

1 SPENCER E. BENDELL, Cal. Bar No. 181220
E-mail: bendells@sec.gov
2 ANN C. KIM, Cal. Bar No. 212438
Email: kima@sec.gov
3

4 Attorneys for Plaintiff
Securities and Exchange Commission
Rosalind Tyson, Regional Director
5 John M. McCoy III, Associate Regional Director
5670 Wilshire Boulevard, 11th Floor
6 Los Angeles, California 90036
Telephone: (323) 965-3998
7 Facsimile: (323) 965-3908
8

9 **UNITED STATES DISTRICT COURT**
10 **DISTRICT OF ARIZONA**

11 **SECURITIES AND EXCHANGE**
12 **COMMISSION,**

13 Plaintiff,

14 vs.

15 **NUTRACEA; BRADLEY D. EDSON;**
16 **TODD C. CROW; JOANNE D. KLINE;**
SCOTT WILKINSON; and MARGIE
ADELMAN;

17 Defendants.
18
19
20
21
22
23
24
25
26
27
28

Case No.

**COMPLAINT FOR VIOLATIONS
OF THE FEDERAL SECURITIES
LAWS**

1 Plaintiff Securities and Exchange Commission (the “Commission”) alleges
2 as follows:

3 **SUMMARY**

4 1. This matter involves false financial information reported by
5 Phoenix, Arizona-based NutraCea (formerly known as NutraCea, Inc.) and
6 certain of its senior management and accounting staff in its periodic reports filed
7 with the Commission for fiscal year 2007.

8 2. NutraCea manufactures and sells health food products. NutraCea
9 overstated its sales revenues for the second and third quarters of fiscal year 2007
10 and its entire fiscal year 2007 by booking false sales and engaging in improper
11 revenue recognition practices.

12 3. Through misstated financial statements, NutraCea disguised its
13 second and third quarter 2007 and fiscal year 2007 true operating results.
14 NutraCea booked \$2.6 million in false sales to Bi-Coastal Pharmaceutical Corp.
15 (“Bi-Coastal), resulting in overstated product sales revenue of as much as 35% in
16 the second quarter of 2007. The false sales to Bi-Coastal had a continuing
17 material impact through the third quarter of 2007 when NutraCea overstated
18 product sales revenue by 29% for the nine month period ending September 30,
19 2007. In addition, NutraCea improperly recorded revenue on a bill and hold
20 transaction related to a \$1.9 million sale of product to ITV Global, Inc. (“ITV”)
21 in the fourth quarter of 2007.

22 4. As a result of these two transactions alone, NutraCea overstated its
23 product sales revenue by 36.8% for fiscal year end 2007. As a result of the
24 overstated product sales revenue from these two transactions, NutraCea misstated
25 its operating loss by over 89% in the second quarter 2007, over 17.6% in the third
26 quarter 2007, and nearly 7% in fiscal year 2007.

27 5. On March 28, 2008, NutraCea incorporated by reference its
28 misstated Form 10-K for fiscal year 2007 in a Form S-3/A filed in connection

1 with an amended registration statement with a potential \$125 million offering of
2 common stock, preferred stock, warrants, and depositary shares. As a result of
3 Defendants' fraudulent conduct, NutraCea restated its financial statements on
4 October 20, 2009.

5 JURISDICTION AND VENUE

6 6. This Court has jurisdiction over this action pursuant to Sections
7 20(b), 20(d)(1), and 22(a) of the Securities Act of 1933 ("Securities Act"), 15
8 U.S.C. §§ 77t(b), 77t(d)(1), and 77v(a), and Sections 21(d)(1), 21(d)(3)(A), 21(e),
9 and 27 of the Securities Exchange Act of 1934 ("Exchange Act"), 15 U.S.C. §§
10 78u(d)(1), 78u(d)(3)(A), 78u(e) & 78aa. Defendants have directly or indirectly
11 made use of the means or instrumentalities of interstate commerce, of the mails,
12 or of the facilities of a national securities exchange in connection with the
13 transactions, acts, practices and courses of business alleged in this Complaint.

14 7. Venue is proper in this district pursuant to Section 22(a) of the
15 Securities Act, 15 U.S.C. § 77v(a), and Section 27 of the Exchange Act, 15
16 U.S.C. § 78aa, because defendants reside and transact business within this district
17 and certain of the transactions, acts, practices and courses of conduct constituting
18 violations of the federal securities laws alleged in this Complaint occurred within
19 this district.

20 THE DEFENDANTS

21 8. **NutraCea** is a California corporation with its principal executive
22 offices located in Phoenix, Arizona and is engaged in the business of
23 manufacturing health food products. NutraCea's common stock is registered
24 with the Commission pursuant to Section 12(g) of the Exchange Act and trades
25 on the OTC:BB under the symbol "NTRZ".

26 9. **Bradley D. Edson**, age 51, of Scottsdale, Arizona, is the former
27 chief executive officer and a former director of NutraCea. Edson was NutraCea's
28 CEO from December 2005 to March 2009, and a member of NutraCea's board of

1 directors from December 2004 to March 2009.

2 10. **Todd C. Crow**, age 62, of Granite Bay, California, is the former
3 chief financial officer of NutraCea. Crow was NutraCea's chief financial officer
4 from October 2005 to May 2008 and July 2008 to November 2008.

5 11. **Joanne D. Kline**, age 48, of Phoenix, Arizona, is the former
6 controller of NutraCea. Kline was the controller from March 2007 to June 2009.
7 Kline has been a licensed certified public accountant in Arizona since April 1993,
8 but her license was suspended in November 2010.

9 12. **Scott Wilkinson**, CPA, age 54, of Phoenix, Arizona, is the former
10 director of financial services of NutraCea. He held this position from April 2007
11 to February 2009. Wilkinson has been a licensed certified public accountant in
12 Arizona since 2006.

13 13. **Margie Adelman**, age 50, of Paradise Valley, Arizona, is a former
14 senior vice president and secretary of NutraCea. Adelman was NutraCea's senior
15 vice president from January 2005 to November 2008. Adelman served as
16 NutraCea's secretary from January 2005 to early 2008.

17 **DEFENDANTS' FRAUDULENT SCHEME**

18 14. In order to meet earnings and/or gross sales expectations and
19 guidance throughout 2007, NutraCea management falsified its product sales
20 revenues. The tone from the top – specifically Bradley Edson (“Edson”) – was to
21 do anything necessary to ensure NutraCea met its earnings goals, especially after
22 the first quarter of 2007 when NutraCea had a revenue shortfall primarily
23 attributable to its inability to recognize \$2.6 million in sales. Through false sales
24 of \$2.6 million of product to Bi-Coastal in the second quarter, NutraCea was able
25 to record \$10.3 million in sales and thereby exceed its previously announced
26 guidance for gross sales of between \$9 million and \$10 million.

27 15. Through its premature recognition of \$1.9 million in revenue from
28 the ITV sale in the fourth quarter, NutraCea was able to meet its previously

1 announced earnings expectation of between \$5 million and \$7 million by
2 reporting fourth quarter revenues of \$5.6 million.

3 **I. Second Quarter 2007 Sale to Bi-Coastal Pharmaceutical**

4 16. In the second quarter of fiscal year 2007, NutraCea improperly
5 recorded a \$2.6 million sale of four different products to Bi-Coastal. NutraCea
6 had attempted to book revenue from the sale of these same products to three
7 different customers in the previous quarter, but Perry-Smith, NutraCea's outside
8 auditors, disagreed with NutraCea's assessment that revenues from the sales were
9 appropriately recognized.

10 17. Edson fought hard with Perry-Smith to convince them that the
11 revenue from these first quarter sales should be booked. However, Perry-Smith
12 refused to change its position and made NutraCea reverse the revenue, causing a
13 shortfall in revenues by 47% from the same period one year before.

14 18. The next quarter, Edson was determined to recognize revenue from
15 the sale of these same products. Specifically, in the second quarter of 2007,
16 Edson approached Bi-Coastal's president and asked him to issue purchase orders
17 for \$2.6 million of product. This transaction was a complete sham. Bi-Coastal
18 had no intention of purchasing and selling these products. Edson told Bi-
19 Coastal's president that "he had several avenues of potential distribution for these
20 products and that [Bi-Coastal was] never going to take possession of them and
21 that at a later date [Edson] was going to sell the products to a third party."

22 19. NutraCea then improperly booked the entire sale in the second
23 quarter. Staff Accounting Bulletin ("SAB") No. 104 references four basic
24 criteria for revenue recognition as follows: (1) persuasive evidence of an
25 arrangement exists; (2) delivery has occurred or services have been rendered;
26 (3) the seller's price to the buyer is fixed or determinable; and (4) collectability is
27 reasonably assured. In this instance, collection from Bi-Coastal was not
28 reasonably assured. See also Accounting Research Bulletin No. 43, Chapter 1A,

1 Para. 1, which states that collection must be reasonably assured before profit can
2 be recognized. Here, due to Bi-Coastal's and its owners' precarious financial
3 condition, as well as the dubious sales arrangement between NutraCea and Bi-
4 Coastal, collection of the receivable from this transaction could not be deemed
5 reasonably assured.

6 20. To further substantiate this sham sale and to support recognizing the
7 entire sale in the second quarter, Edson did the following: (1) worked out a \$1
8 million loan from NutraCea's former COO to Bi-Coastal so that Bi-Coastal could
9 make a down payment on the \$2.6 million purchase; (2) requested Bi-Coastal's
10 president to send NutraCea an internally prepared financial statement for Bi-
11 Coastal's owners that would support Bi-Coastal's ability to pay the balance due
12 of \$1.6 million; and 3) asked Bi-Coastal's president to falsify the numbers in the
13 original financial statement to reflect a higher net worth for Bi-Coastal's owners.

14 21. Specifically, Edson told Bi-Coastal's president that "the only way
15 that [Edson] could book the sale and the auditors would be able to accept the sale
16 and book the sale for that period of time was if a substantial deposit was made for
17 that amount, because of Bi-Coastal's lack of financial strength" Edson
18 further told Bi-Coastal's president that Edson had arranged a loan for the down
19 payment from NutraCea's former COO to Bi-Coastal. Specifically, the former
20 COO would transfer his NutraCea options to Bi-Coastal to affect a loan. After he
21 sent the original financial statement to NutraCea, Bi-Coastal's president received
22 instructions from Edson to falsify the numbers in the financial statement to reflect
23 a higher net worth for Bi-Coastal's owners.

24 22. Bi-Coastal was also contacted by NutraCea's former COO, who told
25 him what changes to make to the financial statements. Ultimately, based on the
26 former COO's and Edson's directions, Bi-Coastal's president falsified his
27 family's financial statements to reflect a net worth of over \$20 million. This was
28 \$15 million more than the net worth originally stated in the financial statement

1 dated three days earlier, in which Bi-Coastal's owners reported a net worth of
2 over \$4.9 million.

3 23. CFO Todd Crow ("Crow") knew that Bi-Coastal's down payment
4 for the \$2.6 million sale came from the former COO. Sometime between June
5 21, 2007 and June 30, 2007, NutraCea's former COO attempted to tell Crow
6 about his loan to Bi-Coastal for the down payment, but "[Crow] basically said, 'I
7 don't want to hear this.'"

8 24. Around July 10, 2007, Joanne Kline ("Kline"), NutraCea's former
9 controller, received some documents from NutraCea's former COO that included
10 documents related to the loan from the former COO to Bi-Coastal. She believed
11 that the loan from NutraCea's former COO may have been used for the one
12 million-dollar deposit by Bi-Coastal to justify NutraCea's recognition of revenue
13 from this sale. When Kline tried to discuss with Crow her thought that the \$1
14 million deposit for the Bi-Coastal sale came from a loan from the former COO to
15 Bi-Coastal or one of its owners, "[Crow] covered his ears and said, 'No, no, no,
16 no, no, no, no, no, no. I don't want to hear it.'"

17 25. Around this time, Kline believes she told Scott Wilkinson
18 ("Wilkinson") that the \$1 million down payment may have been from a loan the
19 former COO made to Bi-Coastal. Kline did not discuss the loan from the former
20 COO to Bi-Coastal with anyone else, particularly Perry-Smith and NutraCea's
21 audit committee, because she was afraid she would be terminated.

22 26. Despite their knowledge and/or belief that Bi-Coastal's \$1 million
23 down payment on the \$2.6 million sale was from NutraCea's former COO's loan,
24 Edson, Crow, Kline and Wilkinson failed to disclose this information to Perry-
25 Smith. Instead, they affirmatively misled the auditors when they all signed an
26 August 14, 2007 management representation letter related to Perry-Smith's
27 review of the interim financial information of NutraCea for the second quarter
28 Form 10-Q falsely representing that (1) the interim financial information was

1 presented in accordance with accounting principles generally accepted in the
2 U.S.; (2) all financial records and related data were made available to Perry-
3 Smith; and (3) they had no knowledge of any fraud or suspected fraud affecting
4 NutraCea involving management, employees who have significant roles in the
5 internal control, or others where fraud could have a material effect on the interim
6 financial information.

7 **II. Fourth Quarter 2007 Sale to ITV Global, Inc.**

8 **A. ITV's November 2007 Order Of Rice n Shine**

9 27. In November 2007, NutraCea sold 150,000 units of Rice n Shine, a
10 meal replacement product, to ITV for over \$1.9 million. NutraCea engaged a co-
11 packer, Innovative Health Products, Inc. ("IHP"), to manufacture this order of
12 Rice n Shine for ITV. To that end, in late November 2007, NutraCea shipped its
13 proprietary raw ingredient, dextrinized rice bran (hereinafter, "raw material") to
14 IHP, to manufacture ITV's order of Rice n Shine. After manufacturing the Rice
15 n Shine, IHP was to hold the product at its facilities for shipping to ITV.

16 28. Around the time the purchase order for Rice n Shine was issued,
17 Edson instructed Margie Adelman ("Adelman"), the vice president who
18 negotiated this sale, to obtain letters from both ITV and IHP stating that the Rice
19 n Shine would be manufactured and shipped out by the end of 2007.

20 29. Specifically, Edson told Adelman to obtain a letter from ITV that
21 stated ITV would take possession of the shipment by a certain date (December
22 31, 2007). Edson wanted this particular letter from the purchaser (ITV) – and the
23 specific language contained in it - because he knew this letter would be provided
24 to NutraCea's outside auditors to support NutraCea booking the revenue from the
25 sale to ITV in the fourth quarter of 2007.

26 30. Adelman made numerous attempts to get a letter from IHP to
27 provide to NutraCea's outside auditors, but was not successful. Ultimately,
28 Edson secured a letter from IHP in July 2008 to try to further support NutraCea's

1 booking of the revenue from this sale in 2007.

2 **B. Doubts That IHP Completed Manufacturing ITV's Order Of**
3 **Rice n Shine Prior To The End Of 2007**

4 31. Adelman had concerns about whether the 150,000 units of Rice n
5 Shine could be manufactured by the end of 2007 because of the amount of time it
6 would take to procure the raw materials and manufacture such a large order.

7 Adelman told Edson about her concerns that the product could not be
8 manufactured by the end of 2007, but Edson told her "not to worry, that it was
9 common practice [] to obtain letters like this and we had done it prior."

10 32. In January 2008, Adelman's doubts that IHP could manufacture all
11 150,000 units of Rice n Shine before December 31, 2007 were confirmed when
12 she saw a statement that ITV issued on its website stating that Rice n Shine was
13 on back order. Edson was also aware of ITV's statement. In response to ITV's
14 statement, Edson made comments regarding ITV such as "what a bunch of jerks"
15 or "I can't believe they did that."

16 33. Sometime in early 2008, Kline asked Adelman about the November
17 2007 sale of Rice n Shine, which prompted Adelman to call IHP's CEO and ask
18 why ITV was back-ordered on Rice n Shine. IHP's CEO told Adelman that IHP
19 was waiting for phyosterols (an antioxidant needed to manufacture Rice n Shine)
20 from China. When Adelman relayed this information to Kline, Kline became
21 "freaked out" and said "I don't want to hear that."

22 34. Kline then asked Adelman who wanted to book the revenue from
23 this sale in 2007, and Adelman responded that it was Edson. After this
24 conversation with Kline, Adelman again went to Edson to discuss her concerns
25 that they were booking revenue for product that had not been manufactured by
26 the end of 2007. Edson told her "not to worry" since NutraCea had obtained the
27 letter from ITV indicating it had taken possession of the product. Adelman also
28 told Edson about her conversation with Kline, and Edson told her "not to have

1 that conversation with Joanne and to be very careful about what [Adelman] said.”

2 35. After Kline’s conversation with Adelman, Kline had a conversation
3 with Wilkinson in which they “both shared very strong concerns that [the ITV
4 transaction] was not a valid sale” Kline’s concerns resulted from her
5 conversation with Adelman and the fact that IHP had not invoiced NutraCea for
6 the manufacturing of Rice n Shine by the beginning of 2008. It appears
7 Wilkinson’s concerns were caused by both the invoice issue and the inventory of
8 NutraCea’s raw material that IHP still had on hand as of January 7, 2008.

9 36. Based on a January 7, 2008 email from Wilkinson to IHP’s general
10 manager of operations, Wilkinson acknowledged that IHP had raw material that
11 NutraCea shipped to IHP that had not been manufactured into Rice n Shine.
12 Specifically, Wilkinson wrote: “we’ve shipped a lot of [raw material] which
13 hasn’t yet been turned into Rice-n-Shine for us.” Kline and Wilkinson discussed
14 whether they needed to resign.

15 37. The day after her discussions with Wilkinson, Kline expressed her
16 concerns about the ITV sale to Crow, while NutraCea was closing its books for
17 the fourth quarter of 2007. Specifically, Kline told Crow that she was very
18 disturbed “that [NutraCea was] recording a sale when everything [she] heard and
19 saw led [her] to believe that there was no inventory to sell.” Kline further told
20 Crow “if this issue were to ever come up, and [she] was under oath and had to
21 testify . . . that [she] would have to say [she] had strong reasons to believe that
22 the sale is not valid.” Crow responded by stating, “he did not see a problem with
23 it, that ‘we are relying on IHP’s invoice,’ and if, in fact, IHP did not have the
24 inventory, that they were the ones committing fraud”

25 **C. Recognizing The Entire Sale In 2007**

26 38. Despite all of these red flags, Edson, Crow, Adelman, Kline, and
27 Wilkinson failed to disclose this information to Perry-Smith, and NutraCea
28 booked the revenue from the entire sale in its 2007 year-end financial statements.

1 39. NutraCea recorded all of the revenue from this sale in 2007 based on
2 a bill and hold revenue recognition theory. However, as described above, this
3 transaction did not meet all of the factors required for basic revenue recognition,
4 let alone the requirements for bill and hold.

5 40. Generally Accepted Accounting Principles require that delivery
6 occur before recognition of revenue is appropriate. Under a bill and hold revenue
7 recognition criteria, a company may recognize revenue when delivery has not
8 occurred when the following specific requirements are met: (1) the risk of
9 ownership must have passed to the buyer; (2) the customer must have made a
10 fixed commitment to purchase the goods, preferably in written documentation;
11 (3) the buyer, not the seller, must request that the transaction be on a bill and hold
12 basis and the buyer must have a substantial business purpose for ordering the
13 good on a bill and hold basis; (4) there must be a fixed schedule for delivery of
14 the goods; (5) the seller must not have retained any specific performance
15 obligations such that the earning process is not complete; (6) the ordered goods
16 must have been segregated from the seller's inventory; and (7) the product must
17 be complete and ready for shipment. See SAB 104. Here, the requirements for
18 bill and hold had not been met because the product had not yet completed the
19 manufacturing process.

20 41. Specifically, the entire order was not manufactured prior to the end
21 of 2007. In fact, some of the Rice n Shine ordered in November 2007 was still
22 being manufactured in November 2008.

23 42. Moreover, Edson, Crow, Kline, and Wilkinson signed a March 17,
24 2008 management representation letter related to Perry-Smith's audit of
25 NutraCea's year-end financial information falsely representing that (1) the year-
26 end financial statements were presented in accordance with accounting principles
27 generally accepted in the U.S.; (2) all financial records and related data were
28 made available to Perry-Smith; and (3) they had no knowledge of any fraud or

1 suspected fraud affecting NutraCea involving management, employees who have
2 significant roles in the internal control, or others where fraud could have a
3 material effect on the interim financial information.

4 43. After NutraCea filed its 2007 Form 10-K, Edson and Adelman were
5 again alerted to the fact that IHP still had not manufactured all of the Rice n
6 Shine from the November 2007 order. In a May 2008 email from an ITV
7 consultant to Edson, ITV explained that it was not paying NutraCea's invoice
8 pursuant to the agreed upon terms because IHP had not delivered all of the Rice n
9 Shine ITV ordered. Again, Edson never disclosed this information to Perry-
10 Smith.

11 44. Further, on at least two occasions in 2008, IHP asked NutraCea to
12 send it more raw materials to replace insect infested raw material so it could
13 finish manufacturing the Rice n Shine for ITV's November 2007 order. The first
14 insect infestation issue occurred in late December 2007 or early January 2008,
15 prior to the filing of the 2007 Form 10-K. The second infestation occurred in
16 May 2008, and Adelman worked with IHP to get the infested raw material
17 replaced. Adelman also kept Edson apprised of the infestation issues, and on
18 May 19, 2008, she informed him that NutraCea needed to send IHP enough
19 replacement raw material to fulfill the remaining 56,998 units of Rice n Shine
20 IHP owed to ITV.

21 **III. NutraCea's Form 10-K for Fiscal Year 2007 and Forms 10-Q for the**
22 **Second and Third Quarters of 2007 Contained Materially False**
23 **Information**

24 45. The Bi-Coastal and ITV transactions had a material impact on
25 NutraCea's financial statements. NutraCea overstated its reported product
26 sales revenue and misstated its reported operating loss in its financial

27 ///

28 ///

1 statements filed with the Commission in 2007 by improperly reporting the
2 Bi-Coastal and ITV transactions as revenue as follows:

	Q2 2007 (6 months)	Q3 2007 (9 months)	FYE 2007 (12 months)
Previously Reported Product Sales Revenue	\$9,983,000	\$11,480,000	\$16,821,000
Adjusted Product Sales Revenue	\$7,382,000	\$8,879,000	\$12,300,000
Overstatement of Product Sales Revenue By Percentage	35.2%	29.3%	36.8%
Previously Reported Operating Loss	\$(239,000)	\$(5,832,000)	\$(15,130,000)
Adjusted Operating Loss	\$(2,283,000)	\$(7,076,000)	\$(16,210,000)
Misstatement of Operating Loss By Percentage	89.5%	17.6%	6.7%

20 46. NutraCea's Form 10-Q for the second quarter in 2007 falsely
21 overstated its product sales revenue by over 35%, or approximately \$2.6 million;
22 and falsely misstated its operating loss by 89.5%, or over \$2 million. When
23 NutraCea filed its Form 10-Q for the second quarter in 2007, Edson, Crow and
24 Kline knew that NutraCea's financial statements were materially misstated.

25 47. NutraCea's Form 10-Q for the third quarter in 2007 falsely
26 overstated its product sales revenue by over 29%, or approximately \$2.6 million;
27 and falsely misstated its operating loss by 17.6%, or over \$1.2 million. When
28 NutraCea filed its Form 10-Q for the third quarter in 2007, Edson, Crow and

1 Kline knew that NutraCea's financial statements were materially misstated.

2 48. NutraCea's Form 10-K for fiscal year 2007 falsely overstated its
3 product sales revenue by 36.8%, or over \$4.5 million; and falsely misstated its
4 operating loss by 6.7%, or over \$1 million. When NutraCea filed its Form 10-Q
5 for the third quarter in 2007, Edson, Crow, Kline, Wilkinson, and Adelman knew
6 that NutraCea's financial statements were materially misstated.

7 49. As a result of NutraCea's improper recognition of revenue, on
8 October 20, 2009, NutraCea restated its consolidated balance sheets at December
9 31, 2006 and 2007 and its consolidated statements of operations, stockholders'
10 equity, and cash flows for fiscal years ended 2006 and 2007. These restatements
11 also affected interim financial information for all of the quarters of FYE 2007
12 and the first three quarters of FYE 2008. The restatement for FYE 2007 and the
13 second and third quarters of 2007 included adjustments based on booking the
14 false sales to Bi-Coastal in the second quarter and improperly recognizing
15 revenue from the ITV transaction in the fourth quarter.

16 50. Edson, as NutraCea's CEO, and Crow, as NutraCea's CFO, signed
17 NutraCea's annual report on Form 10-K for fiscal year 2007, its quarterly reports
18 on Form 10-Q for the second and third quarters of fiscal year 2007 and the
19 accompanying Sarbanes-Oxley certifications. In connection with the Form 10-K
20 for fiscal year 2007 and Forms 10-Q for the second and third quarters of fiscal
21 year 2007, Edson and Crow certified they had no knowledge of any untrue
22 statement or omission of material fact in the annual and quarterly reports, and
23 that the financial statements in the reports fairly present in all material respects
24 the financial condition and results of the issuer. At the time they made those
25 certifications, Edson and Crow knew that those statements were false because
26 they were aware of NutraCea's improper recognition of revenue in connection
27 with the Bi-Coastal and ITV transactions, which resulted in false statements in
28 NutraCea's Form 10-K and Forms 10-Q.

1 **IV. Edson Received Bonuses During The Fraudulent Scheme**

2 51. Edson received two bonuses of \$280,000 and \$70,000 within 12
3 months of the filing of the false 2007 Form 10-K for meeting capital raising
4 targets.

5 **FIRST CLAIM FOR RELIEF**

6 **FRAUD IN THE OFFER OR SALE OF SECURITIES**

7 **Violations of Section 17(a) of the Securities Act**

8 **(Against NutraCea, Edson and Crow)**

9 52. The Commission realleges and incorporates by reference ¶¶ 1
10 through 51 above.

11 53. NutraCea, Edson and Crow, and each of them, by engaging in the
12 conduct described above, directly or indirectly, in the offer or sale of securities
13 by the use of means or instruments of transportation or communication in
14 interstate commerce or by the use of the mails:

- 15 a. with scienter, employed devices, schemes, or artifices to
16 defraud;
- 17 b. obtained money or property by means of untrue statements of
18 a material fact or by omitting to state a material fact necessary
19 in order to make the statements made, in light of the
20 circumstances under which they were made, not misleading;
21 or
- 22 c. engaged in transactions, practices, or courses of business
23 which operated or would operate as a fraud or deceit upon the
24 purchaser.

25 54. By engaging in the conduct described above, NutraCea, Edson and
26 Crow violated, and unless restrained and enjoined will continue to violate,
27 Section 17(a) of the Securities Act, 15 U.S.C. § 77q(a).

28 ///

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26
27
28

SECOND CLAIM FOR RELIEF
FRAUD IN CONNECTION WITH THE
PURCHASE OR SALE OF SECURITIES
Violations and Aiding and Abetting Violations of
Section 10(b) of the Exchange Act
and Rule 10b-5 thereunder
(Against NutraCea, Edson, Crow and Adelman)

55. The Commission realleges and incorporates by reference ¶¶ 1 through 51 above.

56. NutraCea, Edson, Crow and Adelman, and each of them, by engaging in the conduct described above, directly or indirectly, in connection with the purchase or sale of a security, by the use of means or instrumentalities of interstate commerce, of the mails, or of the facilities of a national securities exchange, with scienter:

- a. employed devices, schemes, or artifices to defraud;
- b. made untrue statements of a material fact or omitted to state a material fact necessary in order to make the statements made, in the light of the circumstances under which they were made, not misleading; or
- c. engaged in acts, practices, or courses of business which operated or would operate as a fraud or deceit upon other persons.

57. By engaging in the conduct described above, NutraCea, Edson, Crow and Adelman violated, and unless restrained and enjoined will continue to violate, Section 10(b) of the Exchange Act, 15 U.S.C. § 78j(b), and Rule 10b-5 thereunder, 17 C.F.R. § 240.10b-5.

///
///

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26
27
28

THIRD CLAIM FOR RELIEF

**VIOLATIONS OF COMMISSION PERIODIC
REPORTING REQUIREMENTS**

**Violations of Section 13(a) of the Exchange Act, and Rules 12b-20, 13a-1,
and 13a-13 thereunder
(Against NutraCea)**

58. The Commission realleges and incorporates by reference ¶¶ 1 through 51 above.

59. By filing with the Commission materially false and misleading periodic reports, including an annual report on Form 10-K for fiscal year 2007, and quarterly reports on Forms 10-Q for the second and third quarters of fiscal year 2007, NutraCea violated and unless restrained and enjoined will continue to violate Section 13(a) of the Exchange Act, 15 U.S.C. § 78m(a), and Rules 12b-20, 13a-1, and 13a-13 thereunder, 17 C.F.R. §§ 240.12b-20, 240.13a-1, and 240.13a-13.

FOURTH CLAIM FOR RELIEF

**VIOLATIONS OF COMMISSION PERIODIC
REPORTING REQUIREMENTS**

**Aiding and Abetting Violations of
Section 13(a) of the Exchange Act, and Rules 12b-20, 13a-1 and 13a-13
thereunder**

(Against Edson, Crow, Kline, Wilkinson and Adelman)

60. The Commission realleges and incorporates by reference ¶¶ 1 through 51 above.

61. NutraCea violated Section 13(a) of the Exchange Act and Rules 12b-20, 13a-1 and 13a-13 thereunder, by filing with the Commission an annual report on Form 10-K for fiscal year 2007 and quarterly reports on Forms 10-Q for the second and third quarters of 2007 that were materially false and failed to

1 include material information necessary to make the required statements, in light
2 of the circumstances under which they were made, not misleading.

3 62. Edson, Crow, Kline, Wilkinson and Adelman knowingly provided
4 substantial assistance to NutraCea in its violation of Section 13(a) of the
5 Exchange Act and Rules 12b-20, 13a-1 and 13a-13 thereunder in connection with
6 NutraCea's filings of its Form 10-K for fiscal year 2007 and quarterly reports on
7 Forms 10-Q for the second and third quarters of 2007.

8 63. By engaging in the conduct described above and pursuant to Section
9 20(e) of the Exchange Act, 15 U.S.C. § 78t(e), Edson, Crow, Kline, Wilkinson
10 and Adelman aided and abetted NutraCea's violations, and unless restrained and
11 enjoined will continue to aid and abet violations, of Section 13(a) of the
12 Exchange Act, and Rules 12b-20, 13a-1 and 13a-13 thereunder.

13 **FIFTH CLAIM FOR RELIEF**

14 **RECORD-KEEPING VIOLATIONS**

15 **Section 13(b)(2)(A) of the Exchange Act**

16 **(Against NutraCea)**

17 64. The Commission realleges and incorporates by reference ¶¶ 1
18 through 51 above.

19 65. By failing to make or keep books, records and accounts that in
20 reasonable detail accurately and fairly reflected its transactions and disposition of
21 its assets, NutraCea violated Section 13(b)(2)(A) of the Exchange Act, 15 U.S.C.
22 § 78m(b)(2)(A).

23 ///

24 ///

25 ///

26 ///

27 ///

28 ///

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26
27
28

SIXTH CLAIM FOR RELIEF
RECORD-KEEPING VIOLATIONS
Aiding and Abetting Violations of
Section 13(b)(2)(A) of the Exchange Act and Violations of
Rule 13b2-1 thereunder
(Against Edson, Crow, Kline, Wilkinson and Adelman)

66. The Commission realleges and incorporates by reference ¶¶ 1 through 51 above.

67. NutraCea violated Section 13(b)(2)(A) of the Exchange Act, 15 U.S.C. § 78m(b)(2)(A), by failing to make or keep books, records, and accounts, which, in reasonable detail accurately and fairly reflected its transactions and disposition of its assets.

68. Edson, Crow, Kline, Wilkinson and Adelman knowingly provided substantial assistance to NutraCea’s violation of Section 13(b)(2)(A) of the Exchange Act, 15 U.S.C. § 78m(b)(2)(A).

69. By engaging in the conduct described above and pursuant to Section 20(e) of the Exchange Act, 15 U.S.C. § 78t(e), defendants Edson, Crow, Kline, Wilkinson and Adelman aided and abetted NutraCea’s violations, and unless restrained and enjoined will continue to aid and abet violations of Section 13(b)(2)(A) of the Exchange Act.

70. By engaging in the conduct described above, Edson, Crow, Kline, Wilkinson and Adelman violated Exchange Act Rule 13b2-1 by, directly or indirectly, falsifying or causing to be falsified NutraCea’s books, records, or accounts subject to Section 13(b)(2)(A) of the Exchange Act. Unless restrained and enjoined, Edson, Crow, Kline, Wilkinson and Adelman will continue to violate Rule 13b2-1, 17 C.F.R. § 240.13b2-1.

///
///

1 **SEVENTH CLAIM FOR RELIEF**
2 **INTERNAL CONTROLS VIOLATIONS**

3 **Section 13(b)(2)(B) of the Exchange Act**
4 **(Against NutraCea)**

5 71. The Commission realleges and incorporates by reference ¶¶ 1
6 through 51 above.

7 72. By failing to devise and maintain a system of internal accounting
8 controls sufficient to provide reasonable assurances that transactions were
9 recorded as necessary to permit preparation of financial statements in conformity
10 with GAAP and to maintain the accountability of assets, NutraCea violated, and
11 unless restrained and enjoined will continue to violate, Section 13(b)(2)(B) of the
12 Exchange Act, 15 U.S.C. § 78m(b)(2)(B).

13 **EIGHTH CLAIM FOR RELIEF**
14 **INTERNAL CONTROLS VIOLATIONS**

15 **Aiding and Abetting Violations of**
16 **Section 13(b)(2)(B) of the Exchange Act**

17 **(Against Edson, Crow, Kline, Wilkinson and Adelman)**

18 73. The Commission realleges and incorporates by reference ¶¶ 1
19 through 51 above.

20 74. NutraCea violated Section 13(b)(2)(B) of the Exchange Act, 15
21 U.S.C. § 78m(b)(2)(B), by failing to devise and maintain a system of internal
22 accounting controls sufficient to provide reasonable assurances that transactions
23 were recorded as necessary to permit preparation of financial statement in
24 conformity with GAAP and to maintain the accountability for assets.

25 75. Edson, Crow, Kline, Wilkinson and Adelman knowingly provided
26 substantial assistance to NutraCea's violation of Section 13(b)(2)(B) of the
27 Exchange Act, 15 U.S.C. § 78m(b)(2)(B). By engaging in the conduct described
28 above and pursuant to Section 20(e) of the Exchange Act, 15 U.S.C. § 78t(e),

1 defendants Edson, Crow, Kline, Wilkinson and Adelman aided and abetted
2 NutraCea's violations, and unless restrained and enjoined will continue to aid and
3 abet violations of Section 13(b)(2)(B) of the Exchange Act, 15 U.S.C. §
4 78m(b)(2)(B).

5 **NINTH CLAIM FOR RELIEF**
6 **CIRCUMVENTION OF INTERNAL CONTROLS AND**
7 **FALSIFICATION OF RECORDS**

8 **Violations of Section 13(b)(5) of the Exchange**
9 **(Against Edson, Crow, Kline, Wilkinson and Adelman)**

10 76. The Commission realleges and incorporates by reference ¶¶ 1
11 through 51 above.

12 77. By engaging in the conduct described above, Edson, Crow, Kline,
13 Wilkinson and Adelman violated Section 13(b)(5) of the Exchange Act, 15
14 U.S.C. §78m(b)(5), by knowingly circumventing or failing to implement a
15 system of internal accounting controls, or, directly or indirectly, by knowingly
16 falsifying or causing to be falsified any NutraCea books, records, or accounts
17 described in Section 13(b)(2) of the Exchange Act. Unless restrained and
18 enjoined, Edson, Crow, Kline, Wilkinson and Adelman will continue to violate
19 Section 13(b)(5) of the Exchange Act, 15 U.S.C. §78m(b)(5).

20 **TENTH CLAIM FOR RELIEF**
21 **FALSE STATEMENT TO ACCOUNTANTS**

22 **Violations of Exchange Act Rule 13b2-2**
23 **(Against Defendants Edson, Crow, Kline, Wilkinson and Adelman)**

24 78. The Commission realleges and incorporates by reference ¶¶ 1
25 through 51 above.

26 79. Defendants Edson, Crow, Kline, Wilkinson and Adelman, directly
27 or indirectly, (i) made, or caused to be made, materially false or misleading
28 statements or (ii) omitted to state, or caused others to omit to state, material facts

1 necessary in order to make statements made, in light of the circumstances under
2 which they were made, not misleading, to an accountant in connection with an
3 audit, review or examination of financial statements or the preparation or filing of
4 a document or report required to be filed with the Commission.

5 80. By engaging in the conduct alleged above, defendants Edson, Crow,
6 Kline, Wilkinson and Adelman violated, and unless restrained and enjoined will
7 continue to violate, Exchange Act Rule 13b2-2, 17 C.F.R. § 240.13b2-2.

8 **ELEVENTH CLAIM FOR RELIEF**

9 **CERTIFICATION VIOLATIONS**

10 **Violations of Rule 13a-14 of the Exchange Act**

11 **(Against Edson and Crow)**

12 81. The Commission realleges and incorporates by reference ¶¶ 1
13 through 51 above.

14 82. Edson and Crow violated Rule 13a-14 by signing the certifications
15 included with NutraCea’s fiscal year 2007 Form 10-K, and second and third
16 quarter Forms 10-Q for 2007, certifying, among other things, that the forms fully
17 complied with the requirements of the Exchange Act and fairly presented, in all
18 material respects, the financial condition and results of operations of the
19 company, when, in fact, the reports contained untrue statements of material fact
20 and omitted material information necessary to make the reports not misleading.

21 83. By engaging in the conduct described above, Edson and Crow
22 violated Exchange Act Rule 13a-14, 17 C.F.R. § 240.13a-14. Unless restrained
23 and enjoined, Edson and Crow will continue to violate Rule 13a-14, 17 C.F.R. §
24 240.13a-14.

25 ///

26 ///

27 ///

28 ///

PRAYER FOR RELIEF

WHEREFORE, the Commission respectfully requests that the Court:

I

Issue findings of fact and conclusions of law that the defendants committed the alleged violations.

II

Issue judgments, in a form consistent with Fed. R. Civ. P. 65(d), permanently enjoining Defendant NutraCea and its agents, servants, employees, attorneys, and those persons in active concert or participation with any of them, who receive actual notice of the order by personal service or otherwise, from violating Section 17(a) of the Securities Act, Sections 10(b), 13(a), 13(b)(2)(A), and 13(b)(2)(B) of the Exchange Act, and Rules 10b-5, 12b-20, 13a-1, and 13a-13, thereunder.

III

Issue judgments, in a form consistent with Fed. R. Civ. P. 65(d), permanently enjoining Defendants Edson and Crow and their agents, servants, employees, attorneys, and those persons in active concert or participation with any of them, who receive actual notice of the order by personal service or otherwise, from violating Section 17(a) of the Securities Act, Sections 10(b) and 13(b)(5) of the Exchange Act, and Rules 10b-5, 13a-14, 13b2-1, and 13b2-2 thereunder, and for aiding and abetting violations of Sections 13(a), 13(b)(2)(A), and 13(b)(2)(B) of the Exchange Act, and Rules 12b-20, 13a-1, and 13a-13 thereunder.

IV

Issue judgments, in a form consistent with Fed. R. Civ. P. 65(d), permanently enjoining Defendant Adelman and her agents, servants, employees, attorneys, and those persons in active concert or participation with any of them, who receive actual notice of the order by personal service or otherwise, from

1 violating Sections 10(b) and 13(b)(5) of the Exchange Act, and Rules 10b-5,
2 13b2-1, and 13b2-2 thereunder, and for aiding and abetting violations of Sections
3 13(a), 13(b)(2)(A), and 13(b)(2)(B) of the Exchange Act, and Rules 12b-20, 13a-
4 1 and 13a-13 thereunder.

5 **V**

6 Issue judgments, in a form consistent with Fed. R. Civ. P. 65(d),
7 permanently enjoining Defendants Kline and Wilkinson and their agents,
8 servants, employees, attorneys, and those persons in active concert or
9 participation with any of them, who receive actual notice of the order by personal
10 service or otherwise, from violating Section 13(b)(5) of the Exchange Act, and
11 Rules 13b2-1, and 13b2-2 thereunder, and for aiding and abetting violations of
12 Sections 13(a), 13(b)(2)(A), and 13(b)(2)(B) of the Exchange Act, and Rules
13 12b-20, 13a-1, and 13a-13 thereunder.

14 **VI**

15 Enter an order, pursuant to Section 21(d)(2) of the Exchange Act, 15
16 U.S.C. § 78u(d)(2), prohibiting defendants Edson, Crow and Adelman from
17 acting as officers or directors of any issuer that has a class of securities registered
18 pursuant to Section 12 of the Exchange Act, 15 U.S.C. § 78l, or that is required to
19 file reports pursuant to Section 15(d) of the Exchange Act, 15 U.S.C. § 78o(d).

20 **VII**

21 Order defendant Edson to repay NutraCea the bonuses he received in 2008
22 pursuant to Section 304 of the Sarbanes-Oxley Act of 2002, 15 U.S.C. § 7243.

23 **VIII**

24 Order defendants Edson, Crow, Kline and Wilkinson to pay civil penalties
25 under Section 20(d) of the Securities Act, 15 U.S.C. § 77t(d), and/or Section
26 21(d)(3) of the Exchange Act, 15 U.S.C. § 78u(d)(3).

27 **IX**

28 Retain jurisdiction of this action in accordance with the principles of equity

1 and the Federal Rules of Civil Procedure in order to implement and carry out the
2 terms of all orders and decrees that may be entered, or to entertain any suitable
3 application or motion for additional relief within the jurisdiction of this Court.

4 **X**

5 Grant such other and further relief as this Court may determine to be just
6 and necessary.

7
8 DATED: January 13, 2011

Respectfully submitted,

9
10 s/Ann C. Kim
11 SPENCER E. BENDELL
12 ANN C. KIM
13 Attorneys for Plaintiff
14 Securities and Exchange Commission
15
16
17
18
19
20
21
22
23
24
25
26
27
28