NUTRACEA
Form 10KSB/A
February 03, 2006

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

FORM 10-KSB/A

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 AMENDMENT NO. 2

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

NUTRACEA
(Name of Small Business Issuer in It Charter)

California (State of Incorporation)	87-0673375 (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 o

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/A or any amendment to this Form 10-KSB/A. o

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 o No x

Explanatory Note

This amendment on Form 10-KSB/A (the 2004 Form 10-KSB/A) amends the annual report on Form 10-KSB of NutraCea (the “Company”) for the year ended December 31, 2004 (the 2004 Form 10-KSB), which was originally filed on March 31, 2005. This Amendment No. 2 to the 2004 Form 10-KSB/A is being filed for the purpose of further amending certain portions of the Management’s Discussion and Analysis or Plan of Operations and expanded disclosure appearing in the Consolidated Statements of Operations as well as the revision of the Consolidated Statements of Cash Flows appearing in the Company’s financial statements and the Controls and Procedures section.

As required by Rule 12b-15 of the Securities Exchange Act of 1934, set forth in their entirety are Item 6 (Management’s Discussion and Analysis or Plan of Operation), Item 7 (Financial Statements), Item 8A (Controls and Procedures) and Item 13 (Exhibits).

As part of this amendment, the Company is also filing new certifications from its chief executive officer and chief financial officer (Exhibits 31.1, 31.2, and 32.1).

No attempt has been made in this Form 10-KSB/A to update other disclosures presented in the 2004 Form 10-KSB or the Amendment No. 1 to the 2004 Form 10-KSB. Consequently, except for the adjustments described above, this Amendment No. 1 to the 2004 Form 10-KSB/A does not reflect events occurring after March 31, 2005, the date of the original filing of the Company’s 2004 Form 10-KSB, or modify or update those disclosures that may have been affected by subsequent events. Accordingly, this Amendment No. 2 to the 2004 Form 10-KSB/A should be read in conjunction with the Company’s filings made with the SEC subsequent to the filing of the 2004 Form 10-KSB, including Amendment No. 1 to the 2004 Form 10-KSB/A filed on November 18, 2005.

NutraCea
Form 10-KSB/A
For the Year ended December 31, 2004

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PART II

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

For more detailed financial information, please refer to the audited December 31, 2004 Financial Statements included in this Amendment No. 2 to the Form 10-KSB/A (referred to as the Form 10-KSB/A).

Caution about forward-looking statements

This Form 10-KSB/A 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/A 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/A 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 $21,672, 093 in 2004 and $1,577,938 in 2003. During 2004, these non-cash expenses included $8,360,000 relating to the issuance of 5.5 million restricted shares of common stock to the Company's CEO for services rendered and repayment of debt; $4,100,603 representing the value of restricted shares and shares covered by the Company's S-8 registration statement issued to officers, directors and consultants for services; and $8,537,516 representing the value of options and warrants issued to various employees and consultants. During 2003, non-cash expenses included $14,795 representing the value of restricted stock issued to consultants for services; $1,233,567 representing the value of options issued to consultants; and $329,576 representing the value of options issued to employees and directors. The increased issuance of restricted stock, options and warrants during 2004 was deemed necessary by management to retain and compensate officers, directors, consultants and employees while conserving cash assets that would otherwise have been expended for these purposes. Management expects in the future to reduce the amount of securities issued as compensation in light of expected future increases in cash assets due to anticipated increases in revenue and anticipated availability of additional investment capital from outside sources. However, if additional invested capital is not realized as anticipated, the Company may be required to issue additional restricted stock, options and/or warrants to compensate service providers in the current fiscal year. 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.

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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.

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 reliability 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

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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

ITEM 7. FINANCIAL STATEMENTS

INDEX TO FINANCIAL STATEMENTS

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of NutraCea as of December 31, 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.

As discussed in Note 16, the consolidated statement of cash flows for the year ended December 31, 2004 has been restated.

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

February 14, 2005
(November 11, 2005 as to the effects of the restatement discussed in Note 16)

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	