NUTRACEA
Form 10KSB
March 31, 2005

U.S. SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-KSB

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

For the Fiscal Year Ended	Commission File Number
December 31, 2004	0-32565

NUTRACEA
(Name of Small Business Issuer in It Charter)

California	87-0673375
(State of Incorporation)	(I.R.S. Employer Identification)

Principal Executive Offices:
1261 Hawk's Flight Court
El Dorado Hills, CA 95762
Telephone: (916) 933-7000

Securities registered pursuant to Section 12(b) of the Exchange Act:

Title of Each Class	Name of Each Exchange on Which Registered
None	None

Securities registered pursuant to Section 12(g) of the Exchange Act:

Title of Class
Common Stock, no par value

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 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 X No ___

Check if there is no disclosure of delinquent filers in response to Item 405 of Regulation S-B is not contained in this form, and no disclosure will be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-KSB or any amendment to this Form 10-KSB. [ ]

The issuer's revenues for its most recent fiscal year were $1,224,229.

As of March 30, 2005, the aggregate value of the voting stock held by non-affiliates of the Registrant, computed by reference to the average of the bid and ask price on such date was approximately $16,199,720 based upon the average price of $0.58/share.

As of March 30, 2005, the Registrant had outstanding 36,214,611 shares of common stock.

Transitional Small Business Disclosure Format: Yes [ ] No [X]

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FOR THE YEAR ENDED DECEMBER 31, 2004

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PART I

ITEM 1. DESCRIPTION OF BUSINESS

GENERAL

NutraCea (referred to as "NutraCea" or "we" or "us") is a California corporation formerly known as Alliance Consumer International, Inc. As a result of the Exchange Transaction discussed below, NutraCea's business is now the business previously carried on by NutraStarTechnologies Incorporated ("NTI"), a Nevada corporation that was formed and started doing business in February 2000. NutraCea is a relatively new health science company focused on the development and distribution of products based upon the use of stabilized rice bran and proprietary rice bran formulations. Rice bran is the outer layer of brown rice which until recently was a wasted by-product of the commercial rice industry. These products include food supplements and medical foods (known as "nutraceuticals") which provide health benefits for humans and animals, as well as cosmetics and beauty aids based on stabilized rice bran, rice bran derivatives and rice bran oil. NutraCea believes that stabilized rice bran products can deliver beneficial physiological effects with fewer of the adverse side effects commonly associated with many prescription drugs. As a result, NutraCea believes that certain of its products may be used in place of, or as a supplement to, some of the most commonly used pharmaceuticals. NutraCea has conducted and is currently involved in ongoing clinical trials and third party analyses in order to support the uses for and effectiveness of its products.

NutraCea has developed a number of product lines that are currently or soon will be available for sale in the market through its four divisions: TheraFoods(R), which provides health food supplements to the retail market; ProCeuticals(R), which distributes Medical Foods through the medical community; NutraGlo(R), which distributes animal feed products; and NutraBeauticals(R), which has commenced the development and marketing of cosmeceuticals and beauty aids. NutraCea anticipates developing strategic distribution and marketing agreements with retail merchandisers, pharmaceutical companies and medical practices, including HMOs, hospitals and institutions.

NutraCea's corporate offices and operations are located at 1261 Hawk's Flight Court, El Dorado Hills, California 95762. NutraCea's telephone number is (916) 933-7000. NutraCea has one wholly owned subsidiary, NTI, which in turn wholly owns NutraGlo Incorporated, a Nevada corporation. Both of these subsidiaries maintain business offices at NutraCea's principal business office in El Dorado Hills, California.

HISTORY

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

On October 1, 2003, NutraStar Incorporated changed its name to NutraCea and the common stock began trading on the OTCBB under the symbol "NTRC." On November 12, 2003, NutraCea declared a 1:10 reverse stock split. Post-split shares of NutraCea trade on the OTCBB under the symbol "NTRZ."

On April 27, 2000, NutraStar formed NutraGlo Incorporated ("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 NutraCea's products to the equine market. In 2002, NutraCea issued 250,001 shares of its common stock to NaturalGlo Investors L.P. in exchange for the remaining 20% of the common stock of NutraGlo. The value of the shares was $250,001. As a result, NutraGlo is now a wholly owned subsidiary of NTI.

INDUSTRY OVERVIEW

By definition, nutraceuticals are products from natural sources which that have biologically therapeutic effects in humans and mammals. These compounds include vitamins, antioxidants, polyphenols, phytosterols, as well as macro and trace minerals. Rice bran and rice bran oil are good sources for some of these compounds, including tocotrienols, a newly discovered complex of vitamin E, and gamma-oryzanol, which is found only in rice bran. Among other things, these compounds act as potent antioxidants. Stabilized rice bran and its derivatives also contain high levels of B-complex vitamins and beta-carotene, a vitamin A precursor. Stabilized rice bran also contains high levels of carotenoids and phytosterols, both essential fatty acids, as well as a balanced amino acid profile and both soluble and insoluble fiber which promote colon health.

Rice is one of the world's major cereal grains, although United States production of rice is only a small fraction of total world production. According to the United States Department of Agriculture, approximately 65% of the nutritional value of rice is contained in the rice bran, the outer brown layer of the rice kernel which is removed during the milling process. However, raw, unstabilized rice bran deteriorates rapidly. Because of the rapid degradation and short shelf life, rice bran has not been widely accepted as a component of nutrition, health or beauty products notwithstanding the known benefits. The RiceX Company ("RiceX"), one of NutraCea's primary suppliers, has developed a method of stabilizing rice bran that NutraCea believes is superior to other methods, and provides a shelf life of approximately two years, which NutraCea believes is longer than any other stabilized rice bran. Using stabilized rice bran as an ingredient provides the longer shelf life necessary for economical production of nutrition products which incorporate rice bran ingredients.

As the population of the United States ages over the next 30 years, NutraCea believes demand for its products will grow dramatically. Since stabilized rice bran is a safe food product, we believe that its beneficial effects can be obtained with no known deleterious side effects, such as those that may be present in pharmaceuticals. Many physicians have taken an interest in NutraCea's 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 NutraCea's nutraceutical and medical foods products and if the medical community widely endorses such use of its products, NutraCea believes that its products 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.

PRODUCTS

NutraCea has two segments with four primary divisions through which it sells its products.

PRODUCTS OF NUTRASTAR TECHNOLOGIES INCORPORATED:

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- TheraFoods(R) Nutrition Supplements. NutraCea distributes its consumer products through its TheraFoods(R) Nutritional Supplements division. The primary products currently sold through this division are RiSolubles(R), RiceMucil(R), CeaFlex(R), FlexBoost(R), DiaBoost(R), MigraCea(R), ProstaCea(R), Cea100(R), NutraImmune(TM), LiverBoost(R), SuperSolubles(R), SynBiotics(TM) and StaBran(R) Nutritional Supplements. All the products are currently available in either capsule or powdered form for use as food supplements. The powdered form can also be used as a food additive in breads, cookies, snacks, beverages, and similar foods. We have also developed and currently produce CeaFlex(R) Cream, a topical, cream product for arthritic joint and muscle pain. Consumer products are sold directly to consumers through toll-free telephone sales and Internet sales.

- ProCeuticals(R) Medical Foods. NutraCea distributes its medical foods products to doctors, clinics and healthcare providers through its ProCeuticals(R) Medical Foods Division. In addition to certain consumer products, the primary products to be distributed through this division are SynBiotics 1(TM) Probiotics to support treatment of Irritable Bowel Syndrome, SynBiotics 2(TM) Probiotics to support treatment of Inflammatory Bowel Disease, SynBiotics 3(TM) Probiotics to support treatment of antibiotic-induced diarrheal conditions, and LiverBoost(R) to support liver health. Medical foods will be marketed to healthcare providers through the same distribution systems that market pharmaceutical and medical supplies.

- NutraBeauticals(R) Beauty Products. NutraCea distributes its natural beauty products through its NutraBeauticals(R) Beauty Products Division. The principal product sold through this division is NutraBeauticals(R) Skin Cream, a topical emollient containing rice bran oil and other natural ingredients to support the health and improve the appearance of skin. NutraCea does not have an established distribution system for its beauty and skin care products.

PRODUCTS OF NUTRAGLO INCORPORATED:

- NutraGlo(R) Animal Products. NutraCea developed a derivative of its CeaFlex(R) Nutritional Supplement to prevent and rehabilitate joint degeneration in horses and markets CeaFlex(R) Equine Nutritional Supplements and Absorbine Flex+(R) Equine Pain Relief though its NutraGlo(R) Animal Products Division. NutraCea's Absorbine Flex+(TM) Equine products are distributed exclusively through W. F. Young, Inc. pursuant to a distribution agreement in the United States and 36 foreign countries. Other equine and animal health care products will be distributed through this or other channels.

MARKETING

NutraCea's TheraFoods(R) Division is currently marketing its products domestically through various distribution channels including NutraCea's toll-free phone number and through the Internet at http://www.nutracea.com/products.html.

NutraCea's equine products are distributed under the name "Absorbine Flex+(R)" by W.F. Young, Inc. pursuant to a distribution agreement with NutraCea dated May 1, 2001 pursuant to which Absorbine Flex+ is being marketed nationwide and internationally. The distribution agreement provides for NutraGlo to manufacture, package and ship all W.F. Young's sales requirements while W.F. Young is granted a license to use and market NutraCea's equine products. NutraGlo has agreed to sell its equine healthcare products exclusively through W.F. Young at preferred product prices. W.F. Young has agreed to use its best efforts to promote NutraGlo's current and future equine products and make minimum product purchases. In May of 2003 the purchase requirements for the three-year contract had been met. The distribution agreement was for an initial term of three years ending on August 31, 2004. On September 18, 2003, NutraCea, W.F. Young and Wolcott Farms, Inc. entered into a Technology Agreement which, among other things, extended the initial term of the Distribution Agreement through September 12, 2006 and can be additionally renewed for subsequent one-year terms. Additionally, the minimum purchase requirement was amended. NutraCea has developed a number of other animal products, which it is seeking to distribute through various distribution channels such as the Internet and strategic joint ventures in the large animal, pet and veterinarian industries.

NutraCea also intends to distribute many of its consumer products through direct response marketing channels such as infomercials and catalogue sales.

PRODUCT SUPPLY

NutraCea currently purchases all of its stabilized rice bran, rice bran solubles, rice bran fiber concentrates, and other rice bran products from RiceX. We believe RiceX has a proprietary manufacturing process for stabilizing the rice bran it processes. This process results in an estimated shelf life for the rice bran products of approximately two years under proper storage conditions, compared to a typical shelf life of approximately two months for rice bran products processed by other suppliers. The extended shelf life is a critical factor in the use of rice bran products as an ingredient since the availability of rice bran products would otherwise be seasonal and inventories of products using rice bran products would spoil or become unusable between seasons.

NutraCea does not currently have a supply contract with RiceX and purchases its rice bran products at RiceX's standard prices. NutraCea(R) believes that it will be able to continue purchasing its requirements of stabilized rice bran products from RiceX. There are no other known sources of stabilized rice bran of the quality comparable to that produced by RiceX. The interruption of supply from RiceX, either because of other significant purchasers or the damage or destruction of the RiceX processing facility, could interrupt the production of NutraCea's products, and a prolonged interruption would have a material adverse effect on our business, financial condition and our results of operation if we did not quickly locate another suitable supplier.

COMPETITION

NutraCea competes with other companies which offer products that incorporate stabilized rice bran as well as companies that offer other food ingredients and nutritional supplements. Suppliers of nutritional supplements and other products that use stabilized rice bran provided by other suppliers are subject to the higher costs of shorter shelf life and the seasonal availability of stabilized rice bran ingredients. NutraCea also faces 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 NutraCea even though they have a higher incidence of allergic reactions and adverse health indications. Many of NutraCea's competitors have greater marketing, research, and capital resources than NutraCea does, 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 NutraCea's products will be able to compete successfully.

GOVERNMENT REGULATION

The Federal Food, Drug, and Cosmetic Act ("FFDCA") and the U.S. Food and drug Administration ("FDA") regulations govern the marketing of NutraCea's products.

The FFDCA provides the statutory framework governing the manufacturing, distribution, composition and labeling of dietary supplements for human consumption. These requirements apply to NutraCea's products distributed by the TheraFoods(R) and ProCeutical(R) divisions.

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 statements about classical nutritional deficiency diseases, such as "vitamin C prevents scurvy" or statements regarding the effect of a nutrient on the structure or function of the body, such as "calcium builds strong bones." The 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, NutraCea may be subject to additional laws or regulations administered by the FDA or other regulatory authorities, the repeal of laws or regulations that NutraCea might consider favorable or more stringent interpretations of current laws or regulations. NutraCea is not able to predict the nature of such future laws or regulations, nor can it predict the effect of such laws or regulations on its operations. NutraCea 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 NutraCea's business and financial condition.

The Federal Trade Commission (the "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, NutraCea's operations will be subject to federal, state, and local government laws and regulations, including those relating to zoning, workplace safety, and accommodations for the

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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.

NutraCea believes that it is in substantial compliance with all material governmental laws and regulations.

RESULTS OF TRIALS AND SCIENTIFIC RESEARCH

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

A 57-subject clinical trial conducted by Advanced Medical Research with funding by RiceX suggested that consumption of the stabilized rice bran used in NutraCea's RiSolubles(R) and RiceMucil(R) 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(R) may develop products which address the use of stabilized rice bran products as medical foods for, and to potentially make health benefit claims relating to, the effects of dietary rice bran on diabetes and cardiovascular disease.

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

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

INTELLECTUAL PROPERTY

NutraCea, through NTI, filed applications with the U.S. Patent and Trademark Office and has successfully registered NutraCea's logo, StaBran(R), RiSolubles(R), RiceMucil(R), and 22 other product names, as registered federal trademarks and service marks. NutraCea has 27 additional trademark and service mark applications pending. Six of these pending applications have been approved and we are awaiting the trademark serial numbers. Five applications have been rejected by the trademark office and require further prosecution, and eleven are newly filed applications with no further action as yet required by the trademark office

NutraCea has the international rights and operates under a license from RiceX for the domestic use of Patent Number 6,126,943 entitled "A Method for Treating Hypercholesterolemia, Hyperlipidemia, and Atherosclerosis," which was published October 3, 2000; Patent Number 6,303,586 entitled "A Method for Treating Diabetes, Hyperglycemia and Hypoglycemia," which was published October 16, 2001; Patent Number 6,303,586 B1 entitled "Supportive Therapy for Diabetes, Hyperglycemia and Hypoglycemia" which was published October 16, 2001; and Patent Number 6,350,473 entitled "A Method for Treating Diabetes, Hyperglycemia and Hypoglycemia, and Atherosclerosis" which was published February 26, 2002. Each of the foregoing patents relate to the use of rice bran in connection with products and methods of treatment for the above referenced diseases.

NutraCea, through NTI, filed a non-provisional patent application with 47 claims entitled "Methods of Treating Joint Inflammation, Pain and Loss of Mobility" on November 6, 2001. In a December 3, 2002 office action, the U.S. Patent and Trademark Office allowed 26 and disallowed 21 of the patent's 47 claims. Subsequently, in February 2004, the 26 claims which were allowed in December of 2002 were disallowed. In March 2004 NutraCea appealed the disallowance of the 26 claims which were previously allowed. Additionally, in October 2003, nine additional preventive claims were added to the patent. In February 2005 NutraCea received a written notification that the U.S. Patent and Trademark Office had allowed 11 claims and the prosecution of the application was closed. The associated fees have been paid and NutraCea is awaiting publication of the patent.

NutraCea believes that its trademarks and patent rights represent a significant asset and the loss of any such rights could have a significant effect on the future of the company and its financial condition of NutraCea.

RESEARCH AND DEVELOPMENT EXPENDITURES

During fiscal years 2004 and 2003, NTI spent $78,331 and $63,873, respectively, on product research and development.

EMPLOYEES

NutraCea has six full time employees, and four independent contracted staff members. None of NutraCea's employees are employed pursuant to a collective bargaining or union agreement, and it considers that its relationship with its employees is good.

FACTORS AFFECTING NUTRACEA'S BUSINESS

NutraCea will need additional funds to finance long term product research and development as well as fund our current operations. While NutraCea has adequate cash reserves and working capital to fund current operations, its ability to meet long term business objectives and debt obligations is dependent upon its 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.

NutraCea has developed and is marketing a number of products, including food supplements, medical foods and cosmeceuticals, which are derived from stabilized rice bran and specially formulated rice bran oil. These rice bran based products are relatively new which will require NutraCea to successfully introduce products to the marketplace and create a sustainable and expanding market for its products.

The failure of NutraCea to effectively create a market and demand for its products would have a material adverse affect on business, financial condition and results of operations.

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 NutraCea's products and marketing strategies will satisfy all of the applicable regulations of the DSHEA, FDA and/or the FTC. Failure to meet any applicable regulations would require NutraCea to limit the production or marketing of any non-compliant products or advertising which could subject NutraCea to financial or other penalties.

Our prospects for financial success are difficult to forecast because we have a relatively limited operating history. NutraCea's current business commenced in February 2000, when its wholly owned subsidiary, NTI, first started its operations. Consequently, both NutraCea and its operating subsidiary have a limited operating history upon which an evaluation of their future prospects can be based. Neither NutraCea nor its subsidiaries, NTI and NutraGlo, have ever made a profit in any fiscal quarter. 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. To address these risks, NutraCea must, among other things, expand its customer base, increase its cash flow from operations, develop new products, respond effectively to competitive developments, and continue to attract, retain and motivate qualified employees. NutraCea's inability to further develop and expand its operations would materially adversely affect NutraCea's business, financial condition and results of operations.

NutraCea operates in a rapidly changing and growing industry, which is characterized by vigorous competition from both established companies and potential new companies. The markets for food supplements and cosmetics are extremely competitive both as to price and quality.

NutraCea utilizes certain patents owned by RiceX. While RiceX is aware of NutraCea's use of these certain patents, both internationally and domestically, the companies have never formalized this use in a written agreement. Consequently, RiceX could notify NutraCea to discontinue utilizing those certain patents referred to above under the Section "Intellectual Property." While NutraCea believes it has certain rights to use these patents, any interruption in their availability to NutraCea could have an adverse effect on certain products marketed by NutraCea.

Dependence on Key Supplier

RiceX is a publicly owned company. The spouse of our largest stockholder owns approximately 5% of RiceX and is a director of RiceX. RiceX is our sole supplier for rice bran derivatives, which are integral to the manufacturing of our products and which account for about 72% of our total cost of sales.

RiceX agreed to sell to us its rice bran derivatives at prices equal to the lower of RiceX's standard price or the price negotiated by other customers for like quantities and products. The agreement also provided that RiceX would not sell any rice bran derivatives products in the United States except to NutraCea. This latter part of the agreement was terminated on July 9, 2002.

In addition to the risks associated with the potential termination of RiceX as

NutraCea's major supplier, the inability of RiceX to deliver the amount of product that NutraCea requires, any interruption in product delivery for any reason, or the inability of RiceX to fulfill its contractual obligations would have a material adverse effect on NutraCea's business, results from opera-tions, and financial condition, as NutraCea could not readily find and implement alternative suppliers and likely not on advantageous

terms. RiceX's ability to manufacture certain of NutraCea's raw materials is currently limited to the production capability of RiceX's Dillon, Montana plant (the "Dillon Plant"). Currently, the Dillon Plant is capable of producing all of NutraCea's rice bran raw materials, but that capacity may not be sufficient to meet all of NutraCea's long-term supply needs.

In summary, NutraCea's net sales and operating results in any particular quarter may fluctuate as a result of a number of factors, including its current dependence on one source for its stabilized rice bran, the need to validate the benefits and applications for stabilized rice bran products, delays in establishing markets for its products, the current rise in economic recovery as well as the overall performance of the food supplement and cosmetic industries as discussed above. NutraCea's future operating results will depend, to a large extent, on its ability to anticipate and successfully react to these and other factors and successfully implements its growth strategy.

ITEM 2. DESCRIPTION OF PROPERTY

NutraCea subleases its executive offices, warehouse and laboratory, located at 1261 Hawk's Flight Court, El Dorado Hills, California, from RiceX for a monthly rental of $6,366. We have subleased this 10,080 square foot facility through September 30, 2006. NutraCea believes that this facility will be adequate for current operations.

ITEM 3. LEGAL PROCEEDINGS

NutraCea is involved from time to time in various lawsuits that arise in the course of its business. At the current time there is no outstanding litigation involving NutraCea.

On July 16, 2002, NutraCea was summoned to answer a Complaint filed by Faraday Financial, Inc. ("Faraday") in District Court, County of Salt Lake, Utah (Case No. 020906477). The Complaint claims that NutraCea issued convertible promissory notes totaling $450,000 and a promissory note totaling $50,000. On December 13, 2001, Faraday entered into a settlement agreement with NutraCea, whereby Faraday agreed to cancel the promissory notes in exchange for 735,730 shares of NutraCea's preferred stock. Faraday claims that the settlement agreement required that NutraCea effect a registration statement covering the preferred stock by June 30, 2002, which NutraCea failed to do, and new demands that NutraCea immediately forfeit to Faraday 735,730 shares of common stock owned by the Chief Executive Officer of NutraCea. Faraday has filed its fourth claim for relief for a judgment against NutraCea for $500,000, plus accrued, but unpaid interest, attorneys' fees and costs, and other such costs. A Settlement Agreement was executed on December 10, 2003. In consideration for the mutual releases, Faraday converted 735,730 preferred into 735,730 common shares and $90,127 of accrued preferred dividends into 1,201,692 common shares. During 2004 NutraCea issued an additional 250,000 shares to Faraday to compensate for minimum realization amounts. Concurrently, with the executed Settlement Agreement, a joint stipulated motion to stay all proceedings was filed with the Court. If Faraday has not lifted the stay by June 10, 2005, NutraCea shall deliver to Faraday an executed stipulation for dismissal with prejudice of the Complaint and Counterclaim.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None.

PART II

ITEM 5. MARKET FOR THE REGISTRANT'S COMMON STOCK AND RELATED STOCKHOLDER MATTERS.

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

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

YEAR ENDED DECEMBER 31, 2003	LOW	HIGH
First Quarter	$.60*	$1.10*
Second Quarter	$.50*	$1.10*
Third Quarter	$.70*	$2.70*
Fourth Quarter	$ .85	$ 1.85

YEAR ENDED DECEMBER 31, 2004	LOW	HIGH
First Quarter	$ .87	$ 2.14
Second Quarter	$ .83	$ 1.33
Third Quarter	$ .29	$ 1.16
Fourth Quarter	$ .32	$ .56

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

2003.

As of March 15, 2005, there were approximately 185 holders of record of NutraCea's Common Stock. This amount does not include shares held in street name.

DIVIDEND POLICY

NutraCea has never paid any cash dividends on its common stock. NutraCea currently anticipates that it will retain all future earnings for use in its business. Consequently, it does not anticipate paying any cash dividends in the foreseeable future.

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SECURITIES AUTHORIZED FOR ISSUANCE UNDER EQUITY COMPENSATION PLANS

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights	Number of shares issued	Number of secu remaining ava for future is under equi compensation (excluding sec reflected in
Equity compensation plans approved by security holders	-0-	N/A	9,895,190	1
Equity compensation plans not approved by security holders	14,744,856	$ 0.56	-0-	14,7
Total	14,744,856	$ 0.56	9,895,190	14,8

STOCK COMPENSATION PLANS

On October 30, 2003, the Board of Directors approved and adopted the 2003 Stock Compensation Plan and authorized the President of NutraCea to execute a registration statement under the Securities Act of 1933 for 10,000,000 shares of common stock. Under the plan, the Board of Directors or a committee thereof may grant warrants, options, restricted common shares, unrestricted common shares and other awards to directors, employees and consultants of NutraCea for services rendered. As of December 31, 2004, 9,905,327 shares of common stock have been issued under the Stock Compensation Plan.
Other equity compensation plans not approved by shareholders include options and warrants issued in connection with employment agreements (8,289,700 options) and options and warrants issued to consultants in exchange for services rendered (6,095,156).

RECENT SALES OF UNREGISTERED SECURITIES

During the three months ended December 31, 2004, NutraCea issued the following equity securities pursuant to the private placement exemption provided by

Section 4(2) of the Securities Act of 1933. These are deemed to be "restricted securities" as defined in Rule 144 under the 1933 Act and bear a legend stating the restrictions on resale.

- Options and warrants representing 25,000 shares of common stock were exercised for a total value of $5,000.

- NutraCea issued 1,717,069 shares of common stock to three consultants for services valued at $657,531.

- On September 8, 2004, NutraCea and Langley Park Investments PLC ("Langley") signed a Stock Purchase Agreement under which NutraCea agreed to sell 7,000,000 shares of its common stock to Langley. The transaction will close at the time that Langley's shares are trading on the London Stock Exchange for anticipated consideration to NutraCea (i) immediately following the closing of approximately $1,190,000 U.S.D. in Langley stock, and (ii) additional consideration of that

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number of Langley shares which, as of the closing, will have a value of approximately $1,190,000 (the "Langley Shares").

In addition, during the year ended December 31, 2004, NutraCea issued the following equity securities pursuant to Section 3(a)(9) of the Securities Act of 1933 pertaining to securities issued for conversion or exchange of preferred stock and dividends thereon.

- NutraCea issued 5,759 shares of common stock in payment of preferred dividends in the amount of $5,986.

- NutraCea converted 540,000 shares of preferred stock to 630,000 shares of common stock valued at $348,351.

RECENT SALES OF REGISTERED SECURITIES

NutraCea issued 55,588 shares of common stock to one consultant for services valued at $22,500.

PURCHASE OF EQUITY SECURITIES BY COMPANY

Period	Total Number of Shares (or Units) Purchased	Average Price Paid per Share (or Unit)	Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs	Maximum Num (or Approxim Dollar Value Shares (or Un that May Yet Purchased Unde Plans or Prog
April 1, 2004	344,956 Common	$ 0.67	-0-	-0-
December 22, 2004	130,000 Series A Preferred	$ 1.00	-0-	-0-

ITEM 6. MANAGEMENT'S DISCUSSION AND ANALYSIS AND PLAN OF OPERATION

For more detailed financial information, please refer to the audited December 31, 2004 Financial Statements included in this Form 10-KSB.

CAUTION ABOUT FORWARD-LOOKING STATEMENTS

This Form 10-KSB includes "forward-looking" statements about future financial results, future business changes and other events that have not yet occurred. For example, statements like we "expect," we "anticipate" or we "believe" are forward-looking statements. Investors should be aware that actual results may differ materially from our expressed expectations because of risks and uncertainties about the future. We do not undertake to update the information in this Form 10-KSB if any forward-looking statement later turns out to be inaccurate. Details about risks affecting various aspects of NutraCea's business are discussed throughout this Form 10-KSB and should be considered carefully.

RESULTS OF OPERATIONS

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

$214,500 in 2004 ($0 in 2003). We expect sales by our equine division to increase in 2005 and approach the level reached in 2003.

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

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

Operating expenses increased by $15,257,973 to $24,175,462 in 2004, from $8,917,489 in 2003. This increase was primarily due to increased non-cash expenses related to issuances of common stock and common stock warrants and options awards. These non-cash items totaled $20,998,119 in 2004 and $1,577,938 in 2003. Also, professional fees increased $703,360 to $1,122,250 in 2004 from $418,890 in 2003. Primary reasons for the increase in professional fees include the use of consultants instead of hiring permanent employees ($351,820), legal fees associated with transactions ($157,570), and additional costs associated with public filings ($109,042). Employee wages and related expense increased by $153,640 due to increased bonuses of $305,000 which were partially offset by reductions in the total number of employees.

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

CAPITAL FINANCING

During December 2004, we borrowed $2,400,000 in notes payable to help finance future operations. The notes are for a one year term, bear interest at 7%

interest compounded quarterly and are secured by all of the assets of NutraCea. The holders were issued warrants to purchase a total of 2,400,000 shares of NutraCea's common stock at an exercise price of $0.30 per share. The warrants are immediately exercisable and expire in seven years from the date of issuance. Debt discount expense of $786,370 was recorded in connection with issuance of these warrants and is being amortized over the life of the notes payable.

LIQUIDITY AND CAPITAL RESOURCES

We have incurred significant operating losses for its last three fiscal years and, as of December 31, 2004 NutraCea had an accumulated deficit of $44,927,792. At December 31, 2004, NutraCea had cash and cash equivalents of $1,928,281 and a net working capital of $283,835. While we believe this amount is sufficient to fund current business requirements it is not deemed sufficient to cover our expanded business plan and growth, nor the repayment of debt obligations.

To date, we have funded our operating deficits through a combination of short-term debt and the issuance of common and preferred stock. During 2004, we raised $2,400,000 from the issuance of third-party notes payable. We also raised $2,776,468 through the exercise of stock options during 2004.

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CRITICAL ACCOUNTING POLICIES

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

Revenue recognition

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

Valuation of long-lived assets

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

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

(a) significant underperformance relative to expected historical or projected future operating results,

(b) significant changes in the manner of its use of the acquired assets or the strategy of its overall business, and

(c) significant negative industry or economic trends.

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

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

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

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

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

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

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

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

Off Balance Sheet Arrangements

None

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ITEM 7. FINANCIAL STATEMENTS

INDEX TO FINANCIAL STATEMENTS

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REPORT OF INDEPENDENT REGISTERED
PUBLIC ACCOUNTING FIRM

Board of Directors
NutraCea and subsidiaries
El Dorado Hills, California

We have audited the accompanying consolidated balance sheet of NutraCea as of December 31, 2004, and the related statements of operations, changes in stockholders' deficit, and cash flow for each of the two years then ended. These financial statements are the responsibility of NutraCea's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of NutraCea as of December 31, 2004, and the results of its operations and its cash flows for each of the two years then ended, in conformity with accounting principles generally accepted in the United States of America.

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

February 14, 2005

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NUTRACEA AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEET
DECEMBER 31, 2004

ASSETS

CURRENT ASSETS	
Cash	$ 1,928,281
Marketable securities	183,801
Accounts receivable	7,681
Inventory	304,064
Prepaid expenses	30,755
Total current assets	2,454,582
RESTRICTED MARKETABLE SECURITIES	183,801
PROPERTY AND EQUIPMENT, net	119,650
PATENTS AND TRADEMARKS, net	329,851
GOODWILL	250,001
TOTAL ASSETS	$ 3,337,885

LIABILITIES AND SHAREHOLDERS' DEFICIT

CURRENT LIABILITIES	
Accounts payable	$ 261,073
Accrued expenses	180,049
Due to related parties	73,978
Notes payable	1,635,174
Convertible, mandatorily redeemable series A preferred stock, no par value, $1 stated value 20,000,000 shares authorized 0 shares issued and outstanding	20,473
Total current liabilities	2,170,747
COMMITMENTS AND CONTINGENCIES	
SHAREHOLDERS' EQUITY	
Common stock, no par value 100,000,000 shares authorized 36,130,544shares issued and outstanding	48,123,282

Deferred compensation	(15,954)
Accumulated deficit	(44,927,792)
Accumulated other comprehensive income, unrealized loss on marketable securities	(2,012,398)
Total shareholders' equity	1,167,138
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 3,337,885

The accompanying notes are an integral part of these financials

NUTRACEA AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS

	For the years ended December 31 2004	2003
REVENUES		
Net product sales	$ 1,009,729	$ 1,536,153
Licensing fees	214,500	-
Total revenues	1,224,229	1,536,153
COST OF GOODS SOLD	600,129	845,668
GROSS PROFIT	624,100	690,485
OPERATING EXPENSES	24,175,462	8,917,489
LOSS FROM OPERATIONS	(23,551,362)	(8,227,004)
OTHER INCOME (EXPENSE)		
Interest income	4,497	2
Interest expense	(27,602)	(4,310,796)
Total other income (expense)	(23,105)	(4,310,794)
NET LOSS	(23,574,467)	(12,537,798)
CUMULATIVE PREFERRED DIVIDENDS	8,373	124,411
NET LOSS AVAILABLE TO COMMON SHAREHOLDERS	$ (23,582,840)	$(12,662,209)
BASIC AND DILUTED LOSS AVAILABLE TO COMMON		

SHAREHOLDERS PER SHARE	$ (1.18)	$ (2.07)
BASIC AND DILUTED WEIGHTED-AVERAGE SHARES OUTSTANDING	19,905,965	6,106,548

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The accompanying notes are an integral part of these financials

NUTRACEA AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

	For the years ended December 31 2004	2003
NET LOSS	$ (23,574,467)	$(12,537,798)
OTHER COMPREHENSIVE LOSS		
Unrealized loss on marketable securites	(2,012,398)	-
COMPREHENSIVE LOSS	$ (25,586,865)	$(12,537,798)

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The accompanying notes are an integral part of these financials

NUTRACEA AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003

	Convertible, Redeemable Series A Preferred Stock		Common Stock		Committed Common Stock	
	Shares	Amount	Shares	Amount		
BALANCE, DECEMBER 31, 2002	2,144,707	$ 2,060,931	2,375,807	$5,861,702	$ 571,674	$
PREFERRED STOCK ISSUED FOR ACCRUED INTEREST	200,000	8,351				
PREFERRED STOCK DIVIDEND		124,411				
PREFERRED STOCK CONVERTED TO COMMON STOCK	(1,674,707)	(1,633,453)	254,323	1,651,860		
PREFERRED DIVIDENDS CONVERTED TO COMMON STOCK		(208,450)	278,766	190,043		
COMMON STOCK ISSUED						
for committed stock			145,917	571,674	(571,674)	
for cash			134,048	111,500		
for services rendered			28,688	29,795		
for deferred salaries			475,555	416,899		

for accounts payable	80,114	62,724
for convertible notes payable	3,431,251	823,119
for loan collateral	50,000	
ISSUANCE COSTS		(7,000)
AMORTIZATION OF DEFERRED COMPENSATION		
REVERSAL OF DEFERRED COMPENSATION		(243,605)
STOCK OPTIONS EXERCISED FOR CASH	4,519,373	427,575

	Total
BALANCE, DECEMBER 31, 2002	$(3,122,643)
PREFERRED STOCK ISSUED FOR ACCRUED INTEREST	
PREFERRED STOCK DIVIDEND	(124,411)
PREFERRED STOCK CONVERTED TO COMMON STOCK	1,651,860
PREFERRED DIVIDENDS CONVERTED TO COMMON STOCK	190,043
COMMON STOCK ISSUED	
for committed stock	__
for cash	111,500
for services rendered	29,795
for deferred salaries	416,899
for accounts payable	62,724
for convertible notes payable	823,119
for loan collateral	
ISSUANCE COSTS	(7,000)
AMORTIZATION OF DEFERRED COMPENSATION	140,114
REVERSAL OF DEFERRED COMPENSATION	__
STOCK OPTIONS EXERCISED FOR CASH	427,575

The accompanying notes are an integral part of these financials

STOCK OPTIONS ISSUED						
in lieu of deferred salaries				150,465		
for services rendered				1,274,584		(109
for accounts payable				40,527		
for convertible debt				183,855		
BENEFICIAL CONVERSION FEATURE FOR CONVERTIBLE DEBT				99,516		
STOCK OPTIONS CANCELLED				(476,362)		476
MODIFICATION OF OPTIONS AND WARRANTS						
non-employees				9,507,253		
employees				303,750		
NET LOSS						
BALANCE, DECEMBER 31, 2003	670,000	$ 351,790	11,773,842	$20,979,874	$ -	$(122
PREFERRED STOCK DIVIDEND		8,373				

PREFERRED STOCK DIVIDEND PAID		(48,004)		
PREFERRED STOCK REPURCHASED	(130,000)			
PREFERRED STOCK CONVERTED				
TO COMMON STOCK	(540,000)	(348,351)	630,000	348,351
PREFERRED DIVIDENDS CONVERTED				
TO COMMON STOCK		(5,986)	5,759	5,986
COMMON STOCK ISSUED				
for marketable securities			7,000,000	2,380,000
for services rendered			4,407,950	3,470,100
for patent incentive plan			180,000	239,100
for accounts payable			168,626	57,944
for settlements			5,780,000	8,837,816

STOCK OPTIONS ISSUED	
in lieu of deferred salaries	150,465
for services rendered	1,165,584
for accounts payable	40,527
for convertible debt	183,855
BENEFICIAL CONVERSION FEATURE	
FOR CONVERTIBLE DEBT	99,516
STOCK OPTIONS CANCELLED	--
MODIFICATION OF OPTIONS AND WARRANTS	
non-employees	9,507,253
employees	303,750
NET LOSS	(12,537,798)
BALANCE, DECEMBER 31, 2003	$ (487,273)
PREFERRED STOCK DIVIDEND	(8,373)
PREFERRED STOCK DIVIDEND PAID	
PREFERRED STOCK REPURCHASED	
PREFERRED STOCK CONVERTED	
TO COMMON STOCK	348,351
PREFERRED DIVIDENDS CONVERTED	
TO COMMON STOCK	5,986
COMMON STOCK ISSUED	
for marketable securities	2,380,000
for services rendered	3,470,100
for patent incentive plan	239,100
for accounts payable	57,944
for settlements	8,837,816

The accompanying notes are an integral part of these financials

AMORTIZATION OF DEFERRED				
COMPENSATION				57,648
REVERSAL OF STOCK OPTIONS			(48,590)	48,590
COMMON STOCK CANCELLED		(50,000)		
STOCK OPTIONS EXERCISED FOR CASH		6,579,323	2,776,468	
STOCK OPTIONS ISSUED				
for services rendered			8,582,516	
for notes payable			786,370	
RECLASS OF OPTIONS TO				
PREFERRRED STOCK	62,651		(62,651)	

COMMON STOCK REPURCHASED			(344,956)	(230,000)			
OTHER COMPREHENSIVE LOSS							(2,01
NET LOSS	-		-	-		-	
BALANCE, DECEMBER 31, 2004	-	$20,473	36,130,544	$48,123,284	$ -	$(15,954)	$(2,01

AMORTIZATION OF DEFERRED COMPENSATION	57,648
REVERSAL OF STOCK OPTIONS	-
COMMON STOCK CANCELLED	-
STOCK OPTIONS EXERCISED FOR CASH	2,776,468
STOCK OPTIONS ISSUED	
for services rendered	8,582,516
for notes payable	786,370
RECLASS OF OPTIONS TO PREFERRRED STOCK	(62,651)
COMMON STOCK REPURCHASED	(230,000)
OTHER COMPREHENSIVE LOSS	(2,012,398)
NET LOSS	(23,574,467)
BALANCE, DECEMBER 31, 2004	$ 1,167,137

The accompanying notes are an integral part of these financials

NUTRACEA AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the Year E December 31 2004	
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	$(23,574,467)	$(12
Adjustments to reconcile net loss to net cash used in operating activities		
Accretion of warrants used as a debt discount		
Depreciation and amortization	38,057	
Non-cash issuances of preferred stock	(354,337)	
Non-cash issuances of common stock	15,339,296	
Non-cash issuances of stock options & warrants	9,306,234	1
Beneficial conversion feature	-	
Modifications of options and warrants, non-employees	62,651	9
Modifications of options and warrants, employees	(48,590)	
(Increase) decrease in		
Accounts receivable	22,772	
Inventory	(233,170)	
Prepaid expenses	(15,898)	
Increase (decrease) in		
Advances from related parties	55,590	

Accounts payable	(43,280)
Accrued salaries and benefits	7,287
Deferred compensation	106,238
Accrued expenses	(51,058)
Customer deposits	-
Net cash provided (used) in operating activities	617,325
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchase of marketable securities	(2,380,000)
Purchase of property and equipment	(117,421)
Purchase of patents and trademarks	(295,284)
Net cash used in investing activities	(2,792,705)
CASH FLOWS FROM FINANCING ACTIVITIES	
Proceeds from notes payable, net	1,635,174
Proceeds from notes payable-related parties	-
Principal payments on notes payable	-
Principal payments on notes payable-related parties	-
Payment of preferred dividends	(48,004)
Repurchase of preferred stock	(130,000)
Repurchase of common stock	(230,000)
Proceeds from the issuance of common stock, net	

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The accompanying notes are an integral part of these financials

NUTRACEA AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003

Proceeds from exercise of stock options	2,776,468	427,575
Net cash provided by financing activities	4,003,638	1,078,162
Net increase (decrease) in cash	1,828,258	65,305
CASH, BEGINNING OF YEAR	100,023	34,718
CASH, END OF YEAR	$1,928,281	$ 100,023
CASH PAID FOR INTEREST	$ 1,391	$ 21,631
CASH PAID FOR INCOME TAXES	$ -	$ -
NON-CASH DISCLOSURE:	$2,380,000	$ -
PURCHASE OF LANGLEY PLC SHARES WITH COMMON STOCK		

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The accompanying notes are an integral part of these financials

NUTRACEA AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - ORGANIZATION AND LINE OF BUSINESS

General

NutraCea was originally incorporated on February 4, 2000 in California as NutraStar Technologies Incorporated. On December 14, 2001, NutraStar Technologies Incorporated ("NTI") effected a reorganization with the inactive publicly-held company, Alliance Consumer International, Inc., and the name was changed to NutraStar Incorporated. The name was changed again to NutraCea on October 1, 2003.

NutraCea is a relatively new health science company focused on the development and distribution of products based upon the use of stabilized rice bran and proprietary rice bran formulations. Rice bran is the outer layer of brown rice which until recently was a wasted by-product of the commercial rice industry. These products include food supplements and medical foods which provide health benefits for humans and animals (known as "nutraceuticals") as well as cosmetics and beauty aids based on stabilized rice bran, rice bran derivatives and the rice bran oils.

On April 27, 2000, NTI formed NutraGlo Incorporated ("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 NutraCea's products to the equine market. In 2002, NutraCea issued 250,001 shares of its common stock to NaturalGlo Investors L.P. in exchange for the remaining 20% of the common stock of NutraGlo. The value of the shares was $250,001. As a result, NutraGlo is now a wholly owned subsidiary of NTI.

For internal reporting purposes, management segregates NutraCea into two segments: (1) NutraCea, including the transactions of TheraFoods(R), ProCeuticals(R), and NutraBeauticals(R), and (2) NutraGlo.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation - The consolidated financial statements include the accounts of NutraCea and its wholly owned subsidiaries, NutraCea Technologies Incorporated and NutraGlo(R) (collectively, the "Company"). All significant inter-company accounts and transactions are eliminated in consolidation.

Revenue Recognition- Revenue is generally recognized upon shipment of product with a provision for estimated returns and allowances recorded at that time, if applicable. Commission revenue is generally recognized when earned and collection is reasonably assured. Licensing revenue is recognized when earned and collection is reasonably assured.

Accounts Receivable-The Company provides for the possible inability to collect accounts receivable by recording an allowance for doubtful accounts. As of December 31, 2004, there were no uncollectible accounts.

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

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

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

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

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

Patents and Trademarks-The Company has exclusive licenses for several patents, which were acquired from independent third parties and a related party. All costs associated with the patents are capitalized. Patents acquired from related parties are recorded at the carryover basis of the transferor. The Company paid cash as consideration for all patents and trademarks acquired, except the Via-Bran registered trademark, which was acquired for 21,409 shares of common stock valued at $21,409.
Amortization is computed on the straight-line method based on estimated useful lives of 17 to 20 years. The Company also has registered trademarks, which are amortized over estimated useful lives of 10 years.

The Company recorded a loss reserve totaling $75,359 as of December 31, 2002 related to the impairment of certain patents.

Deferred Compensation-Deferred compensation at December 31, 2004 represents the intrinsic value of options previously issued to employees that have not been vested.

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

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

	For the years ended December 31, 2004	2003
Net loss available to common shareholders:		
As reported:	$ (23,582,840)	$(12,662,209)
Pro forma:	$ (25,955,080)	$(12,754,495)
Basic loss per common share:		
As reported:	$ (1.18)	$ (2.07)
Pro forma:	$ (1.31)	$ (2.09)

Advertising Expense-The Company expenses all advertising costs, including direct response advertising, as they are incurred. Advertising expense for 2004 and 2003 was $22,074 and $21,959, respectively.

Income Taxes-The Company accounts for income taxes under the liability method, which requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been included in the financial statements or tax returns. Under this method, deferred income taxes are recognized for the tax consequences in future years of differences between the tax bases of assets and liabilities and their financial reporting amounts at each period end based on enacted tax laws and statutory tax rates applicable to the periods in which the differences are expected to affect taxable income. Valuation allowances are established, when necessary, to reduce deferred tax assets to the amount expected to be realized.

Loss Per Share-Basic loss per share is computed by dividing loss available to common shareholders by the weighted-average number of common shares outstanding. Diluted loss per share is computed similar to basic loss per share except that the denominator is increased to include the number of additional common shares that would have been outstanding if the potential common shares had been issued and if the additional common shares were dilutive. Common equivalent shares are excluded from the computation if their effect is anti-dilutive. As such, basic and diluted loss per share is the same.

Estimates-The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Concentrations of Credit Risk-On May 1, 2001, the Company entered into a three-year, exclusive distribution agreement with a customer, in which the customer is required to purchase a minimum of 90,000 pounds of the Company's product on or before July 1, 2001, 120,000 pounds before September 1, 2002, 275,000 pounds between September 1, 2002 and August 31, 2003, and 350,000 pounds between September 1, 2003 and August 31, 2004. During 2004, sales to this customer totaled $600,976 (59% of total sales). During 2003, sales to this customer totaled $1,247,086 (81% of total sales).

Recently Issued Accounting Pronouncements-SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity" establishes standards for how an issuer classifies and measures in its statement

of financial position certain financial instruments with characteristics of both liabilities and equity. In accordance with the standard, financial instruments that embody obligations for the issuer are required to be classified as liabilities. SFAS No. 150 is effective for financial instruments entered into or modified after May 31, 2003 and otherwise will be effective at the beginning of the first interim period beginning after June 15, 2003. Having adopted of SFAS No. 150 in 2003, NutraCea has reclassified its preferred dividends as a current liability.

In December 2004, the FASB issued SFAS No. 123R, "Accounting for Stock-Based Compensation" SFAS No. 123R establishes standards for the accounting for transactions in which an entity exchanges its equity instruments for goods or services. This Statement focuses primarily on accounting for transactions in which an entity obtains employee services in share-based payment transactions. SFAS No. 123R requires that the fair value of such equity instruments be recognized as expense in the historical financial statements as services are performed. Prior to SFAS No. 123R, only certain pro forma disclosures of fair value were required. SFAS No. 123R shall be effective for small business issuers as of the beginning of the first interim or annual reporting period that begins after December 15, 2005. The impact of the adoption of this new accounting pronouncement would be similar to the Company's calculaton of the pro forma impact on net income of SFAS 123 included above.

NOTE 3 - MARKETABLE SECURITIES

On September 8, 2004 NutraCea purchased 1,272,026 shares of Langley Park Investment Trust, PLC, a United Kingdom closed-end mutual fund that is actively traded on a London exchange. Per the Stock Purchase Agreement, NutraCea paid with 7,000,000 shares of its own common stock.

Per the Agreement, NutraCea may sell 636,013 shares of Langley at any time, and the remaining 636,013 shares of Langley and the 7,000,000 shares of NutraCea are escrowed for a 2-year period. At the end of the period, Langley's NutraCea shares are measured for any loss in market value and if so, NutraCea must give up that pro-rata portion of its Langley shares up to the escrowed 636,013 shares.

As of December 31, 2004 the NutraCea shares had not lost any value. However, the Langley shares are marked down to their fair market value of $367,602, with one-half or $183,801 shown as a current asset because they may be sold at any time, and the other one-half shown as long-term because they are held in escrow pending the 2-year review of NutraCea's stock valuation.

NOTE 4 - PROPERTY AND EQUIPMENT

Property and equipment at December 31, 2004 consisted of the following:

Furniture and equipment	$ 62,007
Automobile	73,096
Software	286,047
Leasehold improvements	13,870
Subtotal	$ 435,020
Less accumulated depreciation	(315,370)
TOTAL	$ 119,650

Depreciation expense was $16,303 and $88,589 for 2004 and 2003, respectively.

NOTE 5 - PATENTS AND TRADEMARKS

Patents and trademarks at December 31, 2004 consisted of the following:

Patents, net of $75,359 of impairment expense from 2002	$ 317,024
Trademarks	62,328
	379,352
Less accumulated amortization	(49,501)
TOTAL	$ 329,851

At December 31, 2004, $91,009 of the NutraCea's patents and trademarks had been purchased from RiceX. Amortization expense was $21,754 and $10,198 for 2004 and 2003, respectively.

NOTE 6 - NOTES PAYABLE

In December 2004 NutraCea executed three promissory notes to third party investors totaling $2,400,000. The notes are for a one year term, bear interest at 7% interest compounded quarterly and are secured by all of the assets of NutraCea. The holders were issued warrants to purchase a total of 2,400,000 shares of NutraCea's common stock at an exercise price of $0.30 per share. The warrants are immediately exercisable and expire in seven years from the date of issuance. A discount on the debt of $786,370 was recorded for these warrants and is being amortized over the life of the notes.

NOTE 7 - PUT OPTION

During the year ended December 31, 2001, NutraCea issued 130,000 shares of Series A preferred stock to a related party as payment of accounts payable totaling $130,000. On January 15, 2002, these holders of the Series A preferred stock executed a put/call agreement. The put allowed for the holder to sell to NutraCea all, but not less than all, of the 130,000 shares of NutraCea's Series A preferred stock, or common stock if any of the Series A preferred stock were converted, for $130,000, plus all accumulated, but unpaid dividends, at any time after six months from January 15, 2002. In addition, NutraCea maintained the right to call the option and purchase back the shares of the Series A preferred stock for $130,000, plus any unpaid and accrued dividends at any time, subject to certain provisions. Prior to December 31, 2004 NutraCea purchased back the shares of the Series A preferred stock for $130,000.

NOTE 8 - INCOME TAXES

NutraCea has had losses since inception and, therefore, has not been subject to federal or state income taxes. As of December 31, 2004, NutraCea had accumulated net operating loss ("NOL") carryforwards for income tax purposes of approximately $28.2 million, resulting in a deferred tax asset amount of $9.6 million. All deferred tax asset amounts are fully reserved. These carryforwards expire in 2019 through 2024.

NOTE 9 - COMMITMENTS AND CONTINGENCIES

Lease

NutraCea leases its office space under a non-cancelable operating lease with RiceX that expires in September 2006 and requires monthly payments of $6,366. Future minimum payments under this lease agreement at December 31, 2004 were as follows:

Year Ending December 31,	
2005	$ 76,389
2006	57,292
TOTAL	$133,681

Rent expense was $64,688 and $63,899 for the years ended December 31, 2004 and 2003, respectively.

Agreements

For all agreements where stock is awarded as partial or full consideration, the expense is valued at the fair value of the stock. Expense for stock options and warrants issued to consultants is calculated at fair value using the Black-Scholes valuation method.

Effective January 1, 2004, NutraCea amended two executive employment contracts to reflect quarterly bonuses. Under the contract, compensation shall be $45,000 per calendar quarter, with 250,000 shares of common stock to be granted in the event NutraCea achieves gross revenues of $1 million or more for the quarter. In addition, a one-time stock grant of 550,000 shares of common stock will be awarded for the first quarter gross revenues equal or exceed $5 million. This bonus agreement is effective until April 15, 2006, unless extended by the board. NutraCea also agreed to maintain an annual bonus program for members of the senior management group, including the Chief Executive Officer. The Chief Executive Officer shall be eligible to receive an annual bonus under terms otherwise governing the annual bonus program.

Effective January 1, 2004, NutraCea amended the stock options section of an executive employment contract dated April 15, 2003. The amendment changed the vesting conditions on 250,000 shares of common stock to "upon the completion of the twelfth month of employment "instead of "upon the Company achieving two successful calendar quarters of net profits from operations of the business of the Company before interest, taxes, depreciation and amortization as conclusively determined by the independent certified public accountant for the Company".

On January 12, 2004, NutraCea entered into a one-year consulting agreement with a sales and marketing company. Under the terms of the agreement, compensation shall be warrants to purchase 4,000,000 shares of common stock as follows: 300,000 shares at $.50 per share on or before January 12, 2004; 400,000 shares at $.50 per share on or before February 17, 2004; and 3,300,000 shares at $.50 per share on or before April 19, 2004. Non-cash compensation expense of $3,911,886 was recorded relating to this agreement. All of the warrants had been exercised at March 31, 2004.

On January 28, 2004, NutraCea entered into a one-year consulting agreement with a sales and marketing company. Under the terms of the agreement, compensation shall be warrants to purchase 90,000 shares of common stock at an exercise price of $.01 per share. Non-cash compensation expense of $137,158 was recorded relating to this agreement. As of March 31, 2004, these warrants had been exercised.

On February 2, 2004, NutraCea entered into a six -month consulting agreement with a communications company. Under the terms of the agreement, compensation shall be $2,500 per month, plus shares of common stock valued at $6,000 issued at signing of contract. Either party may terminate the agreement with sixty days written notice. At March 31, 2004, the shares had been issued in full.

On February 23, 2004, NutraCea entered into a one-year consulting agreement with a marketing company. Under the terms of the agreement, compensation shall be monthly issuance of shares of common stock valued at $7,500 per month. In addition, the consultant is entitled to a 3% commission on equity or debt financing introduced to NutraCea.

On March 1, 2004, NutraCea entered into a 90-day consulting agreement with a financial relations company. Compensation shall be the issuance of 100,000 shares of common stock per month. As of March 31, 2004, 100,000 shares valued at $142,000 had been issued to the consultant.

On March 1, 2004, NutraCea entered into a one-year consulting agreement with a sales and marketing company. Compensation shall be the issuance of 25,000 shares of common stock. At March 31, 2004, these shares had been issued. Non-cash compensation expense of $35,500 was recorded relating to this agreement.

On March 9, 2004, NutraCea entered into a one-year consulting agreement with a communications company. Under the terms of the agreement, compensation shall be issuance of shares of common stock valued at $36,000. At March 31, 2004, these shares have been issued in full.

On March 15, 2004, NutraCea entered into a six-month consulting agreement with a sales and marketing company. Under the terms of the agreement, compensation shall be warrants to purchase 400,000 shares of common stock, at an exercise price of $.001 and warrants to purchase up to 1,000,000 shares of common stock at an exercise price of $1.20, to be exercised within three years. At March 31, 2004, the 400,000 warrants exercisable at $.001 had been exercised. Non-cash compensation expense of $2,149,598 was recorded relating to this agreement.

On March 19, 2004, NutraCea approved granting a one-time cash bonus of 2/3 of normal salary to the CEO and President. The bonus amount for both executives is $180,000, was paid by April 1, 2004.

On March 25, 2004, NutraCea entered into two, two-year consulting agreements with two medical advisors. Under the terms of the agreement, compensation shall be 100,000 shares of common stock each, payable in advance, and options to purchase 100,000 shares of common stock at a price of $.50 per share for the second year of service. The 200,000 shares of common stock are valued at $286,000, and the options are valued at $107,684. Expense for these amounts was recorded in April 2004 when the shares and options were issued.

On March 25, 2004, NutraCea entered into a three-year consulting agreement with a development and marketing company. Under the terms of the agreement, compensation shall be $1 per unit (a minimum 30-day supply of NutraCea product) for up to a total accumulated payment of $750,000, and $.50 per unit thereafter, payable quarterly within 45 days after the end of the quarter. In addition, NutraCea will issue 100,000 shares of common stock for each probiotic formulation NutraCea markets, and options to purchase 300,000 shares of common stock at an exercise price of $1 per share with 100,000 options to be vested immediately and 50,000 shares per year thereafter. The vested options are valued at $102,782.

On April 2, 2004, NutraCea entered into a 180-day consulting agreement with a marketing and investor relations company. The term can be extended another 180 days by mutual agreement. Under the terms of the agreement, compensation shall be 400,000 shares of common stock, and $4,000 cash per month.

Compensation shall also include an 8% cash commission on equity or debt financing introduced to NutraCea, as well as a warrant, exercisable within 3 years, for common shares to equal 10% of the gross financing proceeds. The warrant is to be priced at 110% of the closing bid price for the preceding 30 business days of the day of closing, such warrant or shares to be issued at closing.

On April 15, 2004, NutraCea entered into a one-year consulting agreement with a sales and marketing consultant. Under the terms of the agreement, compensation shall be warrants to purchase 50,000 shares of common stock at $.80 per share upon the completion of certain benchmarks. The warrants are valued at $46,758 and expire in 3 years.

On April 29, 2004, NutraCea entered into a one-year consulting agreement (with options to extend for four successive terms of one year each) with two retired employees of NutraCea. Under the terms of the agreements, annual compensation of $70,000 and $80,000 each is payable on a monthly basis. In addition, each of the consultants received warrants to purchase 50,000 shares of common stock at $.20 a share. The 100,000 warrants are valued at $91,370 and expire in 5 years. Either party can cancel this agreement with 30-day written notice.

On April 15, 2004, NutraCea entered into a one-year consulting agreement with a sales and marketing consultant. Under the terms of the agreement, compensation shall be warrants to purchase 50,000 shares of common stock at $.80 per share upon the completion of certain benchmarks. The warrants are valued at $46,758 and expire in 3 years.

On June 2, 2004, NutraCea entered into two consulting agreements with sales and marketing consultants. Under the terms of the agreements, each consultant was issued 150,000 restricted shares of common stock, valued at $161,500. The agreement called for these shares to be included in the next registration statement filed.

On July 14, 2004, NutraCea entered into a six-month consulting agreement with a business consultant to provide NutraCea with consulting services and advice pertaining to NutraCea's business affairs. Compensation was $12,000 payable in cash monthly. In addition, should the consultant provide assistance to NutraCea in the raising of capital either in the form of equity or debt, NutraCea agreed to pay an additional future bonus or fee, which the consultant would receive based on the efforts expended and results obtained.

On August 1, 2004, NutraCea entered in a 90-day Independent Contractor Agreement with a contractor to prepare reports regarding investor relations, prepare advertising and marketing materials, and prepare press releases. Compensation was $12,000 payable in cash monthly.

On September 2, 2004, NutraCea entered into a 90-day consulting agreement with a securities firm to serve as NutraCea's investment advisor regarding acquisitions or similar corporate transactions and to provide assistance and advice with respect to raising capital required to consummate an acquisition or similar corporate transaction. A non-reimbursable initial fee of $50,000, to be credited again Phase I fees, was paid at execution of the agreement. Services were to be rendered as Phase I and Phase II services and compensated as follows.

Phase I services: A fee of two percent of the total value of a target acquisition to be paid simultaneously with the closing of the acquisition or similar corporate transaction, to be paid 50% in cash and 50% in newly issued stock by NutraCea based on the closing values of the transaction on that day.

Phase II services: A cash fee of ten percent of the total amount of capital raised pursuant to sources introduced to NutraCea by the consultant. In the event NutraCea shall issue any equity or convertible securities to raise capital in connection with an acquisition or similar corporate transaction, NutraCea shall issue warrants for ten percent of the total amount of securities issued. The warrants shall have an exercise price equal to one hundred and twenty percent (120%) of the per share equity valuation established in the capital raising transaction, but in no case less than

100% of the market value of the shares on the date of the transaction, and shall be exercisable for a term of five years. A cash fee of six percent will be paid in any capital raising transaction involving unsecured debt securities.

On November 26, 2004, the Company hired a consultant to help in the facilitation of the Company's business model. As compensation, the consultant was paid with 715,000 shares of common stock. Additionally, the consultant also entered into a non-exclusive, non-transferable, revocable licensing agreement to import and distribute the Company's products in accordance with its marketing plan. The consultant paid the Company $214,500 for these distribution rights.

On December 10, 2004 the Company entered into an employment agreement that expires December 31, 2007 with its Chief Executive Officer whereby the Company is to pay the officer a base salary of $150,000 in year one; a base salary of $150,000 in year two; and a base salary of $250,000 in year three. The agreement also provides that the officer is entitled to an annual incentive bonus based upon performance and to be provided a car of the employee's choice. The incentive bonus shall be paid annually within 10 days of the completion of the Company's annual independent audit. Such bonuses shall be one percent of NutraCea's "Gross Sales over $25,000,000" on an annualized basis or $6,250,000 per quarter and the Company reports a positive EBITDA for the period. The bonus amount shall be limited to a maximum of $750,000 in any calendar year and shall continue so long as the officer is an employee or consultant for the Company. In addition, the officer was issued warrants to purchase 2,000,000 shares of the Company's common stock at an exercise price of $0.30 per share. The warrants are immediately exercisable and expire in ten years from the date of issuance. On December 17, 2004 the Company entered into an employment agreement that expires December 31, 2007 with its President whereby the Company is to pay the officer a base salary of $50,000 in year one; a base salary of $150,000 in year two; and a base salary of $250,000 in year three. The agreement also provides that the officer is entitled to an annual incentive bonus based upon performance and to be provided a car allowance of $600 per month. The incentive bonus shall be paid annually within 10 days of the completion of the Company's annual independent audit. Such bonuses shall be one percent of NutraCea's "Gross Sales over $25,000,000" on an annualized basis or $6,250,000 per quarter and the Company reports a positive EBITDA for the period. The bonus amount shall be limited to a maximum of $750,000 in any calendar year. In addition, the officer was issued warrants to purchase 6,000,000 shares of the Company's common stock at an exercise price of $0.30 per share. The warrants are immediately exercisable and expire in ten years from the date of issuance. Minimum future payments under these two agreements at December 31, 2004 were as follows:

Year Ending December 31,	
2005	$ 200,000
2006	300,000
2007	500,000
TOTAL	$1,000,000

Generally, if the Company terminates these agreements without cause or the employee resigns with good reason, as defined, the Company will pay the employees' salaries, bonuses, and benefits payable for the remainder of the term of the agreements.

Litigation

On July 16, 2002, the Company was summoned to answer a Complaint filed by Faraday Financial, Inc. ("Faraday") in District Court, County of Salt Lake, Utah (Case No. 020906477). The Complaint alleges that the Company issued convertible promissory notes totaling $450,000 and a promissory note totaling $50,000. On December 13, 2001, Faraday entered into a settlement agreement with the Company, whereby Faraday agreed to cancel the promissory notes in exchange for 735,730 shares of preferred stock. Faraday claims that the settlement agreement required that the Company effect a registration statement covering the preferred stock by June 30, 2002, which the Company failed to do, and demands the Company immediately forfeit to Faraday 735,730 shares of common stock owned by the Chief Executive Officer of the Company. Faraday has filed its fourth claim for relief for a judgment against the Company for $500,000, plus accrued, but unpaid interest, attorneys' fees and costs, and other such costs. A Settlement Agreement was executed on December 10, 2003. In consideration for the mutual releases, Faraday converted 735,730 preferred into 735,730 common shares and $90,127 of accrued preferred dividends into 1,201,692 common shares. Within the next year, if Faraday cannot realize $551,797 and approximately $9800 in legal expenses from the sale of the common shares, NutraCea will make up any deficiency. If stock sale exceeds $561,597, Faraday is entitled to keep any excess. Subsequent to December 31, 2003, the Company issued an additional 250,000 shares to Faraday. Concurrently, with the executed Settlement Agreement, a joint stipulated motion to stay all proceedings was filed with the Court. After all the above conditions are met, if Faraday has not lifted the stay within 18 months of December 10, 2003, NutraCea shall deliver to Faraday an executed stipulation for dismissal with prejudice of the Complaint and Counterclaim.

NOTE 10 - PREFERRED AND COMMON STOCK

Effective November 12, 2003 and pursuant to adoption of the Company's "Certificate of Amendment of Restated Articles of Incorporation" dated October 27, 2003, the Company effected a reverse split of all previously issued common stock on the basis of one-for-ten shares. Additionally, per the "Certificate of Amendment of Restated Articles of Incorporation", the number of authorized shares of common stock was increased from 50,000,000 to 100,000,000, and the number of authorized shares of preferred stock was increased from 10,000,000 to 20,000,000. All share amounts reflected in the following discussion of common stock and elsewhere in this Form 10-KSB have been adjusted to account for the one-for-ten reverse split.

Convertible, Redeemable Series A Preferred Stock

In December 2001, the Company approved the issuance of 3,000,000 shares of convertible, redeemable Series A preferred stock and executed a certificate of designation of the rights, preferences, and privileges of the Series A preferred stock. Each shareholder of Series A preferred stock is entitled to receive a 7% cumulative dividend, which is only payable in the case of liquidation or redemption. The Series A preferred stock has a $1 per share stated value and will receive certain liquidation preferences after satisfaction of claims of creditors, but before payment or distributions of assets and surplus funds. On

November 12, 2003, the number of authorized shares of preferred stock was increased from 10,000,000 shares to 20,000,000 shares.

Furthermore, the Series A preferred stock is convertible at the option of the holder at $1 per share into the Company's common stock, subject to certain anti-dilution provisions. In addition, the Series A preferred stock will automatically convert into common stock in the event of a qualified public trading benchmark, which is defined as (i) the common stock is listed on a national exchange at twice its conversion price or (ii) the common stock is quoted on the over-the-counter bulletin board at an average bid price of at least $1.25 per share over any 30-day trading period. At December 31, 2004, all the outstanding preferred stock was converted under option (ii) above.

On July 7, 2003, the Company cancelled 634,121 shares of preferred stock previously issued to a shareholder as collateral and issued 20,000 shares of preferred stock for accrued interest totaling $8,351 on a promissory note dated September 23, 2002.

During the year ended December 31, 2003, the Company converted 1,674,707 shares of preferred stock to 254,323 shares of common stock valued at $1,651,860.

During the year ended December 31, 2003, the Company issued 278,766 shares of common stock in payment of preferred stock dividends due in the amount of $190,043.

During the year ended December 31, 2004 the Company repurchased 130,000 shares of preferred stock for $130,000.

During the year ended December 31, 2004, the Company converted 540,000 shares of preferred stock to 630,000 shares of common stock valued at $348,351.

During the year ended December 31, 2004, the Company issued 5,759 shares of common stock in payment of preferred stock dividends due in the amount of $5,986.

The Company may redeem any and all outstanding shares of Series A preferred stock. Upon the five-year anniversary of the date of issuance, the Company is required to redeem all of its outstanding shares of Series A preferred stock at $1 per share, plus all accrued and unpaid dividends declared. As of December 31, 2004 all outstanding shares of preferred stock had either been repurchased or converted into shares of common stock. As of December 31, 2004 there was a balance of unpaid and accrued dividends of $20,473.

As of December 31, 2004, cumulative dividends totaled $20,473.

Common Stock

During 2003, NutraCea issued 134,048 shares of common stock for $104,500, net of $7,000 in related commissions.

During 2003, NutraCea issued 4,519,373 shares of common stock pursuant to the exercise of stock options and warrants for $427,575.

During 2003, NutraCea issued 28,688 shares of common stock to various consultants for services rendered with a fair value of $29,795.

On August 18, 2003, NutraCea agreed to pay a consultant for unpaid fees in the amount of $9,236. NutraCea will pay $4,636 in monthly installments of $1,159, payable on the first of each month beginning October 1, 2003. NutraCea also

agreed to issue 2,421 shares of common stock, valued at $4,600, to the consultant as payment in full.

In September 2003, NutraCea agreed to pay $38,771 of unpaid fees to a consultant, of which $8,771 is payable upon execution of the agreement and the balance, $30,000, is payable in monthly installments of $2000, payable on the first of each month beginning October 1, 2003. NutraCea also agreed to issue 73,519 shares of common stock, valued at $56,037, to the consultant as payment in full.

On October 31, 2003, the Board of Directors approved the issuance of common stock in lieu of compensation to the Company's Chief Operating Officer and Chief Executive Officer. Chief Operating Officer John Howell received 72,911 shares of common stock in lieu of $94,784 in salary and other compensation accrued for past services; Chief Executive Officer Patricia McPeak received 402,644 shares of common stock in lieu of $322,115 in salary and other accrued compensation for past services. These shares of common stock were issued under the 2003 Stock Compensation Plan.

Due to the termination of certain employees during 2003, the Company recorded a reversal of deferred compensation totaling $243,605.

During 2003, the Company issued 3,431,251 shares of common stock, valued at $823,119, to various parties for conversion of convertible notes payable and accrued interest in the amount of $776,887 and $46,232, respectively.

On March 25, 2004, NutraCea established the NutraCea Patent Incentive Plan, which grants 15,000 shares of common stock to each named inventor on each granted patent, which is assigned to NutraCea. Under the terms of this plan during the year ended December 31, 2004, NutraCea issued 180,000 shares of common stock valued at $239,100.

During the year ended December 31, 2004, NutraCea issued 280,000 shares of common stock to two consultants in settlement of contractual agreements valued at $477,816.

During the year ended December 31, 2004, NutraCea issued 5,500,000 shares of common stock to NutraCea's Chief Executive Officer for services and cancellation of indebtedness. Pursuant to the Restricted Stock Agreement between NutraCea and the Chief Executive Officer ("Agreement"), the shares are subject to a repurchase option at a price of $5,000 for any unreleased shares based upon a vesting schedule. The shares vest 50% on January 1, 2006 and the remaining 50% vest on January 1, 2007 contingent on the Chief Executive Officer's continuous employment with NutraCea. Vesting may accelerate under the Agreement and 100% of the shares not already released from the repurchase option will be immediately released upon any of: (i) a Change of Control, as defined in the Agreement; (ii) the Chief Executive Officer's death or disability; (iii) the Chief Executive Officer's retirement after the second anniversary of the effective date of the Agreement; (iv) termination of the Chief Executive Officer's employment by NutraCea other than for Cause, as defined in the Agreement; or (v) at the sole discretion of NutraCea's Board of Directors.

On April 1, 2004, NutraCea repurchased 344,956 shares of common stock valued at $230,000 from the Chief Executive Officer of NutraCea pursuant to a repurchase agreement of that date.

During the year ended December 31, 2004, NutraCea converted preferred dividends in the amount of $5,986 into 5,759 shares of common stock.

On September 8, 2004, NutraCea and Langley Park Investments PLC ("Langley") signed a Stock Purchase Agreement under which NutraCea agreed to sell 7,000,000 shares of its common stock to Langley. The transaction will close at the time that Langley's shares are trading on the London Stock Exchange for anticipated consideration to NutraCea (i) immediately following the closing of approximately $1,190,000 U.S.D. in Langley stock, and (ii) additional consideration of that number of Langley shares which, as of the closing, will have a value of approximately $1,190,000 (the "Langley Shares"). NutraCea has agreed to hold the Langley Shares in escrow for two years from the date of closing. After the two-year holding period, the Langley Shares will be subject to possible reduction in number if NutraCea's common shares are trading at a value of less than $0.34 U.S.D. After such reduction, if any, the remaining Langley Shares may be sold by NutraCea at their then current value.

Pursuant to the Purchase Agreement, Langley has agreed that it will not sell, transfer or assign any or all of the NutraCea shares for a period of two years following the closing without the prior written consent of NutraCea, which consent may be withheld by NutraCea in its sole discretion.

During the year ended December 31, 2004, Nutracea issued 3,767,950 shares of common stock to consultants for services rendered valued at $2,542,300.

During the year ended December 31, 2004, Nutracea issued 640,000 shares of common stock to officers and directors for services rendered valued at 927,800.

During the year ended December 31, 2004, NutraCea issued 168,626 shares of common stock to vendors in payment of accounts payable totaling $57,944.

During the year ended December 31, 2004, Nutracea issued 6,579,323 shares of common stock pursuant to the exercise of stock options for cash totaling $2,776,468.

During the year ended December 31, 2004, NutraCea converted 540,000 shares of preferred stock to 630,000 shares of common stock pursuant to the Mandatory Conversion paragraph of the Private Placement Memorandum dated November 9, 2001.

NOTE 11 - STOCK OPTIONS AND WARRANTS

Expense for stock options and warrants issued to consultants is calculated at fair value using the Black-Scholes valuation method.

On October 31, 2003, the Board of Directors approved and adopted the 2003 Stock Compensation Plan and authorized the President of the Company to execute a registration statement under the Securities Act of 1933 for 10,000,000 shares of common stock.

The expense, if any, of stock options issued to employees is recognized over the shorter of the term of service or vesting period. The expense of stock options issued to consultants or other third parties are recognized over the term of service. In the event services are terminated early, the entire amount is recognized. The unamortized portion of the expense to be recognized is recorded as deferred compensation.

In April 2003, the Company issued warrants to purchase 1,000,000 shares of common stock to its Chief Operating Officer in accordance with an employment agreement dated April 15, 2003. The warrants have an exercise price of $0.001 per share and vest as follows:

- 250,000 on April 15, 2003

- 250,000 upon the fourth month of employment

- 250,000 upon the eighth month of employment

- 250,000 upon the twelfth month of employment

In relation to this transaction, the Company recorded deferred compensation expense totaling $109,000. In addition, because this grant as modified due to the reverse split of November 21, 2003 must be accounted for as a variable award, an additional $303,750 was recorded relating to this award as of December 31, 2003.

On June 20, 2003, the Company issued warrants to purchase 32,900 shares of common stock to a vendor as payment on accounts payable totaling $27,786. The warrants have an exercise price of $.01 per share and expire June 18, 2008. In addition, the Company entered into a note payable agreement with the consultant totaling $17,000, payable at $3,000 per month beginning September 2003.

On July 31, 2003, the Company issued warrants to purchase 7,143 shares of common stock to a vendor as payment on accounts payable totaling $5,676. The warrants have an exercise price of $0.01 per share and expire June 12, 2008. In addition, the Company entered into a note payable agreement with the consultant totaling $4,000, payable at $1,000 a month beginning October 1, 2003.

During September 2003, the Company entered into a compensation agreement with a consultant, whereby the Company will pay a total of $5,356 of unpaid fees due to the consultant in monthly payments of $670, payable on the first of the month beginning October 1, 2003. Per the agreement, the Company also issued warrants valued at $7,065 to purchase 4,167 shares of common stock at an exercise price of $0.01 per share. The warrants expire on August 5, 2008.

During the six months ended June 30, 2003, the Company issued warrants to purchase 321,285 shares of common stock at exercise prices ranging from $0.01 to $0.70 per share to employees in lieu of deferred salaries totaling $150,465. The warrants expire five years from date of issue.

During the year ended December 31, 2003, options and warrants representing 4,519,373 shares of common stock were exercised for a total value of $427,575.

During the year ended December 31, 2003 the Company issued 3,796,563 options to various consultants for services rendered. The options have exercise prices between $.001 and $5.00 and expire at varying times between six months and five years. Non-cash consulting expense of $1,165,584 was recorded relating to these agreements.

During the year ended December 31, 2003, the Company issued warrants to purchase 2,545,000 shares of common stock exercisable at $.20 per share and expiring five years from date of issue. The warrants were issued in connection with the conversion of $823,119 of convertible notes payable and accrued interest to common shares of the Company, and non-cash expense of $183,855 was recorded relating to these warrants.

During the year ended December 31, 2004, NutraCea issued 6,998,493 warrants with exercise prices between $.001 and $5.00 per share to consultants. The warrants expire at varying times between six months and five years. A total of $7,761,515 in non-cash compensation expense was recorded relating to the issue of these warrants.

On July 9, 2004, NutraCea issued 25,000 stock options with an exercise price of $.20, expiring in five years, to an employee of the Company. Non-cash compensation expense of $21,000 was recorded relating to the issue of these options.

During the quarter ended December 31, 2004, Nutracea issued 2,400,000 warrants with an exercise price of $0.30, in conjunction with notes payable issued by the Company during the quarter. The warrants are immediately exercisable and expire in seven years from the date of issuance. A total of $786,371 of accrued debt discount expense was recorded relating to the issue of these warrants and is being amortized over the term of the notes payable.

During the quarter ended December 31, 2004, Nutracea issued 8,000,000 stock options with an exercise price of $0.30, expiring in 10 years to officers of the Company. Non-cash compensation expense of $800,000 was recorded relating to the issue of these options.

Modification of Employee Awards Accounted for Under APB 25

NutraCea granted 1,000,000 options in 2003 to an employee where the option agreement contained a provision whereby neither the number of options nor the exercise price would be adjusted by reverse splits. Effective November 12, 2003, NutraCea authorized a 1 for 10 reverse split. This triggered variable accounting for this award. As of November 12, 2003, 500,000 options had been exercised and only 500,000 remained. Variable accounting requires any intrinsic value at the modification date in excess of the amount measured at the original measurement date shall be recognized as compensation cost over the remaining future service period if the award is unvested, or immediately if the award is vested, for any employee who could benefit from the modification. The award vested 75% in 2003 and 25% in 2004. The award will be marked to market each balance sheet date with the changes charged to compensation expense and additional paid in capital. As of December 31, 2003, the additional intrinsic value on the vested portion totaled $303,750.

Modification of Non-Employee Awards Accounted for Under FAS 123

Nutracea granted 5,725,000 warrants to outsiders in 2003 where the warrant agreements contained a provision whereby neither the number of warrants nor the exercise price would be adjusted by reverse splits. Effective November 12, 2003, NutraCea authorized a 1 for 10 reverse split. This triggered a modification for this award. A modification of the terms of an award that makes it more valuable shall be treated as an exchange of the original award for a new award. In substance, the entity repurchases the original instrument by issuing a new instrument of greater value, incurring additional compensation cost for that incremental value. The incremental value shall be measured by the difference between (a) the fair value of the modified option determined in accordance with the provisions of this section and (b) the value of the old option immediately before its terms are modified, determined based on the shorter of (1) its remaining expected life or (2) the expected life of the modified option. As of December 31, 2003, the additional value totaled $9,811,002 which was recorded as non-cash compensation expense.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The following table summarizes all of the Company's stock option transactions:

	EMPLOYEES			
	Year Ended		Year Ended	
	December 31, 2004		December 31, 2003	
	Weighted Average Exercise Price	Weighted Average Number of Shares	Exercise Price	Number of Shares
Options Outstanding, Beginning of Period	$ 0.56	764,700	$ 0.41	1,090,564
Options Granted	$ 0.30	8,025,000	$ 0.11	1,371,285
Options Expired	$ 0.00	0	$ 6.60	(24,361)
Reverse Split	$ 0.00	0	$ 4.17	(981,503)
Options Exercised	$ 0.01	(500,000)	$ 0.02	(691,285)
Options Outstanding, End of Period	$ 0.34	8,289,700	$ 0.56	764,700
Options Exercisable, End of Period	$ 0.34	8,289,700	$ 0.56	764,700

	CONSULTANTS			
	Year Ended		Year Ended	
	December 31, 2004		December 31, 2003	
	Weighted	Weighted		

	Average Exercise Price	Average Number of Shares	Exercise Price	Number of Shares
Options Outstanding, Beginning of Period	$ 0.98	3,196,819	$ 0.90	2,096,890
Options Granted	$ 0.62	9,598,493	$ 0.29	6,989,105
Options Expired	$ 4.94	(220,833)	$ 5.31	(76,182)
Reverse Split	$ 0.00	0	$ 8.42	(1,884,951)
Options Exercised	$ 0.43	(6,479,323)	$ 0.12	(3,928,043)
Options Outstanding, End of Period	$ 0.85	6,095,156	$ 0.98	3,196,819
Options Exercisable, End of Period	$ 0.85	5,845,156	$ 0.98	3,196,819

Other information regarding stock options outstanding at December 31, 2004 is as follows:

		Options Outstanding		Options Exercisable	
Range of Exercise Price	Remaining Life (Years)	Number of Shares	Weighted Average Exercise Price	Number of Shares	Weighted Average Exerc Price
.001-1.20	3-10	13,846,234	$ .40	13,596,230	$.
2.50-5.00	4-10	493,259	$ 4.30	493,259	$ 4.
10.00	10	45,363	$ 10.00	45,363	$ 10.

The weighted average fair value of the stock options granted during 2004 and 2003 was $0.69 and $1.04 respectively. Variables used in the Black Scholes option-pricing model include (1) 2.0% risk-free interest rate, (2) expected option life is the actual remaining life of the options as of each year-end, (3) expected volatility ranged from 77% to 251%, and (4) zero expected divdends.

NOTE 12 - RELATED PARTY TRANSACTIONS

In November 2004 the Board of Directors resolved to purchase a new automobile valued at $73,096 for use by the Chief Executive Officer. The CEO waived a car allowance in exchange for use of the automobile. At December 31, 2004, the Company has booked a payable to related party for $73,096.

RiceX Company is a publicly owned company. The spouse of our majority stockholder owns approximately 5% of RiceX and is the former CEO and the current Chairman of the Board and a current director of Ricex. RiceX is NutraCea(R)'s sole supplier for rice bran derivatives, which are integral to NutraCea(R)'s sales strategy and which account for about 72% of NutraCea(R)'s total cost of sales.

On December 12, 2001, NutraCea agreed with RiceX to be their exclusive distributor of rice solubles and rice bran fiber concentrate in the United States of America and to have the exclusive rights to various patents and trademarks owned by RiceX under a 15-year agreement. Under the terms of this agreement, RiceX agreed to cancel certain indebtedness by NutraCea in exchange for 130,000 shares of Series A preferred stock and payment of $41,335 in interest, agreed to new minimum purchase requirements, and agreed to extend the term of the agreement for five years, with two additional renewal periods of five years each. The sales price to NutraCea will be the lower of RiceX's published standard price or the price negotiated by other customers for like quantities and products.

In January 2002, NutraCea revised this 15-year agreement with RiceX. To maintain rights under this revised agreement, NutraCea was to purchase $250,000 of product from RiceX by April 2002, $500,000 by July 2002, $750,000 by October 2002, $1,250,000 by January 2003, $1,500,000 by July 2003, $2,250,000 by January 2004, $6,000,000 by January 2005, and increasing thereafter by 10% per annum through the remaining term of the agreement. During 2002, NutraCea received notice from RiceX, stating that NutraCea was in default under the terms of this distribution agreement with RiceX. On July 9, 2002, RiceX exercised its right to terminate the exclusive distribution agreement and the related license agreements with NutraCea due to NutraCea's default. However, RiceX has agreed that NutraCea has a license to use the patents in its business pursuits.

NOTE 13 - 401(K) PROFIT SHARING PLAN

Effective April 2000, NutraCea adopted a 401(k) profit sharing plan (the "Plan") for the exclusive benefit of eligible employees and their beneficiaries. Substantially all employees are eligible to participate in the Plan. Matching contributions to the Plan are 3% of the employees' gross salary, not to exceed a certain percentage. For 2004 and 2003, NutraCea made matching contributions of $16,064 and $12,616, respectively.

NOTE 14 - BUSINESS SEGMENTS

For internal reporting purposes, management segregates NutraCea into two segments as follows for 2004 and 2003:

SEGMENT INFORMATION

TWELVE MONTHS ENDED DECEMBER 31, 2004	NET SALES	(LOSS) FROM OPERATIONS	INTEREST EXPENSE	TOTAL ASSETS	DEP AMO
NutraStar Technologies Incorporated	$ 408,753	$ 84,431	$ 27,602	$ 3,302,018	$
NutraGlo Incorporated	600,976	213,023	-	35,867	
Unallocated corporate overhead	-	(23,848,816)	-	-	
Total, NutraCea	$ 1,009,729	$(23,551,362)	$ 27,602	$ 3,337,885	$

TWELVE MONTHS ENDED DECEMBER 31, 2003	NET SALES	(LOSS) FROM OPERATIONS	INTEREST EXPENSE	TOTAL ASSETS	DEP AMO
NutraStar Technologies Incorporated	$ 251,157	$ (1,946,352)	$4,292,109	$ 482,089	$
NutraGlo Incorporated	1,284,996	541,091	18,687	58,992	
Unallocated corporate overhead	-	(6,821,743)	-	-	
Total, NutraCea	$ 1,536,153	$ (8,227,004)	$4,310,796	$ 541,081	$

NOTE 15 - SUBSEQUENT EVENTS (UNAUDITED)

Effective January 1, 2005, NutraCea entered into a four month consulting agreement with an individual to act as the interim Chief Financial Officer of the Company. Minimum monthly compensation is $6,250 payable in cash monthly.

On January 25, 2005 the Company entered into a three year employment agreement with its Senior Vice President whereby the Company is to pay the officer a base salary of $150,000 per year. The agreement also provides that the officer is entitled to a one-time initial bonus of $25,000 and will be eligible for future incentive bonuses based solely on the discretion of the Chief Executive Officer or President of the Company and to be approved by the Company's Compensation Committee. Warrants to purchase 1,000,000 shares of the Company's common stock at an exercise price of $0.30 per share were issued and will vest 500,000 at signing of the employment agreement and 500,000 on January 25, 2006. Warrants to purchase 1,000,000 shares of the Company's common stock at an exercise price of $0.30 per share were also issued and will vest upon the achievement of NutraCea obtaining "Gross Sales over $25,000,000" and the Company reports a positive EBITDA for the period. All warrants expire in ten years from the date of issuance.

On January 26, 2005 the Company entered into a non-exclusive distribution agreement to distribute the Company's rice based nutraceutical products in the United States. An initial order for $25,000 was made concurrently with the signing of the agreement. The term of the agreement is for three years. Products are sold to the distributor at NutraCea's standard price schedule; purchases above certain annual minimum requirements will then receive a 5% discount. Additionally, failure to meet these minimum purchase requirements is cause for termination of the agreement at the Company's option. NutraCea may also at its option terminate the agreement upon 60 days written notice to the distributor.

On February 9, 2005, NutraCea issued 200,000 stock options with an exercise price of $0.45 per share, vesting in three years, expiring in ten years, to two employees of the Company with each receiving 100,000 options. Non-cash compensation expense of $2,000 was recorded relating to the issue of these options.

NUTRACEA AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

On February 10, 2005 NutraCea entered into a one year consulting agreement with a financial relations company. Compensation shall be $10,000 per month and the issuance of 700,000 warrants to purchase shares of common stock at a price of $.45 per share; 700,000 warrants to purchase shares of common stock at a price of $.65 per share; and 700,000 warrants to purchase shares of common stock at a price of $.85 per share. In conjunction with this agreement the Company agreed to pay a finder's fee to a consulting company consisting of stock options to purchase 135,000 shares of common stock at a price of $0.45 per share.

On February 28, 2005 the Company terminated an existing consulting agreement with a retired employee that was entered into on April 19, 2004. At the Company's sole discretion it may retain the services of the consultant on a monthly basis at a rate of $80 per hour, not to exceed 10 hours per month for the first three months following the termination of the agreement. Additionally, for each patent granted to the Company whereby the consultant is listed as inventor, the consultant shall receive 15,000 shares of restricted common stock; however the maximum value of the stock grant shall not exceed $15,000 based on the closing bid price of the Company's common stock on the date the patent is granted, with the total shares granted reduced accordingly.

On March 1, 2005, NutraCea amended and restated a consulting agreement (with Company options to extend on an annual basis) with a retired employee of NutraCea. Under the terms of the agreement, monthly compensation of $7,500 is payable. In addition, the consultant received warrants to purchase 10,000 shares of common stock at $.43 a share. The 10,000 warrants are valued at $3,131 and expire in three years. Either party can cancel this agreement with 30-day written notice. If the agreement is extended past the first year then monthly compensation will be increased to $8,333 with additional warrants to purchase 15,000 shares of common stock at the market price per share at the date of extension. Additionally, for each patent granted to the Company whereby the consultant is listed as inventor, the consultant shall receive 15,000 shares of restricted common stock; however the maximum value of the stock grant shall not exceed $15,000 based on the closing bid price of the Company's common stock on the date the patent is granted, with the total shares granted reduced accordingly.

On March 23, 2005, NutraCea agreed to pay $15,000 of unpaid fees to a consultant. NutraCea also agreed to issue 26,786 shares of common stock, valued at $15,000, to the consultant as payment in full
During the quarter ended March 31, 2005, Nutracea issued 33,067 shares of common stock to consultants for services rendered valued at $15,000.

During the quarter ended March 31, 2005, Nutracea issued 6,000 shares of common stock pursuant to the exercise of warrants for cash totaling $432.

ITEM 8. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 8A. CONTROLS AND PROCEDURES

The Company has adopted and implemented internal disclosure controls and procedures designed to provide reasonable assurance that all reportable information will be recorded, processed, summarized and reported within the time period specified in the SEC's rules and forms. Under the supervision and with the participation of NutraCea's management, including NutraCea's President and Chief Executive Officer and NutraCea's Controller and Principal Financial Officer, NutraCea has evaluated the effectiveness of the design and operation of its disclosure controls and procedures pursuant to Exchange Act Rule 13a-15(e) as of the end of the year covered by this report. Based on that evaluation, the President and Chief Executive Officer and the Controller and Principal Financial Officer have concluded that these disclosure controls and procedures are effective. There were no changes in NutraCea's internal controls or in other factors during or since the end of the fiscal year covered by this report that have had a material affect or are reasonably likely to have a material affect on internal controls subsequent to the end of the year covered by this report.

ITEM 8B. OTHER INFORMATION

On January 26, 2005 the Company entered into a non-exclusive distribution agreement to distribute the Company's rice based nutraceutical products in the United States. An initial order for $20,000 was made concurrently with the signing of the agreement. The term of the agreement is for three years.

PART III

ITEM 9. DIRECTORS, EXECUTIVE OFFICERS, PROMOTERS AND CONTROL PERSONS; COMPLIANCE WITH SECTION 16(A) OF THE EXCHANGE ACT

PATRICIA MCPEAK Chairman of the Board and Chief Executive Officer Director since 2001	Ms. McPeak, 63, has been our Chairman of the Board and Chief Exe Exchange Transaction with NutraStar Technologies Incorporated on She was the founder of NutraStar Technologies Incorporated and w Officer, President and a director of NutraStar Technologies Inco in February 2000. From May 1989 until February 2000 she was the director of The RiceX Company, which she co-founded. From 1981 was an executive officer of Brady International, Inc. a company stabilized rice bran, which she also co-founded. Ms. McPeak has the field of protein and ingredient production, having served as for 25 years.
BRADLEY EDSON President and Director since 2004	Mr. Edson, 45, was named President and member of the Board of Di December 17, 2004. Mr. Edson was formerly the Chairman and CEO (OTC BB: VTLV) a company that primarily developed and marketed N to Vital Living, Mr. Edson spent a decade developing a nationwi focused on distribution channels for specialty products for the Mr. Edson was a former principal and officer of a "NASD broker/d received his Bachelor of Science Degree in Finance from Arizona
JOHN HOWELL Former President and Director *	Mr. Howell, 58 was named President and a member of the Board of on April 15, 2003. Prior to joining NutraCea, he served as the and a member of the Board of Directors of Kingdom Ventures (OTCB marketing company for the Christian community. From 2000 until served as Executive Vice President and remains a member of the B Visual Corporation (OTCBB:NVEI), a late development stage fables semiconductor company. From January 1998 until October 1998 Mr. President of TeraGLOBAL Communications Corp., a manufacturer of hardware. From 1997 to 1998 he was Chief Executive Officer of E manufacturer of computer equipment. Mr. Howell received his Bac Oregon State University in Aerospace Engineering.

ELIOT DRELL
Director since 2004

Dr. Drell, 52, has been Chief of Gastroenterology at Mercy Hospi
since 1984. Dr. Drell's past medical appointments including acti
Endoscopic unit at Mercy Hospital of Folsom, California and Mars
Medicine at Mercy Hospital; Member of the Medical Executive Comm
Hospital and Marshall Hospital; and Assistant Professor at U.C.
Drell is an active speaker and lecturer for major pharmaceutical

ERNIE BODAI, M.D.
Director since 2004

Dr. Bodai, 54, is Director of Breast Surgical Services at Kaiser
California. He is also Clinical Professor at the University of C
authored over 250 medical articles, clinical guidelines for prac
textbook. He holds a number of medical device patents, is a memb
prestigious surgical societies and is the recipient of many prom

DAVID BENSOL
Director since March 2005

Mr. Bensol, 49, was the former CEO of Critical Home Care, which
Arcadia Resources, Inc. (OTC BB: ACDI). Mr. Bensol was the Exec
and Director of Arcadia Resources from May 2004 until his resign
positions in December 2004. In 2000 Mr. Bensol founded what eve
Home Care, through a series of acquisitions and mergers. From 1
founded several companies which became successful companies in t
medical equipment providers, acute care pharmacy providers and s
providers. Mr. Bensol became a registered pharmacist in 1979.

MARGIE ADELMAN
Senior Vice President
and Secretary

Ms. Adelman, 45, was appointed Senior Vice President in January
the Company in February 2005. From 2000 to 2004 Adelman owned an
Communications a full service public relations firm based in Boc
that, from 1994 to 2000 Adelman was President of TransMedia Grou
relations firm in Florida. Adelman holds a doctorate in Naturopa
Clayton School of Natural Medicine and attended college at Flori
University where she studied communications and journalism

EDWARD G. NEWTON
Vice President

Mr. Newton, 67, is NutraCea's Vice President-Sales. He has held
Exchange Transaction with NutraStar Technologies, Incorporated o
He has been the Vice President-Sales and a director of NutraStar
Incorporated since its formation in February 2000 and the Secret
Technologies, Incorporated since October 2000. Mr. Newton resig
NutraCea in 2003. From 1996 to February 2000, Mr. Newton served
for RiceX. Prior to February 2000, Mr. Newton worked in various
capacities for General Mills, an international consumer foods co
General Mills included Purchasing Director of Ingredients from 1
Personnel and Sales Training from 1977 to 1986, and Manager of M
to 1993.

JAMES KLUBER
Interim Chief Financial Officer

Mr. Kluber, 54, joined NutraCea as interim Chief Financial Offic
December 2001 until September 2003 Mr. Kluber also served as Nut
Financial Officer. From February 2000 until the present Mr. Kl
Chief Financial Officer and a Director of Newgold, Inc., a publi
mining of precious metals and industrial minerals. From 1980 to
as Chief Financial Officer for several different public and priv
1980 he was in public accounting with Ernst & Ernst, one of the
is now Ernst & Young.

JOANNA HOOVER
Former Chief
Financial Officer **

Ms. Hoover, 54, joined NutraCea as acting Chief Financial Office
2000 until the present Ms. Hoover has also served as the Chief F
Holdings, Inc., a public company engaged in providing database m
attorneys for research and litigation support. Ms. Hoover is a
and from 1973 to 2000 was engaged in public accounting. From 19
partner in the accounting firm of Nommensen, Hoover & Williams.

DR. RUKMINI CHERUVANKY Chief Science Officer	Dr. Cheruvanky, 69, became NutraCea's Chief Science Officer on F was the Chief Science Officer of NutraStar Technologies Incorpor As of March 31, 2004, Dr. Cheruvanky ceased being an officer of consultant to NutraCea. Prior to joining NutraStar Technologies as the Director of Research and Development for The RiceX Compan until March 2000. From January 1996 to April 1996, Dr. Cheruvan Laboratory Supervisor for Certified Analytical Laboratories, a c food analysis. From November 1994 until December 1995, she was the Research and Development Department of DuPont Merck Pharmace From May 1967 until she retired in February 1994, Dr. Cheruvanky Director of the National Institute of Nutrition located in Hyder Food Toxicology and Environmental Carcinogenic Division of the I Cheruvanky is a Fellow of the American College of Nutrition and reviewed scientific publications to her credit.