NUTRACEA
Form 10-K
March 30, 2012

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

FORM 10-K

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

For the year ended December 31, 2011

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

For the transition period from to

Commission File Number 0-32565

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

California	87-0673375
(State of Incorporation)	(I.R.S. Employer Identification No.)
6720 N. Scottsdale Road, Suite # 390 Scottsdale, AZ	85253
(Address of Principal Executive Offices)	(Zip Code)

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

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

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

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

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

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was

required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No o

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

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

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

Large accelerated filer o	Accelerated filer o	Non-accelerated filer o	Smaller reporting company x

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

As of June 30, 2011, the aggregate market value of our common stock held by non-affiliates was $30,685,837.

As of March 15, 2012, there were 204,626,939 shares of common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE:

Portions of the registrant's Definitive Proxy Statement for its annual meeting of shareholders, which Definitive Proxy Statement will be filed with the Commission not later than 120 days after the registrant's fiscal year ended December 31, 2011, are incorporated by reference into Part III of this Annual Report on Form 10-K.

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FORWARD-LOOKING STATEMENTS

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

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PART I

ITEM 1. BUSINESS

Chapter 11 Reorganization

On November 10, 2009, NutraCea (the Parent Company) filed a voluntary petition for relief under Chapter 11 of the United States Bankruptcy Code (Bankruptcy Code) in the United States Bankruptcy Court for the District of Arizona (the Bankruptcy Court), in the proceeding entitled In re: NutraCea, Case No. 2:09-bk-28817-CGC (the Chapter 11 Reorganization). None of the Parent Company's subsidiaries, including its Brazilian rice bran oil operation, Industria Riograndens De Oleos Vegetais Ltda (Irgovel), were included in the bankruptcy filing. The Parent Company continued to manage its assets and operate its business as "debtor-in-possession" under the jurisdiction of the Bankruptcy Court through the November 2010 plan effective date (see below).

On August 10, 2010, the Parent Company and the Official Unsecured Creditors Committee filed with the Bankruptcy Court an amended plan of reorganization (the Amended Plan) in accordance with the Bankruptcy Code calling for the payment in full of all allowed claims. Creditors voted overwhelmingly in favor of the Amended Plan and, on October 27, 2010, the Bankruptcy Court entered its order confirming the Amended Plan. The confirmation order became final on November 10, 2010, and the Amended Plan became effective on November 30, 2010 at which time the Company exited Chapter 11 proceedings.

In connection with the Chapter 11 Reorganization, we entered into a Senior Secured Super-Priority Debtor-In-Possession Credit and Security Agreement (DIP Credit Agreement) with Wells Fargo Bank N.A. (Wells Fargo) in November 2009 which was paid in full in 2010.

The liabilities subject to compromise existing at November 9, 2009 of approximately $7.0 million, became the Parent Company's payment obligations under the Amended Plan when the Amended Plan became effective. As of December 31, 2011, the portion of these obligations remaining unpaid of approximately $1.6 million is reflected as pre-petition liabilities in our balance sheet. In January 2012, we made the final distributions to our general unsecured creditors. We have met all of our creditor payment obligations related to the Chapter 11 process and all creditors under the Amended Plan have been paid 100% of all amounts due to them including interest.

General

NutraCea ("we", "us", "our", or the "Company"), a California corporation, is a human food ingredient and animal nutrition company focused on the procurement, bio-refining and marketing of numerous products derived from rice bran. We have proprietary and patented intellectual property that allows us to convert rice bran, one of the world's most underutilized food sources, into a number of highly nutritious human food and animal nutrition products. Our target markets are human food and animal nutrition manufacturers and retailers, as well as natural food, functional food and nutraceutical supplement manufacturers and retailers, both domestically and internationally. We have developed a bio-refining approach to processing raw rice bran into various value added constituents such as stabilized rice bran (SRB), rice bran oil (RBO), defatted rice bran (DRB) and a variety of other valuable derivative products from each of these core products.

We have three reportable business segments: (1) Corporate; (2) USA, which manufactures and distributes SRB in various granulations along with other products derived from rice bran via proprietary and patented enzyme treatment processes; and (3) Brazil, which extracts crude RBO and DRB from rice bran, which are then further processed into a number of valuable human food and animal nutrition products. The Corporate segment includes selling, general and administrative expenses including public company expenses, litigation, and other expenses not directly attributable to

other segments. No Corporate allocations are made to the other segments. General corporate interest is not allocated. For further information on segment results see Note 19 to the consolidated financial statements included herein.

The USA segment consists of two locations in California and two locations in Louisiana all of which can produce SRB. One of the two Louisiana SRB facilities, located in Lake Charles, has been idle since May 2009 (see Note 9 to the consolidated financial statements included herein). The USA segment also includes our Dillon, Montana Stage II facility which produces RiSolubles (a highly nutritious, carbohydrate and lipid rich fraction of SRB), RiFiber (a fiber rich derivative of SRB) and RiBalance (a complete rice bran nutritional package derived from further processing SRB). The manufacturing facilities included in our USA segment have proprietary and patented processing equipment and technology for the stabilization and further processing of rice bran into finished products. In 2011, 45.7% of USA segment revenue was from sales of human food products and 54.3% was from sales of animal nutrition products.

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The Brazil segment consists of our Irgovel operations located in Pelotas, Brazil. Irgovel manufactures RBO and DRB products for both the human and animal food markets in Brazil and internationally. Irgovel owns the largest rice bran processing facility in South America and is the only company in Latin America to produce edible RBO for human consumption. In refining RBO to an edible grade, several co-products are obtained. One such product is distilled fatty acids, a valuable raw material for the detergent industry. DRB is sold in bulk as animal feed and compounded with a number of other ingredients to produce complex animal nutrition products which are packaged and sold under Irgovel brands in the Brazilian market. For 2011, Brazil segment revenue was derived 20.1% from sales of human food products, 50.5% from sales of industrial oils and 29.4% from animal feed and nutrition products.

Our combined company is a vertically integrated manufacturer, product developer, and marketer of products based on bio-refining rice bran for use in a broad range of human food and animal nutrition products. We generated revenues of $37.0 million in 2011 compared to $33.4 million in 2010. We reported a net loss of $10.9 million for 2011, a significant improvement from the net loss of $15.7 million reported for 2010. We have domestic net operating loss carry forwards, or NOLs, in excess of $100 million for federal tax purposes that are available to offset future taxable income. These NOLs expire at various dates from 2012 through 2031 (see Note 14 to the consolidated financial statements included herein).

RiSoluble and RiBalance are NutraCea registered trademarks. Irgovel is a NutraCea trade name. In addition to our trade names and trademarks, we hold 23 issued patents and have several pending patents related to usage of and therapeutic endpoints for rice bran products and derivatives, including patents to a method to treat high cholesterol, to a method to treat diabetes and on a process for producing higher value fractions (HVF) from SRB (see Patents and Trademarks section below).

We downsized our corporate headquarters and overhead expenses significantly during the Chapter 11 process. As part of that process, in December 2009, we relocated our corporate offices to Scottsdale, Arizona, from the much larger and more expensive location in Phoenix, Arizona. We are currently located at 6720 N. Scottsdale Rd., Scottsdale, AZ 85253. As of December 31, 2011, we occupy approximately 9,000 square feet of corporate office space in Scottsdale, and 28,000 square feet of laboratory, warehouse and production facilities in West Sacramento, California. Additionally, we own SRB manufacturing facilities in Mermentau and Lake Charles, Louisiana and a Stage II production facility in Dillon, Montana. Two other rice bran stabilization facilities are co-located within supplier rice mills in Arbuckle and West Sacramento, California. Our Irgovel subsidiary is comprised of several facilities on approximately 19 acres in Pelotas, Brazil. These facilities include a plant for extraction of RBO from rice bran, RBO refining processes, compounded animal nutrition manufacturing, consumer RBO bottling, distilled fatty acid manufacture and support systems including steam generation, maintenance, administrative offices and a quality assurance laboratory. Our Irgovel facility is currently undergoing a major expansion that is expected to be completed in the third quarter of 2012.

History

We originally incorporated on March 18, 1998, in California, as Alliance Consumer International, Inc. and beginning in December 2001 were operating as NutraStar Incorporated. In October 2003, NutraStar Incorporated changed its name to “NutraCea” and the common stock began trading on the OTCBB. Our common stock is currently trading over-the-counter under the symbol “NTRZ.”

In October 2005, we acquired The RiceX Company (RiceX) in a merger transaction with RiceX surviving the merger as our wholly-owned subsidiary. In the merger, the shareholders of RiceX received shares of our common stock in exchange for 100% of the shares of RiceX common stock. Our acquisition of RiceX provided us with our first SRB manufacturing plant in West Sacramento, California, and our Stage II facility in Dillon, Montana.

In December 2007, we formed Rice Rx, LLC, and Rice Science, LLC, in which we held a 50% and 80% interest, respectively, at December 31, 2010. We formed Rice Rx, LLC and Rice Science, LLC with a partner, to develop, acquire, and commercialize certain SRB isolates. Effective in March 2011, Rice Rx LLC and Rice Science, LLC became our wholly-owned subsidiaries.

In February 2008, we acquired Irgovel, our rice bran oil processing plant in Pelotas, Brazil. In January 2011, we sold approximately 35.6% of our ownership of Nutra SA LLC, the 100% owner of Irgovel, to AF Bran Holdings-NL LLC and AF Bran Holding LLC (collectively Alothon) (see Note 5 to the consolidated financial statements included herein). During the remainder of 2011, Alothon exercised its right to acquire additional membership interests in Nutra SA and at December 31, 2011 held a 49.0% interest.

Products & Industry Background

NutraCea has developed a bio-refining approach to processing rice bran, which is the portion of the rice kernel that lays beneath the hull (also known as the husk) and envelopes the endosperm (white rice). Rice bran contains about 65% of the nutritional value of rough rice. However, without stabilization, the nutritional value of rice bran is lost shortly after the milling process. This is due to the lipase enzyme-induced rancidity that is activated during the rice milling process. Without stabilization, this nutrient rich resource – rice bran - has historically been sold as low value animal feed or disposed of as waste.

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In our rice bran bio-refining processes, we first stabilize the rice bran and then sequentially extract core and derivative products from rice bran with the goal of converting feed to food to nourish a global population expected to grow from 7 billion people at the end of 2011 to more than 9 billion people by 2050. Application of our bio-refining approach has enabled us to develop a variety of nutritional food products, including our primary products SRB, RBO and DRB. Our customers include major global companies that produce, market and sell products into the following domestic and international market sectors - consumer food products, animal nutrition, functional food ingredients, nutritional supplements and healthcare.

In the SRB bio-refining stream, we use proprietary and patented machinery and technologies to deactivate the lipase enzyme and stabilize the rice bran while preserving the nutritional value of the bran, giving it a minimum shelf life of one year and allowing for further processing of derivative products. Other competing stabilization processes have the ability to inactivate the lipase enzymes to various degrees and therefore provide some level of stability. However, unlike these other competing processes, the NutraCea SRB stabilization process thoroughly inactivates these enzymes leading to extended shelf stability while preserving the large array of antioxidants and other nutrients found in raw rice bran. We believe our SRB equipment and related stabilization technology is the best available globally.

In the RBO bio-refining stream, the process begins with a non-proprietary stabilization process followed by the extraction of RBO, leaving DRB as the initial co-product. The RBO extraction process utilized at our Brazilian facility uses a solvent extraction process to separate the oil from the raw rice bran resulting in crude RBO and DRB. Rice bran oil (RBO) is a vegetable oil that has many uses. In crude form, it has multiple industrial and animal nutrition applications. Additional refinement of the oil can involve degumming, neutralization, bleaching, de-waxing and deodorizing. This subsequent refining process yields a variety of valuable human food and animal nutrition products including distilled fatty acids and other high value products. Refined to human edible grade level, RBO becomes a high quality cooking oil and human food ingredient.

In the DRB bio-refining stream, the core product is used as animal feed and sold in bulk form. In addition, DRB can be compounded with other ingredients such as corn and soy to produce high quality, branded animal nutrition products sold under the Irgovel brand in Brazil. Further processing of DRB produces a human food ingredient that has functional properties in baked goods and meats as well as use in frying applications that result in reduced oil uptake. We believe that bio-refining of DRB is one of several processes with potential for concentrating protein from rice bran.

By definition, nutraceuticals are products from natural sources that have biologically therapeutic effects in humans and animals. NutraCea’s overall bio-refining approach produces core products (SRB, RBO and DRB) that are good sources of these compounds. Such compounds would include vitamins, antioxidants, polyphenols, phytosterols, oryzanols, macro and trace minerals, tocotrienols - a highly potent antioxidant form of vitamin E, and gamma-oryzanol, which is found in significant amounts in rice bran. Among other things, these compounds act as potent antioxidants. SRB and its derivatives also contain high levels of B-complex vitamins and beta-carotene, a vitamin A precursor. SRB also contains high levels of carotenoids and phytosterols, a balanced amino acid profile and soluble and insoluble fiber which promote colon health.

As the market becomes more aware of the value of our ingredients and proprietary formulations we believe demand for our products will increase materially. Since SRB, RBO and DRB are approved food products, we believe that their benefits can be obtained through multiple avenues as food products, dietary supplements and nutricosmetics. Many nutrition and health professionals have taken an interest in our nutritional ingredients as a means of offering alternative or complementary approaches for maintaining a healthy and active lifestyle. The health benefits of our products have been demonstrated through extensive research and clinical studies, and we are committed to supporting evidence-based studies that demonstrate the nutritional and health benefits of our products.

Detailed explanations and product sheets with specifications for our complete product range are available on our websites at www.nutracea.com and www.irgovel.com.br.

The Importance of Rice

Rice is the staple food for approximately 70% of the world's population, and is the staple food source for several of the world's most populous countries. Asia accounts for roughly 85% of global rice production, with its primary producer being China. China is the world's number one rice producer, outputting approximately 190 million metric tons of paddy rice annually. Globally, the United States ranks about 12th in production of rice at approximately 9 million metric tons annually. World rice production constitutes more than one quarter of all cereal grains produced worldwide. The United States accounts for less than 2% of the world's rice production. The vast majority of world rice tonnage (approximately 90%) is produced in 13 countries with aggregate populations of 3.2 billion people (according to the USA Rice Federation, Rice Notes). Approximately 75% of all rice production occurs in China, India, South East Asia, Africa and South America. Combined, these regions have a population of 2.3 billion people (nearly 50% of the world's population), and an average per capita gross domestic product of $2,000 (less than one tenth of the U.S. average).

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

Rice Processing and Rice Bran Stabilization

When harvested from the field, individual rice kernels are stored in common receiving locations such as farm silos for future delivery to grain dryers or area rice mills. At this stage, large quantities of individual rice kernels are collectively called “paddy rice”, or “rough” rice. In this form, the rice kernel is fully enveloped by the rice hull, which serves as a protective cover, shielding the inner rice kernel from damage.

After storage and drying, if necessary, paddy rice is cleaned of foreign material (scalping, de-stoning and aspiration) just before it enters the first stage of milling, or paddy husking. In the paddy husker, the hull is removed from rough rice by differential speed rubber rollers. Loosened hulls are carried off by aspiration. After husking, a paddy separator uses a reciprocating motion to separate normal brown rice kernels (caryopsis) from unhusked kernels which are returned to the paddy husker.

In the second stage of milling, the outer brown layers of bran are removed from the inner white starch endosperm by an abrasive or frictional milling process which produces a milled, white rice kernel. After milling, white rice is typically sorted by size to remove broken pieces of rice kernels from whole kernels, as well as color sorting to remove discolored kernels. Additional stages may be required (per customer specifications) to polish the white rice to a smooth surface.

Raw rice bran collected from the milling process is composed of rice germ and several sub-layers (pericarp, testa, nucellus and aeurone) surrounding the white starchy endosperm. Commercial rice bran makes up approximately 10% of rough rice by weight. Rice germ, an especially nutrient rich material, makes up approximately 10% of commercial rice bran by weight.

As brown rice is milled into white rice, the oils present in raw rice bran come into intimate contact with native lipase enzymes that are naturally present in the rice kernel. These lipase enzymes initiate a rapid hydrolysis of the oil, converting oils (triglycerides) into monoglycerides, diglycerides and free fatty acids (FFA). As the FFA content builds in raw rice bran, the bran becomes unpalatable and off flavors (rancidity) begin to develop. If left unchecked, enzymatic degradation at normal room temperatures can increase the FFA levels to 5-8% within 24 hours and can continue at a rate of approximately 4-5% per day thereafter. Enzymatic degradation is the most serious form of degradation of raw rice bran. Rice bran stabilization is the process of carefully deactivating native enzymes to prevent the increase of FFA otherwise caused by lipase enzyme activity. Stabilization is critical in the preservation of the nutritional value of the bran, an important nutrient source that is largely used as animal feed or otherwise wasted.

There have been a number of attempts to develop rice bran stabilization techniques, including the use of chemicals, microwave heating, or variations of existing extrusion technology. We believe each of these efforts results in an inferior product that either does not remain stable for a commercially reasonable period of time, or the nutrients in the bran are lost to processing, thereby significantly reducing the nutritional value in the bran.

The Stabilization Process

The NutraCea stabilization process uses proprietary innovations to create a combination of temperature, pressure and other conditions necessary to thoroughly deactivate enzymes without significantly damaging the structure or nutrient content of bran. This means that higher value compounds in bran, such as oils, proteins and phytonutrients are left undamaged and are available for utilization. Our process does not use chemicals to stabilize raw rice bran.

NutraCea stabilizers are designed to be installed on the premises of any conventional rice mill so that pneumatic conveyor systems can immediately carry the freshly milled, raw rice bran to the NutraCea stabilizer. Process logic controllers maintain exact process conditions within the prescribed pressure/temperature regime. In case of power failure or interruption of the flow of fresh bran into the system, the electronic control system is designed to purge the equipment of materials in process and resume production only after proper operating conditions are re-established.

Stabilized bran (SRB) leaving our system is then discharged onto cooling units specifically designed to control air pressure and humidity. Cooled SRB can be loaded into bulk hopper trucks for large volume, local customers, or sent by pneumatic conveyor to a bagging unit for packaging into 50 lb and 2,000 lb sacks.

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

Additional patented NutraCea processes involve enzyme treatment of SRB to effect separation of a lipid and carbohydrate rich water soluble fraction and a fiber and protein rich water insoluble fraction. In this process SRB, in an aqueous slurry, is treated with amylase enzyme, centrifugally separated and the two fractions dried on drum driers.

The Bio-Refining Process

In the bio-refining process, raw bran is obtained from a number of rice mills and transported to a facility within which it is first stabilized via extrusion and then solvent extracted to produce crude RBO and DRB. Crude RBO is subsequently processed in a number of steps designed to sequentially remove non-oil constituents. The final outcome of these steps is a highly refined, edible RBO that has superior flavor and functional properties. In addition, the various co-products of crude RBO processing, distilled fatty acids for example, are refined and sold as products in their own right. DRB is finely ground and packaged for use as a versatile food ingredient in many applications. DRB may also be compounded with other ingredients such as a vegetable proteins, carbohydrates, vitamin premixes and minerals to produce an array of nutritionally targeted animal feeds for various species. The bio-refining process is being continuously researched as we examine the technical and commercial feasibility of producing additional products derived from both RBO and DRB.

Benefits of NutraCea SRB, DRB and Rice Bran Oil

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

Fat	18-23%
Protein	12-16%
Total Dietary Fiber	20-30%
Soluble Fiber	2-6%
Moisture	4-8%
Ash	6-14%
Calories	3.2 kcal/gram

Rice bran is unique in the plant kingdom. Its protein is hypoallergenic and contains all of the essential amino acids, the necessary building blocks of protein in the body. Rice bran contains approximately 15-20% oil, which has a favorable fatty acid composition and excellent heat stability. Rice bran oil contains essential fatty acids and a broad range of nutraceutical compounds that have been demonstrated to have therapeutic properties.

Defatted Rice Bran (DRB) contains many of the same nutritional and functional benefits as SRB, except that the oil has been removed. This is important for several ingredient applications where SRB's oil content could present food formulation challenges. By removing oil from SRB, nutritionists have greater options to formulate DRB into breakfast bars, calorie reduced foods, low fat baking applications and batter and breadings for frying applications. Additionally, DRB is ideally suited for downstream enzymatic processing, transforming DRB into an ideal feedstock for protein concentrates and fiber concentrates.

Rice bran oil (RBO) as extracted from stabilized rice bran can be utilized in a variety of edible and industrial oil applications. With proper processing, RBO becomes a high quality cooking oil possessing beneficial high temperature frying characteristics. RBO has a unique fatty acid content that imparts improved oxidative stability as compared to other vegetable oils such as soy or cottonseed giving it advantages when used in food applications. The RBO extraction process utilized at our Brazilian facility uses a conventional solvent extraction process to separate oil from raw bran, resulting in crude RBO available for sale to industrial markets or other processors. Additional refining processes done in Brazil can involve degumming, neutralization, bleaching, de-waxing and deodorizing. A bio-refining process approach results in numerous marketable co-products in addition to the actual end product.

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

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Business Strategy

Our goal is to become a significant global producer and marketer of SRB, DRB, RBO and their derivatives. We produce these products in manufacturing facilities we own or through other arrangements (see Supply and Manufacturing section below). We intend to vigorously protect our process and products through both trade secret protection and through patent and trademark protection (see Patents and Trademarks section below). We believe that clinical support for SRB, RBO and DRB products will further enhance the value of our products as nutraceuticals and functional food ingredients. Finally, we intend to aggressively market our products in multiple market segments including human food ingredients, nutraceuticals, animal nutrition and functional foods and beverages. In pursuit of these goals, we have focused and will continue to focus our marketing and development efforts worldwide.

Sales and Marketing

As of December 31, 2011, we have a senior vice-president of sales, a vice-president of human nutrition sales and five domestic sales representatives. In addition, we have exclusive and non-exclusive distributor relationships with distribution and channel partners in several major markets around the world. In September of 2011, we entered into an exclusive, co-branded distribution agreement with BENEO-Remy N.V. (Beneo) covering our SRB products in Western Europe, Middle East, Africa, Russia, Turkey, India, Australia and New Zealand, among other markets. That agreement grants rights to distribute other NutraCea products in those same markets on a non-exclusive basis.

In addition, because of the potential significance for SRB and DRB inclusion in meat and poultry, we have engaged specialized meat and poultry consultants in the U.S. to assist in meat and poultry application research and development, make potential qualified customer introductions, provide marketing support and conduct customer training programs. In addition, we have enlisted the services of a strategic protein application expert from Europe to help research and establish manufacturing processes, identify new SRB and DRB meat applications, and assist our international distributors in key international markets.

During 2011, approximately 14.6% of revenues from the USA segment were to regions outside of the United States while approximately 27.2% of our Brazil segment revenues were to regions outside of Brazil.

Functional Food Ingredients

The global functional food market may be as much as $60 billion, depending on how this market is defined, and we believe that it represents a significant opportunity for us. Premium ingredient manufacturers are in high demand and we are strategically positioned to take advantage of this growing and sustainable market opportunity. Our proprietary technology and product patents represent extremely valuable assets for achieving strategic leverage in this industry segment.

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

In 2008, we received USDA/FSIS approval to include SRB and DRB as enhancers in meat products such as meat and poultry sausages that contain binders, nugget-shaped patties, meatballs, meatloaf, and meat and poultry patties. Our products replace functional ingredients like soy protein isolate, soy protein concentrate, modified food starch, pea protein and mustard flour at a significantly reduced cost. With strong application benefits such as reduced cost per unit, increased product yield, and reduced purge, our SRB has a strong marketing position in the US meat market and

an even stronger position outside the US where non-meat ingredients make up a larger percentage of meat products.

Nutraceuticals

Nutraceuticals are plant-derived substances with pharmaceutical-like properties, including vitamins and dietary supplements. Our products can be used to provide certain specific nutrients or food components (including antioxidants, oryzanols, vitamin E, vitamin B, and fiber) and general nutritional supplementation. Our ingredient products are primarily sold to consumer nutrition and healthcare companies, nutritional supplement retailers, and multi-level personal product marketers.

Animal Nutrition

Our SRB and DRB are marketed as feed ingredients in the U.S. and international animal nutrition markets. Our SRB and DRB are used as equine feed ingredients and have proven to provide a safe, all natural energy source which assists in lowering glycemic response, improving stamina through being a ready available low starch energy component, and improving overall coat bloom through its essential fatty acid and amino acid profiles. Show and performance horses represent the premium end of the equine market and are a key target for our animal nutrition products.

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In our Brazil segment, we also blend DRB with other ingredients to produce a variety of feed formulations targeted to certain animal species such as horses, beef cattle, dairy cows, pigs and sheep.

Rice Bran Oil Processing Derivatives

Raw rice bran contains approximately 15-20% oil. Through a solvent extraction process, the oil is removed from bran resulting in crude RBO and defatted rice bran (DRB). Crude RBO is further refined to a finished grade edible oil that is primarily sold as a high end vegetable oil for cooking, as well as a human food ingredient for various products. Virtually every refining step produces valuable co-products that are of great interest to industrial customers. One of the more important co-products is known as distilled fatty acids which are being sold to several industrial customers. In early 2012, we plan to dry wet gums to produce food grade lecithin, which will be unique in that it is free of genetically modified organisms (GMOs) and non soybean based. We continue to expand our marketing of RBO both domestically in Brazil and globally. We estimate that the global market for vegetable oils is approximately 160 million tons annually and will continue to grow as the world's underdeveloped society's move towards westernized eating habits and populations increase in general.

Private Label

Through March 2010, we manufactured and marketed private label baby cereal to retail in the US and abroad. We entered into the private label baby cereal market to utilize excess capacity at our Dillon, Montana facility. In March 2010, we sold the cereal business to a major competitor. In addition, we sold the cereal production equipment located in our idle Phoenix, Arizona facility to this same buyer. These sales were completed during our Chapter 11 Reorganization with proceeds used to reduce bank debt and fund our ongoing business operations. Our decision to exit the baby cereal business was a strategic move away from a non-core business. As a term of the sale, we are prohibited from re-entering the baby cereal segment or assisting others in doing the same.

Customers

In 2011, three customers accounted for 42% of USA segment revenues. In our Brazil segment, one customer accounted for 25% of segment revenues. Although the loss of a customer could have a material adverse effect on our revenues and results of operations, we continue to diversify our customer base in an attempt to mitigate the concentration of customers. Financial instruments that potentially subject us to significant concentrations of credit risk consist primarily of trade accounts receivable and notes receivable. We perform ongoing credit evaluations on our customers' financial condition and generally do not require collateral.

Supply and Manufacturing

Initial production of SRB

In the U.S. we purchase raw rice bran from three suppliers. These include Farmers' Rice Cooperative in West Sacramento, California, ADM Rice in Arbuckle, California, and Louisiana Rice Mill in Mermentau, Louisiana. The plant located adjacent to Farmers' Rice Milling Company in Lake Charles, Louisiana is idle. Pursuant to our agreements, our stabilization machinery is physically located within or adjacent to the rice processing plants and the rice bran is directly transferred to our machinery for stabilization without the need for shipping. The relationship with the rice mills are symbiotic, as the rice manufacturer searches for raw rice bran marketing channels while we have ready access to raw bran. We believe suitable alternative supply arrangements are available if needed.

Stage II Production of SRB

Based on product demand, we ship SRB from one of our California facilities to our plant in Dillon, Montana for further processing into NutraCea RiSolubles, NutraCea RiBalance and NutraCea RiFiber. We have equipment at the Dillon, Montana facility with capacity to produce 5,000 tons per year of NutraCea RiSolubles and NutraCea RiFiber.

Every human food product that we manufacture is produced under published FDA and USDA regulations for "Good Manufacturing Practices." We have extensive processes and programs to oversee product quality. Product samples for each product code are frequently analyzed for adherence to a predetermined set of product microbiological and attribute specifications and each lot is released only when it demonstrates its compliance with specifications.

Production of RBO and DRB

In Brazil, we purchase raw and par-boiled rice bran from a number or rice mills located short distances from our processing facility in Pelotas. Timing of delivery for raw bran to an RBO bio-refinery is not as stringent as for an SRB bio-refining process, although we make every effort to process bran as soon after milling as possible to maintain the quality of our crude RBO. We currently process a relatively small percentage of the raw rice bran available in the adjacent rice growing regions in Brazil and contiguous rice growing regions of Uruguay and Argentina.

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Results of Trials and Scientific Research

The beneficial attributes of SRB, including the RiSolubles and RiFiber 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. We have 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 our SRB products. Antioxidants are compounds which scavenge or neutralize damaging compounds called free radicals. Polyphenols are organic compounds which potentially act as direct antioxidants. Phytosterols are plant-derived sterol molecules that help improve immune response to fight certain diseases.

A 57-subject clinical trial conducted by Advanced Medical Research, with our funding, suggested that consumption of our RiSolubles 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, we may develop products which address the use of SRB products as medical foods for, and to potentially make health benefit claims relating to, the effects of dietary rice bran on diabetes and cardiovascular disease.

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

In December 2007, we formed Rice Science, LLC (RS), a Delaware limited liability company, with Herbal Science Singapore PTe. Ltd. (HS) to develop nutraceutical extracts and pharmaceutical chemistries from our SRB. HS utilizes sophisticated methodologies in the identification and isolation of specific biologically active compounds that have been tested for effectiveness against specific disease conditions. In March 2011, our partnership with HS ended with NutraCea acquiring the membership interest formerly owned by HS, leaving RS as our wholly owned subsidiary. We are hopeful that the research already performed will result in biologically active SRB extracts for use in the nutraceutical and functional food industry.

In 2008, RS conducted a significant amount of research. The initial thrust of this work was the development of extracts from SRB that would be effective in addressing inflammation and pain. A number of SRB extracts have been tested with two identified as having significant in vitro activities. A blend of these two extracts was created to produce a third extract that exhibits a high level of in vitro inhibition of Cox 1, Cox 2 and Lox 5 enzymes. This extract was used in a pharmacokinetic study to determine uptake kinetics of key bioactives into human serum. Results indicated that the bioactive compounds were rapidly assimilated. Our next step is to conduct a human clinical trial. A number of active compounds were identified and modeled. RS filed patent applications for the extracts along with each of the specific active compounds.

Late in 2007, the Cancer Biomarkers Group in the Department of Cancer Studies and Molecular Medicine, University of Leicester in Leicester, UK published a research paper evaluating the effect of our SRB in ApcMin mice (British Journal of Cancer (2007) 96, 248-254). The mice were genetically modified to serve as models for mammary, prostate and intestinal carcinogenesis. They reported that consumption of SRB (30% in the diet) reduced the numbers of intestinal adenomas in these mice by 51% compared to the same mice on a control diet. The results suggest that SRB might be further evaluated as a chemo-preventative intervention in humans. These results led to us filing a patent application on "Methods for Treatment of Intestinal Carcinogenesis with Rice Bran".

Patents and Trademarks

NutraCea has been assigned eight U.S. patents relating to the production or use of Nutraceutical or HVF products. The patents are:

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

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

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

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

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

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

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

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

We currently have several additional patent applications filed and pending formal review, and we intend to apply for additional patents in the future as new products, treatments and uses are developed.

In addition to the previously identified issued U.S. patents, we have been issued fifteen additional International patents covering these subject areas:

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

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

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

4. Patent number 2,305,665 “SUPPORTIVE THERAPY FOR DIABETES, HYPERGLYCEMIA AND HYPOGLYCEMIA” which issued by Canada July 16, 2003.

5. Patent number 2,454,658 “METHODS FOR TREATING JOINT INFLAMMATION, PAIN AND LOSS OF MOBILITY” which issued by Canada.

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

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

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

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

10. Patent number 233702 “METHOD FOR TREATING HYPERCHOLESTEROLEMIA, HYPERLIPIDEMIA, AND ATHEROSCLEROSIS” which is issued by India April 2, 2009.

11.

Patent number 286309 “SUPPORTIVE THERAPY FOR DIABETES, HYPERGLYCEMIA AND HYPOGLYCEMIA” which issued by Mexico May 4, 2011.

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

13. Patent number UK 141966 “METHODS FOR TREATING JOINT INFLAMMATION, PAIN AND LOSS OF MOBILITY” which issued by the United Kingdom September 23, 2009.

14. Patent number EU 141966 “METHODS FOR TREATING JOINT INFLAMMATION, PAIN AND LOSS OF MOBILITY” which issued by Europe September 23, 2009.

15. Patent number HK 1065943 “METHODS FOR TREATING JOINT INFLAMMATION, PAIN AND LOSS OF MOBILITY” which issued by Hong Kong June 4, 2010.

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We have 15 pending patent applications. We intend to apply for additional patents in the future as new products, applications and data become available.

Our bio-refining and related stabilization activities are an adaptation and refinement of standard food processing technology applied to rice bran. We have chosen to treat our methods and processes as a trade secret and not to pursue process or process equipment patents on the original processes. However, process improvements will be reviewed for future patent protection. We believe that the unique products, and their biological effects, resulting from our SRB are patentable.

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

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

Government Regulations

The U.S. Food and Drug Administration (FDA), The U.S. Department of Agriculture (USDA), and The Federal Trade Commission (FTC) are the Government entities that regulate the manufacture, marketing and advertizing of our products sold in the U.S.

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

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

The U.S. Department of Agriculture retains jurisdiction over meat products and food ingredients intended for use in meats. Therefore, the use of SRB and DRB as meat enhancers is regulated by this agency. Both SRB and DRB have USDA approval for use in meat products.

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

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

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Competition

Although we believe that we are the only company to produce stabilized all natural rice bran with a shelf life of over one year, we compete with other companies attempting to stabilize rice bran, as well as companies producing other food ingredients and nutritional supplements. We believe that our only significant competitors currently for rice bran products for feed applications are Producer's Rice Mill, located in Stuttgart, Arkansas and Harvest Rice Milling, in McGehee, Arkansas. We are also aware of one small scale producer of food ingredient SRB in Italy, Riso Scotti. We believe that our major nutritional supplement competitors include producers of isolated soy protein, wheat bran and oat bran, particularly in the functional food ingredients market segment.

We compete with other companies that offer products incorporating SRB as well as companies that offer other food ingredients and nutritional supplements. We also face competition from companies providing products that use oat bran and wheat bran as nutritional supplements as well as for health and beauty aids. Many consumers may consider such products to be a replacement for the products we manufacture and distribute. Many of our competitors have greater marketing, research, and capital resources than we do, and may be able to offer their products at lower costs because of their greater purchasing power or the lower cost of oat and wheat bran ingredients. There are no assurances that our products will be able to compete successfully.

With the purchase of Irgovel in 2008, we now compete in the world's edible oil market. Our competition for exports of rice bran oil resides primarily in Southeast Asia. There are several small scale producers of crude RBO in that region although few produce an edible grade oil. There are also a number of crude RBO producers in India but most of these produce inferior grade oil destined for soap manufacture.

Research and Development Expenditures

In 2011, we signed a joint research and development agreement with DSM Innovation Center, a subsidiary of Royal DSM N.V., aimed at extracting and concentrating protein from rice bran. This project is the major focus of our research and development efforts in 2011. Although expenditures in 2011 and 2010 were not significant, we expect to continue research and development expenditures to establish the scientific basis for health claims of existing products and to develop new products and applications based on future cash availability.

Seasonality

Our business is not materially affected by seasonal factors.

Environment

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

Employees

As of December 31, 2011, the USA and Corporate segments had 39 domestically located employees. The Brazil segment had 234 employees. Our employee count may change periodically. From year to year we experience normal variable labor fluctuation at our production facilities. We believe relations with our employees are good. None of our employees are covered by collective bargaining agreements.

Securities and Exchange Commission Reports

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

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ITEM 1A. RISK FACTORS

Our operations and financial results are subject to various risks and uncertainties, including those described below, which could adversely affect our business, financial condition, results of operations, cash flows, and the trading price of our common stock. Investors or potential investors in our stock should carefully consider the risks described below.

Risks Related to Our Business

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

Our net cash used in operating activities was approximately $9.2 million and $6.5 million in 2011 and 2010. We cannot assure you that we will be able to achieve revenue growth, profitability or positive cash flow, on either a quarterly or annual basis, or that profitability, if achieved, will be sustained. No adjustments have been made to the financial statements that might result from the outcome of this uncertainty. If we are unable to achieve or sustain profitability, we may not be financially viable in the future and may have to curtail, suspend, or cease operations, restructure existing operations to attempt to ensure future viability, or pursue other alternatives such as re-filing for bankruptcy, pursuing dissolution and liquidation or seeking to merge with another company or sell all or substantially all of our assets. Because of our recurring losses and negative cash flows from operations, the audit report of our independent registered public accountants on our consolidated financial statements for 2011 contains an explanatory paragraph stating that there is substantial doubt about our ability to continue as a going concern.

We have not yet achieved positive cash flows.

We have not generated a positive cash flow from operations continuously period to period since commencing operations. We continue to assess the business to identify core and non-core assets. To raise additional cash funding we may be required to sell non-core assets and/or business units. Additionally, we will need to reduce operating expenses and increase cash flow to fund current operations in our SRB segment if we are not able to fund these operations by raising capital.

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

We have generated losses in every quarter except for the second and third quarters of 2006.

Since we began operations in February 2000, we have incurred losses in each reporting period except for the second and third quarters of 2006. There can be no assurance that we will be able to achieve or maintain profitable operations. If our losses continue, our liquidity may be severely impaired, our stock price may fall and our shareholders may lose all or a significant portion of their investment.

We have identified material weaknesses in our internal control over financial reporting at our Brazilian subsidiary. Additionally, we may identify material weaknesses in the future that could adversely affect investor confidence, impair the value of our common stock and increase our cost of raising capital.

We assessed the effectiveness of our disclosure and internal controls and procedures as of December 31, 2011. We identified material weaknesses in our internal controls over financial reporting at our subsidiary in Brazil. As a result of these material weaknesses, our chief executive officer and our chief financial officer concluded that our disclosure and internal controls and procedures were not effective at a reasonable assurance level as of December 31, 2011. We have taken and are continuing to take steps to remediate the material weaknesses in our internal control over financial reporting. There can be no assurance as to how quickly or effectively our remediation steps will remediate the material weaknesses in our internal control over financial reporting or that additional material weaknesses will not be identified in the future.

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

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

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

In connection with the Chapter 11 Reorganization, we were required to prepare financial projections to demonstrate the feasibility of the Amended Plan and our ability to continue operations upon emergence from bankruptcy, which occurred on November 30, 2010. The financial projections, which were included in the disclosure statement approved by the Bankruptcy Court, reflected numerous assumptions concerning anticipated future performance and anticipated market and economic conditions that were and continue to be beyond our control and that may not materialize. Projections are inherently subject to uncertainties and to a wide variety of significant business, economic and competitive risks. Our actual results will vary from those contemplated by the projections for a variety of reasons. The projections have not been incorporated by reference into this report and neither those projections nor any version of the disclosure statement should be considered or relied upon in connection with any investment decision concerning our common stock.

There are significant market risks associated with our business.

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

We may face difficulties integrating businesses we acquire.

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

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

These purchases also involve numerous risks, including:

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

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

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

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

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

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

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

We depend on a limited number of customers.

In 2011, three customers accounted for 42% of USA segment revenues. In our Brazil segment, one customer accounted for 25% of segment revenues. As of December 31, 2011, our top ten USA segment customers accounted for 67% of segment accounts receivables and 61% of segment revenues. In our Brazil segment, our top ten customers accounted for 60% of segment accounts receivables and 50% of segment revenues

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

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

We define credit risk as the risk of loss from obligors or counterparty default. Our credit risks arise from both distributors and consumers. Many of these risks and uncertainties are beyond our control. Our ability to forecast future trends and spot shifts in consumer patterns or behavior even before they occur are vital for success in today's economy. In managing risk, our objective is to protect our profitability, but also protect, to the extent we can, our ongoing relationship with our distributors and customers. However, as part of our credit risk policies, we occasionally must, among other things, cancel certain accounts, reduce credit limits and place cash only requirements for certain questionable accounts. While these credit risk policies are critical for us to achieve US GAAP compliant revenue recognition, they may negatively impact our relationships with our distributors and customers, which could adversely affect our results of operations.

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

We are subject to credit risk due to concentration of our trade accounts receivables and notes receivables. As of December 31, 2011, two customers accounted for 43% of our $0.9 million in USA segment net accounts receivable and one debtor accounted for 100% of the $0.7 million in net note receivable. In our Brazil segment, one customer accounted for 21% of our $2.8 million net accounts receivable. The inability of our significant customers and obligors to meet their obligations to us, may adversely affect our financial condition and results of operations.

We rely upon a limited number of product offerings.

The majority of the products that we have sold through 2011 have been based on SRB produced at our US facilities and extracted rice bran oil from Irgovel, our Brazil facility. Although we will market SRB as a dietary supplement, as an active food ingredient in other companies' products, and in other ways, a decline in the market demand for our SRB products, as well as the products of other companies utilizing our SRB products, would have a significant adverse impact on us.

We are dependent upon our marketing efforts.

We are dependent on our ability to market products to animal food producers, food manufacturers, mass merchandise and health food retailers, and to other companies for use in their products. We must increase the level of awareness of dietary supplements in general and our products in particular. We will be required to devote substantial management and financial resources to these marketing and advertising efforts and there can be no assurance that it will be successful. Further, because of our low cash position, we may face difficulties maintaining a sales force sufficient to market our products as intended.

We rely upon an adequate supply of raw rice bran.

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

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

We face competition.

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

not be able to attain our business objectives.

We must comply with our contractual obligations.

We have numerous ongoing contractual obligations under various purchase, sale, supply, production and other agreements which govern our business operations. We also have contractual obligations which require ongoing payments such as various lease obligations and the agreement of Irgovel to pay tax obligations to the Brazilian government through 2024. While we seek to comply at all times with these obligations, there can be no assurance that we will be able to comply with the terms of all contracts during all periods of time, especially if there are significant changes in market conditions or our financial condition. If we are unable to comply with our material contractual obligations, there likely would be a material adverse effect on our financial condition and results of operations.

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We have financial performance obligations related to Irgovel.

Under the limited liability company agreement for Nutra SA LLC, Irgovel must satisfy certain financial performance requirements in order for us to maintain control over Irgovel. Nutra SA LLC owns Irgovel. The Parent Company and the investors in Nutra SA, LLC entered into the limited liability company agreement for Nutra SA LLC in connection with the investors purchasing membership interests in Nutra SA pursuant to a membership interest purchase agreement effective January 2011 (see Note 5 to the consolidated financial statements included herein). These financial performance requirements include Irgovel's satisfaction of revenue, earnings and net debt targets described in the membership interest purchase agreement. If Irgovel fails to meet these financial requirements, we could lose management control over Irgovel's operations, and management control would transfer to the other investors in Nutra SA LLC. Any such change in management control would cause us to no longer consolidate Irgovel's financial results with the Parent Company's financial results. Instead, we would be required to account for Irgovel as an equity investment on our balance sheets.

We have a high concentration of credit risk.

We currently depend on a limited number of customers. This results in a concentration of credit risk with respect to our outstanding accounts receivable. We consider the financial strength of the customer, the remoteness of the possible risk that a default event will occur, the potential benefits to our future growth and development, possible actions to reduce the likelihood of a default event and the benefits from the transaction before entering into a large credit limit for a customer. Although we analyze these factors, there can be no assurance that the ultimate collection of the obligation from the customer will occur. Although we continue to expand our customer base in an attempt to mitigate the concentration of credit risk, the writing off of an accounts receivable balance could have an adverse effect on our results of operations. Financial instruments that potentially subject us to concentration of credit risk consist primarily of cash and cash equivalents and trade receivables. Historically, we have not experienced any loss of our cash and cash equivalents, but we have experienced losses to our trade receivables.

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

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

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

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

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

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

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

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

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

We are dependent on key employees and consultants.

Our success depends upon the efforts of our top management team, including the efforts of John Short (Chief Executive Officer), Dale Belt (Chief Financial Officer), Dave Hutchinson (Senior Vice President of Operations) and Colin Garner (Senior Vice President of Sales and Marketing). Although we have written employment agreements with each of the foregoing individuals, except for Mr. Hutchinson, there is no assurance that such individuals will not die, become disabled, or resign. In addition, our success is dependent upon our ability to attract and retain key management persons for positions relating to the marketing and distribution of our products. There is no assurance that we will be able to recruit and employ such executives at times and on terms acceptable to us.

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

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

Risks Related to Our Stock

Our Stock Price is Volatile.

The market price of our common stock has fluctuated significantly in the past and may continue to fluctuate significantly in the future. Our common stock trades on the OTCQB. Our common stock is thinly traded and subject to volatility in price and demand. The high and low closing sales prices of our common stock for the following periods were:

	Low	High
Year Ended December 31, 2011		
Fourth Quarter	$ 0.10	$ 0.20
Third Quarter	0.13	0.19
Second Quarter	0.16	0.31
First Quarter	0.18	0.38

Year Ended December 31, 2010		
Fourth Quarter	$ 0.10	$ 0.24
Third Quarter	0.08	0.13
Second Quarter	0.06	0.16
First Quarter	0.07	0.14

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

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

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

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

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

As of March 15, 2012, we had 204,626,939 shares of common stock outstanding. Additionally, as of March 15, 2012, approximately 206,133,110 shares of our common stock were issuable upon exercise or conversion of outstanding options, warrants and convertible debt. The possibility that substantial amounts of our outstanding common stock may be sold by investors or the perception that such sales could occur, often called "equity overhang," could adversely affect the market price of our common stock and could impair our ability to raise additional capital through the sale of equity securities in the future.

Our outstanding options, warrants and convertible notes may dilute current shareholders.

As of March 15, 2012, there were outstanding options, warrants and convertible debt that are exercisable for a total of approximately 206,133,110 shares of our common stock. Holders of these securities, and any subsequently issued options, warrants and convertible debt may exercise or convert these securities at a time when we would otherwise be able to obtain additional equity capital on terms more favorable to us. Moreover, while these securities are outstanding, our ability to obtain financing on favorable terms may be adversely affected.

The outstanding common stock warrants issued in our April 2008 and October 2008 financings and the convertible debts and common stock warrants issued in our two January 2012 financings contain antidilution provisions that cause the exercise prices and conversion prices of the warrants and convertible debt to decrease automatically if we issue shares of our common stock or securities convertible into shares of our common stock in a financing at prices below the exercise and conversion prices of these warrants and convertible debt. These adjustments automatically cause the number of shares issuable upon exercise of these warrants and convertible debt to increase. Any such adjustment would materially dilute the holders of our common stock.

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

We likely will need to raise funds through debt or equity financings in order to meet our current cash requirements and to complete our ultimate business objectives. We also may choose to raise additional funds in debt or equity financings if they are available to us on terms we believe reasonable to increase our working capital, strengthen our financial position or to make acquisitions. Our board of directors has the ability, without seeking shareholder approval, to issue convertible debt and additional shares of common stock or preferred stock that is convertible into

common stock for such consideration as the Board of Directors may consider sufficient, which may be at a discount to the market price. Any sales of additional equity or convertible debt securities would result in dilution of the equity interests of our existing shareholders, which could be substantial. Additionally, if we issue shares of preferred stock or convertible debt to raise funds, the holders of those securities might be entitled to various preferential rights over the holders of our common stock, including repayment of their investment, and possibly additional amounts, before any payments could be made to holders of our common stock in connection with an acquisition of the company. Such preferred shares, if authorized, might be granted rights and preferences that would be senior to, or otherwise adversely affect, the rights and the value of our common stock. Also, new investors may require that we and certain of our shareholders enter into voting arrangements that give them additional voting control or representation on our Board of Directors.

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

Our board of directors, without further action or vote by holders of our common stock, has the right to establish the terms, preference, rights and restrictions and issue shares of preferred stock. The terms of any series of preferred stock could be issued with terms, rights, preferences and restrictions that could adversely affect the rights of holders of our common stock and thereby reduce the value of our common stock. The designation and issuance of preferred stock favorable to current management or shareholders could make it more difficult to gain control of our Board of Directors or remove our current management and may be used to defeat hostile bids for control which might provide shareholders with premiums for their shares. We have designated and issued five series of preferred stock, no shares of which remain outstanding as of December 31, 2011. We may issue additional series of preferred stock in the future.

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

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

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

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

ITEM 1B. UNRESOLVED STAFF COMMENTS

Not applicable.

ITEM 2. PROPERTIES

We maintain various facilities that are used for manufacturing, warehousing, research and development, distribution, and administrative functions. These facilities consist of both owned and leased properties. The following table summarizes the properties used to conduct our operations as of December 31, 2011:

Primary Segment	Location	Status	Primary Use
USA	West Sacramento, California	Leased	Warehousing, and administrative
USA	Mermentau, Louisiana	Owned	Manufacturing
USA			Manufacturing (idled since May 2009)

	Lake Charles, Louisiana	Building – owned Land - leased	
USA	Dillon, Montana	Owned	Manufacturing
Brazil	Pelotas, Brazil	Owned	Manufacturing, R&D and administrative
Corporate	Scottsdale, Arizona	Leased	Administrative – corporate offices

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

ITEM 3. LEGAL PROCEEDINGS

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

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Irgovel Stockholders Lawsuit

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

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

On February 6, 2009, the Sellers filed a collection lawsuit against us seeking payment of the second installment of the purchase price under the Purchase Agreement, which the Sellers allege is approximately $1.0 million. We have withheld payment of the second installment pending resolution of the Resyng lawsuit noted above. The Parent Company has not been served with any formal notices in regard to this matter so far. To date, only Irgovel has received formal legal notice. In addition, the Purchase Agreement requires that all disputes between us and the Sellers be adjudicated through arbitration. As part of the Purchase Agreement, $2.0 million was deposited into an escrow account to cover contingencies with the net remaining funds payable to the Sellers upon resolution of all contingencies. We believe any payout due to the lawsuit will be made out of the escrow account. As of December 31, 2011 and 2010, the balance in the escrow account was $1.9 million and is included in restricted cash in the balance sheets. There is an offsetting liability in accrued expenses in our consolidated balance sheets as of December 31, 2011 and 2010. We believe that there is no additional material exposure as any amounts determined to be owed as a result of the above noted litigation and contingencies will be covered by the escrow account.

ITEM 4. MINE SAFETY DISCLOSURES

None.

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PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Price Range of Common Stock

Our common stock is traded on the OTC Bulletin Board, a centralized electronic quotation service for over-the-counter securities, under the symbol "NTRZ". Our CUSIP No. is 67060N204. The following table sets forth the range of high and low closing sales prices for our common stock for the periods indicated below. The quotations below reflect inter-dealer prices, without retail mark-up, markdown or commission, and may not represent actual transactions.

	Low	High
Year Ended December 31, 2011		
Fourth Quarter	$ 0.10	$ 0.20
Third Quarter	0.13	0.19
Second Quarter	0.16	0.31
First Quarter	0.18	0.38
Year Ended December 31, 2010		
Fourth Quarter	$ 0.10	$ 0.24
Third Quarter	0.08	0.13
Second Quarter	0.06	0.16
First Quarter	0.07	0.14

Holders

As of March 15, 2012, there were approximately 277 holders of record and 11,300 beneficial owners of our common stock.

Dividends

We have never declared or paid any cash dividends on our common stock. We currently anticipate that we will retain all future earnings for the expansion and operation of our business and do not anticipate paying cash dividends in the foreseeable future. As of January 2011, cash provided by operations in our Brazil segment is generally unavailable for distribution to our Corporate and USA segments pursuant to the terms of the limited liability company agreement for Nutra SA, LLC. Pursuant to the terms of the senior convertible debenture that we issued in January 2012, we may not pay any dividends while the debenture is outstanding.

Recent Sales of Unregistered Securities

During the quarter ended December 31, 2011, we issued the securities described below without registration under the Securities Act.

Upon termination of employment, under the terms of our stock option agreements, employees are generally allowed a three-month grace period during which they may exercise options vested prior to termination of employment. When

an employee terminated on October 6, 2011, we extended the grace period on options to purchase 278,000 shares of common stock to September 30, 2013.

On October 7, 2011, we entered into a note and warrant purchase agreement. Under the agreement we issued to the creditor convertible notes in the principal amount of $2.3 million, which are convertible into common stock at $0.20 per share and bear interest at an annual rate of 10.0%, and a warrant to purchase up to a total of 2,323,186 shares of common stock at an exercise price of $0.22 per share. See Note 11 to the consolidated financial statements contained herein for further description of the transaction.

On December 14, 2011, we issued 135,000 shares of our common stock in connection with a consulting agreement.

On December 6, 2011, we issued an option to purchase 300,000 shares of common stock in connection with a consulting agreement at an exercise price of $0.20 per share with a ten year expiration date. The option vests monthly in twelve installments beginning January 1, 2012.

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As a result of convertible note, warrant and equity issuances previously described, we adjusted the exercise price and increased the number of shares underlying existing warrants to purchase common stock, issued to the investors in our February 2007 and April 2008 equity financings pursuant to the antidilution provisions contained in the respective warrants. All of the changes were to warrants held by existing warrant holders without additional consideration pursuant to the terms of the respective financings, and no commission or other remuneration was paid or given directly or indirectly to any person in connection therewith. The changes to the existing warrants, as summarized in the table below, were exempt from registration under Section 3(a)(9) of the Securities Act.

	Before Event		After Event		Increase in Shares
Financing	Shares Under Warrants	Exercise Price	Shares Under Warrants	Exercise Price	Under Warrants
(1) February 2007	21,591,715	1.68	23,247,654	1.56	1,655,939
(2) April 2008	10,041,442	0.95	10,360,057	0.95	318,615

(1) The warrants issued to the investors in the February 2007 financing expire in August 2012.
(2) The warrants issued to the investors in the April 2008 financing expire in April 2013.

Unless otherwise indicated above, the securities were issued pursuant to the private placement exemption provided by Section 4(2) of the Securities Act of 1933. All issuances above were made without any public solicitation, to a limited number of persons and were acquired for investment purposes only.

Share Repurchases

We did not repurchase any of our common stock in 2011.

ITEM 6. SELECTED FINANCIAL DATA

Not applicable.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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

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

Executive Summary

2011 year was a transitional and important year in our history. The restructuring efforts that began in 2009 under bankruptcy court protection were essentially completed in 2011. In January 2011, we sold a minority interest in Nutra S.A., the Delaware holding company that owns our Brazilian subsidiary Irgovel. At the closing of that transaction, we made our first unsecured creditor payment as required by our court approved Amended Plan. Throughout 2011, we made additional payments to creditors and met our obligations under the Amended Plan. In January 2012, we made the final creditor payments due under the Amended Plan. All unsecured creditors were paid in full and all obligations under the Amended Plan have been met. This is an unusual and extraordinarily positive outcome for our company, our shareholders and our other stakeholders.

Another significant achievement occurred at the end of March 2011, when our public filings were brought current after nearly two years and the restatement of financial statements going back to 2006. This was the result of a tremendous effort by many of our own people and our supporting professionals.

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We entered 2011 with the legal and administrative burdens associated with bankruptcy essentially behind. This allowed a renewed focus on our core business. We entered into two partner alliances in 2011. In August 2011, we announced a joint research and development program with DSM Innovation Center, a subsidiary of Royal DSM N.V., targeted at extracting and concentrating protein from rice bran. In September 2011, we signed an exclusive, co-branded international distribution agreement with BENEO-Remy covering the sale of our SRB in over forty countries in Europe, Middle East and Africa. Finally, in December 2011, we entered into a long term, low interest financing arrangement subsidized by the Brazilian national development bank that will fund the completion of expansion projects at our Brazilian subsidiary, Irgovel, by mid 2012.

We are proud of the above achievements. With a renewed focus on our core business segments, we feel that we are now positively positioned to grow our operations and move toward positive financial results. Below, is a detailed discussion and analysis of our financial condition and results of operations.

Basis of Presentation and Going Concern

Although we have made significant improvements in the past year, we continue to experience losses and negative cash flows from operations which raises substantial doubt about our ability to continue as a going concern. Although we believe that we will be able to obtain the funds to operate our business, there can be no assurances that our efforts will prove successful. The accompanying consolidated financial statements do not include any adjustments that might be necessary if we are unable to continue as a going concern.

We have taken steps in 2011 and 2010 to improve profitability and liquidity by reducing our U.S. based employee headcount at both the corporate and plant operations level. In the ongoing effort to improve profitability, significant emphasis will be placed on growing revenues. The growth of revenues is expected to include the following:

- growth in existing markets for SRB, DRB and RBO,
- aligning with strategic partners who can provide channels for additional sales of our products including rice oil extraction; and
- implementing price increases.

In 2011, we issued shares of common stock and warrants to satisfy certain obligations in an effort to conserve cash. In 2011, we also obtained funds from issuances of convertible notes. The equity markets, however, have not been a significant source of funds during 2011 and 2010 due to our financial position, the state of the equity markets and our November 2010 emergence from bankruptcy. Improving financial performance and equity market conditions may allow us to raise equity funds in the near future. We intend to provide the necessary cash to continue operations through the monetization of certain assets, improved profitability and possible equity and/or debt financing transactions. Some of these monetizations could result in additional impairment of asset values. Asset monetization may include some or all of the following:

- sale of certain facilities;
- sale of a noncontrolling interest in one or more subsidiaries; or
- sale of surplus equipment.

See Liquidity and Capital Resources section below for a discussion of actions taken and plans to improve liquidity.

Segments

We have three reportable business segments: (1) Corporate; (2) USA, which manufactures and distributes SRB in various granulations along with other products derived from rice bran via proprietary and patented enzyme treatment

processes; and (3) Brazil, which extracts crude RBO and DRB from rice bran, which are then further processed into a number of valuable human food and animal nutrition products. The Corporate segment includes selling, general and administrative expenses including public company expenses, litigation, and other expenses not directly attributable to other segments. No Corporate allocations are made to the other segments. General corporate interest is not allocated.

The USA segment consists of two locations in California and two locations in Louisiana all of which can produce SRB. One of the two Louisiana SRB facilities, located in Lake Charles, has been idle since May 2009 (see Note 9 to the consolidated financial statements included herein). The USA segment also includes our Dillon, Montana Stage II facility which produces RiSolubles (a highly nutritious, carbohydrate and lipid rich fraction of SRB), RiFiber (a fiber rich derivative of SRB) and RiBalance (a complete rice bran nutritional package derived from further processing SRB). The manufacturing facilities included in our USA segment have proprietary and patented processing equipment and technology for the stabilization and further processing of rice bran into finished products. In 2011, 45.7% of USA segment revenue was from sales of human food products and 54.3% was from sales of animal nutrition products.

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The Brazil segment consists of our Irgovel operations located in Pelotas, Brazil. Irgovel manufactures RBO and DRB products for both the human and animal food markets in Brazil and internationally. Irgovel owns the largest rice bran processing facility in South America and is the only company in Latin America to produce edible RBO for human consumption. In refining RBO to an edible grade, several co-products are obtained. One such product is distilled fatty acids, a valuable raw material for the detergent industry. DRB is sold in bulk as animal feed and compounded with a number of other ingredients to produce complex animal nutrition products which are packaged and sold under Irgovel brands in the Brazilian market. For 2011, Brazil segment revenue was derived 20.1% from sales of human food products, 50.5% from sales of industrial oils and 29.4% from animal feed and nutrition products.

Results of Operations

Consolidated net loss attributable to NutraCea shareholders for 2011, was $10.1 million, or $0.05 per share, compared to $15.7 million, or $0.08 per share, for 2010. The improvement of $5.6 million between years was primarily due to (i) a $0.6 million improvement in gross profit primarily as a result of higher revenues in the Brazil segment and associated plant efficiencies gained, (ii) the impact of incurring no reorganization expenses in 2011 as compared to $1.0 million in 2010, and (iii) a $3.7 million improvement in operating expenses.

Revenue and Gross Profit

Revenues (in thousands):

	2011	% of Total Revenues	2010	% of Total Revenues	Change	% Change
USA segment	$ 10,700	29.0	$ 12,239	36.7	$ (1,539)	(12.6)
Brazil segment	26,257	71.0	21,139	63.3	5,118	24.2
Total revenues	$ 36,957	100.0	$ 33,378	100.0	$ 3,579	10.7

Consolidated revenues for 2011, were $37.0 million compared to $33.4 million in the prior year, an increase of $3.6 million, or 10.7%. The $5.1 million, or 24.2%, increase in Brazil segment revenues offset the $1.5 million, or 12.6%, decline in USA segment revenues.

The USA segment revenue decline of $1.5 million is comprised of the following:

- a decline in cereal product revenues and other revenues of $1.5 million due to the March 2010 sale of the cereal product related assets,
- a decline in animal nutrition product revenues of $0.4 million on lower volume due to competitive pressures, offset by
- an increase in human nutrition product revenues of $0.4 million, due to increased volumes from existing customers and the impact of price increases which took effect in the middle of the first and fourth quarters of 2011.

The Brazil segment revenues increased by $5.1 million, or 24.2%. The increase is attributable to the overall favorable pricing environment and increased volume in animal feed and oil products. Animal feed revenues benefited from higher prices in other commodity products like soy and corn, which are traditional animal feed sources. Rice bran based products provide an alternative source of animal feed. Oil revenues continue to benefit from current higher pricing trend in vegetable oil markets that began in the last quarter of 2010 and continued throughout 2011 before moderating slightly near the end of 2011.

Gross profit (in thousands):

	2011	Gross	2010	Gross	Change	Change

		Profit %		Profit %		in Gross Profit %
USA segment	$ 3,134	29.3	$ 4,374	35.7	$ (1,240)	(6.4)
Brazil segment	4,437	16.9	2,586	12.2	1,851	4.7
Total gross profit	$ 7,571	20.5	$ 6,960	20.9	$ 611	(0.4)

Consolidated gross profit for 2011, was $7.6 million, compared to $7.0 million in 2010, an increase of $0.6 million.

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The 2011 USA segment gross profit percentage was negatively impacted by higher 2011 raw bran prices and the impact of recording depreciation on the Dillon, Montana facility in 2011. Average raw bran prices have continued to rise throughout 2011 and as of December 31, 2011, were approximately 52% higher, on average, than prices as of the end of 2010. These higher bran prices resulted in approximately a 7 percentage point decline in our USA segment gross profit. To offset the higher raw bran cost, we implemented a price increase in the first quarter of 2011 for certain customers and additional sales price increases in the fourth quarter of 2011 to offset higher bran costs. We also experienced USA segment margin erosion of 4 percentage points from the $0.5 million increase in depreciation expense recognized in cost of goods sold on the Dillon, Montana facility in 2011. No depreciation was recognized on the facility in 2010 while the facility was an asset held for sale.

Brazil segment gross profit percentage improved from 12.2% to 16.9%. The improvement in margin from the 24.2% increase in revenues and resulting improvement in plant efficiency was partially offset by the impact of lower margin shipping and handling revenue. Revenue related to shipping and handling increased 77.6 % between 2011 and 2010 as international customer sales rose. In addition, the shift in sales mix from fully refined oil to crude oil resulted in lower cost of goods sold. Crude oil requires less production costs than refined oil. In 2011, because of the favorable pricing environment in crude oil markets, a significant portion of production was sold as crude oil in comparison to 2010.

Operating Expenses (in thousands):

	2011			
	Corporate	USA	Brazil	Consolidated
Selling, general and administrative	$ 4,850	$ 4,921	$ 4,670	$ 14,441
Professional fees	1,703	113	1,106	2,922
Intersegment fees	(439)	-	439	-
Impairment of intangibles, property, plant and equipment	240	1,352	-	1,592
Recoveries from former customers	-	(1,800)	-	(1,800)
Total operating expenses	$ 6,354	$ 4,586	$ 6,215	$ 17,155

	2010			
	Corporate	USA	Brazil	Consolidated
Selling, general and administrative	$ 6,349	$ 5,571	$ 4,075	$ 15,995
Professional fees	1,442	103	482	2,027
Intersegment fees	-	-	-	-
Impairment of intangibles, property, plant and equipment	-	1,900	-	1,900
Loss on disposal of property, plant and equipment	-	943	-	943
Total operating expenses	$ 7,791	$ 8,517	$ 4,557	$ 20,865

	Favorable (Unfavorable) Change			
	Corporate	USA	Brazil	Consolidated
Selling, general and administrative	$ 1,499	$ 650	$ (595)	$ 1,554
Professional fees	(261)	(10)	(624)	(895)
Intersegment fees	439	-	(439)	-
Impairment of property, plant and equipment	(240)	548	-	308
Recovery from former customer	-	1,800	-	1,800

Loss on disposal of property, plant and equipment	-	943	-	943
Total operating expenses	$ 1,437	$ 3,931	$ (1,658)	$ 3,710

Consolidated operating expenses were $17.2 million for 2011 compared to $20.9 million for 2010, a decrease of $3.7 million. The $3.7 million improvement included $3.1 million in decreased charges relative to impairments, recoveries and losses on disposal, as follows:

- a $0.3 million decrease in impairment charges between 2011 and 2010,
- a total of $1.8 million in recoveries from former customers in 2011 (see Note 15 to the consolidated financial statements), and
- a $0.9 million 2010 loss related primarily to the disposal of the Phoenix facility and the infant cereal manufacturing equipment located at that facility.

The $1.5 million improvement in Corporate segment SG&A included:

- a decline of $0.4 million as a result of an expense recovery recognized for the 2011 settlement with Mr. Edson, a former officer,
- a $0.4 million decline in labor, personnel related and interim management fees,
- a $0.8 million decline in share-based employee, officer and director compensation expenses, offset by
- a $0.1 million increase in other expenses.

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The $0.7 million improvement in USA segment SG&A included:

- a $0.3 million decline in labor and personnel related costs, and
- a $0.4 million decline in other costs due to cost containment efforts.

Brazil segment SG&A increased $0.6 million. Payroll expenses increased as a result of government mandated annual cost of living adjustments that were effective beginning June 2010, general merit raises and expenses associated with a newly implemented management bonus program. Customs and handling charges also increased with the rise in export revenues.

Brazil segment professional fees were $1.1 million for 2011 compared to $0.5 million for 2010. Professional fees are primarily expenses associated with consultants, accounting, auditing, tax compliance, SOX 404 compliance, and outside legal counsel. The increase in professional fees is partly due to management and meeting attendance fees payable to the Investors, who own a noncontrolling interest in Nutra SA beginning in January 2011 (see Note 5 to the consolidated financial statements). There was no comparable expense in the prior year period.

Intersegment fees relate to Brazil segment represent fees payable to the Corporate segment beginning in January 2011 under the agreements with the Investors. The charges are intended to compensate the Corporate segment for management time spent on Irgovel operations.

Other Income (Expense) (in thousands):

	2011			
	Corporate	USA	Brazil	Consolidated
Interest income	$ 53	$ -	$ 73	$ 126
Interest expense	(619)	(180)	(964)	(1,763)
Warrant liability income (expense)	332	-	-	332
Loss on acquisition of additional interests in RRX	(140)	-	-	(140)
Foreign currency exchange, net	-	-	(99)	(99)
Other	(146)	-	54	(92)
Other income (expense)	$ (520)	$ (180)	$ (936)	$ (1,636)

	2010			
	Corporate	USA	Brazil	Consolidated
Interest income	$ 6	$ -	$ 78	$ 84
Interest expense	(419)	(198)	(789)	(1,406)
Warrant liability income (expense)	(349)	-	-	(349)
Foreign currency exchange, net	-	-	(64)	(64)
Other	45	-	25	70
Other income (expense)	$ (717)	$ (198)	$ (750)	$ (1,665)

	Favorable (Unfavorable) Change			
	Corporate	USA	Brazil	Consolidated
Interest income	$ 47	$ -	$ (5)	$ 42
Interest expense	(200)	18	(175)	(357)
Warrant liability income (expense)	681	-	-	681
Loss on acquisition of additional interests in RRX	(140)	-	-	(140)
Foreign currency exchange, net	-	-	(35)	(35)

Other	(191)	-	29	(162)
Other income (expense)	$ 197	$ 18	$ (186)	$ 29

Consolidated other expense was $1.6 million for 2011, compared to $1.7 million for 2010.

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Our warrant liability as of December 31, 2011, declined $0.3 million from the warrant liability as of December 31, 2010, resulting in a favorable $0.7 million decrease in other income (expense) between 2010 and 2011. We have certain outstanding warrant agreements in effect that contain antidilution clauses. Under the antidilution clauses, in the event of equity issuances, we may be required to lower the exercise price on liability warrants and increase the number of shares underlying liability warrants. Warrant liability is carried at fair value which is determined at the end of each reporting period. The change in fair value is recorded as warrant liability income or expense. The valuation method used to calculate fair value requires us to assess the probability of future issuance of equity instruments at a price lower than the current exercise price of the warrants that contain antidilution clauses. We must also make other assumptions related to our projected cash needs and our likelihood of successfully concluding an equity fund raising transaction. Warrant liability decreased during 2011, in part, because our stock price has declined during 2011 and the decrease in the average remaining life of the warrants.

The following factors contributed to the offsetting $0.7 million increase in other expense:

- an increase in interest expense of $0.2 million in the Corporate segment because the financing in place during the bankruptcy proceedings in 2010 was at a lower interest rate than the factoring agreement put in place in 2011 and the average interest expense rate on the convertible notes outstanding during 2011,
- an increase of $0.2 million in Brazil segment interest expense, as a result of increases in the average debt outstanding,
- a Corporate segment loss in 2011 of $0.1 million from the acquisition of additional interests in RRX as a result of a settlement with HS, our former joint venture partner (see Note 13 to the consolidated financial statements), and
- a Corporate segment expense of $0.2 million in 2011 for transaction costs incurred in the settlement with HS.

Liquidity and Capital Resources

With respect to liquidity and capital resources, we manage the Brazil segment, consisting currently of our Irgovel operations, separately from our U.S. based Corporate and USA segments. As of January 2011, cash provided by operations in our Brazil segment is generally unavailable for distribution to our Corporate and USA segments pursuant to the terms of the limited liability company agreement for Nutra SA, LLC. Cash used in operating activities for 2011 is presented below by segment (in thousands).

	Corporate and USA Segments	Brazil Segment	Consolidated
2011			
Net loss	$(8,506)	$(2,369)	$ (10,875)
Adjustments to reconcile net loss to net cash used in operations:			
Warrant liability income	(332)	-	(332)
Impairment of intangibles, property, plant and equipment	1,592	-	1,592
Recovery from former customer	(1,000)	-	(1,000)
Other adjustments, net	4,481	2,395	6,876
Changes in operating asset and liabilities:			
Pre-petition liabilities	(4,790)	-	(4,790)
Other changes, net	(206)	(417)	(623)
Net cash used in operating activities	$(8,761)	$(391)	$ (9,152)
2010			
Net loss	$(13,882)	(1,786)	(15,668)
Adjustments to reconcile net loss to net cash used in operations:			
Warrant liability income	349	-	349

Impairment of intangibles, property, plant and equipment	1,900	-	1,900
Loss on disposal of intangibles, property, plant and equipment	943	-	943
Other adjustments, net	4,306	1,869	6,175
Changes in operating asset and liabilities:			
Pre-petition liabilities	(552)	-	(552)
Other changes, net	1,313	(1,801)	(488)
Net cash used in operating activities	$(5,623)	$(1,718)	$ (7,341)

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Corporate and USA Segments

On a combined basis, the Corporate and USA segments used $8.8 million of cash in operating activities in 2011. In 2011, we continued to take steps to improve profitability and liquidity by reducing our U.S. based employee headcount at both the corporate and plant operations level. In order to conserve cash, in July 2011, members of the board of directors agreed to accept stock for retainer fees for the last three quarters of 2011, instead of $0.2 million in cash. The four executive officers also agreed in July 2011 to accept stock options in lieu of $0.1 million in cash compensation for the second half of 2011. Additional steps taken in 2011 include issuing shares of common stock and warrants to satisfy certain obligations (see Note 11 to the consolidated financial statements).

In the ongoing effort to improve profitability, significant emphasis will be placed on growing revenues. The growth of revenues is expected to include the following:

- growth in existing markets for SRB, DRB and RBO,
- aligning with strategic partners who can provide channels for additional sales of our products; and
- implementing price increases.

In 2011, we also obtained funds from the issuances of convertible notes and related warrants (see Note 11 to the consolidated financial statements). The equity markets, however, have not been a significant source of funds during 2011 and 2010 due to our financial position, the state of the equity markets and our November 2010 emergence from bankruptcy. Improving financial performance and equity market conditions may allow us to raise equity funds in the near future. We intend to provide the necessary cash to continue operations through the monetization of certain assets, improved profitability and equity and/or debt financing transactions. Some of the monetizations could result in additional impairment of asset values. Asset monetization may include some or all of the following:

- sale of certain facilities;
- sale of a noncontrolling interest in one or more subsidiaries; or
- sale of surplus equipment.

In 2011, we made distributions to unsecured creditors which reduced prepetition liabilities by $4.8 million. These distributions are included in cash used in operations. As of December 31, 2011, we had $0.2 million in restricted cash set aside for distribution to the Class 6 general unsecured creditors. In January 2012, we made our final distribution to these creditors in full satisfaction of our obligation. The source of funds for the distributions to general unsecured creditors were derived from (i) the January 2011 sale of Nutra SA units discussed below (ii) proceeds from the September 2010 sale of the Phoenix, Arizona facility, (iii) receipts on notes receivable, and (iv) proceeds from issuances of convertible debt and related warrants.

Included in cash flows from investing activities for 2011 is $1.1 million of cash received on the Ceautamed note receivable. Between April 2011 and January 2012, when final distributions were made to the Class 6 creditors all amounts received on the note receivable were set aside in restricted cash for distribution to the Class 6 creditors in accordance with our Amended Plan. Beginning in February 2012, receipts on the note are no longer restricted as to use.

Cash used in investing activities in 2011 included $0.1 million in USA segment capital expenditures. Cash provided by investing activities in 2010 included $8.9 million of proceeds primarily from the sale of the Phoenix, Arizona facility and cereal equipment at that facility.

Cash provided by financing activities in 2011 included $1.7 million we received from advances under convertible notes, allocated to debt and equity in our financial statements (see Note 11 to the consolidated financial

statements). In October 2011, we received an additional advance of $0.6 million on a convertible note. The total cash advanced on the convertible notes of $2.3 million has been used to fund the working capital needs of the Corporate and USA segments, including distributions to the unsecured creditors.

Brazil Segment

The Brazil segment used cash in operating activities of $0.4 million in 2011. Funding of capital expansion projects is being provided by proceeds received from the sale of additional Nutra SA membership interests, as discussed further below, and/or bank debt.

During the first quarter of 2011, Irgovel began using cash for capital improvements which are part of a project to expand production capacity and improve operational efficiency. In 2011, these disbursements totaled $6.8 million. As of December 31, 2011, Irgovel has outstanding equipment purchase commitments totaling approximately $2.6 million. We expect to pay for this equipment through the third quarter of 2012, with long-term bank financing.

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In 2011, we received $11.6 million of proceeds from the sale of membership interests in Nutra SA. In December 2010, we entered into a membership interest purchase agreement with AF Bran Holdings-NL LLC and AF Bran Holdings LLC (the Investors). The Investors agreed to purchase a 35.6% interest in Nutra SA for an aggregate purchase price of $7.7 million. The transaction closed in the first quarter of 2011, and the Parent Company received $4.0 million of the proceeds. The remaining amount of $3.7 million, less $0.5 million retained by Nutra SA for administrative expenses, was invested in Irgovel for capital improvements and working capital needs. During the second and third quarter of 2011, the Investors purchased additional Nutra SA membership interests for $3.9 million, increasing their interest in Nutra SA from 35.6% to 49.0%. Of the $3.9 million proceeds received, $2.0 million was invested in Irgovel for capital improvements and $1.9 million was received by the Parent Company.

Off-Balance Sheet Arrangements

We have not entered into any transactions with unconsolidated entities whereby we have financial guarantees, subordinated retained interests, derivative instruments or other contingent arrangements that expose us to material continuing risks, contingent liabilities, or any other obligation under a variable interest in an unconsolidated entity that provides financing and liquidity support or market risk or credit support risk to us.

Critical Accounting Policies

A summary of our significant accounting policies is included in Note 3 of Part II - Item 8, Financial Statements and Supplementary Data. We believe the application of these accounting policies on a consistent basis will enable us to provide timely and reliable financial information about our earnings results, financial condition and cash flows.

The preparation of consolidated financial statements in accordance with accounting principles generally accepted in the United States of America (GAAP) requires us to make judgments, estimates and assumptions regarding uncertainties that affect the reported amounts presented and disclosed in the financial statements. We review these estimates and assumptions based on historical experience, changes in business conditions and other relevant factors that we believe to be reasonable under the circumstances. In any given reporting period, actual results could differ from the estimates and assumptions used in preparing our financial statements.

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

Principles of Consolidation – The consolidated financial statements include the accounts of NutraCea (the Parent Company) and all subsidiaries in which we have a controlling interest. All significant inter-company accounts and transactions are eliminated in consolidation. Noncontrolling interests in our subsidiaries are recorded net of tax as net earnings (loss) attributable to noncontrolling interests.

Foreign Currencies - The consolidated financial statements are presented in our reporting currency, U.S. Dollars. The functional currency for Irgovel is the Brazilian Real. Accordingly, the balance sheet of Irgovel is translated into U.S. Dollars using the exchange rate in effect at the balance sheet date. Revenues and expenses are translated using the average exchange rates in effect during the period. Translation differences are recorded in accumulated other comprehensive income (loss) as foreign currency translation. Gains or losses on transactions denominated in a currency other than the subsidiaries' functional currency which arise as a result of changes in foreign exchange rates are recorded as foreign exchange gain or loss in the statements of operations.

Accounts Receivable and Allowance for Doubtful Accounts – Accounts receivable represent amounts receivable on trade accounts. The allowance for doubtful accounts is based on our assessment of the collectability of customer accounts and the aging of accounts receivable. We analyze the aging of customer accounts, customer concentrations, customer credit-worthiness, current economic trends and changes in our customer payment patterns when evaluating the adequacy of the allowance for doubtful accounts. From period to period, differences in judgments or estimates utilized may result in material differences in the amount and timing of our provision for doubtful accounts. We continue to evaluate our credit policy to ensure that the customers are worthy of terms and support our business plans.

Long-Lived Assets, Intangible Assets and Goodwill – Long-lived assets, consisting primarily of property, plant and equipment, intangible assets, and goodwill, comprise a significant portion of our total assets. Property, plant and equipment are stated at cost less accumulated depreciation. Intangible assets are stated at cost less accumulated amortization.

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The carrying values of property, plant and equipment and intangible assets with finite lives are evaluated periodically in relation to the expected future cash flows of the underlying assets and monitored for other potential triggering events that might indicate impairment. Adjustments are made in the event that estimated undiscounted net cash flows estimated to be derived from the asset are less than the carrying value of the related asset. The cash flow projections are based on historical experience, management's view of growth rates within the industry, and the anticipated future economic environment.

We are required to test goodwill for impairment at least annually (by policy, December 31) and more often if an event occurs or circumstances change that more likely than not reduce the fair value of a reporting unit below its carrying value. In assessing the recoverability of goodwill, we make estimates and assumptions about sales, operating margin, terminal growth rates and discount rates based on our budgets, business plans, economic projections, anticipated future cash flows and marketplace data. There are inherent uncertainties related to these factors and management's judgment in applying these factors. The fair value of a reporting unit has been determined using an income approach based on the present value of the future cash flows of each reporting unit. The goodwill impairment test compares the fair value of individual reporting units to the carrying value of these reporting units. If fair value is less than carrying value then goodwill impairment may be present. The market value of our common stock is an indicator of fair value and a consideration in determining the fair value of our reporting units.

Revenue Recognition – We recognize revenue for product sales when title and risk of loss pass to our customers, generally upon shipment for USA segment customers and Brazil segment international customers and upon customer receipt for Brazil segment domestic customers. Each transaction is evaluated to determine if all of the following four criteria are met: (i) persuasive evidence of an arrangement exists; (ii) delivery has occurred; (iii) the selling price is fixed and determinable; and (iv) collectability is reasonably assured. If any of the above criteria cannot be satisfied then such a transaction is not recorded as revenue, or is recorded as deferred revenue and recognized only when the sales cycle is complete and payment is either received or becomes reasonably assured. Changes in judgments and estimates regarding the application of the above mentioned four criteria might result in a change in the timing or amount of revenue recognized by such transactions.

We make provisions for estimated returns discounts, and price adjustments when they are reasonably estimable. Revenues on the statements of operations are net of provisions for estimated returns, routine sales discounts, volume allowances, adjustments. Revenues on the statements of operations are also net of taxes collected from customers and remitted to governmental authorities.

Shipping and Handling Fees and Costs – Amounts billed to a customer in a sale transaction related to shipping costs are reported as revenues and the related costs incurred for shipping are included in cost of goods sold.

Warrant Liability – We have certain warrant agreements in effect that contain antidilution clauses. Under these clauses, we may be required to lower the exercise price on these warrants and issue additional warrants based on future issuances of our common stock, awards of options to employees, additional issuance of warrants, or other convertible instruments below a certain exercise price. We account for the warrants with these antidilution clauses as liability instruments. These warrants are valued using the Lattice model each reporting period and the resultant change in fair value is recorded in the statements of operations as warrant liability income (expense).

Share-Based Compensation – Share-based compensation expense for employees is calculated at the grant date using the Black-Scholes-Merton valuation model based on awards ultimately expected to vest, reduced for estimated forfeitures, and expensed on a straight-line basis over the requisite service period of the grant. Forfeitures are estimated at the time of grant based on our historical forfeiture experience are revised in subsequent periods if actual forfeitures differ from those estimates. The Black-Scholes-Merton option pricing model requires us to estimate key assumptions such as expected life, volatility, risk-free interest rates and dividend yield to determine the fair value of share-based awards,

based on both historical information and management’s judgment regarding market factors and trends.

We account for share-based compensation awards granted to non-employees and consultants by determining the fair value of the awards granted at either the fair value of the consideration received or the fair value of the equity instruments issued, whichever is more reliably measured. Generally we value options granted to non-employees and consultants using the Black-Scholes-Merton valuation model. If the fair value of the equity instruments issued is used, it is measured using the stock price and other measurement assumptions as of the earlier of (i) the date at which a commitment for performance by the counterparty to earn the equity instruments is reached or (ii) the date at which the counterparty's performance is complete. The expense of stock awards issued to consultants or other third parties are recognized over the term of service. In the event services are terminated early or we require no specific future performance, the entire amount is expensed. The value is re-measured each reporting period over the requisite service period. Most non-employee awards have graded vesting schedules resulting in higher compensation expense recorded early in the service period.

We treat options granted to employees of foreign subsidiaries as equity options.

We will use alternative valuation models if grants have characteristics that cannot be reasonably estimated using the Black-Scholes-Merton model.

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Income Taxes – We account for income taxes by recording a deferred tax asset or liability for the recognition of future deductible or taxable amounts and operating loss and tax credit carryforwards. Deferred tax expense or benefit is recognized as a result of timing differences between the recognition of assets and liabilities for financial reporting and tax purposes during the year.

Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. Deferred tax assets are recognized for deductible temporary differences and operating loss and tax credit carryforwards. A valuation allowance is established, when necessary, to reduce that deferred tax asset if it is "more likely than not" that the related tax benefits will not be realized.

Use of Estimates – The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Because of the uncertainty inherent in such estimates, actual results could differ from those estimates.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not applicable.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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Report of Independent Registered Public Accounting Firm

Board of Directors and Shareholders
NutraCea
Scottsdale, Arizona

We have audited the accompanying consolidated balance sheets of NutraCea (the Company) as of December 31, 2011 and 2010, and the related consolidated statements of operations, comprehensive loss, changes in equity, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide 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 the Company at December 31, 2011 and 2010, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As described in Note 1 to the consolidated financial statements, the Company has suffered recurring losses from operations resulting in an accumulated deficit of $194.9 million. Although the Company emerged from bankruptcy in November 2010, there continues to be substantial doubt about its ability to continue as a going concern. Management's plans in regard to this matter are also described in Note 1. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

/s/ BDO USA, LLP

Phoenix, Arizona
March 30, 2012

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NutraCea
Consolidated Balance Sheets
December 31, 2011 and 2010
(in thousands, except share amounts)

	2011	2010
ASSETS		
Current assets:		
Cash and cash equivalents	$3,329	$537
Restricted cash	2,118	1,917
Accounts receivable, net of allowance for doubtful accounts of $323 and $277	3,702	3,502
Inventories	2,297	2,738
Note receivable, current portion	700	1,200
Deferred tax asset	159	292
Income and operating taxes recoverable	1,659	851
Deposits and other current assets	1,049	1,237
Assets held for sale - property, plant and equipment	-	3,598
Total current assets	15,013	15,872
Note receivable, net of current portion	-	600
Property, plant and equipment, net	27,995	24,054
Intangible assets, net	3,928	6,296
Goodwill	5,240	5,835
Other long-term assets	56	144
Total assets	$52,232	$52,801
LIABILITIES, TEMPORARY EQUITY AND EQUITY		
Current liabilities:		
Accounts payable	$2,995	$2,573
Accrued expenses	4,202	5,095
Pre-petition liabilities	1,615	6,406
Long-term debt, current portion	6,792	2,908
Total current liabilities	15,604	16,982
Long-term liabilities:		
Long-term debt, net of current portion	7,933	6,440
Deferred tax liability	3,767	4,361
Warrant liability	1,296	1,628
Other long-term liabilities	-	1,000
Total liabilities	28,600	30,411
Commitments and contingencies		
Redeemable noncontrolling interest in Nutra SA	9,918	-
Equity:		
Equity attributable to NutraCea shareholders:		
Preferred stock, 20,000,000 authorized and none issued	-	-
	209,613	207,432

Common stock, no par value, 500,000,000 shares authorized, 201,264,622 and 195,359,109 shares issued and outstanding		
Accumulated deficit	(194,911)	(184,812)
Accumulated other comprehensive loss	(988)	(74)
Total equity attributable to NutraCea shareholders	13,714	22,546
Noncontrolling interest	-	(156)
Total equity	13,714	22,390
Total liabilities, temporary equity and equity	$52,232	$52,801

See Notes to Consolidated Financial Statements

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NutraCea
Consolidated Statements of Operations
Years Ended December 31, 2011 and 2010
(in thousands, except per share amounts)

	2011	2010
Revenues	$36,957	$33,378
Cost of goods sold	29,386	26,418
Gross profit	7,571	6,960
Operating expenses:		
Selling, general and administrative	14,441	15,995
Professional fees	2,922	2,027
Recoveries from former customers	(1,800)	-
Impairment of property, plant and equipment	906	1,900
Impairment of intangible assets	686	-
Loss on disposal of property, plant and equipment	-	943
Total operating expenses	17,155	20,865
Loss from operations	(9,584)	(13,905)
Other income (expense):		
Interest income	126	84
Interest expense	(1,763)	(1,406)
Loss on acquisition of controlling interest in Rice Rx	(140)	-
Warrant liability income (expense)	332	(349)
Foreign currency exchange, net	(99)	(64)
Other income	232	148
Other expense	(324)	(78)
Total other income (expense)	(1,636)	(1,665)
Reorganization expenses:		
Professional fees	-	1,033
Total reorganization expenses	-	1,033
Loss before income taxes	(11,220)	(16,603)
Income tax benefit	345	935
Net loss	(10,875)	(15,668)
Net loss attributable to noncontrolling interest in Nutra SA	776	-
Net loss attributable to NutraCea shareholders	$(10,099)	$(15,668)
Loss per share attributable to NutraCea shareholders		
Basic	$(0.05)	$(0.08)
Diluted	$(0.05)	$(0.08)
Weighted average number of shares outstanding		
Basic	198,370	193,196
Diluted	198,370	193,196

See Notes to Consolidated Financial Statements

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NutraCea
Consolidated Statements of Comprehensive Loss
Years ended December 31, 2011 and 2010
(in thousands)

	2011	2010
Net loss	$(10,875)	$(15,668)
Other comprehensive income (loss) - foreign currency translation, net of tax	(1,845)	393
Comprehensive loss, net of tax	(12,720)	(15,275)
Comprehensive loss attributable to noncontrolling interest, net of tax	1,707	-
Total comprehensive loss attributable to NutraCea shareholders	$(11,013)	$(15,275)

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NutraCea
Consolidated Statements of Changes in Equity
Years Ended December 31, 2011 and 2010
(in thousands, except share amounts)

	NutraCea Shareholders				Non-controlling	
	Common Stock		Accumulated	Accumulated Other Comp-rehensive	Interest in Rice	Total
	Shares	Amount	Deficit	Loss	Science	Equity
Balance, January 1, 2010	192,967,680	$205,291	$ (169,144)	$ (467)	$(156)	$35,524
Share-based compensation	-	1,669	-	-	-	1,669
Common stock issued for services	2,391,429	472	-	-	-	472
Foreign currency translation	-	-	-	393	-	393
Net loss	-	-	(15,668)	-	-	(15,668)
Balance, December 31, 2010	195,359,109	207,432	(184,812)	(74)	(156)	22,390
Cancelled shares and options - settlements with former officers	(44,666)	(267)	-	-	-	(267)
Share-based compensation	-	907	-	-	-	907
Warrants issued	-	437	-	-	-	437
Acquisition of additional interests in Rice Science	-	(254)	-	-	156	(98)
Common stock issued to Buyer	2,576,775	618	-	-	-	618
Common stock issued for services	3,373,404	568	-	-	-	568
Other	-	172	-	-	-	172
Foreign currency translation	-	-	-	(914)	-	(914)
Net loss	-	-	(10,099)	-	-	(10,099)
Balance, December 31, 2011	201,264,622	$209,613	$ (194,911)	$ (988)	$-	$13,714

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NutraCea
Consolidated Statements of Cash Flows
Years Ended December 31, 2011 and 2010
(in thousands)

	2011	2010
Cash flow from operating activities:		
Net loss	$(10,875)	$(15,668)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	4,980	4,774
Provision for doubtful accounts receivable	162	153
Stock and share-based compensation	1,475	2,141
Impairment of intangibles, property, plant and equipment	1,592	1,900
Loss on disposal of intangibles, property, plant and equipment	-	943
Recovery from former customer	(1,000)	-
Settlement with former officer	(267)	-
Warrant liability expense (income)	(332)	349
Deferred tax benefit	(345)	(935)
Reorganization expenses	-	1,033
Other	772	42
Changes in operating assets and liabilities:		
Accounts receivable	(577)	(63)
Inventories	343	334
Other current assets	(807)	173
Accounts payable and accrued expenses	517	(1,130)
Pre-petition liabilities	(4,790)	(552)
Net cash used in operating activities, before reorganization items	(9,152)	(6,506)
Reorganization items:		
Reorganization expenses	-	(1,033)
Change in accounts payable for reorganization items	-	198
Net cash used for reorganization items	-	(835)
Net cash used in operating activities	(9,152)	(7,341)
Cash flows from investing activities:		
Receipts on notes receivable	1,100	1,200
Purchases of property, plant and equipment	(6,867)	(772)
Proceeds from sale of trademarks, property, plant and equipment	-	8,872
Acquisition of additional interests in Rice Science and Rice Rx	(150)	-
Restricted cash	(200)	-
Other	(60)	(26)
Net cash provided by (used in) investing activities	(6,177)	9,274
Cash flows from financing activities:		
Proceeds from sale of membership interests in Nutra SA, net of costs	11,625	-
Proceeds from issuance of warrants and note conversion feature	506	-
Payments of debt	(8,818)	(5,716)
Proceeds from issuance of debt	15,056	3,399
Net cash provided by (used in) financing activities	18,369	(2,317)

Effect of exchange rate changes on cash and cash equivalents	(248)	(31)
Net change in cash and cash equivalents	2,792	(415)
Cash and cash equivalents, beginning of year	537	952
Cash and cash equivalents, end of year	$3,329	$537
Supplemental disclosures:		
Cash paid for interest	$1,551	$990
Cash paid for income taxes	-	6

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NutraCea
Notes to Consolidated Financial Statements

NOTE 1. CHAPTER 11 REORGANIZATION, LIQUIDITY AND MANAGEMENT'S PLANS

Chapter 11 Reorganization

On November 10, 2009, NutraCea (the Parent Company) filed a voluntary petition for relief under Chapter 11 of the United States Bankruptcy Code (Bankruptcy Code) in the United States Bankruptcy Court for the District of Arizona (the Bankruptcy Court), in the proceeding entitled In re: NutraCea, Case No. 2:09-bk-28817-CGC (the Chapter 11 Reorganization). None of the Parent Company's subsidiaries, including its Brazilian rice bran oil operation, were included in the bankruptcy filing. The Parent Company continued to manage its assets and operate its business as "debtor-in-possession" under the jurisdiction of the Bankruptcy Court through the November 2010 plan effective date (see below). Under the Bankruptcy Code, certain claims against the Parent Company in existence prior to the filing of the bankruptcy petition were stayed during the pendency of the Chapter 11 Reorganization. Additional claims arose subsequent to the filing date from the Parent Company's business operations, its secured borrowing from Wells Fargo Bank, N.A. (Wells Fargo), its employment of professionals, its disposition of certain non-core assets (as described below) and its treatment of certain executory contracts.

On August 10, 2010, the Parent Company and the Official Unsecured Creditors Committee filed with the Bankruptcy Court an amended plan of reorganization (Amended Plan) in accordance with the Bankruptcy Code. The Amended Plan called for the payment in full of all allowed claims. Creditors voted overwhelmingly in favor of the Amended Plan and, on October 27, 2010, the Bankruptcy Court entered its order confirming the Amended Plan. The confirmation order became final on November 10, 2010, and the Amended Plan became effective on November 30, 2010.

The liabilities subject to compromise existing at December 31, 2009, became the Parent Company's payment obligations under the Amended Plan of approximately $7.0 million when the Amended Plan became effective. As of December 31, 2010 and 2011, the portion of these obligations remaining unpaid is reflected as pre-petition liabilities in our consolidated balance sheets. Interest accrued on the allowed liabilities subject to compromise from November 2009 through November 2010, at an annual rate of 0.38%. Interest accrued on the unpaid prepetition liabilities at an annual rate of 8.25% beginning in December 2010.

During 2011, we distributed $4.8 million to the unsecured creditors and during 2010, we distributed $0.6 million. In January 2012, we made our final $1.6 million distribution to the general unsecured creditors. Through January 2012, we have made distributions totaling $7.0 million, representing 100% of the amount owed, plus accrued interest. The 2011 and 2012 distributions were made with the proceeds from (i) the sale of interests in Nutra SA, (ii) proceeds from the issuance of convertible notes, debentures and related warrants (iii) receipts on notes receivable and (iv) proceeds from the 2010 sale of the Phoenix building.

Liquidity and Management's Plans

Although we have made significant improvements in the past year, we continue to experience losses and negative cash flows from operations which raises substantial doubt about our ability to continue as a going concern. Although we believe that we will be able to obtain the funds to operate our business, there can be no assurances that our efforts will prove successful. The accompanying consolidated financial statements do not include any adjustments that might be necessary if we are unable to continue as a going concern.

We have taken steps in 2011 and 2010 to improve profitability and liquidity by reducing our U.S. based employee headcount at both the corporate and plant operations level. In the ongoing effort to improve profitability, significant emphasis will be placed on growing revenues. The growth of revenues is expected to include the following:

- growth in existing markets for stabilized rice bran (SRB), rice bran oil (RBO) and defatted rice bran (DRB);
- aligning with strategic partners who can provide channels for additional sales of our products including rice oil extraction; and
- implementing price increases.

In 2011, we issued shares of common stock and warrants to satisfy certain obligations in an effort to conserve cash. In 2011, we also obtained funds from issuances of convertible notes. The equity markets, however, have not been a significant source of funds during 2011 and 2010 due to our financial position, the state of the equity markets and our November 2010 emergence from bankruptcy. Improving financial performance and equity market conditions may allow us to raise equity funds in the near future. We intend to provide the necessary cash to continue operations through the monetization of certain assets, improved profitability and possible equity and/or debt financing transactions. Some of these monetizations could result in additional impairment of asset values. Asset monetization may include some or all of the following:

- sale of certain facilities;
- sale of a noncontrolling interest in one or more subsidiaries; or
- sale of surplus equipment.

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NutraCea
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NOTE 2. GENERAL BUSINESS

We are a human food ingredient and animal nutrition company focused on the procurement, bio-refining and marketing of numerous products derived from rice bran. We have proprietary and patented intellectual property that allows us to convert rice bran, one of the world's most underutilized food sources, into a number of highly nutritious human food and animal nutrition products. Our target markets are human food and animal nutrition manufacturers and retailers, as well as natural food, functional food and nutraceutical supplement manufacturers and retailers, both domestically and internationally. We have developed a bio-refining approach to processing raw rice bran into various value added constituents such as stabilized rice bran (SRB), rice bran oil (RBO), defatted rice bran (DRB) and a variety of other valuable derivative products from each of these core products.

We have three reportable business segments: (1) Corporate; (2) USA, which manufactures and distributes SRB in various granulations along with other products derived from rice bran via proprietary and patented enzyme treatment processes; and (3) Brazil, which extracts crude RBO and DRB from rice bran, which are then further processed into a number of valuable human food and animal nutrition products. The Corporate segment includes selling, general and administrative expenses including public company expenses, litigation, and other expenses not directly attributable to other segments. No Corporate allocations are made to the other segments. General corporate interest is not allocated. For further information on segment results see Note 19 to the consolidated financial statements included herein.

The USA segment consists of two locations in California and two locations in Louisiana all of which can produce SRB. One of the two Louisiana SRB facilities, located in Lake Charles, has been idle since May 2009 (See Note 9). The USA segment also includes our Dillon, Montana Stage II facility which produces RiSolubles (a highly nutritious, carbohydrate and lipid rich fraction of SRB), RiFiber (a fiber rich derivative of SRB) and RiBalance (a complete rice bran nutritional package derived from further processing SRB). The manufacturing facilities included in our USA segment have proprietary and patented processing equipment and technology for the stabilization and further processing of rice bran into finished products. In 2011, 45.7% of USA segment revenue was from sales of human food products and 54.3% was from sales of animal nutrition products.

The Brazil segment consists of the operation of our subsidiary Industria Riograndens De Oleos Vegetais Ltda. (Irgovel), located in Pelotas, Brazil. Irgovel manufactures RBO and DRB products for both the human and animal food markets in Brazil and internationally. Irgovel owns the largest rice bran processing facility in South America and is the only company in Latin America to produce edible RBO for human consumption. In refining RBO to an edible grade, several co-products are obtained. One such product is distilled fatty acids, a valuable raw material for the detergent industry. DRB is sold in bulk as animal feed and compounded with a number of other ingredients to produce complex animal nutrition products which are packaged and sold under Irgovel brands in the Brazilian market. For 2011, Brazil segment revenue was derived 20.1% from sales of human food products, 50.5% from sales of industrial oils and 29.4% from animal feed and nutrition products.

NOTE 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation – The consolidated financial statements include the accounts of NutraCea (the Parent Company) and all subsidiaries in which we have a controlling interest. All significant inter-company accounts and transactions are eliminated in consolidation. Noncontrolling interests in our subsidiaries are recorded net of tax as net earnings (loss) attributable to noncontrolling interests.

Foreign Currencies - The consolidated financial statements are presented in our reporting currency, U.S. Dollars. The functional currency for Irgovel is the Brazilian Real. Accordingly, the balance sheet of Irgovel is translated into U.S. Dollars using the exchange rate in effect at the balance sheet date. Revenues and expenses are translated using the average exchange rates in effect during the period. Translation differences are recorded in accumulated other comprehensive income (loss) as foreign currency translation. Gains or losses on transactions denominated in a currency other than the subsidiaries' functional currency which arise as a result of changes in foreign exchange rates are recorded as foreign exchange gain or loss in the statements of operations.

Cash and Cash Equivalents – We consider all highly liquid investments purchased with an original maturity of three months or less at the time of purchase to be cash equivalents. As of December 31, 2011, we maintain our cash, including restricted cash, and cash equivalents, with major banks. We maintain cash in bank accounts, which at times may exceed federally insured limits. We have not experienced any losses on such accounts.

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Accounts Receivable and Allowance for Doubtful Accounts – Accounts receivable represent amounts receivable on trade accounts. The allowance for doubtful accounts is based on our assessment of the collectability of customer accounts and the aging of accounts receivable. We analyze the aging of customer accounts, customer concentrations, customer credit-worthiness, current economic trends and changes in our customer payment patterns when evaluating the adequacy of the allowance for doubtful accounts. From period to period, differences in judgments or estimates utilized may result in material differences in the amount and timing of our provision for doubtful accounts. We continue to evaluate our credit policy to ensure that the customers are worthy of terms and support our business plans.

Inventories - Inventories are stated at the lower of cost or market, with cost determined by the first-in, first-out method. In the USA segment, we employ a full absorption procedure using standard cost techniques. The standards are customarily reviewed and adjusted annually so that they are materially consistent with actual purchase and production costs. In the Brazil segment we use actual average purchase and production costs. Provisions for potentially obsolete or slow moving inventory are made based upon our analysis of inventory levels, historical obsolescence and future sales forecasts.

Long-Lived Assets, Intangible Assets and Goodwill – Long-lived assets, consisting primarily of property, plant and equipment, intangible assets, and goodwill, comprise a significant portion of our total assets. Property, plant and equipment are stated at cost less accumulated depreciation. Depreciation is computed on the straight-line basis over the estimated useful lives. 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. Intangible assets are stated at cost less accumulated amortization.

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

We are required to test goodwill for impairment at least annually (by policy December 31) and more often if an event occurs or circumstances change that more likely than not reduce the fair value of a reporting unit below its carrying value. In assessing the recoverability of goodwill, we make estimates and assumptions about sales, operating margin, terminal growth rates and discount rates based on our budgets, business plans, economic projections, anticipated future cash flows and marketplace data. There are inherent uncertainties related to these factors and management’s judgment in applying these factors. The fair value of a reporting unit has been determined using an income approach based on the present value of the future cash flows of each reporting unit. The goodwill impairment test compares the fair value of individual reporting units to the carrying value of these reporting units. If fair value is less than carrying value then goodwill impairment may be present. The market value of our common stock is an indicator of fair value and a consideration in determining the fair value of our reporting units.

Revenue Recognition – We recognize revenue for product sales when title and risk of loss pass to our customers, generally upon shipment for USA segment customers and Brazil segment international customers and upon customer receipt for Brazil segment domestic customers. Each transaction is evaluated to determine if all of the following four criteria are met: (i) persuasive evidence of an arrangement exists; (ii) delivery has occurred; (iii) the selling price is fixed and determinable; and (iv) collectability is reasonably assured. If any of the above criteria cannot be satisfied then such a transaction is not recorded as revenue, or is recorded as deferred revenue and recognized only when the

sales cycle is complete and payment is either received or becomes reasonably assured. Changes in judgments and estimates regarding the application of the above mentioned four criteria might result in a change in the timing or amount of revenue recognized by such transactions.

We make provisions for estimated returns discounts, and price adjustments when they are reasonably estimable. Revenues on the statements of operations are net of provisions for estimated returns, routine sales discounts, volume allowances, adjustments. Revenues on the statements of operations are also net of taxes collected from customers and remitted to governmental authorities.

Shipping and Handling Fees and Costs – Amounts billed to a customer in a sale transaction related to shipping costs are reported as revenues and the related costs incurred for shipping are included in cost of goods sold.

Research and Development – Research and development expenses include internal and external costs. Internal costs include salaries and employment related expenses. External expenses consist of costs associated with product development. All such costs are charged to expense in the period they are incurred.

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Warrant Liability – We have certain warrant agreements in effect that contain antidilution clauses. Under these clauses, we may be required to lower the exercise price on these warrants and issue additional warrants based on future issuances of our common stock, awards of options to employees, additional issuance of warrants, or other convertible instruments below a certain exercise price. We account for the warrants with these antidilution clauses as liability instruments. These warrants are valued using the lattice model each reporting period and the resultant change in fair value is recorded in the statements of operations as warrant liability income (expense).

Share-Based Compensation – Share-based compensation expense for employees is calculated at the grant date using the Black-Scholes-Merton valuation model based on awards ultimately expected to vest, reduced for estimated forfeitures, and expensed on a straight-line basis over the requisite service period of the grant. Forfeitures are estimated at the time of grant based on our historical forfeiture experience are revised in subsequent periods if actual forfeitures differ from those estimates. The Black-Scholes-Merton option pricing model requires us to estimate key assumptions such as expected life, volatility, risk-free interest rates and dividend yield to determine the fair value of share-based awards, based on both historical information and management’s judgment regarding market factors and trends.

We account for share-based compensation awards granted to non-employees and consultants by determining the fair value of the awards granted at either the fair value of the consideration received or the fair value of the equity instruments issued, whichever is more reliably measured. Generally we value options granted to non-employees and consultants using the Black-Scholes-Merton valuation model. If the fair value of the equity instruments issued is used, it is measured using the stock price and other measurement assumptions as of the earlier of (i) the date at which a commitment for performance by the counterparty to earn the equity instruments is reached or (ii) the date at which the counterparty's performance is complete. The expense of stock awards issued to consultants or other third parties are recognized over the term of service. In the event services are terminated early or we require no specific future performance, the entire amount is expensed. The value is re-measured each reporting period over the requisite service period. Most non-employee awards have graded vesting schedules resulting in higher compensation expense recorded early in the service period.

We treat options granted to employees of foreign subsidiaries as equity options.

We will use alternative valuation models if grants have characteristics that cannot be reasonably estimated using the Black-Scholes-Merton model.

Income Taxes – We account for income taxes by recording a deferred tax asset or liability for the recognition of future deductible or taxable amounts and operating loss and tax credit carryforwards. Deferred tax expense or benefit is recognized as a result of timing differences between the recognition of assets and liabilities for financial reporting and tax purposes during the year.

Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. Deferred tax assets are recognized for deductible temporary differences and operating loss and tax credit carryforwards. A valuation allowance is established, when necessary, to reduce that deferred tax asset if it is “more likely than not” that the related tax benefits will not be realized.

Fair Value of Financial Instruments – Our financial instruments include cash and cash equivalents, accounts and other receivables, the current portion of debt and accounts payable, the fair value of which approximates their carrying value due to their shorter maturities. The fair value of the long-term portion of debt approximates its carrying value

based on interest rates of debt with similar maturities.

Use of Estimates – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Because of the uncertainty inherent in such estimates, actual results could differ from those estimates.

Reclassifications – Certain reclassifications have been made to prior period amounts to conform to classifications adopted in the current year financial statement presentation with no effect on previously reported net loss, total equity or cash flow from operations.

Corrections - In 2011, we corrected the 2010 statement of operations to reflect shipping costs billed customers in sales transaction as revenues and the related costs incurred for shipping in cost of goods sold. As originally reported, the $1.7 million of shipping costs billed customers and the $1.7 million of shipping costs incurred were net in sales. Management believes the impact of the 2010 error did not result in a material misstatement of our financial position or results of operations.

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Recent Accounting Pronouncements

Accounting pronouncements that are applicable to us and could potentially have a material impact on our financial statements, are discussed below.

The Financial Accounting Standards Board (FASB) has issued guidance clarifying the criteria for separating revenue between multiple deliverables. This guidance applies to new revenue arrangements or arrangements materially modified in periods subsequent to adoption. We were required to adopt this standard effective January 1, 2011. Adoption of the standard had no impact on our consolidated financial statements.

In May 2011, the FASB amended guidance on fair value measurement and expanded the required disclosures related to fair value. The amendments, among other things, clarify that the highest and best use concept applies only to nonfinancial assets and addresses the appropriate premiums and discounts to consider in fair value measurement. We are required to adopt the guidance prospectively, effective January 1, 2012. We do not expect adoption to have a significant impact on our consolidated financial position or results of operations.

In September 2011, the FASB amended guidance on goodwill impairment testing. The amendments permit us to first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the two-step goodwill impairment test. Previous guidance required us to test goodwill for impairment, on at least an annual basis, by comparing the fair value of a reporting unit with its carrying amount, including goodwill (step one). If the fair value of a reporting unit is less than its carrying amount, then the second step of the test must be performed to measure the amount of the impairment loss, if any. Under the amendments, we are not required to calculate the fair value of a reporting unit unless we determine that it is more likely than not that its fair value is less than its carrying amount. We are required to adopt the amendments effective for annual and interim goodwill impairment tests (if required) performed after January 1, 2012. Early adoption is permitted. We do not expect adoption to have a significant impact on our consolidated financial position or results of operations.

NOTE 4. LOSS PER SHARE (EPS)

Basic EPS is computed by dividing net income (loss) attributable to NutraCea shareholders by the weighted average number of common shares outstanding during all periods presented. Options, warrants and shares issuable upon conversion of convertible notes payable are excluded from the basic EPS calculation and are considered in calculating the diluted EPS.

Diluted EPS is computed by dividing net income (loss) attributable to NutraCea shareholders by the weighted average number of shares outstanding during the period increased by the number of additional shares that would have been outstanding if the impact of assumed exercises and conversions is dilutive. The dilutive effect of outstanding options and warrants is calculated using the treasury stock method. The dilutive effect of outstanding convertible notes payable is calculated using the “if converted” method.

Below are reconciliations of the numerators and denominators in the EPS computations.

	2011	2010
NUMERATOR (in thousands):		
	$ (10,099)	$ (15,668)

Basic and diluted - net loss attributable to NutraCea shareholders		
DENOMINATOR:		
Basic EPS - weighted average number of shares outstanding	198,370,369	193,195,640
Effect of dilutive securities outstanding	-	-
Diluted EPS - weighted average number of shares outstanding	198,370,369	193,195,640
Number of shares of common stock which could be purchased with weighted average outstanding securities not included in diluted EPS because effect would be antidilutive-		
Stock options (average exercise price of $0.29 and $0.37)	39,575,663	30,167,026
Warrants (average exercise price of $1.13 and $1.27)	42,952,934	39,109,645
Convertible notes	5,159,808	-

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The impact of potentially dilutive securities outstanding at December 31, 2011 and 2010, were not included in the calculation of diluted EPS in 2011 and 2010 because to do so would be antidilutive. Those securities which were antidilutive in 2011 and 2010, which remain outstanding, could potentially dilute EPS in the future.

NOTE 5. REDEEMABLE NONCONTROLLING INTEREST IN NUTRA SA

A summary of changes in redeemable noncontrolling interest follows (in thousands):

	Investors' Ownership Interest After Transaction		2011
Investors' purchase of initial units - first quarter 2011	35.6	%	$ 7,725
Investors' purchase of additional units - second quarter 2011	45.2	%	3,000
Investors' purchase of additional units - third quarter 2011	49.0	%	900
Investors' interest in net loss of Nutra SA			(776)
Investors' interest in accumulated other comprehensive income of Nutra SA			(931)
Redeemable noncontrolling interest in Nutra SA, end of period			$ 9,918

In December 2010, we entered into a membership interest purchase agreement (MIPA) with AF Bran Holdings-NL LLC and AF Bran Holdings LLC (Investors). The transaction closed in January 2011. The Investors agreed to purchase units in Nutra SA for an aggregate purchase price of $7.7 million. Prior to the transaction, Nutra SA was a wholly owned subsidiary. Nutra SA owns 100% of Irgovel. Initially after the closing, effective in January 2011, we owned a 64.4% interest in Nutra SA, and the Investors owned a 35.6% interest in Nutra SA. The Parent Company received $4.0 million of the January 2011 proceeds. The remaining $3.7 million, less $0.5 million retained by Nutra SA for administrative expenses, was invested in Irgovel for capital improvements and working capital needs.

The Parent Company agreed to use $2.2 million of the funds received from the January 2011 transaction closing to repay amounts owed to the Class 6 general unsecured creditors in accordance with the Amended Plan. The remaining $1.8 million was used for general corporate purposes, other unsecured creditor claims and administrative expenses associated with the Chapter 11 Reorganization.

We received in the second quarter of 2011 an additional $3.0 million from the Investors - $1.0 million for the purchase of outstanding units in Nutra SA from the Parent Company, which was used by the Parent Company for working capital, and $2.0 million for the purchase of new units in Nutra SA, which were used by Irgovel to fund a capital expansion. We received in the third quarter of 2011 an additional $0.9 million from the Investors for the purchase of outstanding units in Nutra SA from the Parent Company, which was used by the Parent Company for working capital. These purchases increased the Investors' interest in Nutra SA to a 49.0% interest as of December 31, 2011.

We determined that we continue to control Nutra SA after each of the transactions and therefore we continue to consolidate Nutra SA. We treated each transaction similar to an equity transaction, with no gain or loss recognized in consolidated net income or comprehensive income. The Investors' share of Nutra SA's net income (loss) after the January 2011 closing increases (decreases) redeemable noncontrolling interest.

Redeemable noncontrolling interest in Nutra SA is recorded in temporary equity, above the equity section and after liabilities on our consolidated balance sheets, because the Investors have the right to force a sale of Nutra SA assets in the future (see Drag Along Rights described below). We have assessed the likelihood of the Investors exercising these rights as less than probable at December 31, 2011, in part because it is more likely the Investors will exercise other rights prior to January 2015. We will continue to evaluate the probability of the Investors exercising their Drag Along rights each reporting period. We will begin to accrete the redeemable noncontrolling interest up to fair value if and when it is probable the Investors will exercise these rights.

We are restricted from competing with Nutra SA and Irgovel in Brazil as further described in the MIPA.

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In the third quarter of 2011, in connection with the Investors' purchase of additional units for $0.9 million, we entered into a waiver agreement to the MIPA and an amendment to the limited liability company agreement for Nutra SA, LLC (LLC agreement). Under the waiver and amendment until the later of (i) the date the first phase of the Irgovel capital expansion project is completed or (ii) August 31, 2013, the Investors have the right to purchase additional units in Nutra SA at $2.00 per unit if (i) there are inadequate funds available from a Brazilian institution(s) to complete the first phase of the Irgovel capital expansion project or to operate Irgovel, creating a cash shortfall, and (ii) we are unable to fund the first $0.9 million of this shortfall, or our prorata share of any additional cash shortfall above the first $0.9 million, by purchasing additional units in Nutra SA at $2.00 per unit.

Under the LLC agreement, the business of Nutra SA is to be conducted by the manager, NutraCea's CEO, subject to the oversight of the management committee. The management committee is comprised of three NutraCea representatives and two Investors' representatives. Upon an event of default or a qualifying event, the management committee will no longer be controlled by NutraCea, and will include three Investors representatives and two NutraCea representatives. In addition, following an event of default or a qualifying event, a majority of the members of the management committee may replace the manager of Nutra SA.

As of December 31, 2011, there have been no events of default. Events of default, as defined in the MIPA, are:

- A Nutra SA business plan deviation, defined as the occurrence, in either 2012, 2013 or 2014, of a 20% unfavorable variation in two out of three of the following: (i) revenue, (ii) earnings before interest, taxes, depreciation and amortization (EBITDA) or (iii) debt,
- A Nutra SA EBITDA default, which is defined as the failure to achieve 85% of planned EBITDA for three consecutive quarters, beginning with the quarter ended March 31, 2011, or
- A material problem, which is defined as a material problem in a facility (unrelated to changes in law, weather, etc.) likely to cause a Nutra SA business plan deviation or Nutra SA EBITDA default, which results in damages not at least 80% covered by insurance proceeds.

As of December 31, 2011, there have been no qualifying events. The LLC agreement, as amended in the third quarter of 2011, defines a qualifying event as any event prior to September 16, 2014, which results, or will result in, (i) a person or group of persons exercising the right to appoint members to our board of directors holding one third or more of the votes of all board members, (ii) the sale, exchange, pledge or use as guarantee of one half of our ownership interest in Nutra SA to a third party (iii) the bankruptcy of NutraCea or Nutra SA or (iv) the Investor's purchase of additional units in Nutra SA under the waiver to the MIPA, such that the Investor's ownership interest in Nutra SA exceeds 49%.

The Investors have certain rights, summarized below, under an investor rights agreement and the LLC agreement, as further defined in the agreements.

- Conversion Rights – The Investors may exchange units in Nutra SA for equity interests in Irgovel beginning in July 2011. After any exchange, the Investors would possess the same rights and obligations with respect to the securities of Irgovel, as they have in Nutra SA.
- Global Holding Company (GHC) Roll-Up – If we form an entity, GHC, to hold our Brazil segment assets, the Investors may exchange units in Nutra SA for equity interests in GHC. The investors may exercise this right after the second anniversary of the formation of GHC or, if an event of default has occurred, after the later of January 2013 and the GHC formation date. The appraised fair value of the Investors' interest in Nutra SA would be used to determine the amount of ownership interest the Investors would receive in GHC.
- NutraCea Roll-Up – The Investors may exchange units in Nutra SA for NutraCea common stock.. This right is available upon the earlier of January 2014 or, if an event of default has occurred, January 2013. We may elect to

postpone our obligation to complete the NutraCea roll-up to January 2015 if the roll-up would result in over 25% of our common stock being owned by the Investors. The appraised fair value of the Investors' interest in Nutra SA and the market price of our stock would be used to determine the amount of ownership interest the Investors would receive in NutraCea.

- Drag Along Rights – The Investors have the right to force the sale of all Nutra SA assets after the earlier of (i) January 2015, (ii) January 2013 if an event of default occurs, (iii) February 2014 if we make a NutraCea roll-up postponement election or (iv) the date of a qualifying event. The right terminates upon the occurrence of certain events (a $50 million Nutra SA initial public offering or a change of control, as defined). We may elect to exercise a right of first refusal to purchase the Investors' interest instead of proceeding to a sale.

In evaluating whether we maintain control over Nutra SA, we considered the matters which could be put to a vote of the members. Until there is an event of default or a qualifying event, the Investors' rights and abilities, individually or in the aggregate, do not allow them to substantively participate in the operations of Nutra SA. The Investors do not currently have the ability to dissolve Nutra SA or otherwise force the sale of all its assets. They do have such rights in the future (Drag Along Rights as described above). We will continue to evaluate our ability to control Nutra SA each reporting period.

As of January 2011, cash provided by operations in our Brazil segment is generally unavailable for distribution to our Corporate and USA segments pursuant to the terms of the limited liability company agreement for Nutra SA, LLC.

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NOTE 6. INVENTORIES

Inventories are composed of the following (in thousands):

	As of December 31,	
	2011	2010
Finished goods	$ 906	$ 553
Work in process	804	820
Raw materials	353	1,119
Packaging supplies	234	246
Total inventories	$ 2,297	$ 2,738

NOTE 7. CONCENTRATION OF CREDIT RISK

Financial instruments that potentially subject us to significant concentrations of credit risk consist primarily of trade accounts receivable and notes receivable. We perform ongoing credit evaluations on our customers' financial condition and generally do not require collateral.

One customer accounted for approximately 18.0% of our 2011 revenues and 9.7% of our 2010 revenues and 15.9% of our accounts receivable as of December 31, 2011. Another customer accounted for 13.8% or our accounts receivable balance as of December 31, 2011.

NOTE 8. NOTE RECEIVABLE

As of December 31, 2011 and 2010, we have a note receivable from Ceautamed. Effective March 2011, pursuant to a note modification, the interest rate is fixed at 5.0%, monthly principal installments of $0.1 million extend through August 2012, and interest must be paid in full no later than September 2012. No gain or loss was recognized as a result of the modification. When issued in 2009, the note bore interest at the greater of 2.5% or prime (as defined) plus 1.0% and the rate could not exceed 6.0%. The note principal was to be repaid in monthly installments of $0.1 million ending July 2012 with accrued and unpaid interest was due in July and August 2012.

NOTE 9. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consists of the following (in thousands):

	As of December 31,		
	2011	2010	Estimated Useful Lives
Land	$ 425	$ 204	
Furniture and fixtures	1,465	1,458	5-10 years
Plant	16,914	13,216	25-30 years, or life of lease
Computer and software	1,364	1,616	3-5 years
Leasehold improvements	189	189	3-7 years or life of lease
Machinery and equipment	17,809	17,014	5-10 years
Construction in progress	5,842	69	

Subtotal	44,008	33,766
Less accumulated depreciation	16,013	9,712
Property, plant and equipment, net	$ 27,995	$ 24,054

Property, plant and equipment increased in 2011 by $6.8 million due to the capital expansion project at Irgovel. Depreciation expense was $3.5 million in 2011 and $3.3 million in 2010.

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Impairments and Assets Held for Sale

Dillon Facility

A summary of the net book value of property, plant and equipment at our Dillon facility as of December 31, 2011 and 2010 follows (in thousands):

	As of December 31, 2011	2010
Land	$ 233	$ 233
Plant	1,546	1,814
Machinery and equipment	1,162	1,551
Dillon property, plant and equipment	$ 2,941	$ 3,598

In the third quarter of 2009, as part of evaluating non-core assets and businesses, management offered the Dillon facility for sale. Throughout 2010, we aggressively marketed the facility. Based on an evaluation of market conditions and discounted cash flow analyses we recognized an impairment loss of $0.9 million in the fourth quarter of 2010. As of December 31, 2010, the net book value of the Dillon facility was $3.6 million and was classified as asset held for sale on the balance sheets.

In February 2011, we ceased actively marketing the facility. As a result, in the first quarter of 2011, we reclassified the Dillon facility to property, plant and equipment and restarted depreciation. We operated the facility for both processing and research activities during the remainder of 2011. During 2011, we depreciated the facility $0.6 million. As of December 31, 2011, the net book value of the Dillon facility was $2.9 million and was included in property, plant and equipment.

Phoenix Building and Equipment

Our Phoenix, Arizona building was constructed to produce infant and adult cereal for worldwide sale. When additional sales did not materialize, we determined that the cereal production could be adequately handled at the Dillon, Montana facility. In July 2009, we decided to sell our infant cereal manufacturing building located in Phoenix, Arizona as well as the equipment housed in the building. We recorded a noncash impairment charge of $6.5 million in 2009 associated with the building. In December 2009, an offer was received to purchase the cereal equipment. As a result, we decided to sell the equipment and building separately. Based on offers received from potential buyers, we recognized an additional impairment of $1.0 million on the building in the second quarter of 2010.

The building was sold in September 2010 for a gross price of $4.5 million. We recorded a loss on disposal in 2010 of $0.5 million plus closing costs. The cereal equipment was sold in March 2010 for $3.7 million pursuant to the December 2009 offer. We recorded a loss on disposal of the equipment of $0.3 million during the first quarter of 2010.

We determined that the cereal product line did not constitute a component of the overall business entity and thus the related operations have not been reported as a discontinued operation.

We used the proceeds from the sale of the building to (i) pay the remaining $1.8 million owed under the DIP Credit Agreement, (ii) pay the $1.4 million owed for all mechanic's liens secured by the property, closing costs and property taxes, (iii) pay $1.0 million of unsecured creditor obligations and (iv) provide $0.3 million of general funding.

Lake Charles

Our Lake Charles, Louisiana facility was built at a cost of $3.8 million to process rice bran from a rice milling company adjacent to the facility. The facility is built on leased land which is owned by the rice milling company. The facility was idled in May 2009 due to lack of orders. We recorded a $2.3 million impairment loss on the facility in 2009. The facility is not classified as held for sale due to potential alternative uses and because we are not aggressively marketing the property. We evaluated, and continue to evaluate, alternate uses of the facility. Depreciation on the facility has continued after the facility was idled and totaled $0.8 in 2011 and 2010. We also own equipment purchased in 2009 for use in the Lake Charles, Louisiana facility. In 2011 we recorded an additional impairments of $0.6 million on the Lake Charles equipment. As of December 31, 2011, the net book value of the idled facility included in property, plant and equipment, net, is $2.5 million. The equipment has never been installed or operated, is included in machinery and equipment and totals $1.3 million.

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NOTE 10. INTANGIBLE ASSETS AND GOODWILL

Intangible assets consist of the following (in thousands):

	USA Segment			Brazil Segment		Total
	Patents	Trademarks	Customer Lists	Trademarks	Customer Lists	Intangible Assets
December 31, 2011						
Cost	$ 1,768	$ 48	$ 2,677	$ 3,751	$ 1,372	$ 9,616
Accumulated amortization	(957)	(35)	(1,888)	(2,056)	(752)	(5,688)
Net book value	$ 811	$ 13	$ 789	$ 1,695	$ 620	$ 3,928
December 31, 2010						
Cost	$ 2,703	$ 56	$ 2,677	$ 4,175	$ 1,526	$ 11,137
Accumulated amortization	(1,039)	(34)	(1,460)	(1,689)	(619)	(4,841)
Net book value	$ 1,664	$ 22	$ 1,217	$ 2,486	$ 907	$ 6,296
Estimated useful lives	17 years	7 years	7 years	7 years	7 years	

All changes in Brazil segment cost between December 31, 2010 and December 31, 2011 relate to foreign currency translation. Amortization expense was $1.4 million in 2011 and $1.5 million in 2010. Amortization expense is expected to be $1.2 million in 2012, $1.1 million in 2013, $1.0 million in 2014, $0.3 million in 2015, $0.1 million in 2016 and $0.2 million thereafter.

All goodwill relates to our Brazil segment. All changes in goodwill between December 31, 2010 and December 31, 2011, relate to foreign currency translation.

Impairment and Sales

In the fourth quarter of 2011, we wrote off patents with a net book value of $0.7 million. We determined the projected future cash flows were inadequate to recover the net book value of these patents.

In the second quarter of 2010, we sold our the Natural Glo, Satin Finish and Max-E-Glow trademarks and intellectual property for $0.7 million, which approximated the net book value of the trademarks at the time of sale.

NOTE 11. DEBT

The following table summarizes current and long-term portions of debt (in thousands):

	As of December 31,	
	2011	2010

USA segment:		
Customer list purchase	$ 448	$ 993
Supplier note	59	177
Factoring agreement	262	-
Convertible notes payable	2,126	-
	2,895	1,170
Brazil segment:		
Capital expansion loans	3,789	-
Equipment financing	214	290
Working capital lines of credit	1,778	1,480
Advances on export letters of credit	2,838	2,260
Special tax programs	3,211	4,148
	11,830	8,178
Total debt	14,725	9,348
Current portion	6,792	2,908
Long-term portion	$ 7,933	$ 6,440

Required future minimum payments on our debt as of December 31, 2011, follows (in thousands).

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	USA Segment	Brazil Segment	Total
2012	$ 1,323	$ 5,469	$ 6,792
2013	1,572	771	2,343
2014	-	943	943
2015	-	779	779
2016	-	711	711
Thereafter	-	3,157	3,157
	$ 2,895	$ 11,830	$ 14,725

USA Segment

Customer List Purchase

In 2008, we entered into a purchase agreement to acquire a customer list for $3.1 million. We paid $1.0 million at the time of purchase and the remaining amount of $2.1 million was financed with the seller. Under an amendment to the agreement in May 2009, we are required to have all remittances from those customers deposited into a bank account controlled by the seller. Any profits (amounts in excess of the cost of goods sold) generated from the cash receipts are applied towards the outstanding principal amount. The quarterly minimum payment required under this amendment is $0.1 million. We are required to fund any shortfall to the minimum quarterly amount. The obligation is otherwise unsecured. During 2011, we paid and recognized interest of $0.1 million, or 17.0% of the average outstanding balance.

Factoring Agreement

In January 2011, we entered into a domestic factoring agreement which provides for a $1.0 million credit facility with a bank. We may only borrow to the extent we have qualifying accounts receivable as defined in the agreement. The facility automatically renews for another year on December 31, 2012, unless proper termination notice is given. The bank will charge the greater of $2,000 per month or a 2.0% fee on any borrowing. The 2.0% fee increases incrementally for any qualified account with a balance that remains outstanding in excess of 45 days. During 2011, the average borrowings under this agreement were $0.1 million.

Supplier Note

In August 2009, we entered into a promissory note with a supplier for $0.3 million for goods supplied. The note bears interest at 18.0%. The payments on the note are based upon an assessment fee of $25 per ton charged for each ton of rice bran purchased from the supplier each month.

Convertible Notes Payable

During 2011, we issued several convertibles notes, with related warrants to our financial advisor, who became a director of NutraCea in January 2012. Below is a summary of the transactions.

Transaction	Principal amount of	Stated Annual	Per Share Note	Cash Received in	Number of Shares Under	Average Exercise

		Note(s) (in thousands)	Interest Rate on Note(s)		Conversion Price	Transaction (in thousands)	Equity Warrant(s)	Price of Warrant(s)
First quarter 2011	(1)	$ 500	10	%	$ 0.20	$ 500	500,000	0.25
Second quarter 2011	(2)	730	10	%	0.23	230	730,000	0.23
Third quarter 2011, event A	(2)	270	10	%	0.23	270	270,000	0.23
Third quarter 2011, event B	(2)	730	10	%	0.23	730	730,000	0.23
Fourth quarter 2011	(3)	2,323	10	%	0.20	550	2,323,186	0.22
Total in 2011						$ 2,280	4,553,186	