

NUTRACEA
Form 10QSB
November 14, 2006

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-QSB

(Mark one)

QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2006

TRANSITION REPORT UNDER 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 Small Business Issuer as Specified in its Charter)

California

(State or other jurisdiction of
incorporation or organization)

87-0673375

(I.R.S. Employer Identification No.)

**1261 Hawk's Flight Court,
El Dorado Hills, California**

(Address of Principal Executive Offices)

95762

(Zip Code)

Issuer's telephone number, including area code: (916) 933-7000

Not Applicable

(Former Name, Former Address and Former Fiscal Year, if Changed Since Last Report)

Check whether the issuer (1) 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 No

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

APPLICABLE ONLY TO CORPORATE ISSUERS

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State the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date: 87,120,310 as of September 30, 2006.

Transitional Small Business Disclosure Format (check one): Yes No

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PART I. FINANCIAL INFORMATION

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- (a) Consolidated Balance Sheets at September 30, 2006 (Unaudited) and December 31, 2005
- (b) Consolidated Statements of Operations for the three and nine months ended September 30, 2006 and 2005 (Unaudited)
- (c) Consolidated Statements of Comprehensive Income for three and nine months ended September 30, 2006 and 2005 (Unaudited)
- (d) Consolidated Statements of Cash Flows for nine months ended September 30, 2006 and 2005 (Unaudited)
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FORWARD-LOOKING STATEMENTS

This document contains “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995. All statements other than statements of historical fact are “forward-looking statements” for purposes of federal and state securities laws, including, but not limited to, any projections of earnings, revenue or other financial items; any statements of the plans, strategies and objectives of management for future operations; any statements concerning proposed new services or developments; any statements regarding future economic conditions or performance; any statements of belief; and any statements of assumptions underlying any of the foregoing.

Forward-looking statements may include the words “may,” “could,” “will,” “estimate,” “intend,” “continue,” “believe,” “expect,” “anticipate” or other similar words. These forward-looking statements present our estimates and assumptions only as of the date of this report. Except for our ongoing obligation to disclose material information as required by the federal securities laws, we do not intend, and undertake no obligation, to update any forward-looking statement.

Although we believe that the expectations reflected in any of our forward-looking statements are reasonable, actual results could differ materially from those projected or assumed in any of our forward-looking statements. Our future financial condition and results of operations, as well as any forward-looking statements, are subject to change and inherent risks and uncertainties. The factors impacting these risks and uncertainties include, but are not limited to:

- increased competitive pressures from existing competitors and new entrants;
- increases in interest rates or our cost of borrowing or a default under any material debt agreements;
- deterioration in general or regional economic conditions;
- adverse state or federal legislation or regulation that increases the costs of compliance, or adverse findings by a regulator with respect to existing operations;
- loss of customers or sales weakness;
- inability to achieve future sales levels or other operating results;
- the unavailability of funds for capital expenditures;
- lack of acceptance of our products;
- failure to obtain an adequate supply of raw rice bran;
- inability to collect accounts receivable;
- inability to process a sufficient quantity of stabilized rice bran to meet demands; and
- operational inefficiencies in distribution or other systems.

For a detailed description of these and other risks and uncertainties that could cause actual results to differ materially from those expressed in any forward-looking statement, please see our prior SEC filings, including our Annual Report on Form 10-KSB for the year ended December 31, 2005.

Index**PART 1.****FINANCIAL INFORMATION****Item 1.****Financial Statements**

**NUTRACEA AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(Unaudited)**

| | September 30, 2006 | December 31, 2005 |
|---|-------------------------------|------------------------------|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 13,112,076 | \$ 3,490,556 |
| Marketable securities | 256,066 | 144,947 |
| Trade accounts receivable, net | 5,967,462 | 2,514,961 |
| Inventories | 755,132 | 594,614 |
| Notes receivable, current portion | 869,500 | - |
| Deposits and other current assets | 330,183 | 82,400 |
| Total current assets | 21,290,419 | 6,827,478 |
| Restricted marketable securities | - | 144,947 |
| Notes receivable, net of current portion | 420,000 | - |
| Property and equipment, net | 7,824,212 | 5,493,036 |
| Patents and trademarks, net of accumulated amortization of \$337,098 and \$119,317 | 5,381,142 | 2,417,815 |
| Goodwill | 31,939,012 | 32,581,007 |
| Total assets | \$ 66,854,785 | \$ 47,464,283 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Accounts payable and accrued liabilities | \$ 3,303,663 | \$ 1,255,032 |
| Notes payable, current portion | 5,563 | 6,069 |
| Total current liabilities | 3,309,226 | 1,261,101 |
| Long-term liabilities: | | |
| Notes payable, net of current portion | 4,859 | 8,906 |
| Total liabilities | 3,314,085 | 1,270,007 |
| Commitments and contingencies | | |
| Convertible, series B preferred stock, no par value, \$1,000 stated value 25,000 shares authorized, 3,150 and 7,850 shares issued and outstanding | | |
| | 2,586,021 | 7,300,500 |
| Convertible, series C preferred stock, no par value, \$1,000 stated value 25,000 shares authorized, 10,706 and 0 shares issued and outstanding | | |
| | 9,098,306 | - |
| Shareholders' equity: | | |
| | 101,972,973 | 89,783,817 |

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Common stock, no par value 200,000,000 shares authorized,
87,120,310 and 67,102,079 shares issued and outstanding

| | | |
|---|---------------|---------------|
| Accumulated deficit | (47,992,665) | (48,799,935) |
| Accumulated other comprehensive income, unrealized loss on marketable securities | (2,123,935) | (2,090,106) |
| Total shareholders' equity | 63,540,700 | 46,194,276 |
| Total liabilities and shareholders' equity | \$ 66,854,785 | \$ 47,464,283 |

The accompanying notes are an integral part of these financials.

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NUTRACEA AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

| | Nine Months Ended | | Three Months Ended | |
|-------------------|--------------------------|-------------|---------------------------|-------------|
| | September 30, | | September 30, | |
| | 2006 | 2005 | 2006 | 2005 |
| Revenues | | | | |
| Net product sales | | | | |