NUTRASTAR INC
Form 10QSB
August 19, 2003

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-QSB

[X] QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934
FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2003

[ ] TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE
EXCHANGE ACT FOR THE TRANSITION PERIOD FROM
_______________ to _______________

Commission File Number 0-32565

NUTRACEA

(Exact name of small business issuer as specified in its charter)

CALIFORNIA	87-0673375
(State of other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)
1261 Hawk's Flight Court El Dorado Hills, California	95762
(Address of Principal Executive Offices)	(Zip Code)

Issuer's telephone number: (916) 933-7000

NUTRASTAR INCORPORATED

(Former name)

Indicate by check mark whether the issuer (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the issuer was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days:

YES X NO ____

Common stock, no par value, 28,087,721 issued and outstanding as of July 31, 2003.

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PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

CONDENSED, CONSOLIDATED FINANCIAL STATEMENTS

NUTRACEA
(formerly NUTRASTAR INCORPORATED)
AND SUBSIDIARIES
Condensed, Consolidated Balance Sheet
June 30, 2003 (unaudited)

ASSETS

Current assets	
Cash	$184,309
Accounts receivable	10,081
Inventory, net	98,850
Prepaid expenses	5,151

Total current assets	298,391
Property and equipment, net	97,644
Patents and trademarks, net	48,964
Goodwill	250,001
Deposits	64,254
Total assets	$759,254

NUTRACEA
(formerly NUTRASTAR INCORPORATED)
AND SUBSIDIARIES
Condensed, Consolidated Balance Sheet
June 30, 2003 (unaudited)

LIABILITIES AND SHAREHOLDERS' DEFICIT

Current liabilities	
Accounts payable	$ 742,045
Due to factor	103,066
Accrued salaries and benefits	34,047
Deferred salaries	376,677
Accrued expenses	101,740
Due to related parties	33,949
Customer deposits	179,132
Convertible notes payable	156,700
Notes payable - related parties	246,222
Total current liabilities	1,973,578
Put option	130,000
Total liabilities	2,103,578
Commitments and contingencies	
Convertible, redeemable series A preferred stock, no par value, $1 stated value 3,000,000 shares authorized 2,144,707 shares issued and outstanding	2,135,995
Shareholders' deficit	
Common stock, no par value 50,000,000 shares authorized 26,633,547 shares issued and outstanding	5,721,095
Common stock committed	524,424
Deferred compensation	(659,912)
Accumulated deficit	(9,065,926)

Total shareholders' deficit	(3,480,319)
Total liabilities and shareholders' deficit	$ 759,254

NUTRACE
(formerly NUTRASTAR INCORPORATED
AND SUBSIDIARIE
Condensed, Consolidated Statements of Operation
For the Three and Six Months Ended June 30, 2003 and 2002 (unaudited

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2003	2002	2003	2002
Revenues				
Net sales	$ 349,441	$ 536,370	$ 575,432	$ 830,727
Cost of goods sold	195,721	371,526	323,120	553,998
Gross profit	153,720	164,844	252,312	276,729
Operating expenses	461,849	772,864	924,456	1,954,332
Loss from operations	(308,129)	(608,020)	(672,144)	(1,677,603
Other income (expense)				
Interest income	--	--	--	204
Interest expense	(22,686)	(5,024)	(39,877)	(5,368
Total other income (expense)	(22,686)	(5,024)	(39,877)	(5,164
Net loss	(330,815)	(613,044)	(712,021)	(1,682,767
Cumulative preferred dividend	(37,532)	(36,483)	(75,064)	(72,965
Net loss available to common shareholders	$ (368,347)	$ (649,527)	$ (787,085)	$ (1,755,732
Basic and diluted loss available to common shareholders per share	$ (0.01)	$ (0.03)	$ (0.03)	$ (0.08

Basic and diluted weighted-average shares outstanding	25,222,801	21,649,520	24,708,709	21,649,520

NUTRACEA
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Condensed, Consolidated Statements of Cash Flow
For the Six Months Ended June 30, 2003 and 2002 (unaudited)

	2003	2002
Cash flows from operating activities		
Net loss	$ (712,021)	$(1,682,767)
Adjustments to reconcile net loss to net cash used in operating activities		
Depreciation and amortization	64,100	62,380
Inventory obsolescence	--	8,702
Loss reserve for patents and trademarks	--	66,678
Amortization of deferred compensation	44,006	155,980
Non-cash issuances of stock options	24,750	221,688
Non-cash issuances of warrants	--	850
Non-cash issuances of committed stock	--	162,500
(Increase) decrease in		
Accounts receivable	(2,808)	(78,283)
Inventory	(56,155)	(46,430)
Prepaid expenses	22,029	(8,776)
Deposits	(64,254)	316,071
Increase (decrease) in		
Accounts payable	57,713	147,122
Due to factor	103,066	--
Accrued salaries and benefits	(17,145)	19,015
Deferred salaries	282,869	93,462
Accrued expenses	(10,104)	41,353
Customer deposits	134,816	--
Due to related parties	7,355	(21,778)
Net cash used in operating activities	(121,783)	(542,233)
Cash flows from investing activities		
Purchase of property and equipment	(1,103)	(66,149)
Purchase of patents and trademarks	(5,145)	(11,304)
Net cash used in investing activities	(6,248)	(77,453)

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NUTRACEA
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Condensed, Consolidated Statements of Cash Flow
For the Six Months Ended June 30, 2003 and 2002 (unaudited)

	2003	2002
Cash flows from financing activities		
Principal payments on notes payable	$ (50,000)	$ --
Proceeds from convertible note payable	156,700	--
Proceeds from notes payable - related parties	275,422	100,000
Payments on notes payable - related parties	(210,000)	--
Proceeds from issuance of common stock	104,500	125,000
Proceeds from exercise of stock options	1,000	--
Net cash provided by financing activities	277,622	225,000
Net increase (decrease) in cash	149,591	(394,686)
Cash, beginning of period	34,718	405,502
Cash, end of period	$ 184,309	$ 10,816
Supplemental disclosures of cash flow information		
Interest paid	$ 2,524	$ 2,875
Income taxes paid	$ --	$ --

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NUTRACEA
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Condensed, Consolidated Statements of Cash Flow
For the Six Months Ended June 30, 2003 and 2002 (unaudited)

Supplemental schedule of non-cash financing activities
During the six months ended June 30, 2003, the Company issued 35,000 shares of common stock from committed stock totaling $47,250.

During the six months ended June 30, 2003, the Company issued options to purchase 2,745,000 shares of common stock at exercise prices ranging from $0.001 to $0.07 per share to employees in lieu of deferred salaries totaling $232,154.

Due to the termination of certain employees during the six months ended June 30, 2003, the Company recorded a reversal of deferred compensation totaling $243,605.

In June 2003, the Company issued options to purchase 329,000 shares of common stock at an exercise price of $0.001 to a consultant as payment on accounts payable totaling $23,000

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NUTRACEA
(formerly NUTRASTAR INCORPORATED)
AND SUBSIDIARIES
Notes to Condensed, Consolidated Financial Statements
June 30, 2003 (unaudited)

NOTE 1 - ORGANIZATION AND LINE OF BUSINESS

General

NutraStar Incorporated ("NutraStar"), a California corporation, markets proprietary whole food dietary supplements derived from nutrient-dense stabilized rice bran (a nutraceutical) produced by an affiliated company, The RiceX Company ("RiceX"), a current shareholder and a publicly traded company. The Company (as defined in Note 2) distributes certain derivatives of RiceX's stabilized rice bran, as well as valued-added rice bran products.

On December 14, 2001, Alliance Consumer International, Inc. ("Alliance") acquired all of the outstanding common stock of NutraStar. For accounting purposes, the acquisition has been treated as a recapitalization of NutraStar with NutraStar as the acquirer (reverse acquisition).

Effective April 27, 2000, NutraStar became an 80% owner of NutraGlo Incorporated ("NutraGlo"), a Nevada corporation. NutraGlo was non-operative during 2000. During the year ended December 31, 2001, NutraGlo started marketing, manufacturing, and distributing NutraStar's stabilized rice bran and other nutraceuticals to the equine market. In connection with NutraStar's acquisition of Alliance, NutraStar issued 250,001 shares of common stock in exchange for the remaining 20% of the common stock of NutraGlo.

The transaction has been accounted for in accordance with Statement of Financial Accounting Standards ("SFAS") No. 141, "Business Combinations," which is required for all transactions occurring after June 30, 2001. In accordance with SFAS No. 141, the purchase price is to be allocated to assets acquired and liabilities assumed based on the estimated fair market value at the closing date of the acquisition, with the excess of the purchase price being allocated to goodwill. Since there were not any assets acquired and liabilities assumed in connection with this transaction, the value of the shares issued of $250,001 has been recorded as goodwill in the accompanying consolidated balance sheet. As NutraStar was the 80% owner of NutraGlo, the operations of NutraGlo have been consolidated with NutraStar. Therefore, pro forma information is not required.

Effective August 12, 2003, NutraStar's name was changed to NutraCea ("NutraCea").

Lines of Business

The Company has four primary divisions through which it sells its products: (1) TheraFoods(R), which distributes consumer products including RiSolubles(R), RiceMucil(R), NutraFlex(TM), and StaBran(R), (2) NutraCea(R), which was created to compliment medical food products, (3) NutraBeauticals(R), which provides natural products to improve skin health, and (4) NutraGlo(R), which developed a derivative of the NutraFlex(TM) product for horses.

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

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

Basis of Presentation

The accompanying financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America for interim financial information and with the instructions to Form 10-QSB and Regulation S-B. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. In the opinion of management, all normal, recurring adjustments considered necessary for a fair presentation have been included. The financial statements should be read in conjunction with the audited financial statements and notes thereto included in the Company's Annual Report on Form 10-KSB for the year ended December 31, 2002. The results of operations for the six months ended June 30, 2003 are not necessarily indicative of the results that may be expected for the year ended December 31, 2003.

Going Concern

The Company has received a report from its independent auditors that includes an explanatory paragraph describing the uncertainty as to the Company's ability to continue as a going concern. These consolidated financial statements contemplate the ability to continue as such and do not include any adjustments that might result from this uncertainty.

Revenue Recognition

Revenue is generally recognized upon shipment of product with a provision for estimated returns and allowances recorded at that time, if applicable.

Deferred Salaries

Deferred salaries at June 30, 2003 consisted of salaries payable to employees of the Company that have been earned, but not paid.

Advertising Expense

The Company expenses all advertising costs, including direct response advertising, as they are incurred. Advertising expense for the six months ended June 30, 2003 and 2002 was $1,973 and $40,044, respectively.

Estimates

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Concentrations of Credit Risk

The Company sells its services throughout the United States, extends credit to its customers, and performs ongoing credit evaluations of such customers. The Company evaluates its accounts receivable on a regular basis for collectibility and provides for an allowance for potential credit losses as deemed necessary.

On May 1, 2001, the Company entered into a three-year, exclusive distribution agreement with a customer, in which the customer is required to purchase a minimum of 90,000 pounds of the Company's product on or before July 1, 2001, 120,000 pounds before September 1, 2002, 275,000 pounds between September 1, 2002 and August 31, 2003, and 350,000 pounds between September 1, 2003 and August 31, 2004. During the six months ended June 30, 2003, sales to this customer totaled $466,477 (81% of net sales). During the six months ended June 30, 2002, sales to this customer totaled $303,806 (37% of net sales).

Major Customers

During the six months ended June 30, 2003, the Company conducted business with two customers whose sales comprised of 81% and 10% of net sales. During the six months ended June 30, 2002, the Company conducted business with one customer whose sales comprised 10% of net sales. As of June 30, 2003, three customers accounted for 38%, 30%, and 17% of total accounts receivable. As of June 30, 2002, three customers accounted for 41%, 16%, and 13% of total accounts receivable.

Recently Issued Accounting Pronouncements

In April 2003, the Financial Accounting Standards Board ("FASB") issued SFAS No. 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities." SFAS No. 149 amends and clarifies accounting and reporting for derivative instruments and hedging activities under SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities." SFAS No. 149 is effective for derivative instruments and hedging activities entered into or modified after June 30, 2003, except for certain forward purchase and sale securities. For these forward purchase and sale securities, SFAS No. 149 is effective for both new and existing securities after June 30, 2003. Management does not expect adoption of SFAS No. 149 to have a material impact on the Company's statements of earnings, financial position, or cash flows.

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NUTRACEA
(formerly NUTRASTAR INCORPORATED)
AND SUBSIDIARIES
Notes to Condensed, Consolidated Financial Statements
June 30, 2003 (unaudited)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Recently Issued Accounting Pronouncements

In May 2003, the FASB issued SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity." SFAS No. 150 establishes standards for how an issuer classifies and measures in its statement of financial position certain financial instruments with characteristics of both liabilities and equity. In accordance with the standard, financial instruments that embody obligations for the issuer are required to be classified as liabilities. SFAS No. 150 will be effective for financial instruments entered into or modified after May 31, 2003 and otherwise will be effective at the beginning of the first interim period beginning after June 15, 2003. Upon adoption of SFAS No. 150, the Company will reclassify its redeemable preferred stock as a liability.

NOTE 3 - PROPERTY AND EQUIPMENT

Property and equipment at June 30, 2003 consisted of the following:

Furniture and equipment	$ 19,520
Software	347,773
	367,293
Less accumulated depreciation	269,649
Total	$ 97,644

Depreciation expense was $59,171 and $57,097 for the six months ended June 30, 2003 and 2002, respectively.

NOTE 4 - PATENTS AND TRADEMARKS

Patents and trademarks at June 30, 2003 consisted of the following:

Patents	$ 94,544
Trademarks	52,259
	146,803
Less loss reserve	75,359
Less accumulated amortization	22,480
Total	$ 48,964

NOTE 4 - PATENTS AND TRADEMARKS (continued)

At June 30, 2003, $713 of the Company's patents and trademarks had been purchased from a related party.

The Company recorded a loss reserve totaling $75,359 as of June 30, 2003 related to the impairment of certain patents.

Amortization expense was $4,929 and $5,283 for the six months ended June 30, 2003 and 2002, respectively. Future estimated, aggregate amortization expense at June 30, 2003 was as follows:

12 Months
Ended

June 30,	
2004	$ 9,696
2005	9,696
2006	9,696
2007	9,696
2008	9,696
Thereafter	484
Total	$ 48,964

NOTE 5 - GOODWILL

Goodwill represents the purchase price of the remaining 20% of NutraGlo. As of January 1, 2002, the Company adopted SFAS No. 142. SFAS No. 142 prohibits the amortization of goodwill, but requires that it be reviewed for impairment at least annually or on an interim basis if an event occurs or circumstances change that could indicate that its value has diminished or been impaired. Recoverability of goodwill is measured by a comparison of its carrying value to the future net cash flows expected to be generated by it.

Cash flow projections are based on historical experience, management's view of growth within the industry, and the anticipated future economic environment. Since the Company purchased the remaining 20% of NutraGlo on December 12, 2001, amortization expense was not recorded as of December 31, 2001. As such, the transitional disclosure provisions of SFAS No. 142 do not apply.

NOTE 6 - DUE TO FACTOR

During the six months ended June 30, 2003, the Company entered into a non-recourse factoring agreement with a financial institution to factor certain of its accounts receivable. According to the agreement, the purchase price of qualifying accounts receivable will be up to 75% of the total outstanding purchase orders, plus a bonus based upon a certain percentage applied to the amount borrowed from the factor, depending on when the invoice is paid. A contingent reserve of 25% of the purchase price represents a hold-back to secure the performance, and the Company must meet various other conditions in accordance with the agreement. As of June 30, 2003, the Company recorded a due to factor of $103,066, which represents 29% of certain purchase orders factored.

NOTE 7 - CONVERTIBLE NOTES PAYABLE

Convertible notes payable at June 30, 2003 consisted of the following:

Note payable - third party investor (a)	$	106,700
Note payable - shareholder (b)		50,000
Total	$	156,700

(a) At June 30, 2003, the Company maintained a note payable to a third party investor. The note payable is convertible at the option of the holder into shares of the Company's common stock at a conversion price of $0.20 per share, bearing interest at 10% per annum and due on July 4, 2004. Upon conversion of the note payable, the holder will be entitled to receive one warrant to purchase common stock for each common share issued. The warrant will have an exercise price of $0.20 per share and will expire five years from the date of issuance.

(b) At June 30, 2003, the Company maintained a note payable to a shareholder. The note payable is convertible at the option of the holder into shares of the Company's common shares at a conversion price of $0.20 per share, bearing interest at 10% per annum and due on July 19, 2004. Upon conversion of the note payable, the holder will be entitled to receive one warrant to purchase common stock for each common share issued. The warrant will have an exercise price of $0.20 per share and will expire five years from the date of issuance.

NOTE 8 - NOTES PAYABLE - RELATED PARTIES

Notes payable - related parties at June 30, 2003 consisted of the following:

Notes payable to the Chief Executive Officer, bearing interest at 10% per annum and due on demand.	$	196,222
Note payable to a related party, bearing interest at 10% per annum and due on demand.		5,000
Notepayable to a related party, bearing interest at 2% per month, collateralized by 400,000 shares of the Company's common stock, and due on demand.		40,000
Notepayable to a related party, bearing interest at 2% per month, collateralized by 50,000 shares of the Company's common stock, and due on demand.		5,000

Total	$ 246,222

NOTE 9 - PUT OPTION

During the year ended December 31, 2001, the Company issued 130,000 shares of Series A preferred stock to a related party as payment of accounts payable totaling $130,000. On January 15, 2002, these holders of the Series A preferred stock executed a put/call agreement. The put allows for the holder to sell to the Company all, but not less than all, of the 130,000 shares of the Company's Series A preferred stock, or common stock if any of the Series A preferred stock were converted, for $130,000, plus all accumulated, but unpaid dividends, at any time after six months from January 15, 2002. Related to the put option and the related conversion of debt, the Company has recorded a liability of $130,000.

In addition, the Company maintains the right to call the option and purchase back the shares of the Series A preferred stock for $130,000, plus any unpaid and accrued dividends at any time, subject to certain provisions.

NOTE 10 - COMMITMENTS AND CONTINGENCIES

Registration Statement

The Company will pay all of the costs connected with the registration on Form SB-2 related to the re-sale of up to 3,709,028 shares of common stock originally filed on June 4, 2002, except the holder of the common stock will pay all sales commissions or brokers' discounts and the fees and

NOTE 10 - COMMITMENTS AND CONTINGENCIES (continued)

Registration Statement (continued)

expenses of the holders' legal counsel or accountants, if any. This registration statement was withdrawn on June 10, 2003.

Consulting Agreement

On March 5, 2003, the Company entered into a consulting agreement for certain consulting services. As compensation for any funding, the consultant is to be paid 7.5% of any cash received, 2.5% in value of such funding in common stock of the Company, based on the closing price on the day any agreement is signed, and a warrant to purchase one share of the Company's common stock for every dollar funded. The warrants are exercisable at $0.50 per share on or before three years from the anniversary of any funding.

Employment Agreements

In April 2003, the Company entered into a three-year employment agreement with its Chief Operating Officer, whereby the Company is to pay the officer a base salary of $10,000 per month. The agreement states that the first four months salary will be deferred, except for a 10% percentage bonus to be paid to the officer dependent upon certain reductions in monthly operation costs or conversion of debt into equity. The agreement also provides that the officer is entitled to an annual bonus based upon performance and a monthly car allowance of $500, beginning on the seventh month of employment. In addition, the officer was issued stock options to purchase 1,000,000 of the Company's common stock.

Litigation

On April 4, 2002, a complaint was filed against the Company by Millennium Integrated Services, Inc. ("MISI"). MISI provided Web site development services to the Company at a cost of $204,405. MISI is seeking contract payment of $204,405, plus interest of $32,031 and damages for alleged conversion and misappropriation of trade secrets. On April 9, 2002, MISI filed a Motion for a Writ of Attachment that would allow MISI to seize and hold the Company's assets worth $236,436, pending the resolution of the lawsuit. This Writ of Attachment was granted on April 10, 2002 (see Note 13).

Certain of the Company's accounts receivable as of March 31, 2003 have been attached to secure an accounts payable balance to MISI of $186,666. As of July 1, 2003, the case was settled out of court.

On July 16, 2002, the Company was summoned to answer a complaint filed by Faraday Financial, Inc. ("Faraday"). Between December 2000 and March 2001, the Company issued convertible promissory notes totaling $450,000 and a promissory note totaling $50,000. On December 13, 2001, Faraday entered into a settlement agreement with the Company, whereby Faraday agreed to cancel the promissory notes in exchange for 735,730 shares of preferred stock. Faraday claims that the settlement agreement required that the Company effect a registration statement covering

NOTE 10 - COMMITMENTS AND CONTINGENCIES (Continued)

Litigation (Continued)

the preferred stock by June 30, 2002. In the event the Company failed to effect a registration statement by June 30, 2002, the Company was to immediately forfeit to Faraday 735,730 shares of common stock in the name of the Chief Executive Officer of the Company.

In addition, the Chief Executive Officer entered into an escrow agreement to ensure the automatic forfeiture of the common stock and entered into a guarantee to be personally responsible to Faraday for the original $500,000 loan amount, plus 12% interest per annum. On August 29, 2002, NutraStar filed a motion to dismiss the compliant due to lack of personal jurisdiction for both itself and the Chief Executive Officer. On November 27, 2002, NutraStar's motion to dismiss was denied.

Since the case is in an early stage, management is not able to determine the impact on NutraStar's financial condition at this time. However, as of June 30, 2003, management believes the maximum exposure for the Company is approximately $500,000, plus interest and fees.

The Company was involved in litigation with several potential investors. The plaintiffs requested a return of $750,000 in funds deposited with the Company, representing potential permanent investments. These matters have been resolved in connection with the acquisition of Alliance during December 2001. As of June 30, 2003, there were not any additional liabilities related to these matters.

There are various other claims that have been made against the Company by certain of its vendors. Management expects that the settlement of these claims will not have a significant effect on the Company's financial position and results of operations.

From February through July 2000, a third party solicited funds on behalf of an undetermined public shell company, into which it was contemplated that the Company might merge. In this regard, the Company received approximately $320,000 in deposits to be used for such purpose. As a result of these solicitations, there may have been violations of federal and/or state securities laws by such third party. The Company never proceeded with the contemplated merger.

Instead, the Company applied such funds to a subsequent private placement that the Company conducted, in which shares of the Company's common stock were issued for the $320,000 investment. The Company has offered full refunds to all people who provided monies to the Company. There are not any assurances that federal and/or state securities authorities will not investigate and possibly bring an action against the third party who solicited the funds and the Company.

NOTE 11 - SHAREHOLDERS' DEFICIT

Convertible, Redeemable Series A Preferred Stock

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

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

The Company may redeem any and all outstanding shares of Series A preferred stock. Upon the five-year anniversary of the date of issuance, the Company is required to redeem all of its outstanding shares of Series A preferred stock at $1 per share, plus all accrued and unpaid dividends declared. As of June 30, 2003, cumulative dividends totaled $75,064.

Common Stock

During the six months ended June 30, 2003, the Company issued 35,000 shares of common stock from committed stock totaling $47,250.

From January 2003 to March 2003, the Company issued 1,033,333 shares of common stock for cash totaling $90,000.

In April 2003, the Company sold 307,143 shares of common stock for cash totaling $21,500.

In June 2003, the Company issued 1,000,000 shares of common stock to two employees for the exercise of stock options with cash totaling $1,000.

NOTE 11 - SHAREHOLDERS' DEFICIT (continued)

Options

During the six months ended June 30, 2003, the Company issued options to purchase 2,745,000 shares of common stock at exercise prices ranging from $0.001 to $0.07 per share to employees in lieu of deferred salaries totaling $232,154.

Due to the termination of certain employees during the six months ended June 30, 2003, the Company recorded a reversal of deferred compensation totaling $243,605.

In June 2003, the Company issued options to purchase 329,000 shares of common stock at an exercise price of $0.001 per share to a consultant as payment on accounts payable totaling $23,000.

During the six months ended June 30, 2003, the Company recorded amortization expense for deferred compensation totaling $44,006.

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

- 250,000 on April 15, 2003
- 250,000 upon the fourth month of employment
- 250,000 upon the eighth month of employment
- 250,000 upon the achievement by the Company of two successive calendar quarters of positive earnings before interest, tax, and depreciation and amortization

In relation to this transaction, the Company recorded compensation expense totaling $24,750 and deferred compensation totaling $74,250 as of June 30, 2003.

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

NOTE 12 - LINES OF BUSINESS

For internal reporting purposes, management segregates the Company into two segments as follows for the six months ended June 30, 2003 and 2002:

	2003			
	NutraCea	NutraGlo	Eliminations	Total
Net sales	$ 63,073	$ 512,359	$ -	$ 57
Income (loss) from operations	$ (855,858)	$ 183,714	$ -	$ (67
Identifiable assets	$ 432,402	$ 1,089,831	$ (762,979)	$ 75
Capital expenditures	$ 1,103	$ -	$ -	$
Depreciation and amortization	$ 64,100	$ -	$ -	$ 6

	2002			
	NutraCea	NutraGlo	Eliminations	Total

Total revenues	$ 475,139	$ 355,588	$ -	$ 83
Income (loss) from operations	$ (1,788,030)	$ 110,427	$ -	$ (1,67
Identifiable assets	$ 433,283	$ 701,682	$ (376,236)	$ 75
Capital expenditures	$ 66,149	$ -	$ -	$ 6
Depreciation and amortization	$ 62,380	$ -	$ -	$ 6

NOTE 13 - SUBSEQUENT EVENTS

Convertible Notes Payable

On July 8, 2003, the Company entered into a convertible note payable agreement with a third party investor for $53,250, including $4,800 in finder's fees. The note bears interest at 10% per annum and is due on July 8, 2004. The note is convertible at the option of the holder into shares of the Company's common stock at a conversion price of $0.20 per share. Upon conversion of the note, the holder is entitled to receive one warrant to purchase one share of common stock for each share of common stock issued. The warrant will have an exercise price of $0.20 per share and will expire five years from the date of the issuance.

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NUTRACEA
(formerly NUTRASTAR INCORPORATED)
AND SUBSIDIARIES
Notes to Condensed, Consolidated Financial Statements
June 30, 2003 (unaudited)

NOTE 13 - SUBSEQUENT EVENTS (continued)

Convertible Notes Payable (continued)

During July 2003, the Company entered into a convertible note payable agreement with a third party totaling of $15,000. The note bears interest at 10% per annum and is due on July 28 2004. The note is convertible at the option of the holder into shares of the Company's common stock at a conversion price of $0.20 per share. Upon conversion of the note, the holder will be entitled to receive one warrant to purchase one share of common stock for each share of common stock issued. The warrant will have an exercise price of $0.20 per share and will expire five years from the date of issuance.

During August 2003, the Company entered into a convertible note payable agreement with a third party totaling $15,000. The note bears interest at 10% per annum and is due on August 1, 2004. The note is convertible into at the option of the holder into shares of the Company's common stock at a conversion price of $0.20 per share. Upon conversion of the note, the holder is entitled to receive one warrant to purchase one share of common stock for each share of common stock issued. The warrant will have an exercise price of $0.20 per share and will expire five years from the date of issuance.

During July 2003, the Company entered into a convertible note payable agreement with a third party totaling $5,000. The note bears interest at 10% per annum and is due on July 21, 2004. The note is convertible into at the option of the holder into shares of the Company's common stock at a conversion price of $0.20 per share. Upon conversion of the note, the holder is entitled to receive one warrant to purchase common stock for each common stock issued. The warrant will have an exercise price of $0.20 per share and will expire five years from the date of issuance. On July 23, 2003, the note payable was converted by the holder, and the Company issued 25,000 shares of common stock in relation to this conversion.

Agreements

During July 2003, the Company entered into a settlement agreement with a consultant for $60,000 as payment on accounts payable. Per the agreement, the Company issued options to purchase 150,000 shares of the Company's common stock at a price of $0.001 per share. Those shares along with a convertible promissory note for $60,000, bearing interest of 10%, due on July 21, 2004, represent the full settlement amount. The note is convertible at the option of the holder into shares of the Company's common stock at a conversion price of $0.20 per share. Upon conversion of the note, the holder is entitled to receive one warrant to purchase one share of common stock for each share of common stock issued. The warrant will have an exercise price of $0.20 per share and will expire

NOTE 13 - SUBSEQUENT EVENTS (continued)

Agreements (continued)

five years from the date of issuance. As part of this transaction, the Company also issued warrants to purchase 150,000 shares of common stock at an exercise price of $0.001 per share. The warrants expire on the earlier date of July 12, 2008 or upon the Company's change of control through acquisition or sale of substantially all of its assets. On August 6, 2003 all the warrants had been exercised.

During July 2003, the Company entered into a compensation agreement with a terminated employee, whereby the Company will pay total of $15,592 of deferred compensation due to the employee in monthly payments of $2,000, payable on the first of the month beginning October 1, 2003. Per the agreement, the Company will also issue stock options to purchase 400,000 shares of common stock at an exercise price of $0.001 per share.

During July 2003, the Company entered into an agreement with a consultant to provide research and development services for an arthritis clinical trial to the Company for a total of $5,500.

Litigation

On May 27, 2003, the Company entered into a settlement agreement with MISI for $148,000. Per the agreement, approximately $30,000 of this amount had been levied by the Writ of Attachment (see Note 10) and attached to a bank account and accounts receivable. Subsequent to June 30, 2003, the Company paid a total of $118,000 in cash.

Preferred Stock

Subsequent to June 30, 2003, the Company cancelled 634,121 shares of preferred stock previously issued to a shareholder as collateral and issued 200,000 shares of preferred stock for accrued interest totaling $8,351 on a promissory note dated September 23, 2002.

Common Stock

On July 30, 2003, the Company issued 1,000,000 shares of common stock from committed stock and entered into a promissory note agreement with a consultant as payment on accounts payable totaling $24,000. The note is for $19,000 and is payable at $2,000 a month beginning November 1, 2003.

NOTE 13 - SUBSEQUENT EVENTS (Continued)

Common Stock (continued)

On August 5, 2003, the Company was committed to issue 749,427 shares of common stock to two consultants as a dividend payment on preferred stock earned by the consultants totaling $56,207. The Company also committed to issue 507,500 shares of common stock to the consultants upon conversion of the consultants' preferred stock into shares of the Company's common stock.

On August 6, 2003, the Company issued 30,000 shares of common stock to a consultant for services totaling $2,395. In addition, the Company was committed to issue 10,000 shares of common stock per month up to a value of $2,000, plus an additional $2,000 per month in cash, for future services.

During August 2003, the Company issued 399,174 shares of common stock to two shareholders from committed stock totaling $399,174.

During August 2003, the Company issued 25,000 shares of common stock to a consultant from committed stock totaling $25,250.

Stock Options

On July 7, 2003, the Company issued stock options to purchase 500,000 shares of common stock to an officer as interest on accounts payable at an exercise price of $0.08 per share. The stock options vest immediately and will expire on the earlier date of July 7, 2008 or upon the Company's change of control through acquisition or sale of substantially all of its assets.

On August 15, 2003, the Company issued stock options to purchase 375,000 shares of common stock to a vendor as payment for royalties payable at an exercise price of $0.001 per share. The options vest immediately and expire on July 14, 2008.

On July 31, 2003, the Company issued stock options to purchase 71,429 shares of common stock to a vendor as payment on accounts payable totaling $6,000. The options have an exercise price of $0.001 per share and expire June 12, 2008. In addition, the Company entered into a note payable agreement with the consultant totaling $4,000, payable at $1,000 a month beginning October 1, 2003.

NOTE 13 - SUBSEQUENT EVENTS (Continued)

Stock Options (Continued)

In July 2003, the Company issued stock options to purchase 600,000 shares of common stock to consultants for consulting expense at a purchase price of $0.05 per share. The options have an exercise price of $0.05 per share, vest immediately, and expire on the earlier of July 2, 2008 or upon the Company's change of control through acquisition or sale of substantially all of its assets.

In July 2003, the Company issued warrants to purchase 48,500 shares of common stock to a consultant for services rendered. The warrants have an exercise price of $0.001 per share and expire on July 10, 2008. These warrants were exercised with cash. In addition, the Company issued warrants to purchase 155,200 shares of common stock to the same consultant for services rendered. The warrants have an exercise price of $0.50 per share and expire on July 10, 2008.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATIONS

Caution About Forward-Looking Statements

This Form 10-QSB includes "forward-looking" statements about future financial results, future business changes and other events that haven't yet occurred. For example, statements like the Company "expects," "anticipates" or "believes" are forward-looking statements. Investors should be aware that actual results may differ materially from the Company's expressed expectations because of risks and uncertainties about the future. The Company does not undertake to update the information in this Form 10-QSB if any forward-looking statement later turns out to be inaccurate. Details about risks affecting various aspects of the Company's business are discussed throughout this Form 10-QSB and should be considered carefully.

Results of Operation

Three Month Period Ended June 30, 2003 versus 2002

During the quarter ended June 30, 2003, NutraCea generated net sales of $349,441 compared to $536,370 for the same quarter of 2002, a decrease of 35% in comparison to the second quarter of last year. The decrease was caused by several factors including the loss of certain customers choosing to obtain their stabilized rice brand from The RiceX Company ("RiceX") and an overall lack of working capital which prevented the Company from aggressively pursuing its marketing plan. Since July 2002 the Company's primary supplier, RiceX, has required prepayment for products sold to the Company. This requirement has reduced the Company's ability to secure its raw materials in a timely manner.

The cost of goods sold for the quarter ended June 30, 2003 decreased by 47% to $195,721 from $371,526 for the quarter ended June 30, 2002. This decrease reflects the reduced production of products for resale during the second quarter of 2003 due to the lack of adequate rice soluble inventory caused by the COD nature of purchases from RiceX. The Company's gross profit decreased to $153,720 for the quarter ended June 30, 2003 compared to $164,844 for the quarter ended June 30, 2002; while the gross profit margin increased from 31% in the second quarter of 2002 to 44% in the same period of 2003. This increase reflects the Company's focus on selling its own higher margin products as compared to the cross-selling of RiceX products.

Operating expenses declined 40% to $461,849 in the second quarter of 2003 compared to the same quarter in fiscal year 2002 which had operating expenses of $772,864. This decrease reflects the Company's decrease in employee related expenses of $94,111 compared to the same quarter of 2002 and a decrease of $206,464 in cash payments of professional and consulting fees, non-cash compensation and a loss reserve for licenses.

The Company incurred an operating loss of $308,129 during the quarter ended June 30, 2003 compared to an operating loss of $608,020 during the quarter ended June 30, 2002. This 49% decrease in operating loss reflects the significant decrease in operating expenses relating to the Company's reduced business operations,

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coupled with the Company's lower costs of goods sold during the most recent quarter.

During the quarter ended June 30, 2003, the Company recognized a sharp increase in interest expense to $22,686, which reflects interest paid on short-term promissory notes and other debt instruments outstanding during the quarter compared to only $5,024 for the quarter ended June 30, 2002. The Company's overall net loss for the second quarter of 2003 decreased to $330,815 compared to a net loss of $613,044 recorded for the comparable quarter of 2002. NutraCea also recognized accrued cumulative preferred dividends of $37,532 which increased the net loss attributable to common shareholders to $368,347 for the quarter ended June 30, 2003 compared to a net loss of $649,527 to common shareholders as of June 30, 2002.

During the three months ended June 30, 2003, the Company sold approximately 74% of its net sales to one customer. During the same period of 2002, this customer represented approximately 52% of net sales.

Six Month Period Ended June 30, 2003 versus 2002.

Total revenue for the six month period ended June 30, 2003 was $575,432 compared to $830,727 for the six months ended June 30, 2002. This 30% decrease reflects the Company's decreased sales, marketing and product selection primarily for the cross selling of RiceX products. 81% and 10% of Nutracea's net sales, respectively, were made to two customers. Cost of sales decreased from $323,120 for the six months ended June 30, 2003 compared to $553,998 for the same period in 2002 due to increased production of higher margin products for resale as well as a higher amount of costs included in the six month period of 2002. Operating expenses decreased 53% representing the Company's reduced cash payments of professional fees and consultants and non-cash consultant and employee compensation and the allocation to loss reserve for licenses during the six month period ended June 30, 2003. During the six months ended June 30, 2003 employee related expenses declined $527,200 to $378,142 as a result of lay-offs and reduced employee benefits paid during the first six months of 2003.

Gross profits decreased slightly to $252,312 for the six months ended June 30, 2003 from $276,729 in the similar period of 2002.

Factoring in the interest expense for the six months ended June 30, 2003 and 2002 of $39,877 and $5,368 respectively, resulted in a net loss of $712,021 for the six months ended June 30, 2003 which is a 58% decrease compared to a loss of $1,682,767 for the same period in 2002. The reduced net loss was due primarily to the reduced operating expenses incurred during the first six months of 2003. The Company recognized accrued cumulative preferred dividends of $75,064 which increased the net loss attributable to common shareholders to $787,085 for the six months ended June 30, 2003 compared to a net loss of $1,755,732 to common shareholders for the similar period ended June 30, 2002.

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Liquidity and Sources of Capital

NutraCea has incurred significant operating losses since its inception, and, as of June 30, 2003 NutraCea had an accumulated deficit of $9,065,926. At June 30, 2003, NutraCea had cash and cash equivalents of $184,309 and a net working capital deficit of $1,675,187.

To date, NutraCea has funded its operations, in addition to sales revenues, through a combination of short-term debt and the issuance of common and preferred stock. During the six months ended June 30, 2003, NutraCea raised a total of $246,222 from promissory notes and $156,700 from the issuance of convertible notes. The interest rate on these promissory notes ranged from 8% to 24% per annum with two of the notes also being collateralized by a total of 450,000 shares of the Company's common stock. The Company also raised $47,250 from the sale of 35,000 shares of its common stock during the quarter ended June 30, 2003. During the first six months of 2003, NutraCea agreed to collateralize a previous loan of $50,000 (plus $8,351 of accrued interest) with 634,121 shares of the Company's Series A preferred stock. All of the loans made to the Company came from proceeds of notes payable to the Chairperson of NutraCea or other related parties. The Company has also conserved cash by deferring $376,677 of compensation expenses and issuing options to purchase 2,745,000 shares of common stock at exercise prices ranging from $0.001 to $0.07 per share to employees in lieu of deferred salary totaling $232,154 during the six months ended June 30, 2003. The Company will continue to pursue cost cutting or expense deferral strategies in order to conserve working capital. These strategies will limit the Company's implementation of its business plan and increase the future liabilities of the Company.

On April 29, 2003, the Company entered into a non-recourse factoring agreement with a financial institution to factor certain of its accounts receivable. As of June 30, 2003, the Company had a due-to-factor of $103,066.

The Company is dependent on the proceeds from future debt or equity investments to fund its operations and fully implement the Company's business plan. If the Company is unable to raise sufficient capital, the Company will be required to delay or forego some portion of its business plan, which will have a material adverse effect on the Company's anticipated results from operations and financial condition. Alternatively, the Company may seek interim financing in the form of bank loans, private placement of debt or equity securities, or some combination thereof. Such interim financing may not be available in the amounts or at the times when the Company requires, and will likely not be on terms favorable to the Company.

Due to the Company's need for outside capital and its operating losses, the financial statements include a going concern footnote explaining the uncertainties relating to the Company's ability to continue operations.

Contract With Key Supplier

NutraCea had entered into an agreement with The RiceX Company ("RiceX"), whereby RiceX would sell NutraCea its rice bran solubles and rice bran fiber complex at

prices equal to the lower of RiceX's standard price or the price negotiated by other customers for like quantities and products (the "RiceX Agreement"). The RiceX Agreement also provided that RiceX would not sell any rice bran solubles or rice bran fiber concentrate products in the United States except to NutraCea. On July 9, 2002, this Agreement was terminated. As a result of this termination, NutraCea no longer has the right to be the exclusive distributor of the RiceX rice solubles and rice bran fiber concentrates in the United States; however, NutraCea has continued to buy such products from RiceX on a nonexclusive basis.

The RiceX Agreement also provided for a license from RiceX to NutraCea for the domestic use of four patents relating to the use of rice bran supplements to help treat diabetes and hyperlipidemia. Due to the fact that Ms. McPeak is a co-inventor of these patents and NutraCea has been primarily responsible for prosecuting such patents during the past two years, NutraCea has raised the issue of possible ownership rights in such patents. Although discussions have been held with RiceX regarding NutraCea's possible competing ownership rights, no resolution or formal action has yet occurred. NutraCea will continue to be allowed to utilize these patents until a new use arrangement can be negotiated.

NutraCea currently purchases all of its stabilized rice bran from RiceX. However, NutraCea believes its special rice bran requirements could be met by other suppliers. If NutraCea were unable to acquire the amount of raw product it requires or if there were an interruption in product delivery for any reason, Nutracea's business, results from operations, and financial condition, would be adversely effected.

Critical Accounting Policies

NutraCea's discussion and analysis of its financial conditions and results of operations are based upon its consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of financial statements require managers to make estimates and disclosures on the date of the financial statements. On an on-going basis, NutraCea evaluates its estimates, including, but not limited to, those related to revenue recognition. The Company uses authoritative pronouncements, historical experience and other assumptions as the basis for making judgments. Actual results could differ from those estimates. NutraCea believes that the following critical accounting policies affect its more significant judgments and estimates in the preparation of its consolidated financial statements.

Revenue recognition

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

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Valuation of long-lived assets

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

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

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

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

(c) significant negative industry or economic trends.

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

Recently Issued Accounting Pronouncements

In May 2003, the FASB issued SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity." SFAS No. 150 establishes standards for how an issuer classifies and measures in its statement of financial position certain financial instruments with characteristics of both liabilities and equity. In accordance with the standard, financial instruments that embody obligations for the issuer are required to be classified as liabilities. SFAS No. 150 will be effective for financial instruments entered into or modified after May 31, 2003 and otherwise will be effective at the beginning of the first interim period beginning after June 15, 2003. Upon adoption of SFAS No. 150, the Company will reclassify its redeemable preferred stock as a liability

In April 2003, the Financial Accounting Standards Board ("FASB") issued SFAS No. 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities." SFAS No. 149 amends and clarifies accounting and reporting for derivative instruments and hedging activities under SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities." SFAS No. 149 is effective

for derivative instruments and hedging activities entered into or modified after June 30, 2003, except for certain forward purchase and sale securities. For these forward purchase and sale securities, SFAS No. 149 is effective for both new and existing securities after June 30, 2003. Management does not expect adoption of SFAS No. 149 to have a material impact on the Company's statements of earnings, financial position, or cash flows.

ITEM 3. CONTROLS AND PROCEDURES

The Company's principal executive and financial officers have evaluated our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934) as of June 30, 2003. They have determined that such disclosure controls and procedures are effective to ensure that information required to be disclosed in our filings under the Securities Exchange Act of 1934 with respect to the Company is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms and is accumulated and communicated to our management, including the Company's principal executive officer and principal financial officer, as appropriate, to allow timely decisions regarding required disclosures.

The Company has made no significant changes in its internal controls over financial reporting during the most recent fiscal quarter covered by this Report that materially affected or are reasonably likely to materially affect our internal controls over financial reporting.

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

From time to time the Company is subject to legal proceedings and claims in the ordinary course of business including claims by certain of its vendors.

Information regarding current litigation is set forth in Note 10 of the Notes to Condensed, Consolidated Financial Statements included in Part I, Item 1 of this Report.

In June 2003, the Company reached a settlement agreement in the litigation between the Company and Millennium Integrated Services, Inc. ("MISI"). The terms of the settlement include the Company making two payments of $100,000 and $18,000 to be paid on July 11, 2003 and August 11, 2003. Subsequent to the end of the quarter, both of those payments were made. In addition, MISI will collect $26,342 through its previously served Writs of Attachment and will collect a refund of $3,657 from a third party vendor. Upon payment of the second installment, MISI has agreed to dismiss its complaint against the Company.

ITEM 2. CHANGES IN SECURITIES

Sales of Unregistered Securities During the Quarter

In April 2003, the Company sold 307,143 shares of its common stock to one individual for total proceeds of $21,500.

In June 2003, the Company sold 35,000 shares of its common stock to one individual for total proceeds of $47,250.

During the quarter ended June 30, 2003, the Company issued 1,000,000 shares of its common stock to two employees for the exercise of stock options with cash totaling $1,000.

During the quarter ended June 30, 2003, the Company issued options to purchase 2,745,000 shares of common stock at exercise prices ranging from $0.001 to $0.07 per share to employees in lieu of deferred salaries totaling $232,154.

In June 2003, the Company issued options to purchase 329,000 shares of common stock at an exercise price of $0.001 per share to a consultant as payment of accounts payable of $23,000.

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

- 250,000 on April 15, 2003
- 250,000 upon the fourth month of employment
- 250,000 upon the eighth month of employment
- 250,000 upon the achievement by the Company of two successive calendar quarters of positive earnings before interest, tax, and depreciation and amortization

Subsequent to the quarter ended June 30, 2003, the Company issued convertible promissory notes for $156,700. The notes are convertible into shares of common stock at a conversion rate of $0.20 per share. The notes bear interest at 10% per annum and have a term of one year.

Subsequent to the quarter ended June 30, 2003, the Company issued 1,000,000 shares of common stock and entered into a promissory note agreement with a consultant as payment on accounts payable totaling $24,000. The note is for $19,000 and is payable at $2,000 a month beginning November 1, 2003.

All of the above issuances of promissory notes, stock or stock options were made without any public solicitation, to a limited number of investors or related individuals or entities and were acquired for investment purposes only. Each of the individuals or entities had access to information about the Company and were deemed capable of protecting their own interests. The notes, stock and options were issued pursuant to the private placement exemption provided by Section 4(2) of the Securities Act of 1933. These are deemed to be "restricted securities" as defined in Rule 144 under the 1933 Act and the notes evidencing the loans and the stock certificates bear a legend stating the restrictions on resale.

ITEM 5. OTHER INFORMATION

In April 2003, the Company entered into a three-year employment agreement with John Howell to serve as its President and Chief Operating Officer, pursuant to which the Company is to pay Mr. Howell a base salary of $10,000 per month. The agreement provides for certain bonuses based on (i) certain reductions in monthly operating costs a conversion of debt to equity and (ii) future performance of the Company. He will also receive a $500 car allowance and stock options to purchase up to 1,000,000 shares of the Company's common stock. Mr. Howell brings extensive experience in corporate restructuring most recently having worked with Kingdom Ventures, Inc. in Nevada. These positions were assumed from Patricia McPeak who remains Chairperson of the Board of Directors and Chief Executive Officer.

On June 10, 2003, NutraCea withdrew its SB-2 registration statement which had been on file with the Securities and Exchange Commission since July, 2002. The withdrawal was due to the fact that due to the passage of time, many of the shares being registered for selling shareholders were now eligible for resale by other means.

Subsequent to the end of the quarter ended June 30, 2003, the Company charged its name from "Nutrastar Incorporated" to "NutraCea."

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ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits:

10.1.1	Revisions to Employment Agreement for Patricia McPeak
10.4	Employment Agreement for Dr. Rukmini Cheruvanky
10.5	Employment Agreement for Dr. Sastry Cherkuri
10.6	Employment Agreement for John Howell
10.7	Contract with W.F. Young, Inc.
10.8	Contract with World Nutriceuticals, Inc.
10.9	Contract with vSource I, Inc.
10.10	License Agreement from the RiceX Company
10.11	Sublease from the RiceX Company
10.12	Put/Call Agreement with the RiceX Company
21	Subsidiaries of NutraCea
33.1	Certification by CEO pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
33.2	Certification by CFO pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32	Certification by CEO and CFO pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

(b) Reports on Form 8-K: None

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SIGNATURES

In accordance with the requirements of the Securities Exchange Act of 1934, the Registrant has caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

NUTRACEA

Dated: August 19, 2003

/s/ James Kluber

James Kluber, Authorized Officer and
Chief Financial Officer
(Principal Accounting Officer)

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