FORM 10-Q/A

Quarterly report pursuant to sections 13 or 15(d) [amend]

Filing Date: **1994-08-25** | Period of Report: **1993-09-30**
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ERLY INDUSTRIES INC

CIK:**30966**| IRS No.: **952312900** | State of Incorp.:**CA** | Fiscal Year End: **0331**
Type: **10-Q/A** | Act: **34** | File No.: **001-07894** | Film No.: **94545917**
SIC: **2040** Grain mill products

Mailing Address	Business Address
10990 WILSHIRE BOULEVARD	*10990 WILSHIRE BLVD*
SUITE 1800	*STE 1800*
LOS ANGELES CA 90024	*LOS ANGELES CA 90024*
	2138791480

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

FORM 10-Q/A

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

For the three months ended September 30, 1993

Commission file number 1-7894

ERLY INDUSTRIES INC.
(Exact name of registrant as specified in its charter)

California (State or other jurisdiction of incorporation or organization)	95-2312900 (I.R.S. Employer Identification No.)
10990 Wilshire Boulevard, #1800 Los Angeles, California (Address of principal executive offices)	90024-3955 (Zip Code)

Registrant's telephone number, including area code (213) 879-1480

AMENDMENT NO. 1

The undersigned registrant hereby amends the following items, financial statements, exhibits or other portions of its Quarterly Report on Form 10-Q for the three months ended September 30, 1993, as set forth on the pages attached hereto:

Item 1. Financial Statements
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations
Item 6. Exhibits and Reports on Form 8-K

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this amendment to be signed on its behalf by the undersigned, thereunto duly authorized.

ERLY Industries Inc.
Registrant

Date: August 25, 1994

By: /s/ Richard N. McCombs
Richard N. McCombs
Vice President and
Chief Financial Officer

ERLY INDUSTRIES INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

<TABLE>
<CAPTION>

	September 30, 1993 (Unaudited)	March 31, 1993
Assets		
Current Assets:		
Cash	$ 4,007,000	$ 3,872,000
Notes and accounts receivable, less allowance for doubtful accounts of $4,060,000 (September 30) and $3,280,000 (March 31)	42,859,000	35,534,000
Inventories:		
Raw materials	26,843,000	14,817,000
Finished goods	16,476,000	12,908,000
	43,319,000	27,725,000
Prepaid expenses and other current assets	2,512,000	2,524,000
Total current assets	92,697,000	69,655,000
Long-term notes receivable, net	4,891,000	6,623,000
Property, plant and equipment, net	61,521,000	30,857,000
Assets held for sale, net	23,017,000	4,210,000
Investment in American Rice, Inc.		13,104,000

Other assets	24,643,000	10,651,000
	$206,769,000	$135,100,000
Liabilities and Stockholders' Equity		
Current liabilities:		
Notes payable, collateralized	$ 51,677,000	$ 62,359,000
Accounts payable	30,648,000	20,106,000
Accrued payroll and other current liabilities	6,632,000	7,298,000
Income taxes payable	3,750,000	1,829,000
Current portion of long-term and subordinated debt	16,860,000	22,531,000
Total current liabilities	109,567,000	114,123,000
Long-term debt	67,499,000	26,881,000
Subordinated debt	1,094,000	1,094,000
Minority interest	19,608,000	790,000
Redeemable common stock, 300,000 shares issued and outstanding	1,603,000	1,406,000
Stockholders' equity:		
Common stock, par value $1 a share: Authorized: 5,000,000 shares Issued and outstanding: 3,253,881 shares (September 30) and 3,186,956 (March 31)	3,254,000	3,187,000
Additional paid-in capital	12,626,000	12,687,000
Retained earnings (deficit)	(7,285,000)	(24,119,000)
Cumulative foreign currency adjustments	(1,197,000)	(949,000)
Total stockholders' equity	7,398,000	(9,194,000)
	$206,769,000	$135,100,000

</TABLE>

See accompanying Notes to Consolidated Financial Statements and Management's Discussion and Analysis of Financial Condition and Results of Operations.

ERLY INDUSTRIES INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS

For the three and six months ended September 30, 1993 and 1992

<TABLE>
<CAPTION>

	Three months ended September 30,	Six months ended September 30,

	1993	1992	1993	1992
	(Unaudited)		(Unaudited)	
<S>	<C>	<C>	<C>	<C>
Net sales	$96,181,000	$81,934,000	$162,000,000	$175,843,000
Cost of sales	80,643,000	67,830,000	136,367,000	147,577,000
Gross profit	15,538,000	14,104,000	25,633,000	28,266,000
Selling, general and administrative expenses	12,698,000	11,850,000	21,930,000	22,422,000
Interest expense	3,539,000	3,118,000	6,694,000	5,790,000
Interest income	(218,000)	(410,000)	(354,000)	(451,000)
Investment income		(480,000)	(426,000)	(491,000)
Other (income) expense	(45,000)	(874,000)	442,000	(1,051,000)
Loss on sale of plant (Note 5)	2,690,000		2,690,000	
Gain on sale of partial interest in subsidiary (Note 2)			(11,768,000)	
Writedown of plant facility (Note 4)		4,000,000		4,000,000
	18,664,000	17,204,000	19,208,000	30,219,000
Income (loss) before taxes on income, extraordinary items and minority interest	(3,126,000)	(3,100,000)	6,425,000	(1,953,000)
Taxes on income	156,000	302,000	534,000	531,000
Income (loss) before extraordinary items and minority interest	(3,282,000)	(3,402,000)	5,891,000	(2,484,000)
Extraordinary income - gain on extinguishment of debt (Note 4)	5,625,000	4,726,000	15,895,000	4,726,000
Income before minority interest	2,343,000	1,324,000	21,786,000	2,242,000
Minority interest in (earnings) loss of consolidated subsidiary (Note 3)	156,000		(4,952,000)	
Net income	$ 2,499,000	$ 1,324,000	$ 16,834,000	$ 2,242,000

</TABLE>

ERLY INDUSTRIES INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS (continued)

For the three and six months ended September 30, 1993 and 1992

<TABLE>
<CAPTION>

	Three months ended September 30,		Six months ended September 30,	
	1993	1992	1993	1992
	(Unaudited)		(Unaudited)	
<S>	<C>	<C>	<C>	<C>
Net income (loss) per common and common share equivalents:				
Primary:				
Continuing operations	($ .90)	($ .99)	$ 1.33 *	($ .72)
Extraordinary items	1.62	1.38	3.50 *	1.37
	$ .72	$ .39	$ 4.83	$ .65
Fully diluted:				
Continuing operations	($ .83)	($ .92)	$ 1.24 *	($ .67)
Extraordinary items	1.50	1.28	3.25 *	1.28
	$ .67	$ .36	$ 4.49	$ .61
Weighted average common shares outstanding:				
Primary	3,484,000	3,430,000	3,485,000	3,430,000
Fully diluted	3,751,000	3,697,000	3,752,000	3,697,000

</TABLE>

* Net of applicable minority interest ($1.3 million relating to continuing operations and $3.7 million relating to extraordinary item).

See accompanying Notes to Consolidated Financial Statements and Management's Discussion and Analysis of Financial Condition and Results of Operations.

ERLY INDUSTRIES INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

For the three and six months ended September 30, 1993 and 1992

	Three months ended September 30,		Six months ended September 30,	
	1993	1992	1993	1992
	(Unaudited)		(Unaudited)	
Net income	$ 2,499,000	$ 1,324,000	$16,834,000	$ 2,242,000
Adjustments to reconcile net income to net cash provided by (used in) operating activities:				
Minority interest in earnings (loss) of consolidated subsidiary	(156,000)		4,952,000	
Gain on sale of partial interest in Comet Rice			(11,768,000)	
Extraordinary income on extinguishment of debt	(5,625,000)		(15,895,000)	
Depreciation and amortization	1,842,000	802,000	2,967,000	1,889,000
Provision for loss on receivables	1,418,000	(42,000)	1,440,000	
Equity in net income of American Rice, Inc.		(480,000)	(426,000)	(491,000)
Loss on sale of plant	2,690,000		2,690,000	
Extraordinary income on disposal of rice facility		(4,726,000)		(4,726,000)
Writedown of rice facility		4,000,000		4,000,000
Loss on disposition of subsidiary			880,000	
Change in assets and liabilities:				
Decrease (increase) in receivables	(2,883,000)	5,518,000	(3,120,000)	5,376,000
Decrease in inventories	804,000	5,184,000	7,472,000	16,140,000
Decrease (increase) in prepaid expenses	(89,000)	(277,000)	297,000	(719,000)
(Increase) in assets held for sale	(448,000)		(448,000)	
Increase (decrease) in accounts payable and other current liabilities	843,000	(1,863,000)	(5,861,000)	(10,032,000)
Increase in taxes payable	62,000	190,000	550,000	368,000
Other, net	(1,349,000)	(445,000)	(3,469,000)	(619,000)
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	(392,000)	9,185,000	(2,905,000)	13,428,000
INVESTING ACTIVITIES:				
Acquisition of American Rice, Inc.			12,608,000	
Proceeds from sale of plant	11,838,000		11,838,000	
Purchase of property, plant and equipment	(332,000)	(949,000)	(647,000)	(1,292,000)

ERLY INDUSTRIES INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS (continued)

For the three and six months ended September 30, 1993 and 1992

<TABLE>
<CAPTION>

	Three months ended September 30,		Six months ended September 30,	
	1993	1992	1993	1992
	(Unaudited)		(Unaudited)	
<S>	<C>	<C>	<C>	<C>
INVESTING ACTIVITIES (continued):				
Proceeds from disposition of subsidiary			2,092,000	
Disposition of property, plant and equipment	28,000	444,000	203,000	456,000
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	11,534,000	(505,000)	26,094,000	(836,000)
FINANCING ACTIVITIES:				
(Decrease) in notes payable	(1,149,000)	(6,954,000)	(166,000)	(9,965,000)
Proceeds from notes and long-term debt			79,458,000	159,000
Repayment of notes and term debt on rice refinancing			(93,736,000)	
Principal payments on long-term debt	(7,887,000)	(742,000)	(8,610,000)	(2,181,000)
Principal increase (decrease) of subordinated debt		49,000		(1,000)
NET CASH (USED IN) FINANCING ACTIVITIES	(9,036,000)	(7,647,000)	(23,054,000)	(11,988,000)
INCREASE IN CASH DURING THE PERIOD	2,106,000	1,033,000	135,000	604,000
CASH, BEGINNING OF PERIOD	1,901,000	3,413,000	3,872,000	3,842,000
CASH, END OF PERIOD	$ 4,007,000	$ 4,446,000	$ 4,007,000	$ 4,446,000

</TABLE>

See accompanying Notes to Consolidated Financial Statements and Management's Discussion and Analysis of Financial Condition and Results of Operations.

ERLY INDUSTRIES INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

For the six months ended September 30, 1993
(Unaudited)

<TABLE>
<CAPTION>

	Common Stock	Additional Paid-in Capital	Retained Earnings (Deficit)	Cumulative Foreign Currency Adjustments	Total Stockholders' Equity
<S>	<C>	<C>	<C>	<C>	<C>
Balance April 1, 1993 - Restated	$3,187,000	$12,687,000	($24,119,000)	($949,000)	($9,194,000)
Net income for the period			16,834,000		16,834,000
Foreign currency adjustments				(248,000)	(248,000)
Common stock issued	67,000	136,000			203,000
Accretion of redeemable common stock		(197,000)			(197,000)
Balance September 30, 1993 (unaudited)	$3,254,000	$12,626,000	($7,285,000)	($1,197,000)	$ 7,398,000

</TABLE>

See accompanying Notes to Consolidated Financial Statements and Management's Discussion and Analysis of Financial Condition and Results of Operations.

ERLY INDUSTRIES INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the three and six months ended September 30, 1993 and 1992

Basis of Presentation:

The information furnished is unaudited but reflects all adjustments which are, in the opinion of management, necessary for a fair statement of results for the interim periods. Results for interim periods are not necessarily indicative of results to be expected for the entire year.

Reference should be made to the Notes To Consolidated Financial Statements in the Company's 1993 Form 10-K for a discussion of accounting policies and other significant matters.

Certain reclassifications have been made to prior period consolidated financial statements to conform to current year presentation.

The accompanying consolidated financial statements include the accounts of ERLY Industries Inc. and its subsidiaries (the "Company" or "ERLY"). All significant intercompany accounts, intercompany profits and intercompany transactions are eliminated. As discussed in Note 1, substantially all of the assets and liabilities of ERLY's wholly owned subsidiary, Comet Rice, Inc. ("Comet"), were acquired by American Rice, Inc. ("ARI") on May 26, 1993, in a transaction accounted for as a reverse acquisition by its subsidiary, Comet. Prior to the transaction, ERLY owned 48% of the voting rights of ARI, and its investment in ARI was accounted for using the equity method. ERLY's equity in ARI's net results of operations was reflected as investment income or loss in ERLY's consolidated statements of operations. As a result of the transaction, ERLY's ownership increased to 81% of the voting rights of ARI; therefore, beginning in June 1993, ARI's balance sheet and results of operations are consolidated with ERLY's with appropriate adjustments to reflect minority interest.

The Company accounts for income taxes in accordance with Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes." Deferred income taxes and liabilities are computed for differences between the financial statement basis and tax basis of assets and liabilities that will result in taxable or deductible amounts in the future. Valuation allowances have been established to reduce deferred tax assets to the amount expected to be realized. At March 31, 1993, the Company had net operating loss carryforwards for federal tax reporting purposes of approximately $48 million which can be used to offset future taxable income. Tax expense reflected in the consolidated statements of operations represents estimated federal and state tax expense on pre-tax earnings reduced by the utilization of deferred tax assets relating to net operating loss carryforwards that had previously been reserved.

Primary earnings per share are based on the weighted average number of: (1) common shares, and (2) dilutive common share equivalents (consisting of stock options and warrants) outstanding during each period presented. Fully diluted earnings per share assumes conversion of a $1 million convertible note payable, unless conversion would be antidilutive.

Note 1 - Acquisition of Comet Rice, Inc. by American Rice, Inc.

- - --

On May 26, 1993, ARI consummated a transaction to acquire substantially all of the assets of Comet and assume all of Comet's liabilities (the "Transaction"). The Transaction also involved refinancing the combined indebtedness of ARI and Comet.

In exchange for the assets acquired (and liabilities assumed) from Comet, ARI issued to ERLY 14,000,000 shares of a newly created Series B Preferred Stock, $1 par value. Each share of Series B Preferred Stock provides for annual cumulative, non-participating dividends of $.37, is convertible into two shares of ARI common stock, is entitled to two votes, and has a liquidation preference of $1.00 per share. The Series B Preferred Stock issued to ERLY carries an aggregate dividend of approximately $5.2 million per year. Applicable loan agreements contain various restrictions on the ability of ARI to pay such dividends and ARI is currently precluded from paying the dividends. The Comet assets acquired by ARI did not include the ARI stock previously held by Comet. In connection with the Transaction, Comet transferred the ARI stock held by it to ERLY. Comet's combined holdings of ARI common stock and ARI Series A Preferred Stock prior to the Transaction, represented approximately 48% of the voting rights of the outstanding ARI stock. As a result of the Transaction, ERLY holds 81% of the combined voting rights and common stock equivalents of ARI stock outstanding after the Transaction.

In connection with the Transaction, ARI received $47.5 million in credit lines from a new revolving credit lender and loans from new term lenders for $65.3 million. In addition, ERLY is a guarantor for all of the new ARI debt and the loan agreements contain certain restrictive covenants applicable to ERLY. These agreements also provide the lenders with the option of accelerating repayment of the ARI debt and terminating the agreements under certain conditions related to ERLY's ability to meet its obligations as they come due, and to remain in compliance with its debt agreements.

As additional consideration, 13 million shares of ARI Series B Preferred Stock, $1 par value, were pledged by ERLY for the benefit of the new term lenders. In connection with the Transaction, ARI's indebtedness to its former lenders was partially satisfied by ARI's issuance to the former lenders of a combined aggregate of 1,500,000 shares of a newly created Series C Preferred Stock, which carries annual cumulative, non-participating dividends of $.50 per share, is non-convertible and non-voting, has a liquidation preference of $1.00 per share, and is callable by ARI at any time at a price of $5.27 per share less aggregate dividend payments per share. Applicable loan agreements with the new lenders contain various restrictions on the ability of ARI to pay these dividends and ARI is currently precluded from paying the dividends. As part of the Transaction, ARI's former lenders agreed to a debt discount of approximately $10.3 million. As additional consideration for the satisfaction of the existing indebtedness of ARI, ERLY issued notes of $3 million and pledged one million shares of ARI Series B Preferred Stock for the benefit of the former lenders. This $3 million was offset by ARI against its receivable from ERLY.

ERLY INDUSTRIES INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
- - --

Note 1 - Acquisition of Comet Rice, Inc. by American Rice, Inc.
(continued)
- - --

ARI and Comet have capitalized $5.6 million of costs associated with the Transaction. These costs are included in "Other Assets" in the consolidated balance sheets and are being amortized over the respective terms of the new ARI debt.

ERLY's management believes the Transaction will allow better utilization of both companies' operating assets, improve cash flow and working capital through operating efficiencies, and increase the overall financial strength of the combined rice business through debt reduction. The intended result includes the ability of the combined rice operations to provide sufficient cash flow to permit the payment of dividends to ERLY in future years, which in turn will be used by ERLY to service its debt obligations, including new debt of $3 million to former ARI term lenders which was required as part of the Transaction. No debt service on the $3 million debt is required unless dividend payments are declared by ARI to ERLY.

Note 2 - Gain on Sale of Partial Interest in Subsidiary
- - ---

In conjunction with the May 26, 1993 Transaction, ERLY received an additional 33% interest in ARI in exchange for all of the assets (except for the ARI stock owned by Comet) and assumed all of the liabilities of ERLY's wholly owned subsidiary, Comet Rice, Inc.

Since ERLY, the sole shareholder of Comet at the time of the Transaction, owned the larger portion of the voting rights in the surviving corporation, the Transaction was accounted for as a reverse step acquisition of ARI by ERLY through its subsidiary, Comet, reflecting the change of control that occurred. The Transaction was accounted for under the guidelines of APB Opinion No. 16, "Business Combinations" and Emerging Issues Task Force ("EITF") Issue No. 90-13, "Accounting for Simultaneous Common Control Mergers."

The accounting consists of three steps: Step one consists of a recognition by ARI of ERLY's historical cost of its original 48% interest. When ERLY purchased 48% of ARI in 1988 for $20 million, the purchase price was greater than 48% of ARI stockholders' equity. ERLY attributed the excess to ARI's Houston property and thus the excess (which was $5.2 million at March 31, 1993) was added to the book value of the Houston property.

Step two recognizes the acquisition by ERLY of an additional equity interest in ARI of approximately 33% in exchange for substantially all of the assets of Comet and all of Comet's liabilities. ARI's assets are valued at fair market value to the extent acquired.

Step three, in accordance with EITF 90-13, the fair value of Comet's net assets was determined. ERLY accounted for the Transaction as a partial sale of 19% of Comet Rice (19% is the percentage ownership of ARI by

Note 2 - Gain on Sale of Partial Interest in Subsidiary (continued)

minority shareholders), and a step acquisition of ARI, increasing its ownership from 48% to 81%. Under EITF 90-13, a gain of $11.8 million was recognized by ERLY in the quarter ended June 30, 1993, to the extent of the 19% of Comet Rice sold.

In accordance with EITF 90-13, Comet's net assets were revalued in ERLY's consolidated financial statements to the extent that Comet was acquired by the minority shareholders of ARI. This resulted in an $11.6 million increase in the carrying value of Comet assets. This increase was attributed to Comet's Maxwell, California facility, now owned by ARI. It is being depreciated over 30 years (buildings and improvements) and 15 years (machinery and equipment).

Note 3 - Minority Interest

ERLY owns 81% of ARI's voting interests. Parent companies often hold interests in subsidiaries by ownership of the common stock of the subsidiary. ERLY's ownership of ARI is more complex, including both common stock and convertible preferred stock. ERLY's 81% interest in ARI consists of the following securities of ARI:

* 3,888,888 shares of ARI common stock which represent 32% of ARI's total outstanding common stock and 9% of ARI's common shares on a fully converted basis.

* 3,888,888 shares of ARI Series A Preferred Stock, which is convertible one for one, has voting rights, liquidation preferences of $5.14 per share, but has no stated dividend. These shares represent 9% of ARI's common shares on a fully converted basis.

* 14,000,000 shares of ARI Series B Preferred Stock, which is convertible into 28,000,000 common shares, has voting rights and an annual cumulative dividend of approximately $5.2 million. These shares represent 63% of ARI's common shares on a fully converted basis.

In addition to the preferred stocks issued to ERLY, ARI issued a Series C Preferred Stock to third parties. This Series C Preferred Stock does not have voting or conversion rights but does have an annual cumulative dividend of $750,000. The Series A, Series B and Series C Preferred Stocks are unique securities with preferential rights which are superior to common stock rights.

The Minority Interest of ARI in ERLY's consolidated financial statements represents the 68% of the common stock of ARI which ERLY does not own and the Series C Preferred Stock.

Note 3 - Minority Interest (continued)

In the situation where ownership of a subsidiary is represented entirely by common stock, the minority interest in the earnings or losses of the subsidiary is the percentage ownership by the minority interest in the common stock. However, in the case where ownership of a subsidiary involves complex securities like convertible preferred stocks in addition to common stocks, specific rules under generally accepted accounting principles (APB Opinion No. 18, "The Equity Method of Accounting for Investments in Common Stock") require that earnings or losses of the subsidiary be allocated between the parent and the minority interest in accordance with the underlying terms of the various securities, rather than allocation based on voting ownership of the subsidiary. No conversion is assumed in the case of convertible preferred stocks for purposes of this calculation, even though conversion may occur at any time at the option of the holder.

ARI's cumulative annual dividends of $5.2 million related to the Series B Preferred Stock and $750,000 related to the Series C Preferred Stock are deducted from ARI earnings to yield earnings or loss to be allocated to common stock. The Series B Preferred Stock dividend is allocated entirely to ERLY, while the Series C Preferred Stock dividend is allocated entirely to Minority Interest.

The Series B and Series C Preferred Stock dividends are allocated to ERLY and to the Minority Interest, respectively, even if this allocation results in a loss being attributed to the common stock as these preferred stock dividends are based on the underlying terms of the securities. Similarly, these dividends are allocated even if not declared as the dividends are cumulative. However, dividends are allocated only if determined to be ultimately recoverable.

The remaining earnings or losses to be allocated to common stock after deduction of the preferred stock dividends is allocated in accordance with the relative common stock ownership of ERLY (32%) and the Minority Interest (68%).

The Minority Interest reflected on the balance sheets represents: (1) original investment in the equity of ARI on a historical cost basis on the part of the Minority Interest, (2) an entry to record the acquisition by the Minority Interest of a partial interest in Comet Rice, Inc. as of May 26, 1993 in accordance with EITF 90-13 as described in Note 2, and (3) the effects of the allocation of ARI's earnings and losses from May 26, 1993 based on the ownership terms of the various equity securities of ARI as previously described.

Minority Interest does not represent amounts distributable to minority shareholders. Amounts, if any, ultimately distributable to minority shareholders will depend on the ownership interests which exist at such time as distributions are made, including the potential conversions of convertible securities and potential issuance or retirement of other securities. The timing of distributions and conversions, if any, is at the discretion of ERLY, since ERLY owns 81% of the voting interest in ARI.

Note 4 - Extraordinary Income

The Company had the following extraordinary items for the three and six months ended September 30, 1993 and 1992:

<TABLE>
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	Three months ended September 30,		Six months ended September 30,	
	1993	1992	1993	1992
	(Unaudited)		(Unaudited)	
<S>	<C>	<C>	<C>	<C>
Gain on extinguishment of debt related to ERLY Juice	$5,625,000	$ -	$ 5,625,000	$ -
Gain on debt discount in conjunction with Comet Rice and ARI refinancing			10,270,000	
Gain on extinguishment of debt on rice facility		4,726,000		4,726,000
	$5,625,000	$4,726,000	$15,895,000	$4,726,000

</TABLE>

During the quarter ended September 30, 1993, ERLY Juice settled approximately $6.3 million of term debt and trade payables with a primary creditor in exchange for $650,000. This resulted in a gain of $5,625,000 which is reflected as extraordinary income.

Results for the first quarter ended June 30, 1993 included extraordinary income of $10.3 million which represents debt discounts by ARI's former lenders in conjunction with the refinancing of Comet and ARI discussed in Note 1.

Due to continuing operating losses resulting from low margins and uncertainty about future U.S. rice exports, Comet ceased payments in January 1992 on a $16 million non-recourse obligation secured by its rice plant in Greenville, Mississippi. In July 1992, the facility was sold through foreclosure sale and in conjunction therewith, the Company eliminated debt of $16 million and the related property, plant and equipment. The disposition of the facility was accounted for in accordance with: (1) Statement of Financial Accounting Standards No. 15, "Accounting by Debtors and Creditors for Troubled Debt Restructurings," and (2) Emerging Issues Task Force Issue No. 91-2, "Debtor's Accounting for Forfeiture of Real Estate Subject to a Nonrecourse Mortgage."

These guidelines require a two-step approach in accounting for the disposition. Prior to the disposition, the plant was written down by $4,000,000 to its estimated fair market value. This writedown is included in results of operations prior to taxes on income and extraordinary items in the consolidated statements of operations for the quarter ended September 30, 1992. Secondly, the difference between the estimated fair

Note 4 - Extraordinary Income (continued)
- - ---

market value of the facility and the amount of debt extinguished (net of estimated shut-down and relocation expenses) resulted in a gain of $4,726,000 on the extinguishment of debt which was recorded as extraordinary income in the second quarter of the prior fiscal year.

Note 5 - Sale of Plant Facility
- - -------------------------------

In July 1993, ERLY Juice sold its primary orange juice processing plant in Lakeland, Florida to Florida Juice, Inc. for $11.9 million. This transaction resulted in a loss of $2.7 million. ERLY Juice continues to use the facility to co-pack for its retail and food service business. This sale is part of a restructuring of ERLY Juice to reduce operating losses. In conjunction with this restructuring, one of ERLY Juice's primary creditors agreed to discount term debt and accounts payable obligations in exchange for cash. This resulted in a gain of $5.6 million which is reflected as extraordinary income as described in Note 4.

Note 6 - Assets Held for Sale - Long-term

The consolidated balance sheets include assets held for sale classified as long-term of $23 million at September 30, 1993. This includes ARI property held for sale in Houston, Texas ($19 million) and the remaining net assets of the Company's discontinued winery operations ($4 million) which management intends to dispose of in an orderly manner.

ARI's Board of Directors previously adopted a resolution authorizing its management to sell 39 acres of land in Houston. Management has had conversations with developers interested in the property, however, no decision has yet been made about how to market the property. Management's intention is an orderly, outright sale to a third party rather than to develop the property. However, ARI might consider some form of joint venture with a developer in order to maximize the property's value. ARI has the ability and intent to hold the property over a normal marketing period. The proceeds of any such sale, when and if it occurs, are required by the terms of ARI's debt agreements to be used to reduce debt.

ERLY INDUSTRIES INC. AND SUBSIDIARIES
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

For the three and six months ended September, 1993 and 1992

Results of Operations - Three months ended September 30, 1993 and 1992

For the quarter ended September 30, 1993, the Company reported net income of $2.5 million on sales of $96 million, as compared to net income of $1.3 million on sales of $82 million for the second quarter of the prior fiscal year. Sales for the second quarter of fiscal 1994 were up $14 million from the second quarter of fiscal 1993, due to an increase of $41 million as a result of the Transaction described in Note 1, partially offset by a $13 million decrease and an $11 million decrease in sales by Comet Rice and ERLY Juice, respectively.

Gross profit for the quarter ended September 30, 1993 increased $1.4 million from the quarter ended September 30, 1992 as a result of a $7 million increase in gross profit of the Rice Division (which consists of Comet Rice through May 26, 1993 and the combined operations of Comet and ARI thereafter), partially offset by a $4 million decrease in gross profit by ERLY Juice.

Included in results for the quarter ended September 1993, is extraordinary income of $5.6 million. This represents a debt discount on the settlement of ERLY Juice term debt and trade payables of approximately $6.3 million for $650,000 as discussed in Note 4. Results for the second quarter of fiscal 1994 also include a $2.7 million loss on the sale of the ERLY Juice plant facility discussed in Note 5.

The Rice Division reported an operating profit (before interest expense and corporate overhead) of $3.9 million on sales of $70 million for the current quarter, compared with an operating profit of $1.3 million on sales of $42 million for the comparable quarter of last year.

If the Transaction which combined Comet and ARI had occurred at the beginning of the earliest period presented, ERLY's pro forma consolidated sales would have been $106 million for the quarter ended September 30, 1992.

ERLY Juice, the Company's juice processing business, reported sales for the second quarter of fiscal 1994 which were down $11 million (49%) from last year. Gross profit decreased by $4.4 million to $2.7 million in the most recent quarter due to increased costs of product without corresponding increases in sales prices due to competitive conditions.

For the current quarter, ERLY Juice reported an operating loss of $902,000 compared with operating income of $44,000 for the quarter ended September 1992.

Interest expense totalled $3.5 million for the quarter ended September 30, 1993, compared with $3.1 million for the same quarter of last year. This increase reflects the increase in ERLY's consolidated debt due to the combination of Comet Rice and American Rice in May 1993.

ITEM 2. - MANAGEMENT'S DISCUSSION AND ANALYSIS
OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS
- - --

Results of Operations - Six months ended September 30, 1993 and 1992
- - ---

For the six months ended September 30, 1993, ERLY has recorded net income of $16.8 million on sales of $162 million, as compared to net income of $2.2 million on sales of $176 million for the comparable period last year. Sales for the first six months of fiscal 1994 were down $14 million from the first six months of fiscal 1993, reflecting a $53 million increase due to the Transaction offset by a $48 million decrease and an $18 million decrease in sales of Comet Rice and ERLY Juice, respectively.

Results for the first six months of the current fiscal year include extraordinary income of $12.2 million on debt discounts (net of minority interest). Of this amount, $6.6 million (net of minority interest) relates to ERLY's interest in debt discounts from ARI's former lenders in conjunction with the May 1993 refinancing of Comet and ARI discussed in Note 1. The balance of the $5.6 extraordinary income represents a discount by a significant ERLY Juice creditor of term debt and trade payables.

Net results for the six months ended September 30, 1993 also include a $2.7 million loss on the sale of the ERLY Juice plant facility discussed in Note 5.

Net income for the comparable period of last year includes extraordinary income of $4.7 million and a $4 million plant write-down, both relating to the July 1992 disposition of Comet's Greenville, Mississippi facility discussed in Note 4.

Gross profit for the six months ended September 30, 1993 decreased by $2.6 million from the prior year as a result of an $8.7 million reduction in gross profit by ERLY Juice partially offset by a $7.4 million increase by the Rice Division.

The Rice Division reported operating profit (before interest expense and corporate overhead) of $5.4 million on sales of $107 million for the current six months compared to operating profit of $3.6 million on sales of $102 million last year.

If the transaction which combined Comet and ARI had occurred at the beginning of the earliest period presented, ERLY's pro forma consolidated sales would have been $189 million and $237 million for the six month periods ended September 30, 1993 and 1992, respectively.

ERLY Juice sales for the six months ended September 30, 1993 were $26 million compared to $44 million last year, a decrease of $18 million. Gross profits decreased $8.7 million from last year due to increased costs of product without corresponding increases in sales prices due to competitive conditions.

For the six months, ERLY Juice reported an operating loss of $2.1 million compared to operating income of $1.1 million last year.

Interest expense for the current six months was $6.7 million, an increase of $904,000 from last year due to increased borrowings as a result of the combination of Comet and ARI, partially offset by debt reductions achieved through asset sales and debt extinguishment settlements.

Prior to the combination discussed in Note 1, ERLY had a 48% investment in American Rice, Inc. which was accounted for using the equity method of accounting. ERLY therefore recorded its 48% interest in ARI's results as investment income (loss) in the consolidated statements of operations. Results for the first six months of the current fiscal year include investment income of $426,000 from ERLY's 48% interest in ARI's net income for April and May of 1993, compared to income on its investment in ARI of

$491,000 for the first six months last year.

Subsequent to the Transaction, ARI's results of operations are consolidated with ERLY's and are not reflected as investment income (loss), but are now accounted for as discussed in Note 3 - Minority Interest.

Liquidity and Capital Resources

At September 30, 1993, consolidated working capital was a negative $17 million, an improvement of $27 million from March 31, 1993, as a result of: (1) the Comet/ARI combination and the related refinancing of debt, (2) the sale of ERLY Juice's Lakeland plant with proceeds used to pay down bank debt, and (3) the settlement of $6.3 million of ERLY Juice term debt and trade payables at a discount as discussed in Note 4. In addition to the settlement discussed above, negotiations are in process with the Company's lenders and its trade creditors to restructure ERLY Juice's debt. Because of the continuing losses at ERLY Juice, the Company is currently considering all of its alternatives for ERLY Juice. These alternatives include the sale or liquidation of the business, although no conclusions have been reached to date.

Stockholders' equity was $7,398,000 at September 30, 1993, compared to a negative $9,194,000 at March 31, 1993, an improvement of $16.6 million as a result of the net income for the first half of fiscal 1994.

The Company's 12-1/2% Subordinated Sinking Fund Debentures (the "Old Debentures") with an outstanding principal balance of $8,880,000, will mature on December 1, 1993. The Company is in the process of offering to exchange $8,880,000 12-1/2% Subordinated Sinking Fund Debentures due 2002 (the "New Debentures") for the Old Debentures.

The Company does not, either currently or in the foreseeable future, without the successful completion of the exchange offer, have adequate cash reserves to redeem the principal amount of the Old Debentures.

Management of the Company is of the opinion that if the Old Debentures are exchanged for New Debentures the Company will be able to meet its interest and sinking fund payment obligations under the New Debentures. Holders of the New Debentures will receive a return of the principal amount of the debentures (pursuant to periodic sinking fund payments) either on or prior to their maturity in 2002, and until redemption will receive an interest rate and yield that, in the opinion of Management, is substantially above current market rates.

If any Old Debentures are not tendered for exchange, the Trustee under the indenture pursuant to which the Old Debentures were issued may bring an action to collect the principal amount thereof plus any accrued but unpaid interest. Should the Trustee fail to bring suit, the holder of any Old Debenture that is not tendered for exchange may bring such an action. However, the Old Debentures are unsecured and all of the assets of the Company and its subsidiaries are pledged to secure payment of bank and other indebtedness. Any action by the Trustee or any holder of Old Debentures would be a default under the Company's secured debt, due to cross default provisions; and could result in the bankruptcy of the Company and possibly its subsidiaries. Since the Old Debentures are subordinated to all secured debt of the Company and all trade and general creditors, it is unlikely that if the Company were forced into bankruptcy proceedings, the holders of the Old Debentures would realize the return of any portion of the principal or accrued but unpaid interest, if any, that is owed with respect to the Old Debentures.

There is no assurance that the Company will be able to satisfactorily refinance the bonds. Management, however, believes that the exchange offer can be accomplished.

Item 6.(b) Reports on Form 8-K

No reports on Form 8-K were filed for the quarter ended September 30, 1993.

SIGNATURES

Pursuant to the requirements of the Securities and Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

ERLY INDUSTRIES INC.

Date: August 25, 1994

By: /s/ Richard N. McCombs

Richard N. McCombs
Vice President and
Chief Financial Officer

EXHIBIT I.1
ERLY INDUSTRIES INC. AND SUBSIDIARIES
CALCULATION OF PRIMARY INCOME PER SHARE
(In thousands except per share data)

<TABLE>
<CAPTION>

	Three months ended September 30, 1993	Three months ended September 30, 1992	Six months ended September 30, 1993	Six months ended September 30, 1992
	(Unaudited)		(Unaudited)	
<S>	<C>	<C>	<C>	<C>
Income (loss) from continuing operations	($ 3,282)	($ 3,402)	$ 5,891	($ 2,484)
Income from extraordinary items	5,625	4,726	15,895	4,726
Minority interest	156		(4,952)	
Net income	$ 2,499	$ 1,324	$16,834	$ 2,242
Average number of shares of common stock and common stock equivalents outstanding:				
Average number of shares of common stock outstanding	3,484	3,430	3,485	3,430
Common stock equivalents: Dilutive effect of stock options and warrants based on application of treasury stock method	(a)	(a)	(a)	(a)
Total	3,484	3,430	3,485	3,430
Primary income per common share:				
Income (loss) from continuing operations	($ .90)	($ .99)	$ 1.33*	($ .72)
Income from extraordinary items	1.62	1.38	3.50*	1.37
Primary income per common share	$ .72	$ .39	$ 4.83	$ .65

</TABLE>

* Net of applicable minority interest ($1.3 million relating to continuing operations and $3.7 million relating to extraordinary item).

(a) The dilutive effect of stock options and warrants was less than 3%; therefore none are shown above.

EXHIBIT I.2
ERLY INDUSTRIES INC. AND SUBSIDIARIES
CALCULATION OF FULLY DILUTED INCOME PER SHARE
(In thousands except per share data)

<TABLE>
<CAPTION>

	Three months ended September 30,		Six months ended September 30,	
	1993	1992	1993	1992
	(Unaudited)		(Unaudited)	
<S>	<C>	<C>	<C>	<C>
Income (loss) from continuing operations	($ 3,282)	($ 3,402)	$ 5,891	($ 2,484)
Interest adjustment - convertible note payable	20	20	20	20
Income (loss) from continuing operations, as adjusted	(3,262)	(3,382)	5,911	(2,464)
Income from extraordinary items	5,625	4,726	15,895	4,726
Minority interest	156		(4,952)	
Net income, as adjusted	$ 2,519	$ 1,344	$16,854	$ 2,262
Average number of shares of common stock and common stock equivalents outstanding	3,484	3,430	3,485	3,430
Other potentially dilutive securities:				
Common stock issuable upon conversion of note payable	267	267	267	267

Total	3,751	3,697	3,752	3,697
Fully diluted income per common share:				
Income (loss) from continuing operations	($ .83)	($ .92)	$ 1.24*	($ .67)
Income from extraordinary items	1.50	1.28	3.25*	1.28
Fully diluted income per common share	$ .67	$ .36	$ 4.49	$ .61

</TABLE>

* Net of applicable minority interest ($1.3 million relating to continuing operations and $3.7 million relating to extraordinary item).