix, Arizona facilities, which was an increase of $14,140,000 over the year ended December 31, 2007. Additionally, we invested $15,014,000 (net of cash acquired) in the acquisition of Irgovel and invested $5,812,000 in PIN and Rice RX. The following table lists the amounts invested in subsidiaries and joint ventures during the twelve months ended:

	2008	2007	Increase (Decrease)
Investment in Grainnovation, Inc.	$-	$2,169,000	$(2,169,000)
Investment in Vital Living, Inc.	(3,852,000)	5,143,000	(8,995,000)
Investment in Grain Enhancements, LLC	-	1,500,000	(1,500,000)
Investment in Irgovel, net of cash required	15,014,000	-	15,014,000
Investment in PIN and Rice Rx	5,812,000	-	5,812,000
Total investment in subsidiaries	$16,974,000	$8,812,000	$8,162,000

Cash provided from financing activities was $30,066,000 and $56,045,000 for the years ended December 31, 2008 and 2007, respectively. In 2008, we raised $18,775,000 (net of expenses) through a registered offering of common stock and warrants and $4,945,000 through the registered offering of Series D Preferred Stock and warrants. We also established a credit facility with Wells Fargo. As of December 31, 2008 the total balance outstanding on the credit facility was $5,000,000 of which $1,500,000 is held as restricted cash. In 2007, the Company sold common stock in connection with a private placement in which we raised a total of $46,805,000 (net of expenses). A further description of these transactions is included below.

Our working capital position was ($4,798,000) and $43,358,000 as of December 31, 2008 and 2007, respectively.

The Company has experienced recurring losses and negative cash flows from operations. Due to defaults under its credit agreement with Wells Fargo, the Company's credit lines were reduced to approximately $3,500,000, which was the level of the current outstanding loans and obligations at that time. NutraCea entered into a forbearance agreement with Wells Fargo pursuant to which Wells Fargo agreed to forebear from exercising its rights and remedies with respect to the existing defaults. The Company has determined it is probable that we will not be in compliance with the terms of the Forbearance agreement as of October 31, 2009, and therefore the entire loan balance has been classified as a current liability.

NutraCea is behind on its payments to vendors and has defaulted on several agreements due to non-payment. Expenses have been reduced where possible. In the past the Company has turned to the equity markets for additional liquidity. This is not a likely source of funds at this time due to the Company's financial position and the state of the equity markets.

The Company's management intends to provide the necessary cash to continue operations through the monetization of certain assets and the growth of revenues. The monetization of assets is expected to include some or all of the following:

- sale or a sale/ lease back of certain of the Company's facilities;
- sale of a minority interest in one or more of the Company's subsidiaries;
- sale of certain trademarks to strategic buyers that could become long-term buyers of bulk SRB; or
- sale of surplus equipment.

The growth of revenues is expected to include the following:

- licensing of the Company’s intellectual properties;
- growing sales in existing markets, including bulk SRB, rice bran oil and baby cereal; and
- aligning with strategic partners who can provide channels for additional sales of our products.

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We have already taken steps to pursue several of these potential sources of cash. Successful monetization of one or more of the assets identified above could yield sufficient cash to enable the Company to remain a going concern. Some of these sales could result in non-cash write downs of asset values. These potential write downs have not been recorded in the accompanying financial statements. Although management believes that they will be able to obtain the funds necessary for us to continue as a going concern there can be no assurances that the means for maintaining this objective will prove successful.

Our ability to meet long term business objectives likely will be dependent upon our ability to raise additional financing through public or private equity financings, establish increasing cash flow from operations, enter into collaborative or other arrangements with corporate sources, or secure other sources of financing to fund long-term operations. There is no assurance that external funds will be available on terms acceptable to us in sufficient amount to finance operations until we do reach sufficient positive cash flow 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 that will strain our 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, eliminate or restructure portions of our operations, restructure existing operations to attempt to ensure future viability, or pursue other alternatives such as filing for bankruptcy, pursuing dissolution and liquidation or seeking to merge with another company or sell all or substantially all of our assets. In addition, potential debt or equity funders may require that we initiate bankruptcy proceedings before providing us with additional debt or equity funding.

Equity financing

Issuance of preferred stock

During October 2008, we issued in a registered offering to two institutional investors, for the purchase price of $5,000,000, shares of our Series D Convertible Preferred Stock ("Preferred Stock") and five-year warrants to purchase approximately 4,545,000 shares of our Common Stock. The securities were offered in "units" at a price of $1,000 per unit. The units immediately separated upon issuance. Each unit consisted of one share of Preferred Stock convertible into approximately 1,818 shares of Common Stock at an initial conversion price per share of Common Stock of $0.55, and a warrant to purchase 909 shares of our Common Stock at an exercise price of $0.55 per share. The investors also received additional warrants that grant them the right, for a period of 60 days after the initial issuance, to purchase an additional $5,000,000 of Preferred Stock and associated warrants on the same terms as the initial issuance. The investors did not exercise this right and it expired. For the sale of 5,000 units we received an aggregate of $4,500,000 net of fees and expenses.

The Preferred Stock is considered to be a financial instrument that is a mandatorily redeemable security under SFAS No. 150, Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity, and as such, should be measured at fair value and classified, recorded, and presented as a liability in the financial statements. Additionally, SFAS No. 155, Accounting for Certain Hybrid Financial Instruments allows for hybrid financial instruments meeting certain criteria to be recorded at fair value and the return paid to the holders as interest expense rather than dividends. Holders of the preferred stock shall have no voting right except as required by applicable law and has a liquidation preference of $5,000,000. There is no established public trading market for the Preferred Stock.

The Preferred Stock accrues preferred dividends, classified as interest under SFAS No. 150, at 8% per annum. These dividends are payable quarterly in arrears, commencing on January 1, 2009. Subject to the satisfaction of certain conditions, the dividends are payable in shares of NutraCea Common Stock, valuing the shares at a 10% discount to the trailing 30-day volume weighted average stock price, but may be paid in cash at NutraCea's election. On December 31, 2008, we paid the investors in cash, the preferred dividends for the period October 17 to December 31, 2008, in the amount of $82,417.

Under the terms of the Preferred Stock, NutraCea was required to redeem all of the Preferred Stock (unless converted) in 9 equal monthly installments commencing on February 1, 2009. The redemption amount is payable in shares of NutraCea Common Stock, but may be paid in cash at NutraCea's election. Subject to certain limitations, we may redeem the Preferred Stock at any time upon 10 days notice at a price equal to 110% of the aggregate stated value of the Preferred Stock being redeemed plus accrued and unpaid dividends thereon.

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In December 2008 one investor converted 55 shares of the Preferred Stock into 100,111 shares of our common stock in accordance with the terms of the Preferred Stock. At December 31, 2008 there were 4,945 shares of the Preferred Stock outstanding.

On January 30, 2009, we paid the accrued dividends in cash. In the period February through April, we paid the redemption price for the redeemed Preferred Stock and the accrued dividends thereon in shares of our common stock.

On May 7, 2009, NutraCea entered into and consummated two Exchange Agreements with the holders of its Preferred Stock. The agreements provided for the cancellation of all of the 2,743 then outstanding shares of its Preferred Stock and outstanding warrants to purchase a total of 4,545,455 shares of its common stock held by these holders ("Prior Warrants"), in exchange for 2,743 shares of its Series E Convertible Preferred Stock ("Series E Preferred Stock") and new warrants to purchase 4,545,455 shares of its common stock ("New Warrants"). The terms of the New Warrants are substantially similar to the terms of the Prior Warrants, except that the per share exercise price of the New Warrants was $0.30 and the termination date of the New Warrants is May 7, 2014. The per share exercise price of the New Warrants was reduced to $0.20 on July 7, 2009 and the share amounts were increased to 6,818,183 pursuant to their anti-dilution provisions when we issued an option to purchase 5,000,000 shares of common stock to our President. The terms of the Series E Preferred Stock is substantially similar to the terms of the Series D Preferred Stock, except that it required redemption and payment of accrued dividends in three equal monthly installments on June 1, 2009, July 1, 2009 and August 1, 2009 and provided for a dividend to accrue at an annual rate of 7%. We redeemed the Series E Preferred Stock and paid the accrued dividends thereon in June, July and August 2009. As of August 28, 2009, we redeemed all outstanding Series E Preferred Stock and paid all dividends accrued thereon with payments of our common stock.

Cash raised in equity financing

In April 2008 we issued in a registered offering, common stock and warrants for aggregate gross proceeds of approximately $20,000,000 ($18,775,000 after offering expenses). We issued an aggregate of 22,222,223 shares of our common stock and warrants to purchase an aggregate of 6,666,664 shares of our common stock combined in "units" at a price of $0.90 per unit. Each unit consists of one share of our common stock and a five year warrant to purchase 0.30 of a share of NutraCea common stock at an exercise price of $1.20 per share. The exercise price of the warrants is each subject to anti-dilution adjustments upon certain stock issuances at a price per share less than the exercise price. An advisor for the financing received a customary 6.0% cash fee, based upon the aggregate gross proceeds received from the investors, reasonable expenses and a warrant to purchase 1,333,333 shares of our common stock at an exercise price of $1.20. Using the Black-Scholes-Merton method, the fair value of these warrants to purchase 7,999,997 shares of common stock is approximately $3,102,000. If exercised, we would receive approximately $9,600,000.

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 upon the 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. In addition, the exercise price of the warrants is each subject to anti-dilution adjustments upon certain stock issuances at a price less than the exercise price.

Other financing

In December 2008 we entered into a Credit and Security Agreement ("Credit Agreement") with Wells Fargo Bank, NA ("Wells Fargo"). The Credit Agreement consists of three separate credit facilities as follows:

1. A revolving line of credit of $2,500,000 for working capital which bears interest at prime plus 2.5% which matures on November 30, 2011. At December 31, 2008 the balance due on this credit line was $0.
2. A real estate term loan of $5,000,000 for general business purposes secured by our Phoenix, Arizona manufacturing building which bears interest at prime plus 3.0% and matures December 31, 2018. At December 31, 2008 the balance due on this loan was $5,000,000 of which $1,500,000 is held as restricted cash.
3. A term loan of $2,500,000 for general business purposes which bears interest at prime plus 3.0% which matures on November 30, 2011. We may draw on this loan on or before June 30, 2010 on the condition that NutraCea has positive cash flow for three consecutive quarters and is current with its trade vendors. At December 31, 2008 the balance due on this loan was $0.

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The above credit facilities are secured by the Phoenix, Arizona manufacturing building and all personal property of NutraCea other than NutraCea's intellectual property. NutraCea may terminate any of the above facilities at any time upon 90 days notice, subject to payment of fees and repayment of the outstanding credits. NutraCea may terminate the above facilities at any time with less than 90 days notice, subject to a payment of a penalty, payment of fees and repayment of the outstanding credits. Wells Fargo may terminate the facilities at any time upon an event of default as defined in the agreement. In the event of a default the interest rate will increase to 3.0% above the applicable interest rate for each facility.

On July 31, 2009, NutraCea and NutraPhoenix, LLC, a wholly-owned subsidiary of NutraCea, entered into a Forbearance Agreement and Amendment ("Forbearance Agreement") to the Credit Agreement with Wells Fargo. The Forbearance Agreement relates to the credit facilities under the Credit Agreement.

The Forbearance Agreement identifies certain existing defaults under the Credit Agreement and provides that Wells Fargo will forbear from exercising its rights and remedies under the Credit Agreement on the terms and conditions set forth in the Forbearance Agreement, until the earlier of January 31, 2010 or until the date that any new default occurs under the Credit Agreement. In addition, by October 31, 2009, NutraCea must obtain financing of at least $1,250,000 in the form of equity or subordinated debt to be used as working capital.

The Forbearance Agreement increased the interest rates applicable to each credit facility to the default rates under the Credit Agreement, which is 3.0% above the applicable interest rate for each credit facility. In addition, the Forbearance Agreement amended the Credit Agreement by (i) decreasing the maximum amount which could be advanced under the line of credit to $1,500,000 from $2,500,000, (ii) terminating the term loan, and (iii) and terminating any obligations Wells Fargo has to make any further advances to NutraCea in connection with the real estate loan. Pursuant to the Forbearance Agreement, NutraCea also granted to Wells Fargo a first priority lien on certain real property located in Dillon, Montana.

The Company has determined it is probable that we will not be in compliance with the terms of the forbearance agreement as of October 31, 2009, and therefore the entire loan balance has been classified as a current liability.

Purchase commitments:

On March 9, 2007, NutraCea entered into an exclusive equipment purchase and supply agreement with Insta-Pro International ("Insta-Pro") to purchase custom extruders over a period of 5 years. The agreement required NutraCea to maintain a deposit of $200,000 and pay exclusivity fees of $200,000 if it fails to order and take delivery of 10 extruders during the current 12 month period of the term. On April 7, 2009 NutraCea and Insta-Pro terminated this agreement. Under the termination and settlement agreement NutraCea agreed to terminate its exclusive right to purchase the Insta-Pro extruders and forfeited its interest in the $200,000 deposit.

Long-term financing needs

On June 25, 2008 we signed an agreement to form a joint venture NutraCea Offshore Ltd., with Bright Holdings (Hong Kong) Company, Ltd. ("Bright"), to develop, construct, and operate facilities in China to produce, market, distribute and sell rice oil, defatted rice bran and other products derived from rice bran to meet the growing demands of consumers inside China as well as beyond its borders. NutraCea will have an approximate 72% interest in the joint venture, but will designate 80% of the board members and contribute 80% of the capital investment. NutraCea and Bright's capital contributions to the joint venture are to total approximately $64,000,000, of which NutraCea will be required to contribute approximately $51,200,000.

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We plan to meet these funding needs by raising additional capital through sales of equity or debt or a combination thereof. There can be no assurance, however, that such funding would be available on favorable terms or any terms.

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 AND KNOWN FUTURE CASH REQUIREMENTS

As part of the normal course of business, the Company incurs certain contractual obligations and commitments which will require future cash payments. Set forth below is information concerning our known contractual obligations as of December 31, 2008 that are fixed and determinable:

	Payments Due by Period						
	Total	2009	2010	2011	2012	2013	5 years and more
				($ in thousands)			
Long-term debt							
Mortgage Loans (1)	$5,000	$5,000,000	$-	$-	$-	$-	$-
Operating leases (2)	13,555	1,766	1,776	1,721	1,611	1,649	5,033
Other							
Purchase obligations (3)	6,661	1,651	1,197	1,192	526	399	1,697
Interest Payments on Long-Term Debt. (4)	1,810	375	371	278	208	176	403
Total contractual obligations (5)	$27,026	$4,292	$3,844	$3,691	$2,845	$2,724	$9,633

(1) Includes mortgage on Phoenix, AZ property.

(2) The Company has obligations under long-term non-cancelable operating leases, primarily for office rental and site leases, also for office equipment and two cars in Brazil.

(3) Amounts relate to other contractual obligations where the Company has an enforceable and legally binding agreement to purchase goods or services that specifies all significant terms, including: quantity, pricing and timing.

(4) Interest payments are estimated based on final maturity dates of debt securities outstanding at December 31, 2008 and do not reflect anticipated future refinancing, early redemptions or new debt issues. Variable rate interest obligations are estimated based on rates as of December 31, 2008.

(5) These amounts do not include current liabilities, derivative instruments (Preferred Stock and Warrants), and incentive compensation because the company is not able to reasonably estimate the timing or amount of the future payments. In addition, the amounts do not include liabilities such as employee benefit plans and income taxes.

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In December 2008 we entered into the Credit Agreement with Wells Fargo. The Credit Agreement consists of three separate credit facilities as follows:

1. A revolving line of credit of $2,500,000 for working capital which bears interest at prime plus 2.5% which matures on November 30, 2011. At December 31, 2008 the balance due on this credit line was $0.

2. A real estate term loan of $5,000,000 for general business purposes secured by our Phoenix, Arizona manufacturing building which bears interest at prime plus 3.0% and matures December 31, 2018. At December 31, 2008 the balance due on this loan was $5,000,000 of which $1,500,000 is held as restricted cash.

3. A term loan of $2,500,000 for general business purposes which bears interest at prime plus 3.0% which matures on November 30, 2011. We may draw on this loan on or before June 30, 2010 on the condition that NutraCea has positive cash flow for three consecutive quarters and is current with its trade vendors. At December 31, 2008 the balance due on this loan was $0.

The above credit facilities are secured by the Phoenix, Arizona manufacturing building and all personal property of NutraCea other than NutraCea's intellectual property. NutraCea may terminate any of the above facilities at any time upon 90 days notice, subject to payment of fees and repayment of the outstanding credits. NutraCea may terminate the above facilities at any time with less than 90 days notice, subject to a payment of a penalty, payment of fees and repayment of the outstanding credits. Wells Fargo may terminate the facilities at any time upon an event of default as defined in the agreement. In the event of a default the interest rate will increase to 3.0% above the applicable interest rate for each facility.

On July 31, 2009, NutraCea and NutraPhoenix, LLC, entered into a Forbearance Agreement to the Credit Agreement with Wells Fargo. The Forbearance Agreement relates to the credit facilities under the Credit Agreement.

The Forbearance Agreement identifies certain existing defaults under the Credit Agreement and provides that Wells Fargo will forbear from exercising its rights and remedies under the Credit Agreement on the terms and conditions set forth in the Forbearance Agreement, until the earlier of January 31, 2010 or until the date that any new default occurs under the Credit Agreement. In addition, by October 31, 2009, NutraCea is required to obtain financing of at least $1,250,000 in the form of equity or subordinated debt to be used as working capital. If we are not able to satisfy this condition or are otherwise in default under the terms of the Forbearance Agreement, Wells Fargo could condition any further forbearances or providing or consenting to any additional funding on our first taking certain actions, which could include initiating bankruptcy proceedings.

The Forbearance Agreement increased the interest rates applicable to each credit facility to the default rates under the Credit Agreement, which is 3.0% above the applicable interest rate for each credit facility. In addition, the Forbearance Agreement amended the Credit Agreement by (i) decreasing the maximum amount which could be advanced under the line of credit to $1,500,000 from $2,500,000, (ii) terminating the term loan, and (iii) and terminating any obligations Wells Fargo has to make any further advances to NutraCea in connection with the real estate loan. Pursuant to the Forbearance Agreement, NutraCea also granted to Wells Fargo a first priority lien on certain real property located in Dillon, Montana.

In October 2007, we executed a promissory note with the lessor of our new West Sacramento warehouse for $105,000 at 8% due over four years with payments of $2,572 per month for the build-out of tenant improvements. At December 31, 2008 the current portion of this note was approximately $23,000 and the remaining long-term portion was approximately $52,000.

In December 2008 we entered into a purchase agreement to acquire a customer list ("Customer List Purchase Agreement") for $3,100,000. The Company paid $1,000,000 at the time of purchase and the remaining principal amount of $2,100,000 accrued interest at a rate of 8% per annum and was due in twelve quarterly payments of $175,000 beginning March 1, 2009. The principal balance due as of December 31, 2008 was $1,861,000.

On May 14, 2009 we amended the Customer List Purchase Agreement due to NutraCea's failure to comply with the payment terms of the original agreement. The Customer List Purchase Agreement was amended to allow NutraCea to continue to take orders from the customers on the list. The payment schedule was amended to require the Company to pay $90,000 by June 1, 2009 and to have all cash receipts from customers on the list be deposited into a bank account controlled by the seller of the list. Any profits (amount in excess of the cost of goods sold) generated from the cash receipts will be applied to the outstanding principal amount. The quarterly minimum amount required under this amendment is $90,000 beginning June 1, 2009. The Company is required to fund any shortfall to the minimum quarterly amount. The Company has made all payments required under the amended agreement.

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Our Irgovel subsidiary has notes payable for Brazilian federal and social security taxes under a Brazilian government program, for equipment purchases, and working capital. These notes are payable over periods through July 2018 and bear interest at rate from 6.0% to 21.4%.

CRITICAL ACCOUNTING POLICIES

A summary of our significant accounting policies is included in Note 3 of 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, inventories, and long lived assets, intangible assets, and goodwill.

Revenue Recognition

The Company recognizes revenue for product sales when title and risk of loss pass to its customers and when provisions for estimates, including discounts, and price adjustments are reasonably determinable. Provisions for routine sales discounts, volume allowances, and adjustments are made in the same period the sales are recorded. No revisions were made to the methodology used in determining these provisions during the calendar year ended December 31, 2008. Deposits are deferred until either the product has been shipped or conditions relating to the sale have been substantially performed.

There are no refund rights on sales and we determine that collectability of the sale amount is reasonably assured. Occasionally, we will grant exclusive use of our labels by customers in specific territories in exchange for a nonrefundable fee. Under EITF 00-21, “Revenue Recognition with Multiple Deliverables”, each label licensing provision is considered to be a separate unit of accounting. Each agreement is individually evaluated to determine appropriate revenue recognition in accordance with Staff Accounting Bulletin No. 104, “Revenue Recognition” (“SAB 104”). If all of the following four SAB 104 basic criteria are met, revenue will be recognized: (1) persuasive evidence of an arrangement exists; (2) delivery has occurred; (3) the selling price is fixed and determinable; and (4) collectability is reasonably assured. If any of the above criteria cannot be satisfied then such a transaction is not recorded as revenue, or is recorded as deferred revenue and recognized only when the sales cycle is complete and payment is either received or becomes reasonably assured. Changes in judgments and estimates regarding the application of SAB 104 might result in a change in the timing or amount of revenue recognized by such transactions.

Allowance for Doubtful Accounts

The allowance for doubtful accounts is based on our assessment of the collectability of specific customer accounts and the aging of accounts receivable and notes receivable. We analyze historical bad debts, the aging of customer accounts, customer concentrations, customer credit-worthiness, current economic trends and changes in our customer payment patterns when evaluating the adequacy of the allowance for doubtful accounts. From period to period, differences in judgments or estimates utilized may result in material differences in the amount and timing of our bad debt expenses.

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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. As of December 31, 2008 and 2007, the Company recorded actual bad debt expense of $2,222,000 and $254,000 respectively, while the allowance for doubtful accounts was $365,000 and $20,000 respectively. We continue to evaluate our credit policy to ensure that the customers are worthy of terms and will support our business plans.

Inventories

Inventories are stated at the lower of cost or market, with cost determined by the first-in, first-out method. Provisions for potentially obsolete or slow-moving inventory are made based on our analysis of inventory levels, historical obsolescence and future sales forecasts.

Long-Lived Assets, Intangible Assets and Goodwill

Long-lived assets, consisting primarily of property and equipment, patents and trademarks, and goodwill, comprise a significant portion of our total assets. Property, plant and equipment are stated at cost less accumulated depreciation. Intangible asset are stated at cost less accumulated amortization.

The carrying values of long-lived assets, which include property, plant and equipment and intangible assets with finite lives, are evaluated periodically in relation to the expected future cash flows of the underlying assets and monitored for other potential triggering events. Adjustments are made in the event that estimated undiscounted net cash flows are less than the carrying value. The cash flow projections are based on historical experience, management’s view of growth rates within the industry, and the anticipated future economic environment.

Goodwill is tested for impairment at least annually or when events or other changes in circumstances indicate that the carrying amount of the assets may not be recoverable based on management’s assessment of the fair value of the Company’s identified reporting units as compared to their related carrying value. If the fair value of a reporting unit is less than its carrying value, additional steps, including an allocation of the estimated fair value to the assets and liabilities of the reporting unit, would be necessary to determine the amount, if any, of goodwill impairment.

Our impairment analysis requires management to make assumptions and to apply judgment to estimate future cash flows and asset fair values, including estimating the profitability of future business strategies.

Item 7A. 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, 2008 our NutraCea segment had notes payable of $6,939,000 outstanding bearing interest of 8% payable over 4 years and our Irgovel segment had notes payable of $3,939,000 outstanding bearing interest from 2.8% to 21.4% payable over 2.3 to 9.5 years (see Note 15 Notes Payable and Long-term Debt to the Consolidated Financial Statements included herein). Future borrowings, if any, would bear interest at negotiated rates and would be subject to interest rate risk. We do not believe that a hypothetical adverse change of 10% in interest rates would have a material effect on our financial position.

Item 8. Financial Statements and Supplementary Data.

Index to Consolidated Financial Statements

- Report of Perry-Smith LLP, Independent Registered Public Accounting Firm
- Consolidated Balance Sheets as of December 31, 2008 and 2007
- Consolidated Statements of Operations for the three years ended December 31, 2008
- Consolidated Statement of Comprehensive Income (Loss) for the three years ended December 31, 2008
- Consolidated Statement of Changes in Shareholder’s Equity for the three years ended December 31, 2008

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- Consolidated Statements of Cash Flows for the three years ended December 31, 2008
- Notes to Consolidated Financial Statements

- The financial statements and financial information required by Item 8 are set forth below on pages F-1 through F-70 of this report.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

Not applicable.

Item 9A. Controls and Procedures

Audit Committee Investigation and Restatement of the Consolidated Financial Statements

Restatement

As discussed in the Explanatory Note to this Annual Report and Note 2 Audit Committee Review and Restatement of Consolidated Financial Statements of the audited financial statements contained herein, the Company's Consolidated Financial Statements for fiscal 2007 and 2006 and quarterly financial information for the first three quarterly periods in fiscal 2008 and all of fiscal 2007 included in Item 8, "Financial Statements and Supplementary Data," of this Annual Report have been restated to correct errors and irregularities of the type identified in the Audit Committee-led investigation and other accounting errors and irregularities identified by the Company in the course of the restatement process.

The Audit Committee concluded that the errors and irregularities were primarily the result of an ineffective control environment which, among other things, permitted the following to occur:

- recording of improper accounting entries; and
- withholding information from, and providing of improper explanations and supporting documentation to, the Company's Audit Committee and Board of Directors, as well as its independent registered public accountants.

Management, with the assistance of numerous experienced accounting consultants (other than its firm of independent registered public accountants) that the Company had retained near the onset of the investigation to assist the Chief Financial Officer with the restatement efforts, continued to review the Company's accounting practices and identified additional errors and irregularities, which have been corrected in this restatement and are included in the discussion under "Management's Report on Internal Control Over Financial Reporting" presented below.

Evaluation of Disclosure Controls and Procedures

An evaluation of the effectiveness of the design and operation of our "disclosure controls and procedures" (as such term is defined in Rule 13a-15(e)) under the Securities Exchange Act of 1934 ("Exchange Act") was performed as of December 31, 2008, under the supervision and with the participation of our current management, including our current Interim Chief Executive Officer and Principal Financial Officer. Our disclosure controls and procedures have been designed to ensure that information we are required to disclose in our reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified by the SEC's rules and forms and that such information is accumulated and communicated to our management, including our Interim Chief Executive Officer and Principal Financial Officer, to allow timely decisions regarding required disclosures.

Based on this evaluation, our current Interim Chief Executive Officer and our Principal Financial Officer concluded that our disclosure controls and procedures were not effective as of December 31, 2008 because of the material weaknesses described below. The Company performed additional analyses and other post-closing procedures to ensure that our Consolidated Financial Statements contained within this Annual Report were prepared in accordance with GAAP. Accordingly, management believes that the Consolidated Financial Statements included in this Annual Report fairly present in all material respects our financial position, results of operations and cash flows for the periods presented.

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Management Report on Internal Control over Financial Reporting

Management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act and for the assessment of the effectiveness of internal control over financial reporting. The 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 GAAP. The Company's internal control over financial reporting includes those policies and procedures that:

(i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company;
(ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with GAAP, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and
(iii) 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.

Under the supervision and with the participation of current management, including our current Interim Chief Executive Officer and Principal Financial Officer, we conducted an assessment of the effectiveness of the Company's internal control over financial reporting as of December 31, 2008. In making this assessment, management used the criteria set forth in the framework established by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") entitled "Internal Control-Integrated Framework."

A "material weakness" is a control deficiency, or combination of control deficiencies, that results in more than a remote likelihood that a material misstatement of the annual or interim financial statements will not be prevented or detected. A "control deficiency" exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis.

Management identified the following material weaknesses in the Company's internal control over financial reporting as of December 31, 2008:

1. The Company did not maintain an effective control environment based on the criteria established in the COSO framework. The Company failed to design controls to prevent or detect instances of inappropriate override of, or interference with, existing policies, procedures and internal controls. The Company did not establish and maintain a proper tone as to internal control over financial reporting. More specifically, senior management failed to emphasize, through consistent communication and behavior, the importance of internal control over financial reporting and adherence to the Company's code of business conduct and ethics, which, among other things, resulted in information being withheld from, and improper explanations and inadequate supporting documentation being provided to the Company's Audit Committee, its Board of Directors and independent registered public accountants.

2. The Company did not maintain an effective control over revenue recognition policies. Management failed to properly analyze, account and record significant sales contracts for proper revenue recognition.

3.

The Company failed to retain the resources necessary to analyze significant transactions, prepare financial statements and respond to regulatory comments in a timely manner.

The Company required an extended period to complete its 2008 Annual Report on Form 10-K and to respond to comments presented by The United States Securities and Exchange Commission. Additionally, the Company is delinquent with respect to its filings of 2009 Quarterly Reports on Form 10-Q.

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The effectiveness of NutraCea's internal control over financial reporting as of December 31, 2008 has been audited by Perry-Smith LLP, an independent registered public accounting firm, as stated in their report, which is included in this Annual Report on Form 10-K.

PLAN FOR REMEDIATION OF MATERIAL WEAKNESSES

Remediation Initiatives

While presently in the development phase, the remediation plan is generally expected to include a comprehensive review, and development or modification as appropriate, of various components of the Company's compliance program, including ethics and compliance training, hotline awareness, corporate governance training, awareness of and education relative to key codes of business conduct and policies, as well as departmental specific measures.

To remediate the material weaknesses described above, the Company plans to implement the remedial measures described below. In addition, the Company plans to continue its evaluation of its controls and procedures and may, in the future, implement additional enhancements.

Control environment

The Company's failure to maintain an adequate control environment and have appropriate staffing resources contributed significantly to each of the material weaknesses described above and the Company's inability to prevent or detect material errors in its Consolidated Financial Statements and disclosures. The Company intends to implement the following remediation measures:

The Company has reinforced and plans to continue to reinforce on a regular basis with its employees the importance of raising any concerns, whether they are related to financial reporting, compliance with the Company's ethics policies or otherwise, and using the existing communication tools available to them, including the Company's hotline. It is the Company's intention to foster an environment that should facilitate the questioning of accounting procedures and reinforce the ability and expectation of employees to raise issues to the Board of Directors if their questions or concerns are not resolved to their satisfaction.

We plan to provide training to our management on an ongoing, periodic basis with respect to, among other things, corporate governance, compliance and SOX. Such training are planned to include (i) in-house memoranda and other written materials, as well as presentation and discussion in management meetings, and (ii) potential modules/tutorials offered within the curriculum provided by a third party ethics and compliance vendor.

Revenue recognition and complex transactions

The Company plans to implement proper process of consultation with outside consultants in analyzing complex transactions. The Company will enforce the need for proper documentation and analysis of each significant transaction as noted in each agreement. Accounting position papers will be prepared on a timely manner and will be cleared with the Company's independent auditors for appropriate accounting.

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.

Management has not identified any changes in the Company's internal control over financial reporting that occurred during the quarter that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Item 9B. Other Information

None.

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PART III

Item 10. Directors, Executive Officers and Corporate Governance

The names, the ages as of August 31, 2009 and certain other information about our executive officers and directors are set forth below:

Name	Age	Position
James C. Lintzenich (1)(2)	55	Interim Chief Executive Officer, Interim Principal Financial Officer, Interim Chief Accounting Officeer and Director
W. John Short	60	President
Leo G. Gingras	51	Chief Operating Officer
Kody Newland	52	Senior Vice President of Sales
David Bensol (1)(2)	53	Director and Chairman of the Board
Edward L. McMillan (1)(3)	63	Director
Steven W. Saunders (2)	53	Director
Kenneth L. Shropshire (2)(3)	54	Director

(1) Member of the Audit Committee
(2) Member of the Compensation Committee
(3) Member of the Nominating/Governance Committee

James C. Lintzenich, has served as our Interim Chief Executive Officer since March 2009, our Interim Principal Financial Officer and Interim Chief Accounting Officer since August 2009 and as one of our directors since October 2005. Mr. Lintzenich was a director of RiceX from June 2003 to October 2005. 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 and the Ball State University Foundation.

W. John Short, has served as our President since July 2009. Mr. Short has held senior positions with financial services and consumer products businesses in North America, South America, Asia and Europe including over a decade in international corporate banking with Citibank N.A. in New York, Venezuela, Ecuador and Hong Kong. From January 2004 through December 2005 Mr. Short was engaged as an advisor by the Government of El Salvador to assist in the restructuring of that country's apparel industry in relation to the elimination of global apparel quotas. From April 2006 through December 2007, as CEO and Managing Member of W John Short & Associates, LLC, Mr. Short was engaged as Chief Executive Officer of Skip's Clothing Company. In 2008 and 2009, as CEO and Managing member of W John Short & Associates, LLC, Mr. Short was engaged as a management consultant, Advisory Board Member and/or Director to several companies including SRI Global Imports Inc., G4 Analytics Inc and Unifi

Technologies Inc.

Leo G. Gingras, has served as our Chief Operating Officer since April 2007, and from February 2007 until April 2007 he served as Special Assistant to our former Chief Operating Officer. 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 Vice President of Sales for American Modern Insurance Group Inc., a subsidiary of The Midland Company, a provider of specialty insurance products. 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), a property and casualty insurance company.

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 that recently merged with Arcadia Resources, Inc. (AMEX: KAD) Mr. Bensol was the Executive Vice President and Director of Arcadia Resources 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.

Edward L. McMillan has served as one of our directors since October 2005. Mr. McMillan was a director of RiceX from July 2004 to October 2005. 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, Mr. McMillan was President and CEO of Purina Mills, Inc. From August 1996 to July 1997, Mr. McMillan presented a graduate seminar at Purdue University. From August 1997 to April 1999 Mr. McMillan was with Agri Business Group, Inc. Mr. McMillan currently serves on the boards of directors of Balchem, Inc. (NASDAQ:BCPC), Durvet, Inc., Newco Enterprises, Inc., CHB LLC., and Hintzsche, Inc. Mr. McMillan also serves as Chair of the University of Illinois Research Park, LLC and Greenville College Foundation Board.

Steven W. Saunders, has served as one of our directors since October 2005. He was a director of RiceX from August 1998 to October 2005. 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.

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; in this capacity 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 counsel to 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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The term of office of each person elected as a director will continue until the next annual meeting of shareholders or until his or her successor has been elected and qualified.

Audit Committee

Our Board of Directors has a separately-designated standing audit committee ("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 directly responsible for the appointment, compensation and oversight of the work of our independent registered public accounting firm. The current members of the Audit Committee are James Lintzenich, David Bensol, and Edward McMillan (Chairman). Our Board of Directors has determined that Messrs. Bensol and McMillan are "independent" as defined by the applicable NASDAQ rules and by the Sarbanes-Oxley Act of 2002 and the regulations of the Securities and Exchange Commission ("SEC"), and that Mr. Lintzenich qualifies as an "audit committee financial expert" as defined in such regulations. Mr. Lintzenich is not "independent" under these standards because he is serving as our Interim Chief Executive Officer and our Interim Principal Financial Officer and Interim Chief Accounting Officer.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Securities Exchange Act of 1934, as amended, or the Exchange Act, requires NutraCea's directors, executive officers and beneficial owners of more than 10% of a registered class of NutraCea's equity securities to file with the Securities and Exchange Commission ("SEC"), initial reports of ownership and reports of changes in ownership of NutraCea's common stock and other equity securities. Directors, executive officers and greater than 10% beneficial owners are required by SEC regulation to furnish NutraCea with copies of all Section 16(a) reports they file. Based solely on the review of the copies of such forms furnished to NutraCea and written representations that no other reports were required, NutraCea believes that all reporting requirements under Section 16(a) for the fiscal year ended December 31, 2008 were met in a timely manner by the directors, executive officers and greater than 10% beneficial owners, except as follows: (i) Todd Crow reported the extension of the expiration date on stock options to purchase a total of 84,478 shares of common stock, which extension occurred on October 4, 2008 in connection with his resignation as our chief financial officer, on Form 4 on April 7, 2009 instead of on the required reporting date of October 6, 2008, (ii) Edward McMillan reported the extension of the expiration date on stock options to purchase a total of 76,699 shares of common stock, which extension occurred on October 4, 2008 on Form 4 on April 6, 2009 instead of on the required reporting date of October 6, 2008 and (iii) James Lintzenich reported the extension of the expiration date of warrants to purchase a total of 1,371,411 shares of common stock held indirectly by Mr. Lintzenich through the James C. Lintzenich Revocable Trust, which extension occurred on October 4, 2008, on Form 4 on April 6, 2009 instead of on the required reporting date of October 6, 2008.

Code of Business Conduct and Ethics

The Board has adopted a Code of Business Conduct and Ethics that applies to all directors, officers and employees of NutraCea. NutraCea 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 5090 North 40th Street, Fourth Floor, Phoenix, Arizona 85018, Attention: Chief Financial Officer.

Item 11. 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 increasing 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 has the responsibility to evaluate 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.

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Before the establishment of our Compensation Committee in 2006, our Board of Directors established our compensation policies.

Role of Executive Officers in Compensation Decisions

Our Compensation Committee has the responsibility to make 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 or that have not already been approved by our Board of Directors. Our Chief Executive Officer provides input and arranges for our Compensation Committee to have access to our records and personnel for purposes of its deliberations. During 2008, Brad Edson, our former Chief Executive Officer, reviewed the performance of each executive officer (other than his own, which is reviewed by our Compensation Committee) and provided input and observations to our Board of Directors and Compensation Committee. The conclusions reached and recommendations based on these reviews are presented to our Board of Directors. 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 and our Board of Directors have 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 and/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.

Principal Components of Compensation of Our Named Executive Officers

The principal components of the compensation paid to our named executive officers consist of:

- base salary;
- bonuses, paid in cash;
- cash incentive compensation under the terms of individual senior management incentive compensation plans established for our executive officers;
- a 401(k) safe harbor contribution that is fully vested and a discretionary year end matching contribution under our 401(k) plan; and
- equity compensation, generally in the form of stock or stock options.

Base Salary

Our Chief Operating Officer

We hired Leo Gingras in February 2007 to serve as a special assistant to our then Chief Operating Officer and then as 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, 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. On July 27, 2009, we entered into a new employment with Mr. Gingras that increased his salary to $250,000 per year in 2009 and to $275,000 per year beginning in 2010. The Compensation Committee increased Mr. Gingras' base salary in order for Mr. Gingras to agree to extend his employment term to June 2012.

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Our Senior Vice President of Sales

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. 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.

Our Former 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. 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. In August 2008 our Board of Directors approved an amendment to Mr. Edson's employment contract to clarify that the employee is eligible for a discretionary bonus at such times and in such amounts as determined by Employer's Compensation Committee or Board of Directors. Mr. Edson resigned from his positions as Chief Executive Officer, President and Director of the Company effective as of March 9, 2009.

Our Former Chief Financial Officers

We hired Todd C. Crow as our Chief Financial Officer in October 2005 concurrent with our acquisition of RiceX. Mr. Crow 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 until May 2008 when Jeff Sanders became our Chief Financial Officer reflects his base salary under his original employment agreement that we assumed. Mr. Crow served as a consultant from May 2008 to July 2008 and was paid a consulting fee similar to the salary he received under his original employment agreement. When Mr. Crow became our Chief Financial Officer again in July 2008 upon the resignation of Mr. Sanders, he has paid $220,000 per year, which was the salary received by Mr. Sanders to serve as our Chief Financial Officer. Following Mr. Crow's resignation as our Chief Financial Officer in November 2008, we paid an entity wholly owned by Mr. Crow consulting fees pursuant to an independent contractor agreement. See Severance and Change of Control Payments below for a description of his fees under the independent contractor agreement.

We hired Jeffrey W. Sanders as our Chief Financial Officer in April 2008. Mr. Sanders' three-year employment agreement with us provided for an annual base salary of $220,000. Our Compensation Committee considered the prior experience of Mr. Sanders and the base salary of our other executive officers when determining Mr. Sanders' base salary. Mr. Sanders resigned his employment with us on July 18, 2008.

We hired Olga Hernandez-Longan as a financial consultant in October 2008 and then as our Chief Financial Officer in November 2008. Ms. Hernandez-Longan's three-year employment agreement with us provides for annual base salary of $230,000, with annual cost of living adjustments. In determining Ms. Hernandez-Longan's annual base salary, our Compensation Committee and Board of Directors considered the compensation she sought, her experience, and the compensation paid to our other executive officers. On July 9, 2009, Ms. Hernandez-Longan resigned as Chief Financial Officer of NutraCea effective as of July 31, 2009.

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Bonus Compensation

Each of the employment agreements between NutraCea and our named executive officers provides that our Board of Directors or Compensation Committee may grant discretionary bonuses. Before 2008, we generally did not pay regular 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. Mr. Gingras received this bonus in January 2008. 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, who we expected would be retiring from this position soon. In June 2008 our Board of Directors approved a $50,000 discretionary cash bonus to Mr. Gingras. Our Board of Directors paid this bonus in recognition of Mr. Gingras' contributions in building and expanding our Stage 1 and Stage II facilities and integrating NutraCea and Irgovel, which we acquired in February 2008. In July 2009, pursuant to Mr. Gingras' new employment agreement, we agreed to pay Mr. Gingras a bonus equal to $100,000 with $50,000 payable on or before November 30, 2009 and the remaining $50,000 payable on or before March 31, 2010. If Mr. Gingras's voluntarily terminates his employment with us or is terminated for "cause" (as defined in the employment agreement), Mr. Gingras must return the full amount of this bonus. Our Board of Directors and Compensation Committee granted this bonus to Mr. Gingras in order for Mr. Gingras to agree to extend his term of employment with us by two years.

Our Board of Directors approved two discretionary cash bonuses to Brad Edson in 2008. We paid Mr. Edson a $280,000 bonus in May 2008 and a $70,000 bonus in November 2008. Our Board of Directors determined that these bonuses were appropriate due to Mr. Edson's success in completing capital stock financings for us in April and October 2008. At the time of these financings, we required significant additional capital to expand our operations and to meet current capital requirements.

In January 2008, we paid a $10,000 discretionary cash bonus to Kody Newland. This bonus was paid in connection with the amendment to Mr. Newland's employment agreement with us to extend his term of employment by two years. The decision to pay this bonus was made based upon negotiations between NutraCea and Mr. Newland regarding the amendment to his employment agreement.

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 an 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.

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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 named executive officers, and to encourage their ownership of an equity interest in us. Through July 15, 2009, 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. Each of our named executive officers other than Mr. Crow received stock option grants under these circumstances.

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. Margie Adelman's, our former Senior Vice President and Secretary, 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 would 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 new stock options 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 ("2008 Options"). Mr. Edson received an option to purchase 1,000,000 shares, Mr. Gingras received an option to purchase 350,000 shares and Mr. Crow, Mr. Newland and Ms. 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 executives 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 Options were 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. The performance targets were not achieved in 2008. The performance requirement was waived for Mr. Crow as part of his severance agreement. Additionally, we believe it is unlikely that the 2009 performance targets will be achieved.

In connection with our employment of Mr. Sanders as our Chief Financial Officer in April 2008, NutraCea granted to Mr. Sanders employee stock options to purchase 350,000 and 250,000 shares of common stock at a price per share equal to $0.10 over the closing market price on the date of the grant under our 2005 Plan. The option to purchase 350,000 shares of common stock would have begun to vest on January 23, 2009 and would have vested as to twenty-five percent (25%) of the shares on that date. Following that date, the shares would have vested as to eight and one-third percent (8 1/3%) of the shares on each successive three month anniversary from the vesting start date. Subject to the performance criteria determined by the Board of Directors prior to the grant, the option to purchase 250,000 shares which would have begin to vest as to twenty-five percent (25%) of the shares on April 23, 2009, and thereafter thirty-seven and one-half percent (37.5%) of the shares shall vest and become exercisable on each successive one year anniversary from the vesting start date. In determining the size and vesting provisions of these options, our Board of Directors and Compensation Committee considered the terms of the options grants made to our other executive officers.

In connection with our employment of Ms. Hernandez-Longan as our Chief Financial Officer in 2008, our Compensation Committee and Board of Directors approved the grant of two stock options to Ms. Hernandez-Longan under our 2005 Plan. The first stock option was exercisable for 350,000 shares and vests as to 25% of the shares on July 8, 2009 and vests as to 1/12th of the shares every three months thereafter, so long as she continues to be employed by us on each vesting date. The second stock option is exercisable for 250,000 shares and, so long as Ms. Hernandez-Longan remained employed by us on each vesting date, vests as to 25% of the shares on October 8, 2009 if we achieve income and revenue targets for 2008, 37.5% of the shares on October 8, 2010 if we achieve income and revenue targets for 2009 and 37.5% of the shares on October 8, 2011 if we achieve income and revenue targets for 2010. Our Compensation Committee determined the size of these stock option grants by considering the size of the stock options held by our other executive officers and the requirements of Ms. Hernandez-Longan. Also, our Compensation Committee required that one of the stock option grants be performance based to both incentivize Ms. Hernandez-Longan to achieve near and long-term financial results and to provide her with a similar mix of performance and non-performance based stock options as the had been granted to the other executive officers.

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In June 2008, we granted to Mr. Gingras 50,000 shares of restricted stock that vests evenly throughout the remaining term of his employment contract. Our Board of Directors granted this stock to Mr. Gingras in recognition of Mr. Gingras' contributions in building and expanding our Stage 1 and Stage II facilities and integrating NutraCea and Irgovel. In July 2009, in connection with Mr. Gingras entering into an employment agreement extending the term of Mr. Gingras' prior employment agreement to June 30, 2012 as well as setting forth revised terms and conditions to Mr. Gingras employment, NutraCea granted to Mr. Gingras an employee stock option to purchase 1,500,000 shares of common stock at a price per share equal to $0.22. The option vested as to 375,000 shares on July 28, 2009. Following that date, 93,750 shares shall vest on the last business day of each calendar quarter during the term of the employment agreement. In connection with the above option grant, Mr. Gingras agreed to cancel options to purchase an aggregate of 500,000 shares that were previously granted to Mr. Gingras.

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 is eligible to receive grants of stock options, stock bonuses and restricted stock under our 2005 Equity Incentive Plan, or the 2005 Plan.

Severance and Change of Control Payments

Our Board of Directors and Compensation Committee approved severance arrangements in each of the employment agreements of our named executive officers and accelerated vesting provisions upon our change in control in the 2008 Options. We believe that companies 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 named 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 package 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."

We also have entered into resignation-related severance and consulting agreements with Mr. Edson, Mr. Crow and Ms. Adelman in connection with their resignations in 2008 and 2009, each of which are discussed in more detail below. Mr. Crow's consulting agreement was suspended in March 2009 and Ms. Adelman's consulting agreement was terminated in September 2009.

On March 9, 2009, we entered into an employment severance agreement with Mr. Edson in connection with his resignation as our Chief Executive Officer and member of our Board of Directors. The agreement provides for, among other things, a cash severance payment equal to six months of Mr. Edson's base salary, reimbursement of $20,000 of legal fees incurred by Mr. Edson in connection with his resignation, the continuance of medical and dental coverage through April 30, 2009 and reimbursement of COBRA payments to continue his and his dependent's medical and dental coverage through October 31, 2010. We also entered into a consulting agreement with Mr. Edson upon his resignation under which we agreed to pay Mr. Edson $15,000 a month for two months. Mr. Edson negotiated this agreement with the assistance of his own independent outside counsel. The Compensation Committee believed that this separation package was fair, reasonable and appropriate given our desire to obtain as part of this agreement full resolution of the termination of Mr. Edson's employment with us.

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In connection with Mr. Crow's resignation as our Chief Financial Officer in November 2008, we entered into an employment severance agreement with him. Under this agreement, we paid him a $220,000 cash severance payment and agreed to provide Mr. Crow with continued medical and dental benefit coverage through March 31, 2009 and to reimburse his COBRA payments through September 30, 2010. In addition we extended by three years the expiration dates for two stock options to purchase a total of 84,478 shares of our common stock, waived the performance vesting conditions of a stock option to purchase 100,000 shares of our common stock that were granted to Mr. Crow in January 2008 and waived the 90 day expiration after termination of employment conditions of stock options to purchase 806,389 shares of our common stock.

We also entered into an independent contractor agreement with Crow & Associates, LLC upon Mr. Crow's resignation. Crow & Associates, LLC is owned by Mr. Crow. The term of the agreement is 18 months and provides for our payment of $15,000 per month for the first 12 months of the term and $7,500 per month for the remaining six months of the term. If Mr. Crow exercises stock options for more than 110,000 shares of our common stock during the term, the independent contractor agreement will terminate upon the exercise date. In addition, the agreement will terminate upon a "change of control" or upon Mr. Crow's death or permanent disability, in which case, we are required to pay to Crow & Associates, LLC the remaining amounts owed under the agreement in a lump sum. Our Compensation Committee believed that these consulting fees were fair and reasonable considering Mr. Crow's severance benefits under his employment agreement and our need, based upon Mr. Crow's institutional knowledge and expertise, to continue to consult with Mr. Crow following his resignation. In March 2009, we suspended the independent contractor agreement pending the results of the SEC formal investigation and the securities class action lawsuit mentioned in the beginning of this report under Significant Events - Securities Class Action, Shareholder Derivative Litigation, and SEC Investigation.

On November 11, 2008, we entered into a severance and release agreement with Ms. Adelman and terminated Ms. Adelman's employment with us. Under this agreement, we paid Ms. Adelman $20,000 for moving expenses and terminated all of her stock options that were not fully vested. We also entered into a one year consulting agreement with Ms. Adelman that provides for our payment to her of $15,827.73 each month. Our Compensation Committee believed that these consulting fees were fair and reasonable given our desire to resolve the termination of Ms. Adelman's employment with us while allowing us to receive ongoing services from Ms. Adelman. This consulting agreement was terminated by NutraCea in September 2009.

Other Benefits

We believe that 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, vision, group life insurance and our 401(k) plan, in each case on the same basis as other employees. We provide a three percent contribution and a discretionary year end matching contribution under our 401(k) plan, but we do not offer additional retirement benefits.

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.

Tax and Accounting Considerations

Effective January 1, 2006, we adopted the fair value recognition provisions of SFAS No. 123R. Under SFAS No. 123R, we are required to estimate and record an expense for each award of equity compensation over the vesting period of the award. Compensation expense relating to the expense of stock options and stock bonuses under FAS 123(R) are one of the many factors considered in the determination of stock option and stock bonus awards.

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.

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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 2008 fiscal year were David Bensol (Chairman), James Lintzenich, Kenneth L. Shropshire and Steven W. Saunders. All members of the Compensation Committee during 2008 were independent directors, and none of them were our employees or former employees. During 2008, 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. In 2009 the Compensation Committee consists of David Bensol, James Lintzenich, Kenneth L. Shropshire and Steven W. Saunders. In March 2009 Mr. Lintzenich was appointed our Interim Chief Executive Officer. While serving in such position, Mr. Lintzenich will not be an independent director. Upon his appointment as Interim Chief Executive Officer, he ceased serving as chairman of the Compensation Committee. Mr. Lintzenich will not participate with the other members of the Compensation Committee in any matters relating to his compensation or where he has a conflict of interest.

Compensation Committee Report

The Compensation Committee has reviewed and discussed the Compensation Discussion and Analysis with management. Based on its review and discussions with management, the Compensation Committee recommended to the Board of Directors that the Compensation Discussion and Analysis be included in our Annual Report on Form 10-K for the year ended December 31, 2008 and its proxy statement relating to our 2009 annual meeting of shareholders.

Respectfully Submitted by the Compensation Committee
David Bensol
James Lintzenich
Kenneth L. Shropshire
Steven Saunders

Summary Compensation Table

The following table sets forth information regarding compensation earned in or with respect to our fiscal years 2008, 2007 and 2006 by:

- each person who served as our Chief Executive Officer in 2008;
- each person who served as our Chief Financial Officer in 2008;

- 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 2008 and, at that time, were our only other executive officers; and
- each other person that served as an executive officer in 2008.

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

Name and Principal Position	Year	Salary ($)(1)	Bonus ($)	Stock Awards ($) (2)	Option Awards ($) (3)	All Other Compensation ($)(4)(5)(6)	Total ($)
Olga Hernandez-Longan, former Chief Financial Officer(7)	2008	$ 51,413	$ -	$ -	$ 5,356	$ 41,708	$ 98,477
Leo G. Gingras,	2008	228,462	70,000	7,026	146,004	22,832	474,324
Chief Operating Officer	2007	177,479	152,538	-	438,550	13,051	781,618
Kody Newland,	2008	166,929	10,000	-	48,024	20,093	245,046
Senior Vice President	2007	152,412	1,793	-	182,488	18,648	355,341
of Sales	2006	121,754		-	250,228	14,544	386,526
Bradley Edson, former	2008	287,004	350,000	-	-	25,005	662,009
President and Chief	2007	255,769	3,173	-	-	24,909	283,851
Executive Officer(8)	2006	159,723		-	-	22,307	182,030
Todd C. Crow, former	2008	205,465	-	-	290,663	289,659	785,787
Chief Financial	2007	159,362	1,863	-	-	26,584	187,809
Officer(9)	2006	153,427	-	-	-	19,062	172,489
Jeff Sanders, former Chief Financial Officer(10)	2008	55,353	-	-	-	3,935	59,288
Margie Adelman,	2008	177,420	-	-	-	56,084	233,504
former Senior Vice	2007	157,901	1,830	-	-	22,352	182,083
President	2006	154,504		-	-	16,324	170,828
Total	2008	$ 1,172,046	$ 430,000	$ 7,026	$ 490,047	$ 459,316	$ 2,558,435

1) Includes the following consulting fees paid to certain of the named executive officers in 2008: $15,923 to Ms. Hernandez-Longan; $40,385 to Crow and Associates, LLC an entity owned by Mr. Crow; and $26,003 to Ms. Adelman.

2) Stock awards reported are amounts recognized for financial statement reporting purposes with respect to the fiscal year in accordance with FAS 123R, disregarding estimated forfeitures. The assumptions used to calculate the value of stock awards are set forth in the notes to our Consolidated Financial Statements included in this Annual Report on Form 10-K for 2008.

3) 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), disregarding estimated forfeitures. The assumptions used to calculate the value of option awards are set forth in the notes to our Consolidated Financial Statements included in our Annual Report on Form 10-K for 2008. Mr. Sanders and Ms. Adelman received options to purchase our common stock in 2008, but these options terminated before vesting when these individuals ceased being executive officers in 2008. On July 18, 2008, as part of Mr. Crow's severance arrangement, we extended the exercise period on options to purchase a total of 84,478 shares of common stock that were scheduled to expire on October 4, 2008. Additionally, we waived for Mr. Crow all performance requirements for the option to purchase 100,000 shares of common stock that we issued to him on January 8, 2008, which options became fully vested upon his termination, and waived the requirement that stock options terminate 90 days after employment termination for stock options to purchase 806,389 shares of our common stock.

4) All other compensation consists of the following amounts for 2006:

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2006	Mr. Edson:	Mr. Crow:	Mr. Newland:	Ms. Adelman:
Automobile allowance	$ 7,200	$ 9,600	$ 7,200	$ 7,200
Life Insurance & Long-term Disability premium payments	381	400	318	381
Payment for unused personal time	8,294	3,362	3,606	2,522
401(k) matching contribution	6,432	4,700	3,421	6,221
Auto insurance payments		1,000		
Total	$ 22,307	$ 19,062	$ 14,545	$ 16,324

5) All other compensation consists of the following amounts for 2007:

2007	Mr. Edson:	Mr. Crow:	Mr. Gingras:	Mr. Newland:	Ms. Adelman:
Automobile allowance	$7,200	$9,600	$6,300	$7,200	$7,200
Life Insurance & Long-term Disability premium payments	381	381	381	318	381
Payment for unused personal time	3,222	3,105	3,966	2,988	3,813
401(k) matching contribution	14,106	12,646	2,404	8,142	10,958
Auto insurance payments		852			
Total	$24,909	$26,584	$13,051	$18,648	$22,352

6) All other compensation consists of the following amounts for 2008:

2008	Mr. Edson:	Ms. Hernandez-Longan:	Mr. Sanders:	Mr. Crow:	Mr. Gingras:	Mr. Newland:	Ms. Adelman:
Automobile allowance	$10,200	$ 1,600	$2,550	$-	$9,350	$9,350	$8,500
Life Insurance & Long-term Disability premium payments	1,294	108	216	1,053	1,294	1,149	1,042
Payment for unused personal time	6,611	-	1,169	10,170	5,288	3,889	20,274
401(k) safe harbor contribution	6,900	-	-	6,900	6,900	5,705	5,406
Personnel Apartment				11,750			
Relocation cash payment		40,000					20,000
				38,384			

Buy-out of automobile lease				
Auto insurance payments			434	
Severance medical and dental benefits paid			968	862
Cash Severance payment			220,000	
Total	$25,005	$ 41,708		