

S&W Seed Co
Form 10-Q
February 13, 2014

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended December 31, 2013

OR

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

For the transition period from _____ to _____

Commission file number 001-34719

S&W SEED COMPANY

(Exact name of Registrant as Specified in its Charter)

Nevada

(State or Other Jurisdiction of Incorporation or Organization)

27-1275784

(I.R.S. Employer Identification Number)

25552 South Butte Avenue
Five Points, CA 93624

Edgar Filing: S&W Seed Co - Form 10-Q

(Address of Principal Executive Offices, including Zip Code)

(559) 884-2535

(Registrant's Telephone Number, including Area Code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file reports), and (2) has been subject to such filing requirements for the past 90 days. YES NO

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). YES

NO

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

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company
(Do not check if a smaller reporting company)

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

As of February 12, 2014, 11,632,688 shares of the registrant's common stock were outstanding.

S&W SEED COMPANY
Table of Contents

PART I. FINANCIAL INFORMATION	<u>Page No.</u>
Item 1. Financial Statements (Unaudited):	
<u>Consolidated Balance Sheets at December 31, 2013 and June 30, 2013</u>	2
<u>Consolidated Statements of Operations for the Three and Six Months Ended December 31, 2013 and 2012</u>	3
<u>Consolidated Statements of Comprehensive Income (Loss) for the Three and Six Months Ended December 31, 2013 and 2012</u>	4
<u>Consolidated Statements of Stockholders' Equity for the Fiscal Year Ended June 30, 2013 and for the Six Months Ended December 31, 2013</u>	5
<u>Consolidated Statements of Cash Flows for the Six Months Ended December 31, 2013 and 2012</u>	6
<u>Notes to Consolidated Financial Statements</u>	7
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	29
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	45
<u>Item 4. Controls and Procedures</u>	45
PART II. OTHER INFORMATION	
<u>Item 1. Legal Proceedings</u>	46
<u>Item 1A. Risk Factors</u>	46
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	46
<u>Item 3. Defaults Upon Senior Securities</u>	47
<u>Item 4. Mine Safety Disclosures</u>	47
<u>Item 5. Other Information</u>	47
<u>Item 6. Exhibits</u>	47

Part I -- FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

S&W SEED COMPANY
(A NEVADA CORPORATION)
CONSOLIDATED BALANCE SHEETS
(UNAUDITED)

	December 31, 2013	June 30, 2013
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 2,589,409	\$ 11,781,074
Accounts receivable, net	11,869,036	12,700,106
Inventories, net	23,376,518	25,822,467
Prepaid expenses and other current assets	274,470	509,037
Deferred tax asset	1,141,039	954,874
TOTAL CURRENT ASSETS	39,250,472	51,767,558
Property, plant and equipment, net of accumulated depreciation	10,320,650	10,239,435
Goodwill	4,734,402	4,832,050
Other intangibles, net	14,486,444	15,240,835
Crop production costs, net	2,424,476	1,582,599
Deferred tax asset - long term	1,885,231	1,920,742
TOTAL ASSETS	\$ 73,101,675	\$ 85,583,219
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable	\$ 5,744,639	\$ 19,512,235
Accounts payable - related parties	950,653	893,929
Accrued expenses and other current liabilities	597,149	1,662,642
Working capital line of credit	10,861,456	6,755,998
Foreign exchange contract liability	-	663,043
Current portion of long-term debt	266,113	746,788
TOTAL CURRENT LIABILITIES	18,420,010	30,234,635
Non-compete payment obligation, less current portion	150,000	200,000
Other non-current liabilities	28,333	122,881
Deferred tax liability - non-current	291,151	299,682
Long-term debt, less current portion	4,482,813	4,668,958
TOTAL LIABILITIES	23,372,307	35,526,156
STOCKHOLDERS' EQUITY		
Preferred stock, \$0.001 par value; 5,000,000 shares authorized; no shares issued and outstanding	-	-
Common stock, \$0.001 par value; 50,000,000 shares authorized; 11,623,498 issued and 11,598,498 outstanding at December 31, 2013; 11,584,101 issued and outstanding at June 30, 2013	11,624	11,585
Treasury stock, at cost, 25,000 shares at December 31, 2013 and no shares at June 30, 2013	(134,196)	-
Additional paid-in capital	54,601,411	54,338,758
Retained earnings (deficit)	(2,038,103)	(2,189,444)
Accumulated other comprehensive loss	(2,711,368)	(2,103,836)
TOTAL STOCKHOLDERS' EQUITY	49,729,368	50,057,063
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 73,101,675	\$ 85,583,219

See notes to consolidated financial statements.

S&W SEED COMPANY
(A NEVADA CORPORATION)
CONSOLIDATED STATEMENTS OF OPERATIONS
(UNAUDITED)

	Three Months Ended December 31,		Six Months Ended December 31,	
	2013	2012	2013	2012
Revenue	\$ 11,460,197	\$ 13,685,883	\$ 23,838,783	\$ 20,405,618
Cost of revenue	9,082,367	12,101,431	19,153,374	17,742,764
Gross profit	2,377,830	1,584,452	4,685,409	2,662,854
Operating expenses				
Selling, general and administrative expenses	1,471,041	1,065,089	3,065,243	1,815,440
Research and development expenses	246,449	102,036	480,088	205,467
Depreciation and amortization	317,334	150,364	631,788	220,149
Total operating expenses	2,034,824	1,317,489	4,177,119	2,241,056
Income from operations	343,006	266,963	508,290	421,798
Other expense				
Foreign currency loss (gain)	24,343	-	(30,198)	-
Interest expense, net	122,571	14,229	280,125	22,097
Income before income tax expense	196,092	252,734	258,363	399,701
Income tax expense	85,960	106,125	107,022	164,336
Net income	\$ 110,132	\$ 146,609	\$ 151,341	\$ 235,365
Net income per common share:				
Basic	\$ 0.01	\$ 0.02	\$ 0.01	\$ 0.03
Diluted	\$ 0.01	\$ 0.02	\$ 0.01	\$ 0.03
Weighted average number of common shares outstanding:				
Basic	11,561,629	7,800,036	11,562,540	7,320,237
Diluted	11,662,369	8,353,411	11,758,527	7,652,221

See notes to consolidated financial statements.

S&W SEED COMPANY
 (A NEVADA CORPORATION)
 CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
 (UNAUDITED)

	Three Months Ended December 31,		Six Months Ended December 31,	
	2013	2012	2013	2012
Net income	\$ 110,132	\$ 146,609	\$ 151,341	\$ 235,365
Foreign currency translation adjustment	(901,700)	-	(607,532)	-
Comprehensive income (loss)	\$ (791,568)	\$ 146,609	\$ (456,191)	\$ 235,365

See notes to consolidated financial statements.

S&W SEED COMPANY
(A NEVADA CORPORATION)
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(UNAUDITED)

	Common Stock		Treasury Stock		Additional	Retained	Accumulated	Total
	Shares	Amount	Shares	Amount	Paid-In	Earnings	Other	Stockholders'
					Capital	(Deficit)	Comprehensive	Equity
							Loss	
Balance, June 30, 2012	6,873,000	\$ 6,873	-	\$ -	\$ 19,796,976	\$ 326,583	\$ -	\$ 20,130,432
Stock-based compensation - options, restricted stock, and RSUs	-	-	-	-	943,975	-	-	943,975
Proceeds from equity offering net of expenses	600,000	600	-	-	3,461,986	-	-	3,462,586
Common stock issued for IVS acquisition	400,000	400	-	-	2,431,600	-	-	2,432,000
Proceeds from equity offering net of underwriter fees and expenses	1,400,000	1,400	-	-	9,412,238	-	-	9,413,638
Common stock issued for A warrant exercise net of fees and expenses	1,372,641	1,373	-	-	9,364,839	-	-	9,366,212
Common stock issued for exercise of underwriter warrant and A warrant	31,500	31	-	-	213,644	-	-	213,675
Cashless exercise of other warrants	30,597	31	-	-	(31)	-	-	-
Common stock issued for SGI acquisition	864,865	865	-	-	8,708,326	-	-	8,709,191
Common stock issued for services	12,000	12	-	-	109,908	-	-	109,920
Redemption of unexercised A warrants	-	-	-	-	(6,765)	-	-	(6,765)
Exercise of employee stock options, net of withholding taxes	5,978	6	-	-	(36,052)	-	-	(36,046)
Cancellation of restricted shares for withholding taxes	(6,480)	(6)	-	-	(61,886)	-	-	(61,892)
Comprehensive loss	-	-	-	-	-	-	(2,103,836)	(2,103,836)
Net loss for the year ended June 30, 2013	-	-	-	-	-	(2,516,027)	-	(2,516,027)
Balance, June 30, 2013	11,584,101	11,585	-	-	54,338,758	(2,189,444)	(2,103,836)	50,057,063
Stock-based compensation - options, restricted stock, and RSUs	-	-	-	-	437,495	-	-	437,495
Net issuance to settle RSUs	39,397	39	-	-	(174,842)	-	-	(174,803)
Treasury stock purchases	-	-	(25,000)	(134,196)	-	-	-	(134,196)
Comprehensive income	-	-	-	-	-	-	(607,532)	(607,532)
Net income for the six months ended December 31, 2013	-	-	-	-	-	151,341	-	151,341
Balance, December 31, 2013	11,623,498	\$ 11,624	(25,000)	\$ (134,196)	\$ 54,601,411	\$ (2,038,103)	\$ (2,711,368)	\$ 49,729,368

See notes to consolidated financial statements.

S&W SEED COMPANY
(A NEVADA CORPORATION)
CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

	Six Months Ended	
	December 31,	
	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 151,341	\$ 235,365
Adjustments to reconcile net income from operating activities to net cash used in operating activities		
Stock-based compensation	437,495	189,961
Change in allowance for doubtful accounts	-	10,445
Inventory reserve	-	300,000
Depreciation and amortization	631,788	220,149
Change in foreign exchange contracts	(668,924)	-
Amortization of debt discount	25,579	-
Changes in:		
Accounts receivable	769,672	(11,962,940)
Inventories	2,207,989	2,804,918
Prepaid expenses and other current assets	237,656	(97,234)
Crop production costs	(841,877)	(1,949,711)
Deferred tax asset	(165,324)	163,536
Accounts payable	(13,853,616)	2,514,674
Accounts payable - related parties	59,820	1,978,743
Accrued expenses and other current liabilities	(1,114,622)	(199,294)
Other non-current liabilities	(94,549)	-
Net cash used in operating activities	(12,217,572)	(5,791,388)
CASH FLOWS FROM INVESTING ACTIVITIES		
Additions to property, plant and equipment	(244,858)	(6,396,184)
Acquisition of business	-	(3,000,000)
Acquisition of germ plasm	-	(57,500)
Net cash used in investing activities	(244,858)	(9,453,684)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net proceeds from sale of common stock in equity offerings	-	3,462,586
Common stock repurchased	(134,196)	-
Taxes paid related to net share settlements of stock-based compensation awards	(174,803)	-
Borrowings and repayments on line of credit, net	4,274,646	4,000,000
Borrowings of long-term debt	-	2,625,000
Repayments of long-term debt	(692,399)	(40,535)
Net cash provided by financing activities	3,273,248	10,047,051
EFFECT OF EXCHANGE RATE CHANGES ON CASH	(2,483)	-
NET INCREASE (DECREASE) IN CASH	(9,191,665)	(5,198,021)
CASH AND CASH EQUIVALENTS, beginning of the period	11,781,074	8,235,495
CASH AND CASH EQUIVALENTS, end of period	\$ 2,589,409	\$ 3,037,474
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash paid during the period for:		
Interest	\$ 292,221	\$ 22,028
Income taxes	689,486	-

See notes to consolidated financial statements.

S&W SEED COMPANY
(A NEVADA CORPORATION)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

NOTE 1 - BACKGROUND AND ORGANIZATION

Organization

The original business of the Company, that is, breeding, growing, processing and selling agricultural commodities, such as alfalfa seed, began as S&W Seed Company, a general partnership, in July 1980. The corporate entity, S&W Seed Company, was incorporated in Delaware in October 2009. The corporation is the successor entity to Seed Holding, LLC, which had purchased a majority interest in the general partnership between June 2008 and December 2009. Following the Company's initial public offering in May 2010, the Company purchased the remaining general partnership interests and became the sole owner of the business. Seed Holding, LLC is a consolidated subsidiary of the Company.

In December 2011, S&W Seed Company consummated a merger (the "Reincorporation") with and into its wholly owned subsidiary, S&W Seed Company, a Nevada corporation, pursuant to the terms and conditions of an Agreement and Plan of Merger. As a result of the Reincorporation, the Company is now a Nevada corporation.

On April 1, 2013, the Company, together with its wholly owned subsidiary, S&W Seed Australia Pty Ltd, an Australia corporation ("S&W Australia"), closed on the acquisition of all of the issued and outstanding ordinary shares of Seed Genetics International Pty Ltd, an Australia corporation ("SGI"), from SGI's shareholders (the "SGI Acquisition").

Business Overview

Since its establishment, the Company, including its predecessor entities, has been principally engaged in breeding, growing, processing and selling agricultural commodities, primarily alfalfa seed. The Company owns a 40-acre seed cleaning and processing facility located in Five Points, California that it has operated since its inception. The Company's products are primarily grown under contract by farmers in the San Joaquin and Imperial Valleys of California, Southern Australia as well as by the Company itself under a small direct farming operation. The Company began its stevia initiative in fiscal 2010 and is currently focused on breeding improved varieties of stevia, improving its harvesting and milling techniques, and developing marketing and distribution programs for its stevia products.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation and Principles of Consolidation

The Company maintains its accounting records on an accrual basis in accordance with generally accepted accounting principles in the United States of America ("U.S. GAAP").

The consolidated financial statements include the accounts of Seed Holding, LLC and its other wholly-owned subsidiaries, S&W Australia which owns 100% of SGI, and Stevia California, LLC. All significant intercompany balances and transactions have been eliminated.

Unaudited Interim Financial Information

The accompanying consolidated balance sheet as of December 31, 2013, consolidated statements of operations for the three and six months ended December 31, 2013 and 2012, consolidated statement of owners' equity for the six months ended December 31, 2013 and consolidated statements of cash flows for the six months ended December 31, 2013 and 2012 are unaudited. These unaudited interim consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP"). In the opinion of the Company's management, the unaudited interim consolidated financial statements have been prepared on the same basis as the audited consolidated financial statements and include all adjustments necessary for the fair presentation of the Company's statement of financial position at December 31, 2013 and its results of operations and its cash flows for the three and six months ended December 31, 2013 and 2012. The results for the three and six months ended December 31, 2013 are not necessarily indicative of the results to be expected for the fiscal year ending June 30, 2014.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make certain estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Estimates are adjusted to reflect actual experience when necessary. Significant estimates and assumptions affect many items in the financial statements. These include allowance for doubtful trade receivables, sales returns and allowances, inventory valuation and obsolescence, asset impairments, provisions for income taxes, grower accruals (an estimate of amounts payable to farmers who grow seed for the Company), contingencies and litigation. Significant estimates and assumptions are also used to establish the fair value and useful lives of depreciable tangible and certain intangible assets as well as valuing stock-based compensation. Actual results may differ from those estimates and assumptions, and such results may affect income, financial position or cash flows.

Certain Risks and Concentrations

The Company's revenue is principally derived from the sale of alfalfa seed, the market for which is highly competitive. The Company depends on a core group of significant customers. Two customers accounted for 25% of its net revenue for the three months ended December 31, 2013 and one customer accounted for 30% of its net revenue for the three months ended December 31, 2012. Two customers accounted for 23% of its net revenue for six months ended December 31, 2013 and one customer accounted for 44% of its net revenue for the six months ended December 31, 2012.

Two customers accounted for 34% of the Company's accounts receivable at December 31, 2013. Three customers accounted for 41% of the Company's accounts receivable at June 30, 2013.

Sales direct to international customers represented 74% and 70% of revenue during the three months ended December 31, 2013 and 2012, respectively. Sales direct to international customers represented 80% and 73% of revenue during the six months ended December 31, 2013 and 2012, respectively. As of December 31, 2013, approximately 3% of the net book value of fixed assets were located outside of the United States.

The following table shows revenues from external customers by country:

	Three Months Ended December 31,				Six Months Ended December 31,				
	2013		2012		2013		2012		
United States	\$ 2,976,998	26%	\$ 3,975,523	30%	Saudi Arabia	\$ 5,431,287	23%	\$ 11,140,641	55%
Libya	1,694,180	15%	1,475,100	11%	United States	4,668,093	20%	5,456,162	27%
Mexico	1,407,467	12%	1,100,848	8%	Libya	2,822,720	12%	1,475,100	7%
Saudi Arabia	1,191,896	10%	6,318,707	46%	Mexico	2,497,093	10%	1,100,848	5%
United Arab Emirates	1,163,882	10%	474,300	3%	Australia	1,561,064	7%	-	0%
Other	3,025,774	27%	341,405	2%	Other	6,858,526	28%	1,232,867	6%

Edgar Filing: S&W Seed Co - Form 10-Q

Total	\$ 11,460,197	100%	\$ 13,685,883	100%	Total	\$ 23,838,783	100%	\$ 20,405,618	100%
-------	---------------	------	---------------	------	-------	---------------	------	---------------	------

8

International Operations

The Company translates its foreign operations' asset and liabilities denominated in foreign currencies into U.S. dollars at the current rates of exchange as of the balance sheet date and income and expense items at the average exchange rate for the reporting period. Translation adjustments resulting from exchange rate fluctuations are recorded in the cumulative translation account, a component of accumulated other comprehensive income. Gains or losses from foreign currency transactions are included in the consolidated statement of operations.

Revenue Recognition

The Company derives its revenue primarily from sale of seed and other crops and milling services. Revenue from seed and other crop sales is recognized when risk and title to the product is transferred to the customer, which usually occurs at the time of shipment.

When the right of return exists in the Company's seed business, sales revenue is reduced at the time of sale to reflect expected returns. In order to estimate the expected returns, management analyzes historical returns, economic trends, market conditions and changes in customer demand. At December 31, 2013, no customers had the right of return.

The Company recognizes revenue from milling services according to the terms of the sales agreements and when delivery has occurred, performance is complete, no right of return exists and pricing is fixed or determinable at the time of sale.

Additional conditions for recognition of revenue for all sales include the requirements that the collection of sales proceeds must be reasonably assured based on historical experience and current market conditions, the sales price is fixed and determinable and that there must be no further performance obligations under the sale.

Shipping and Handling Costs

The Company records purchasing and receiving costs, inspection costs and warehousing costs in cost of goods sold. In some instances, the Company is not obligated to pay for shipping or any costs associated with delivering its products to its customers. In these instances, costs associated with the shipment of products are not included in the Company's consolidated financial statements. When the Company is required to pay for outward freight and/or the costs incurred to deliver products to its customers, the costs are included in cost of goods sold.

Cash and Cash Equivalents

For financial statement presentation purposes, the Company considers time deposits, certificates of deposit and all highly liquid investments with original maturities of three months or less to be cash and cash equivalents. Cash and cash equivalents consist of the following:

	December 31, 2013	June 30, 2013
Cash	\$ 2,468,137	\$ 10,356,527
Money market funds	121,272	1,424,547
	\$ 2,589,409	\$ 11,781,074

The Company maintains cash balances at financial institutions that are insured by the Federal Deposit Insurance Corporation ("FDIC"). Accounts are guaranteed by the FDIC up to \$250,000 under current regulations. Cash equivalents held in money market funds are not FDIC insured. Cash deposits with these banks may exceed the amount of insurance provided on such deposits; however, these deposits typically may be redeemed upon demand and, therefore, bear minimal risk. The Company had approximately \$2,218,137 and \$10,106,527 in excess of FDIC insured limits at December 31, 2013 and June 30, 2013, respectively.

Accounts Receivable

The Company provides an allowance for doubtful trade receivables equal to the estimated uncollectible amounts. That estimate is based on historical collection experience, current economic and market conditions and a review of the current status of each customer's trade accounts receivable. The allowance for doubtful trade receivables was \$22,869 at December 31, 2013 and June 30, 2013, respectively.

Inventories

Inventory

Inventories consist of alfalfa seed purchased from the Company's growers under production contracts, alfalfa seed produced from its own farming operations, and packaging materials.

Inventories are stated at the lower of cost or market, and an inventory reserve would permanently reduce the cost basis of inventory. Inventories are valued as follows: Actual cost is used to value raw materials such as packaging materials, as well as goods in process. Costs for substantially all finished goods, which include the cost of carryover crops from the previous year, are valued at actual cost. Actual cost for finished goods includes plant conditioning and packaging costs, direct labor and raw materials and manufacturing overhead costs based on normal capacity. The Company records abnormal amounts of idle facility expense, freight, handling costs and wasted material (spoilage) as current period charges and allocates fixed production overhead to the costs of finished goods based on the normal capacity of the production facilities.

The Company's subsidiary SGI does not fix the final price for seed payable to its growers until the completion of a given year's sales cycle pursuant to its standard contract production agreement. SGI records an estimated unit price; accordingly, inventory, cost of goods sold and gross profits are based upon management's best estimate of the final purchase price to growers.

Inventory is periodically reviewed to determine if it is marketable, obsolete or impaired. Inventory that is determined to not be marketable is written down to market value. Inventory that is determined to be obsolete or impaired is written off to expense at the time the impairment is identified. Because the germination rate, and therefore the quality, of alfalfa seed improves over the first year of proper storage, inventory obsolescence for alfalfa seed is not a material concern. The Company sells its inventory to distributors, dealers and directly to growers.

Growing Crops

Expenditures on growing crops are valued at the lower of cost or market and are deferred and charged to cost of products sold when the related crop is harvested and sold. The deferred growing costs included in inventories in the consolidated balance sheets consist primarily of labor, lease payments on land, interest expense on farmland, cultivation, on-going irrigation, harvest and fertilization costs. Costs included in growing crops relate to the current crop year. Costs that are to be realized over the life of the crop are reflected in crop production costs.

Components of inventory are:

	December 31, 2013	June 30, 2013
Raw materials and supplies	\$ 173,198	\$ 39,654
Work in progress and growing crops	720,770	4,187,755
Finished goods	22,482,550	21,595,058
	\$ 23,376,518	\$ 25,822,467

Crop Production Costs

Expenditures on crop production costs are valued at the lower of cost or market and are deferred and charged to cost of products sold when the related crop is harvested and sold. The deferred crop production costs included in the consolidated balance sheets consist primarily of the cost of plants and the transplanting, stand establishment costs, intermediate life irrigation equipment and land amendments and preparation. Crop production costs are estimated to have useful lives of three to five years depending on the crop and nature of the expenditure and are amortized to growing crop inventory each year over the estimated life of the crop.

Components of crop production costs are:

	December 31, 2013		June 30, 2013
Alfalfa seed production	\$ 2,339,572	\$	1,497,695
Alfalfa hay	84,904		84,904
Total crop production costs, net	\$ 2,424,476	\$	1,582,599

Property, Plant and Equipment

Property, plant and equipment are stated at cost less accumulated depreciation. The cost of plant and equipment is depreciated using the straight-line method over the estimated useful life of the asset - periods of approximately 18-28 years for buildings, 3- 7 years for machinery and equipment and 3-5 years for vehicles. Long-lived assets are reviewed for impairment whenever in management's judgment conditions indicate a possible loss. Such impairment tests compare estimated undiscounted cash flows to the recorded value of the asset. If an impairment is indicated, the asset is written down to its fair value or, if fair value is not readily determinable, to an estimated fair value based on discounted cash flows. Fully depreciated assets are retained in property, plant and equipment and accumulated depreciation accounts until they are removed from service. In case of disposals of assets, the assets and related accumulated depreciation are removed from the accounts, and the net amounts after proceeds from disposal are credited or charged to income.

Intangible Assets

Intangible assets acquired in business acquisitions are reported at their initial fair value less accumulated amortization. Intangible assets acquired in the acquisition of the customer list in July 2011 and the acquisition of proprietary alfalfa germ-plasm in August 2012 are reported at their initial cost less accumulated amortization. See Note 3 and Note 4 for further discussion. The intangible assets are amortized based on useful lives ranging from 3-20 years.

Goodwill and Other Intangible Assets Not Subject to Amortization

The Company periodically reviews the carrying value of intangible assets not subject to amortization, including goodwill, to determine whether impairment may exist. Goodwill and certain intangible assets are assessed annually, or when certain triggering events occur, for impairment using fair value measurement techniques. These events could include a significant change in the business climate, legal factors, a decline in operating performance, competition, sale or disposition of a significant portion of the business, or other factors. The Company has the option to review goodwill on a qualitative basis first. If it is more likely than not that impairment is present the Company, then must evaluate Goodwill for impairment using a two step process. The first step of the goodwill impairment test is used to identify potential impairment by comparing the fair value of a reporting unit with its carrying amount, including goodwill. The Company uses Level 3 inputs and a discounted cash flow methodology to estimate the fair value of a reporting unit. A discounted cash flow analysis requires one to make various judgmental assumptions including assumptions about future cash flows, growth rates, and discount rates. The assumptions about future cash flows and growth rates are based on the Company's budget and long-term plans. Discount rate assumptions are based on an assessment of the risk inherent in the respective reporting units. If the fair value of a reporting unit exceeds its

carrying amount, goodwill of the reporting unit is considered not impaired and the second step of the impairment test is unnecessary. If the carrying amount of a reporting unit exceeds its fair value,

the second step of the goodwill impairment test is performed to measure the amount of impairment loss, if any. The second step of the goodwill impairment test compares the implied fair value of the reporting unit's goodwill with the carrying amount of that goodwill. If the carrying amount of the reporting unit's goodwill exceeds the implied fair value of that goodwill, an impairment loss is recognized in an amount equal to that excess. The implied fair value of goodwill is determined in the same manner as the amount of goodwill recognized in a business combination. That is, the fair value of the reporting unit is allocated to all of the assets and liabilities of that unit (including any unrecognized intangible assets) as if the reporting unit had been acquired in a business combination and the fair value of the reporting unit was the purchase price paid to acquire the reporting unit. The Company conducted a qualitative assessment of goodwill and other intangibles and determined that it was more likely than not there was no impairment.

Purchase Accounting

The Company accounts for acquisitions pursuant to Accounting Standards Codification ("ASC") No. 805, *Business Combinations*. The Company records all acquired tangible and intangible assets and all assumed liabilities based upon their estimated fair values.

Research and Development Costs

The Company is engaged in ongoing research and development ("R&D") of proprietary seed and stevia varieties. The Company accounts for R&D under standards issued by the Financial Accounting Standards Board ("FASB"). Under these standards, all R&D costs must be charged to expense as incurred. Accordingly, internal R&D costs are expensed as incurred. Third-party R&D costs are expensed when the contracted work has been performed or as milestone results have been achieved. The costs associated with equipment or facilities acquired or constructed for R&D activities that have alternative future uses are capitalized and depreciated on a straight-line basis over the estimated useful life of the asset. The amortization and depreciation for such capitalized assets are charged to R&D expenses.

Stock-Based Compensation

The Company has in effect a stock incentive plan under which incentive stock options have been granted to employees and non-qualified stock options, restricted stock, and restricted stock units ("RSUs") have been granted to employees and non-employees, including members of the Board of Directors. The Company accounts for its stock-based compensation plan by expensing the estimated fair value of stock-based awards over the requisite service period, which is the vesting period. The measurement of stock-based compensation expense for option grants is based on several criteria including, but not limited to, the valuation model used and associated input factors such as expected term of the award, stock price volatility, dividend rate, risk-free interest rate, attrition rate and exercise price. The input factors to use in the valuation model are based on subjective future expectations combined with management judgment. The Company estimates the fair value of stock options using the lattice valuation model and the assumptions shown in Note 11. Restricted stock and RSUs are valued based on the Company's stock price on the day the awards are granted. The excess tax benefits recognized in equity related to equity award exercises are reflected as financing cash inflows. See Note 11 for a detailed discussion of stock-based compensation.

Net Income (Loss) Per Common Share Data

Basic net income (loss) per common share, or earnings per share ("EPS"), is calculated by dividing net income (loss) by the weighted average number of common shares outstanding during the year. Diluted EPS is calculated by adjusting outstanding shares, assuming any dilutive effects of options, restricted stock awards and common stock warrants calculated using the treasury stock method. Under the treasury stock method, an increase in the fair market value of the Company's common stock results in a greater dilutive effect from outstanding options, restricted stock awards and common stock warrants.

Edgar Filing: S&W Seed Co - Form 10-Q

	Three Months Ended December 31,		Six Months Ended December 31,	
	2013	2012	2013	2012
Net income	\$ 110,132	\$ 146,609	\$ 151,341	\$ 235,365
Net income per common share:				
Basic	\$ 0.01	\$ 0.02	\$ 0.01	\$ 0.03
Diluted	\$ 0.01	\$ 0.02	\$ 0.01	\$ 0.03
Weighted average number of common shares outstanding:				
Basic	11,561,629	7,800,036	11,562,540	7,320,237
Diluted	11,662,369	8,353,411	11,758,527	7,652,221

Potentially dilutive securities not included in the calculation of diluted net income per share because to do so would be anti-dilutive are as follows:

	December 31,	
	2013	2012
Class B warrants	1,410,500	1,400,000
Underwriter warrants - units (common share equivalent)	259,000	-
Class A warrants underlying underwriter warrants - units	129,500	-
Class B warrants underlying underwriter warrants - units	129,500	140,000
Underwriter warrants	50,000	-
Stock options	208,929	-
Total	2,187,429	1,540,000

Income Taxes

The Company accounts for income taxes in accordance with standards of disclosure propounded by the FASB and any related interpretations of those standards sanctioned by the FASB. Accordingly, deferred tax assets and liabilities are determined based on differences between the financial statement and tax bases of assets and liabilities, as well as a consideration of net operating loss and credit carry forwards, using enacted tax rates in effect for the period in which the differences are expected to impact taxable income. A valuation allowance is established, when necessary, to reduce deferred tax assets to the amount that is more likely than not to be realized.

Impairment of Long-Lived Assets

The Company has adopted Accounting Standards Codification subtopic 360-10, Property, Plant and Equipment ("ASC 360-10"). ASC 360-10 requires that long-lived assets and certain identifiable intangibles held and used by the Company be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The Company evaluates its long-lived assets for impairment annually or more often if events and circumstances warrant. Events relating to recoverability may include significant unfavorable changes in business conditions, recurring losses or a forecasted inability to achieve break-even operating results over an extended period. The Company evaluates the recoverability of long-lived assets based upon forecasted undiscounted cash flows. Should impairment in value be indicated, the carrying value of long-lived assets will be adjusted, based on estimates of future discounted cash flows resulting from the use and ultimate disposition of the asset. ASC 360-10 also requires assets to be disposed of be reported at the lower of the carrying amount or the fair value less costs to sell. The Company evaluated its long-live assets for impairment and none existed as of June 30, 2013.

Foreign Exchange Contracts

The Company's subsidiary SGI is exposed to foreign currency exchange rate fluctuations in the normal course of its business, which the Company at times manages through the use of foreign currency forward contracts.

The Company has entered into certain derivative financial instruments (specifically foreign currency forward contracts), and accounts for these instruments in accordance with ASC Topic 815, "Derivatives and Hedging", which establishes accounting and reporting standards requiring that derivative instruments be recorded on the balance sheet as either an asset or liability measured at fair value. Additionally, changes in the derivative's fair value are recognized currently in earnings unless specific hedge accounting criteria are met. If hedge accounting criteria are met for cash flow hedges, the changes in the derivative's fair value are recorded in shareholders' equity as a component of other comprehensive income ("OCI"), net of tax. The Company's foreign currency contracts are not designated as hedging instruments under ASC 815, accordingly, changes in the fair value are recorded in current period earnings.

Fair Value of Financial Instruments

In the first quarter of fiscal year 2009, the Company adopted Accounting Standards Codification subtopic 820-10, Fair Value Measurements and Disclosures ("ASC 820-10"). ASC 820-10 defines fair value, establishes a framework for measuring fair value and enhances fair value measurement disclosure. ASC 820-10 delays, until the first quarter of fiscal year 2009, the effective date for ASC 820-10 for all non-financial assets and non-financial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). The adoption of ASC 820-10 did not have a material impact on the Company's consolidated financial position or operations, but does require that the Company disclose assets and liabilities that are recognized and measured at fair value on a non-recurring basis, presented in a three-tier fair value hierarchy, as follows:

- Level 1. Observable inputs such as quoted prices in active markets;
- Level 2. Inputs, other than the quoted prices in active markets, that are observable either directly or indirectly; and
- Level 3. Unobservable inputs in which there is little or no market data, which require the reporting entity to develop its own assumptions.

No assets or liabilities were valued at fair value on a non-recurring basis as of December 31, 2013 or June 30, 2013, respectively.

Effective October 1, 2008, the Company adopted Accounting Standards Codification subtopic 820-10, Fair Value Measurements and Disclosures ("ASC 820-10") and Accounting Standards Codification subtopic 825-10, Financial Instruments ("ASC 825-10"), which permits entities to choose to measure many financial instruments and certain other items at fair value. Neither of these statements had an impact on the Company's financial position, results of operations or cash flows. The carrying value of cash and cash equivalents, accounts payable short-term and long-term borrowings, as reflected in the balance sheets, approximate fair value because of the short-term maturity of these instruments or interest rates commensurate with market rates.

Edgar Filing: S&W Seed Co - Form 10-Q

The following table summarizes the valuation of financial instruments measured at fair value on a recurring basis as of December 31, 2013 and June 30, 2013.

	Fair Value Measurements as of December 31, 2013 Using:		
	Level 1	Level 2	Level 3
Foreign exchange contract liability	\$ -	\$ -	\$ -
Total	\$ -	\$ -	\$ -

	Fair Value Measurements as of June 30, 2013 Using:		
	Level 1	Level 2	Level 3
Foreign exchange contract liability	\$ -	\$ 663,043	\$ -
Total	\$ -	\$ 663,043	\$ -

Recent Accounting Pronouncements

In February 2013, the Financial Accounting Standards Board, or FASB, issued Accounting Standards Update, or ASU, 2013-02, Comprehensive Income: Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income, which requires companies to report, in one place, information about significant reclassifications out of accumulated other comprehensive income, or AOCI, and disclose more information about changes in AOCI balances. The Company adopted this ASU in the first quarter of fiscal 2014. The adoption of this standard did not have a material impact on its consolidated financial statements.

In July 2013, the FASB issued ASU 2013-11, Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists, which provides guidance for the financial statement presentation of an unrecognized tax benefit when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists. The Company will adopt the standard effective July 1, 2014. The adoption of this ASU is not expected to have a material impact on its consolidated financial statements.

NOTE 3 - BUSINESS COMBINATIONS

IVS Transaction

On October 1, 2012, the Company purchased substantially all of the assets of Imperial Valley Seeds, Inc. ("IVS"). Pursuant to the acquisition agreement, the Company purchased substantially all of the assets of IVS not including cash on hand, all accounts and other receivables of IVS, and all inventory of the IVS alfalfa seed business. The Company did not assume any IVS liabilities. The acquisition expanded the Company's sourcing capabilities, product offerings and sales distribution.

Pursuant to the acquisition agreement, the Company paid the following consideration: cash in the amount of \$3,000,000, a five-year unsecured, subordinated promissory note in the principal amount of \$500,000, 400,000 shares of the Company's unregistered common stock valued at \$2,432,000 and \$250,000 to be paid over a five-year period for a non-competition agreement, for total consideration of \$6,182,000. The non-compete portion of the consideration will be paid in five annual installments of \$50,000 to Fred Fabre, who joined the Company as Vice President of Sales and Marketing concurrently with the closure of IVS.

The acquisition has been accounted for under the acquisition method of accounting, and the Company valued all assets and liabilities acquired at their estimated fair values on the date of acquisition. Accordingly, the assets and liabilities of the acquired entity were recorded at their estimated fair values at the date of the acquisition. The operating results for IVS have been included in the Company's consolidated financial statements since the acquisition date.

The purchase price allocation is based on estimates of fair value as follows:

Technology/IP	\$	1,044,000
Customer relationships		756,333
Supply agreement		1,512,667
Trade-name and brands		1,118,000
Non-compete		349,000
Goodwill		1,402,000
Total acquisition cost allocated	\$	6,182,000

The purchase price consists of the following:

Cash	\$	3,000,000
Unsecured five-year promissory note		500,000
Non-compete payment obligation		250,000
Common stock		2,432,000
	\$	6,182,000

The excess of the purchase price over the fair value of the net assets acquired, amounting to \$1,402,000, was recorded as goodwill on the consolidated balance sheet. Goodwill is not amortized for financial reporting purposes, but is amortized for tax purposes.

Management assigned fair values to the identifiable intangible assets through a combination of the relief from royalty method and the multi-period excess earnings method.

The useful lives of the acquired IVS intangibles are as follows:

	Useful Lives (Years)
Technology/IP	12
Customer relationships	20
Supply agreement	20
Trade name	20
Non-compete	5

S&W Transaction

On April 1, 2013, the Company, together with its wholly owned subsidiary, S&W Seed Australia Pty Ltd, an Australia corporation, acquired all of the issued and outstanding ordinary shares (the "S&W Acquisition") of Seed Genetics International Pty Ltd, an Australia corporation ("S&W"), from S&W's shareholders.

The S&W Acquisition was consummated pursuant to the terms of a share acquisition agreement (the "Agreement"). Under the Agreement, the Company paid the following consideration: cash in the amount of \$5.0 million; 864,865 shares of the Company's unregistered common stock (with a market value of \$8,709,191 based upon the closing price of the Company's common stock as reported on the Nasdaq Capital Market on April 1, 2013); and \$2,482,317 in the form of a three-year, non-interest bearing, unsecured promissory note (the "Note"), for total consideration of \$16,191,508. The original face amount of the Note, \$3,000,000, was reduced to \$2,482,317 according to the terms of the Agreement because S&W's net working capital was below the net working capital target at the closing.

The S&W Acquisition has been accounted for as a business combination and the Company valued all assets and liabilities acquired at their estimated fair values on the date of the S&W Acquisition. Accordingly, the assets and liabilities of the acquired entity were recorded at their estimated fair values at the date of the S&W Acquisition.

Edgar Filing: S&W Seed Co - Form 10-Q

The estimated purchase price allocation is based on estimates of fair value as follows:

Technology/IP	\$	7,398,000
Customer relationships		359,000
Grower relationships		3,250,000
Trade-name and brands		389,000
Non-compete		337,000
Goodwill		3,927,675
Current assets		26,449,843
Property, plant, and equipment		286,431
Non-current deferred tax asset		265,320
Current liabilities		(26,485,135)
Non-current liabilities		(142,506)
Total acquisition cost allocated	\$	16,034,628

The purchase price consists of the following:

Cash	\$	5,000,000
Unsecured three-year promissory note, net of \$156,880 debt discount		2,325,437
Common stock		8,709,191
	\$	16,034,628

The excess of the purchase price over the fair value of the net assets acquired, amounting to \$3,927,675, was recorded as goodwill on the consolidated balance sheet. Goodwill is not amortized for financial reporting purposes, but is amortized for tax purposes.

Management assigned fair values to the identifiable intangible assets through a combination of the relief from royalty method, the with or without method, and the multi-period excess earnings method.

The useful lives of the acquired SGI intangibles are as follows:

	Useful Lives (Years)
Technology/IP	20
Customer relationships	20
Grower relationships	20
Trade-name and brands	20
Non-compete	5

In fiscal 2013, the Company incurred \$486,166 of acquisition costs associated with the IVS and SGI transactions which have been recorded in selling, general and administrative expenses on the consolidated statement of operations.

The following unaudited pro forma financial information presents results as if the acquisitions of IVS and SGI had occurred on July 1, 2012.

	Six Months Ended December 31, 2012
(Unaudited)	
Revenue	\$ 34,701,794
Net income	\$ 644,216

Edgar Filing: S&W Seed Co - Form 10-Q

For purposes of the pro forma disclosures above, the primary adjustments for the six months ended December 31, 2012 include: i) amortization of acquired intangibles of \$400,138; ii) additional interest expense of \$27,830 for the amortization of debt discount and interest expense for the unsecured promissory notes issued in the acquisitions; and iii) adjustments to reflect the additional income tax expense assuming a combined Company's effective tax rate of 41.1%. There are no pro forma adjustments for the six months ended December 31, 2013 as this period includes the operations of both SGI and IVS.

NOTE 4 - OTHER INTANGIBLE ASSETS

Other intangible assets consist of the following:

	Balance at July 1, 2012	Additions	Amortization	Foreign Currency Translation	Balance at June 30, 2013
Intellectual property	\$ -	\$ 7,398,000	\$ (87,700)	\$ (930,366)	\$ 6,379,934
Trade name	197,979	1,507,000	(58,909)	(48,920)	1,597,150
Technology/IP	157,257	1,101,500	(96,730)	-	1,162,027
Non-compete	34,570	686,000	(76,974)	(41,432)	602,164
GI customer list	114,623	-	(7,164)	-	107,459
Grower relationships	-	3,250,000	(38,527)	(408,717)	2,802,756
Supply agreement	-	1,512,667	(56,724)	-	1,455,943
Customer relationships	102,224	1,115,333	(39,008)	(45,147)	1,133,402
	\$ 606,653	\$ 16,570,500	\$ (461,736)	\$ (1,474,582)	\$ 15,240,835

	Balance at July 1, 2013	Additions	Amortization	Foreign Currency Translation	Balance at December 31, 2013
Intellectual property	\$ 6,379,934	\$ -	\$ (162,941)	\$ (175,604)	\$ 6,041,389
Trade name	1,597,150	-	(42,704)	(9,234)	1,545,212
Technology/IP	1,162,027	-	(59,480)	-	1,102,547
Non-compete	602,164	-	(68,912)	(6,862)	526,390
GI customer list	107,459	-	(3,582)	-	103,877
Grower relationships	2,802,756	-	(71,583)	(77,142)	2,654,031
Supply agreement	1,455,943	-	(37,816)	-	1,418,127
Customer relationships	1,133,402	-	(30,007)	(8,524)	1,094,871
	\$ 15,240,835	\$ -	\$ (477,025)	\$ (277,366)	\$ 14,486,444

Amortization expense totaled \$239,466 and \$98,169 for the three months ended December 31, 2013 and 2012, respectively. Amortization expense totaled \$477,025 and \$114,323 for the six months ended December 31, 2013 and 2012, respectively. Estimated aggregate remaining amortization expense for each of the five succeeding fiscal years is as follows:

	2014	2015	2016	2017	2018
Amortization expense	\$ 472,121	\$ 949,146	\$ 949,146	\$ 940,502	\$ 940,502

NOTE 5 - PROPERTY, PLANT AND EQUIPMENT

Components of property, plant and equipment were as follows:

	December 31, 2013	June 30, 2013
Land and improvements	\$ 7,679,860	\$ 7,685,806
Buildings and improvements	2,085,334	2,074,618
Machinery and equipment	1,327,907	1,161,179
Vehicles	285,014	220,879
Total property, plant and equipment	11,378,115	11,142,482
Less: accumulated depreciation	(1,057,465)	(903,047)
Property, plant and equipment, net	\$ 10,320,650	\$ 10,239,435

Depreciation expense totaled \$77,868 and \$52,195 for the three months ended December 31, 2013 and 2012, respectively. Depreciation expense totaled \$154,763 and \$105,826 for the six months ended December 31, 2013 and 2012, respectively.

NOTE 6 - DEBT

Total debts outstanding are presented on the balance sheet as follows:

	December 31, 2013	June 30, 2013
Current portion of long-term debt		
Term loan - Wells Fargo	\$ 157,506	\$ 155,990
Term loan - Ally	8,607	8,481
Unsecured subordinate promissory note - related party	100,000	100,000
Promissory note — SGI selling shareholders	-	482,317
Total current portion	266,113	746,788
Long-term debt, less current portion		
Term loan - Wells Fargo	2,272,445	2,379,833
Term loan - Ally	28,983	33,319
Unsecured subordinate promissory note - related party	300,000	400,000
Promissory note — SGI selling shareholders	2,000,000	2,000,000
Debt discount - SGI	(118,615)	(144,194)
Total long-term portion	4,482,813	4,668,958
Total debt	\$ 4,748,926	\$ 5,415,746

The Company entered into a credit agreement and related loan documents dated April 1, 2011 (the "Credit Agreement") with Wells Fargo Bank, National Association ("Wells Fargo"). The Credit Agreement provided the Company with a revolving credit facility of up to \$5,000,000 that can be used for working capital requirements. Effective April 1, 2012, the Company entered into a First Amendment to Credit Agreement, increasing the revolving credit facility to \$7,500,000 (the "Amended Credit Facility"). The Amended Credit Facility terminates on April 1, 2014, at which time all amounts outstanding become due and payable. Any borrowings will bear interest at a rate per annum equal to the daily one month LIBOR rate for the applicable interest period plus two percent. Interest is payable each month in arrears. In the event of a default, as defined in the Amended Credit Facility, the principal balance will thereafter bear interest at an increased rate per annum equal to four percent above the interest rate that would otherwise have been in effect from time to time under the terms of the Amended Credit Facility. There is no borrowing base under the terms of the Amended Credit Facility. Under the Amended Credit Agreement, the Company incurs certain fees, including, without limitation, a fee of 0.5% of the unused portion of the credit facility, calculated quarterly. The Company had an outstanding balance on the Wells revolving credit facility of \$4,900,000 at December 31, 2013.

Borrowings under the Amended Credit Facility are secured by all of the Company's existing and after-acquired goods, tools, machinery, furnishings, furniture and other equipment. The Company has also granted Wells Fargo a continuing security interest in all existing and after-acquired rights to payment and inventory. The Amended Credit Facility contains customary representations and warranties, affirmative and negative covenants and customary events of default that permit the Lender to accelerate the Company's outstanding obligations, all as set forth in the Amended Credit Agreement.

In July 2012, the Company entered into a new Credit Agreement with Wells Fargo (the "July 2012 Credit Agreement") and related term loan. The July 2012 Credit Facility amends and restates the Amended Credit Agreement covering the \$7,500,000 revolving line of credit for working capital and adds a new term loan in the amount of \$2,625,000 (the "Term Loan"). The Term Loan bears interest at a rate per annum equal to 2.35% above LIBOR as specified in the Term Loan. Under the Term Loan, the Company is also required to pay both monthly and annual principal reduction as follows: The first installment of monthly principal repayments commenced in August 2012 and continued at a fixed amount per month until the first annual increase in July 2013. Thereafter the amount of monthly principal reduction increases in August of each year through August 2018. The last monthly payment will be made in July 2019. The monthly principal repayments range from \$8,107 per month through the July 2013 payment up to a high of \$9,703 per month in the final year (August 2018 through July 2019). Annual principal payments in August 2013 and 2014 in the amount of \$56,000, with a final installment, consisting of all remaining unpaid principal due and payable in full on July 5, 2019. The Company may prepay the principal at any time, provided that a minimum of the lesser of \$100,000 or the entire outstanding principal balance is prepaid at any one time. The July 2013 Credit Agreement contains various financial covenants. The Company was in compliance with all debt covenants as of December 31, 2013.

The Company applied the proceeds from the Term Loan to pay a portion of the purchase price for 640 acres of farmland it purchased in July 2012. In connection therewith, the Company executed and delivered a Deed of Trust and Assignment of Rents and Leases to American Securities Company for the benefit of Wells Fargo.

On October 1, 2012, the Company issued a five-year subordinated promissory note to Imperial Valley Seeds, Inc. in the principal amount of \$500,000 (the "IVS Note"), with a maturity date of October 1, 2017 (the "Maturity Date"). The IVS Note will accrue interest at a rate per annum equal to one-month LIBOR at closing plus 2% (2.2%). Interest will be payable in five annual installments, in arrears, commencing on October 1, 2013, and on each succeeding anniversary thereof through and including the Maturity Date (each, a "Payment Date"), and on the Maturity Date. Amortizing payments of the principal of \$100,000 will also be made on each Payment Date, with any remaining outstanding principal and accrued interest payable on the Maturity Date.

In March 2013, the Company entered into a term loan for a vehicle purchase. The loan is payable in 59 monthly installments and matures in February 2018. The loan bears interest at a rate of 2.94% per annum.

On April 1, 2013, the Company issued a three-year subordinated promissory note to the selling shareholders of SGI in the principal amount of US \$2,482,317 (the "SGI Note"), with a maturity date of April 1, 2016 (the "SGI Maturity Date"). The SGI note is non-interest bearing. Principal payments of \$482,317 were made in October 2013 and the remaining \$2,000,000 will be paid at the SGI Maturity Date. Since the note is non-interest bearing, the Company recorded a debt discount of \$156,880 at the time of issuance for the estimated net present value of the obligation and accretes the net present value of the SGI Note obligation up to the face value of the SGI Note obligation using the effective interest method as a component of interest expense. Accretion of the debt discount totaled \$12,825 and \$25,579 for the three and six months ended December 31, 2013, respectively. Accretion of the debt discount was charged to interest expense.

SGI finances the purchase of most of its seed inventory from growers pursuant to a seasonal credit facility with National Australia Bank Limited ("NAB"). The current facility expires on April 30, 2014 (the "NAB Facility Agreement") and, as of December 31, 2013, \$5,961,456 was outstanding under this facility.

The NAB Facility Agreement comprises several facility lines, including an overdraft facility (AUD \$1,000,000 limit which translates to USD \$887,300 at December 31, 2013) and an interchangeable market rate facility and an overseas bills purchased facility (AUD \$9,000,000 combined limit which translates to USD \$7,985,700 at December 31, 2013). The overseas bills purchased facility limit at December 31, 2013 is AUD \$1,000,000 (which translates to USD \$887,300 at December 31, 2013). The market rate facility is to be reduced in stages according to the following schedule: AUD \$7,000,000 by October 31, 2013; AUD \$6,000,000 by November 30, 2013; and AUD \$5,500,000 by December 31, 2013.

SGI may access the facilities in combination; however, each facility bears interest at a unique interest rate calculated per pricing period--an interval (ranging from 7 to 180 days) between interest rate adjustments. Each facility's interest rate is calculated as the sum of an applicable indicator rate plus customer margin. The indicator rate for the market rate facility is equal to the "bid rate" quoted on the Bank Bill Swap Bid (BBSY) page of the Reuters Monitor System at or about 10:15 am Sydney Time on the banking date immediately preceding the commencement of the applicable pricing period. Under the market rate facility the customer margin is equal to 2.6% per annum. Currently, SGI's facilities accrue interest at approximately the following effective rates: market rate facility, 6.6% calculated daily; overseas bills purchased facility, 3.6% to 3.9% calculated daily; and overdraft facility, 7.6% calculated daily.

For all NAB facilities, interest is payable each month in arrears. In the event of a default, as defined in the NAB Facility Agreement, the principal balance due under the facilities will thereafter bear interest at an increased rate per annum above the interest rate that would otherwise have been in effect from time to time under the terms of each facility (e.g., the interest rate increases by 4.5% per annum under the market rate and overdraft facilities upon the occurrence of an event of default).

The NAB facility is secured by a fixed and floating lien over all the present and future rights, property and undertakings of SGI. The NAB facility contains customary representations and warranties, affirmative and negative covenants and customary events of default that permit NAB to accelerate SGI's outstanding obligations, all as set forth in the NAB Facility Agreement. The Company was in compliance with all NAB debt covenants at December 31, 2013.

The annual maturities of short-term and long-term debt are as follows:

Fiscal Year	Amount
2014	\$ 266,113
2015	108,311
2016	2,203,437
2017	220,457
2018	116,026
Thereafter	1,834,582

Edgar Filing: S&W Seed Co - Form 10-Q

Total \$ 4,748,926

21

NOTE 7 - STOCKHOLDERS' EQUITY

On May 7, 2010, the Company closed its initial public offering ("IPO") of 1,400,000 units, which priced at \$11.00 per unit, raising gross proceeds of \$15,400,000. Each unit consisted of two shares of common stock, one Class A warrant and one Class B warrant. In connection with the IPO, the Company issued Representative's Warrants to Paulson Investment Company, Inc. and Feltl and Company to purchase up to an aggregate of 140,000 units at \$13.20, expiring May 3, 2015.

Prior to the completion of the Company's redemption of the Class A warrants, each Class A warrant entitled its holder to purchase one share of the Company's common stock at an exercise price of \$7.15. The Class A warrants were redeemable at the Company's option for \$0.25 upon 30 days' prior written notice beginning November 3, 2010, provided certain conditions were met. The Class A warrants were redeemable provided that the Company's common stock closed at a price at least equal to \$8.80 for at least five consecutive trading days. On March 12, 2013, the Company announced that it had exercised its option to call for redemption the Class A warrants. As of June 30, 2013, 1,372,641 shares of common stock were issued as a result of 1,372,641 Class A warrants being exercised at a price of \$7.15. The Company received proceeds, net of fees and expenses, of \$9,366,212 during the year ended June 30, 2013. The 27,359 remaining Class A Warrants that were not exercised by the deadline were redeemed by the Company for a price of \$0.25 each, for an aggregate redemption cost to the Company of \$6,765. There are no remaining Class A Warrants outstanding.

Each Class B warrant entitles its holder to purchase one share of common stock at an exercise price of \$11.00. The Class B warrants are exercisable at any time until their expiration on May 3, 2015. The Class B warrants are redeemable at the Company's option for \$0.25 upon 30 days' prior written notice beginning November 3, 2010, provided certain conditions are met. The Class B warrants are redeemable on the same terms as the Class A warrants, provided the Company's common stock has closed at a price at least equal to \$13.75 for five consecutive trading days.

On May 7, 2012, the Company issued 73,000 shares of restricted common stock to certain members of the executive management team. The restricted common shares vest annually in equal installments over a three-year period, commencing one year from the date of the grant.

On May 23, 2012, the Company closed its underwritten public offering of 1,000,000 common shares, which priced at \$5.50 per share. The Company received total proceeds, net of underwriting discounts and equity offering costs, of \$5,006,311. In connection with the offering, the Company issued Representative's Warrants to Rodman & Renshaw LLC to purchase up to an aggregate of 50,000 shares of the Company's common stock at an exercise price of \$6.875 per share, which expire on February 8, 2017.

On September 24, 2012, the Company sold 600,000 unregistered shares of its common stock for \$5.85 per share, to one accredited investor. The Company received total proceeds, net of equity offering costs, of \$3,462,586.

On October 1, 2012, the Company issued 400,000 shares of the Company's unregistered common stock pursuant to the acquisition agreement with IVS. The common stock issued was valued at \$2,432,000.

On January 16, 2013, the Company closed its underwritten public offering of 1,400,000 common shares, which priced at \$7.50 per share. The Company received total proceeds, net of underwriting discounts and equity offering costs, of \$9,413,638.

On March 16, 2013, the Company issued 280,000 restricted stock units to certain members of the executive management team. See Note 11 for discussion on equity-based compensation.

During March 2013, the Company issued 30,597 shares of common stock pursuant to a cashless exercise of a total of 50,000 other warrants which were issued in May 2010 at an exercise price of \$4.00. The 50,000 warrants have been

cancelled and they are no longer outstanding. The common stock issuance was recorded at par value with no change to net equity balances.

During March 2013, Paulson Investment Company, Inc. exercised 10,500 of its underwriter warrants at an exercise price of \$13.20 which resulted in the Company issuing 21,000 shares of common stock, 10,500 A warrants and 10,500 B warrants. The Company received \$138,600 in proceeds from this exercise. During March 2013, Paulson Investment Company, Inc also exercised 10,500 of the A warrants generating proceeds of \$75,075.

Edgar Filing: S&W Seed Co - Form 10-Q

In April 2013, the Company issued 12,000 restricted common shares to terminate a consulting contract. The common stock issued was valued at \$109,920 and was based on the fair value of the stock on the date of issuance.

In July 2013, the Company issued 21,806 shares for the settlement of RSU's which vested in July 2013. The shares issued to settle the vested RSU's were net of the required minimum employee payroll tax withholdings of \$141,488 paid by the Company.

In October 2013, the Company issued 9,369 shares for the settlement of RSU's which vested in October 2013. The shares issued to settle the vested RSU's were net of the required minimum employee payroll tax withholdings of \$33,354 paid by the Company.

The Company re-purchased 25,000 shares of common stock for \$134,196 during the six months ended December 31, 2013 pursuant to its previously announced share repurchase program.

The following table summarizes the warrants outstanding at December 31, 2013:

	Grant Date	Warrants Outstanding	Exercise Price Per Share / Unit	Expiration Date
Class B warrants	May 2010	1,410,500	\$ 11.00	May 2015
Underwriter warrants - units	May 2010	129,500	\$ 13.20	May 2015
Underwriter warrants	May 2012	50,000	\$ 6.88	Feb 2017
		1,590,000		

The Company is authorized to issue up to 50,000,000 shares of its \$0.001 par value common stock. At December 31, 2013, there were 11,623,498 shares issued and 11,598,498 shares outstanding. At June 30, 2013, there were 11,584,101 shares issued and outstanding.

See Note 11 for discussion on equity-based compensation.

NOTE 8 - FOREIGN CURRENCY CONTRACTS

The Company's subsidiary SGI is exposed to foreign currency exchange rate fluctuations in the normal course of its business, which the Company manages through the use of foreign currency forward contracts. These foreign currency contracts are not designated as hedging instruments under ASC 815; accordingly, changes in the fair value are recorded in current period earnings. The Company did not have any foreign currency contracts outstanding at December 31, 2013.

The Company records a liability on the balance sheet for the fair value of the foreign currency forward contracts. The liability totaled \$0 and \$663,043 at December 31, 2013 and June 30, 2013, respectively. The Company recorded a gain on foreign exchange contracts of \$19,675 and \$111,194 during the three and six months ended December 31, 2013, respectively, which is reflected in cost of revenue. There were no foreign exchange contracts in the comparable periods of the prior year.

NOTE 9 - COMMITMENTS AND CONTINGENCIES

Contingencies

The Company is not currently a party to any pending or threatened legal proceedings. Based on information currently available, management is not aware of any matters that would have a material adverse effect on the Company's financial condition, results of operations or cash flows.

NOTE 10 - RELATED PARTY TRANSACTIONS

Grover T. Wickersham, the Company's Chairman of the Board, has a non-controlling ownership interest in Triangle T Partners, LLC ("TTP") and served as a member of its Board of Managers until his resignation in December 2012.

The Company used the services of TTP employees and TTP equipment in connection with harvesting certain alfalfa seed fields farmed by S&W during the first quarter of fiscal 2014. The Company incurred \$0 and \$98,765 of charges from TTP for its services and costs in connection with farming operations during the three and six months ended December 31, 2013, respectively.

Amounts due to TTP totaled \$0 and \$30,045 at December 31, 2013 and June 30, 2012, respectively.

Glen D. Bornt, a member of the Company's Board of Directors, is the founder and President of Imperial Valley Milling Co. ("IVM"). He is its majority shareholder and a member of its Board of Directors. Fred Fabre, the Company's Vice President of Sales and Marketing, is a minority shareholder of IVM. IVM had a 15-year supply agreement with Imperial Valley Seeds, Inc., and this agreement was assigned by IVS to the Company when it purchased the assets of IVS in October 2012. IVM contracts with alfalfa seed growers in California's Imperial Valley and sells its growers' seed to the Company pursuant to a supply agreement. Under the terms of the supply agreement, IVM's entire certified and uncertified alfalfa seed production will be offered and sold to the Company, and the Company will have the exclusive option to purchase all or any portion of IVM's seed production. The Company paid \$8,315,037 to IVM during the six months ended December 31, 2013. Total amounts due to IVM totaled \$870,176 and \$863,884 at December 31, 2013 and June 30, 2013, respectively.

Simon Pengelly, SGI's Chief Financial Officer, has a non-controlling ownership interest in the partnership Bungalally Farms (BF). During the period April 1, 2013 to June 30, 2013, BF was one of SGI's contract alfalfa seed growers. SGI currently has entered into seed production contracts with BF on the same commercial terms and conditions as with the other growers with whom SGI contracts for alfalfa seed production. For the fourth quarter of fiscal 2013 and the first six months of fiscal 2014, the Company purchased a total of \$352,781 of alfalfa seed which BF grew and sold to SGI under contract seed production agreements. SGI currently has seed production agreements with BF for 123 hectares of various seed varieties as part of its contract production for which SGI paid BF the same price it agreed to pay its other growers. Mr. Pengelly did not personally receive any portion of these funds. Amounts due to BF totaled \$80,480 at December 31, 2013 and \$428,379 at June 30, 2013.

NOTE 11 - EQUITY-BASED COMPENSATION

2009 Equity Incentive Plan

In October 2009 and January 2010, the Company's Board of Directors and stockholders, respectively, approved the 2009 Equity Incentive Plan (the "2009 Plan"). The plan authorized the grant and issuance of options, restricted shares and other equity compensation to the Company's directors, employees, officers and consultants, and those of the Company's subsidiaries and parent, if any. In December 2012, the Company's Board of Directors and stockholders, respectively, approved the amendment and restatement of the 2009 Plan, including an increase in the number of shares available for issuance as grants and awards under the Plan to 1,250,000 shares. In September 2013 and December 2013, the Company's Board of Directors and stockholders, respectively, approved the amendment and restatement of the 2009 Plan, including an increase in the number of shares available for issuance as grants and awards under the Plan to 1,700,000 shares.

The term of incentive stock options granted under the 2009 Plan may not exceed ten years, or five years for incentive stock options granted to an optionee owning more than 10% of the Company's voting stock. The exercise price of options granted under the 2009 Plan must be equal to or greater than the fair market value of the shares of the common stock on the date the option is granted. An incentive stock option granted to an optionee owning more than 10% of voting stock must have an exercise price equal to or greater than 110% of the fair market value of the common stock on the date the option is granted.

The Company has adopted ASC 718, Stock Compensation, ("ASC 718"). ASC 718 requires companies to measure the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award. That cost will be recognized over the period during which an employee is required to provide services in exchange for the award.

The Company accounts for equity instruments, including stock options, issued to non-employees in accordance with authoritative guidance for equity-based payments to non-employees (FASB ASC 505-50). Stock options issued to non-employees are accounted for at their estimated fair value. The fair value of options granted to non-employees is re-measured as they vest.

For stock-based awards granted, the Company amortizes stock-based compensation expense on a straight-line basis over the requisite service period.

The fair value of employee option grants are estimated on the date of grant and the fair value of options granted to non-employees are re-measured as they vest. Fair value is calculated using a lattice model. The weighted average assumptions used in the models are outlined in the following table:

	Employee Options December 31,		Non-Employee Options December 31,	
	2013	2012	2013	2012
Risk-free rate of interest	1.30% - 1.46%	0.63%	-	-
Dividend yield	0%	0%	-	-
Volatility of common stock	44% - 45%	45%	-	-
Exit / attrition rates	25% - 30%	20% - 25%	-	-
Target exercise factor	1.25 - 1.54	1.5 - 1.75	-	-

On December 8, 2012, the Company granted 175,000 stock options to its directors, officers, and employees at an exercise price of \$7.20, which was the closing price for the Company's common stock on the date of grant. These options vest in equal quarterly installments over one- and three-year periods, commencing on January 1, 2013, and expire five years from the date of grant. During the six months ended December 31, 2013, the Company granted 169,000 stock options to its officers and employees at exercise prices ranging from \$6.14 to \$8.29, which was the closing price for the Company's common stock on the date of grants. These options vest in equal quarterly installments over periods ranging from six months to three-years and expire five years from the date of grant.

Edgar Filing: S&W Seed Co - Form 10-Q

A summary of stock option activity for the year ended June 30, 2013 and six months ended December 31, 2013 is presented below:

	Number Outstanding	Weighted - Average Exercise Price Per Share	Weighted - Average Remaining Contractual Life (Years)
Outstanding at June 30, 2012	677,000	\$ 4.08	3.4
Granted	175,000	7.20	4.5
Exercised	(21,875)	4.09	0.2
Canceled/forfeited/expired	(3,125)	4.20	3.3
Outstanding at June 30, 2013	827,000	4.74	2.8
Granted	169,000	6.57	4.9
Exercised	-	-	-
Canceled/forfeited/expired	(10,000)	4.10	2.0
Outstanding at December 31, 2013	986,000	5.06	2.7
Options vested and exercisable at December 31, 2013	752,417	\$ 4.54	2.2

The weighted average grant date fair value of options granted and outstanding at December 31, 2013 was \$0.83. At December 31, 2013, the Company had \$219,936 of unrecognized stock compensation expense, net of estimated forfeitures, related to the options under the 2009 Plan, which will be recognized over the weighted average remaining service period of 0.65 years. The Company settles employee stock option exercises with newly issued shares of common stock.

On May 7, 2012, the Company issued 73,000 shares of restricted common stock to certain members of the executive management team. The restricted common shares vest annually in equal installments over a three-year period, commencing one year from the date of the grant. The Company recorded \$36,500 of stock-based compensation expense associated with this grant during the three months ended December 31, 2013 and 2012, respectively. The Company recorded \$73,000 of stock-based compensation expense associated with this grant during the six months ended December 31, 2013 and 2012, respectively. The value of the award was based on the closing stock price on the date of grant.

A summary of activity related to non-vested restricted shares is presented below:

Six Months Ended December 31, 2013

	Number of Nonvested Restricted Shares	Weighted - Average Grant Date Fair Value	Weighted - Average Remaining Contractual Life (Years)
Beginning nonvested restricted shares outstanding	48,666	\$ 6.00	-
Granted	-	-	-
Vested	-	-	-
Forfeited	-	-	-
Ending nonvested restricted shares outstanding	48,666	\$ 6.00	1.4

At December 31, 2013, the Company had \$197,341 of unrecognized stock compensation expense related to the restricted stock grants, which will be recognized over the weighted average remaining service period of 1.4 years.

Edgar Filing: S&W Seed Co - Form 10-Q

On March 16, 2013, the Company issued 280,000 restricted stock units to certain members of the executive management team. The restricted stock units have varying vesting periods whereby 34,000 restricted stock units vest on July 1, 2013 and the remaining 246,000 restricted stock units vest quarterly in equal installments over a four and one-half year period, commencing on July 1, 2013. The Company recorded \$145,511 and \$291,022 of stock-based compensation expense associated with this grant during the three and six months ended December 31, 2013. The fair value of the award was \$2,984,800 and was based on the closing stock price on the date of grant.

A summary of activity related to non-vested restricted share units is presented below:

Six Months Ended December 31, 2013			
	Number of Nonvested Restricted Share Units	Weighted - Average Grant Date Fair Value	Weighted - Average Remaining Contractual Life (Years)
Beginning nonvested restricted units outstanding	280,000	\$ 10.66	-
Granted	-	-	-
Vested	(61,332)	-	-
Forfeited	-	-	-
Ending nonvested restricted units outstanding	218,668	\$ 10.66	3.8

At December 31, 2013, the Company had \$2,166,848 of unrecognized stock compensation expense related to the restricted stock units, which will be recognized over the weighted average remaining service period of 3.8 years.

As of December 31, 2013 there were 326,000 shares available under the 2009 Plan for future grants and awards. Stock-based compensation expense recorded for stock options, restricted stock grants and restricted stock units for the three months ended December 31, 2013 and 2012 totaled \$222,469 and \$99,130, respectively. Stock-based compensation expense recorded for stock options, restricted stock grants and restricted stock units for the six months ended December 31, 2013 and 2012 totaled \$437,495 and \$189,961, respectively.

NOTE 12 - NON-CASH INVESTING ACTIVITIES FOR STATEMENTS OF CASH FLOWS

The below table represents supplemental information to the Company's Statements of Cash Flows for non-cash investing activities during the six months ended December 31, 2013 and 2012, respectively.

	Six Months Ended December 31,	
	2013	2012
Net assets acquired in business acquisition with issuances of notes payable and common stock	\$ -	\$ 3,182,000

NOTE 13 - SUBSEQUENT EVENTS

In January 2014, the Company issued 9,190 shares for the settlement of RSU's which vested on January 1, 2014.

On January 31, 2014, the Company granted 101,000 stock options to its directors, officers, and employees at an exercise price of \$6.23, which was the closing price for the Company's common stock on the date of grant. These options vest in equal quarterly installments over one- and three-year periods, commencing on April 1, 2014, and expire five years from the date of grant.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

This Quarterly Report on Form 10-Q, including, but not limited to, this "Management's Discussion and Analysis of Financial Condition and Results of Operations," contains forward-looking statements that involve risks and uncertainties, as well as assumptions that, if they never materialize or prove incorrect, could cause our results to differ materially from those expressed or implied by such forward-looking statements. The statements contained in this Report that are not purely historical are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). All statements other than statements of historical fact are statements that could be deemed forward-looking statements, including but not limited to any projections of revenue, margins, expenses, tax provisions, earnings, cash flows and other financial items; any statements of the plans, strategies and objectives of management for future operations; any statements regarding our ability to raise capital in the future; any statements concerning expected development, performance or market acceptance relating to our products or services or our ability to expand our grower or customer bases; any statements regarding future economic conditions or performance; any statements of expectation or belief; any statements regarding our ability to retain key employees; and any statements of assumptions underlying any of the foregoing. These forward-looking statements are often identified by the use of words such as, but not limited to, "anticipate," "believe," "can," "continue," "could," "estimate," "expect," "intend," "may," "will," "plan," "project," "seek," "should," "target," "will," "would," and similar expressions or variations intended to identify forward-looking statements. We have based these forward-looking statements on our current expectations about future events. Such forward-looking statements are subject to risks, uncertainties and other important factors that could cause actual results and the timing of certain events to differ materially from future results expressed or implied by such forward-looking statements. Risks, uncertainties and assumptions include the possibility that certain foreign markets into which our seed is sold could be adversely impacted by discounted pricing of non-proprietary seed by competitors, our alfalfa seed growers could choose to grow more profitable crops instead of our alfalfa seed; decline in the dairy industry; macro-economic and geopolitical trends and events; the execution and performance of contracts by our company and our customers, suppliers and partners; the challenge of managing asset levels, including inventory; the difficulty of aligning expense levels with revenue changes; the outcome of pending or future legislation or court decisions and pending or future accounting pronouncements; and other risks that are described herein, and the items discussed in the Risk Factors set forth in Item 1A of Part I of our Annual Report on Form 10-K, filed with the Securities and Exchange Commission (the "SEC") on September 30, 2013 and that are otherwise described or updated from time to time in our SEC reports.

Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, level of activity, performance or achievements. Many factors discussed in this Report, some of which are beyond our control, will be important in determining our future performance. Consequently, actual results may differ materially from those that might be anticipated from the forward-looking statements. In light of these and other uncertainties, you should not regard the inclusion of a forward-looking statement in this Report as a representation by us that our plans and objectives will be achieved, and you should not place undue reliance on such forward-looking statements. Furthermore, such forward-looking statements speak only as of the date of this Report. We undertake no obligation to publicly update any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law.

Executive Overview

Founded in 1980 and headquartered in the Central Valley of California, we are the leading producer of warm climate, high-yield alfalfa seed varieties, including varieties that can thrive in poor, saline soils. We also offer seed cleaning and processing for other seed manufacturers. Until we incorporated in 2009, our business was operated for almost 30 years as a general partnership and was owned by five general partners. We incorporated in October 2009 in Delaware, having bought out the former partners between June 2008 and May 2010, and reincorporated as a Nevada corporation in December 2011. Following our initial public offering in fiscal 2010, we expanded certain pre-existing business initiatives and added new ones, including:

increasing our farming acreage dedicated to alfalfa seed production by both acquisition of leased and purchased farmland and by increasing the number of acres under contract with growers in the Central and Imperial Valleys of California;

teaming with Forage Genetics International, LLC ("Forage Genetics") and Monsanto Corporation ("Monsanto") to develop genetically modified organism (GMO) alfalfa seeds, using our germplasm and Monsanto's genetically modified traits;

developing stevia varieties in response to growing demand for the all-natural, zero calorie sweetener;

acquiring the customer list of our primary international distributor of alfalfa seed;

entering into the dormant market via the acquisition of a portfolio of dormant germplasm in August 2012;

entering into production of non-GMO seed in the Imperial Valley, California by purchasing farmland and acquiring Imperial Valley Seeds, Inc. ("IVS") in October 2012; and

entering into production of non-GMO seed in Southern Australia by acquiring the dominant local producer, Seed Genetics International Pty Ltd ("SGI") in April 2013.

Our combination with SGI creates the world's largest non-dormant alfalfa seed company, and our combined company now has the competitive advantages of year-round production, which extends to all areas of the alfalfa seed business, including sales, inventory management and cash collection cycles. SGI was incorporated as a limited proprietary corporation in South Australia in 1993, as Harkness Group, it changed its name to Seed Genetics Australia Pty Ltd in 2002, and in 2011 changed its name to Seed Genetics International Pty Ltd. SGI's principal office space is located in Unley, South Australia.

We also own a seed-cleaning and processing facility in Five Points, California that was modernized and rebuilt in the late 1980's. The property encompasses a total of 40 acres, including 35 acres that are in reserve for future development and five acres with permanent structures and three seed-processing lines. In recent years, the facility has operated at less than 25% of capacity, providing ample opportunity for growth, both in terms of cleaning the alfalfa seed we grow or purchase from our growers and providing cleaning services for San Joaquin Valley growers of small grains such as wheat, barley and triticale.

We fulfill our seed requirements by contracting with farmers in the San Joaquin and Imperial Valleys of California and Southern Australia, and by internally farming acreage we have leased or purchased in California. Once our seed is processed and bagged at our facility in California or at the facilities of third party processors in Southern Australia, the majority of it is marketed and sold as certified seed to agribusiness firms and farmers throughout the world for the growing of alfalfa hay. Our principal business is subject to uncertainty caused by various factors, which include but are not limited to the following: (i) our seed growers may decide to grow different crops when prices for alternative commodities are on the rise, which can impact our ability to produce seed; (ii) farmers who typically purchase our seed to grow alfalfa hay may plant alternative crops due to a decline in the dairy industry (and corresponding decline in demand for alfalfa hay) or to plant crops with greater profit margins and in either case, smaller quantities of our seed will be purchased; (iii) farmers may choose to convert their alfalfa hay crops to non-certified common seed resulting in an overabundance of non-certified seed entering the market and driving down the overall market price for alfalfa seed, including the market for certified alfalfa seed; (iv) the risks of internally farmed operations such as adverse agronomic decisions, weather conditions, natural disasters, crop disease, pests, lack of water and other natural conditions as well as other factors outside our control; and (v) the risks of doing business internationally following our acquisition of SGI. As a result of these factors and others, our revenue and margins can be difficult to project.

Our alfalfa seed business is largely dependent upon the dairy and livestock industries, each of which is subject to significant and localized cycles of over-supply and under-supply. Consequently, although we are subject to the volatility of local markets, the breadth of our market and the quality niche of our certified seed have resulted in relatively stable demand in most years. However, the supply of seed in the marketplace is subject to substantial swings.

From inception until 2003, almost all our seed sales were to distributors who exported our products to international markets. Modest sales efforts in the Western U.S. were initiated around 2003, and in the fiscal year ended June 30, 2010, our seed shipments were allocated approximately 51% to the domestic market and 49% to distributors who sold into international markets. In fiscal 2011, both markets were negatively impacted by events beyond our control. The domestic market continued to be impacted by the dairy industry downturn that began in fiscal 2009 when dairy prices declined due to over-supply. In normal years, we are typically able to offset this situation with sales to our distributors in our international markets. However, in fiscal 2011, our Middle East distributor experienced the most challenging year in its history due to an over-supply of uncertified common seed being sold at significantly reduced prices. As a result of this over-supply in fiscal 2011, we and our distributor elected to hold back much of our certified proprietary seed rather than sell into the depressed market. Because of our decisions in fiscal 2011, we had strong levels of certified seed inventory available for sale in fiscal 2012 when most of the common seed that glutted those markets in fiscal 2011 had been sold out. This allowed us to meet expected demand and, to some extent, control pricing during our first year selling directly into international markets. We plan to continue to expand our served markets and therefore minimize the risks associated with any specific geographic market.

Historically, our alfalfa seed business has been seasonal, and historical sales have been concentrated in the first six months of our fiscal year (July through December). The acquisition of SGI in April 2013 provides us with a geographically diversified and year-round production cycle allowing us to carry sufficient levels of inventory throughout the year to respond to customer demands in a more consistent manner. This will likely mitigate (at least in part) the seasonality of our business as the fourth quarter is expected to be a significant sales quarter for our newly combined global operation. We contract with growers based upon our anticipated market demand. Also, we mill, clean and stock the seed during the respective harvest seasons and ship from inventory

throughout the year. Tests show that seed that has been held in inventory for over one year improves in quality. Therefore, we may increase our seed purchases and planned season end inventory if, in our judgment, we can generate increased margins and revenue with the aged seed and we have sufficient capital to carry additional inventory. This will also reduce the potential for inventory shortages in the event that we have higher than anticipated demand or other factors, such as a reduction in our available seed supply in a particular year as a result of our growers electing to plant alternative, higher priced crops or adverse weather events.

Although we believe an opportunity exists to materially expand our alfalfa seed business without substantially overhauling our operations, we could nevertheless encounter unforeseen problems. For example, in fiscal 2011 and 2012, some of our seed growers elected to grow alternative crops, such as cotton, that yielded greater profit than alfalfa seed. And, this could reoccur from time to time as commodity prices shift. However, by first leasing farmland in fiscal 2011, and then gaining long-term access to additional farmland in the San Joaquin Valley of California through additional leases entered into in fiscal 2012, and farmland purchases and leases in fiscal 2013, we now have the ability to grow a portion of our alfalfa seed production ourselves, which could partially mitigate this risk in future years. Although we have an experienced farming management and operations staff, our recently implemented direct farming operations pose new challenges. As we obtain additional farmland, by lease or purchase, both our farming costs and risks could continue to climb. And, the farming decisions we make could have a significant negative impact on our results of operations. Traditionally, we have contracted with growers to pay a set price for each pound of clean seed that is delivered to us. Therefore, we do not carry the farming risk on seed yield of that particular type of production and that risk is borne by the contracted seed grower. In our internally farmed operations, we incur a number of costs, and therefore the amount seed yield directly impacts the cost per pound of seed produced which could be higher or lower than our contracted rate based on our ability to achieve lower or higher yields. Nevertheless, we believe that by vertically integrating our alfalfa seed business to include our own production, we can leverage our management infrastructure, our experienced agronomics team and our milling capacity while reducing our costs and more directly controlling our inventory. Expanding our contracted grower base in the Imperial Valley of California and Southern Australia will provide a greater level of diversification of production and we expect it to allow us to grow and gain additional market share.

Up to this point, we have only sold non-genetically modified organism ("GMO") alfalfa seed varieties. In fiscal 2011, we encountered a new challenge created by the availability of Roundup Ready® alfalfa in the U.S. We are still uncertain as to the extent to which Roundup Ready® alfalfa might negatively impact our business, if at all. And, the lack of regulations regarding field isolation could raise concerns about the adventitious presence of GMO material in our non-GMO seed. In fiscal 2012, the first year in which Roundup Ready® alfalfa was planted in the San Joaquin Valley, the presence of GMO traits in our fields was discovered, and further presence of GMO material was recently discovered. Maintaining the integrity of our seed is critical to us as a large majority of our customers are located within regions, including Saudi Arabia, that substantially restrict or prohibit the importation of GMO seed varieties. We actively test for the presence of GMO in our seed stock in the San Joaquin Valley. The presence of GMO alfalfa in significant amounts of our contracted seed production could severely limit the amount of seed that we have available to sell into Saudi Arabia and other locations that prohibit GMO seed varieties. Furthermore, due to widespread negative perception of GMO material, even if we were able to successfully remediate the accidental occurrence of GMO in our seed production, there are no assurances that we would be able to achieve export sales to Saudi Arabia and other non-GMO locations at the same levels as we achieved before the accidental occurrence of GMO.

We have entered into a series of agreements with Monsanto and Forage Genetics to produce and sell GMO alfalfa seed to certain regions of the world where GMO alfalfa seed is approved; however, we are still conducting field trials on performance and do not anticipate having a variety for sale until the Fall of 2015. Due to issues surrounding field isolation from GMO-based crops and the widespread ban of GMO-based crops in many international markets, including markets that are critical to our business, we must take particular care in the planting of any GMO-based alfalfa seed we grow.

We currently are using less than 25% of our mill capacity, providing ample opportunity for revenue growth without having to incur significant capital costs. In particular, we clean, process and bag seed and small grains for growers in the Five Points, California area during the periods in which we are not using the mill for our alfalfa seed business.

In fiscal 2010, we laid the groundwork for the commercial production of stevia in California's Central Valley by conducting trials on sample stevia material sourced from stevia plant breeders in India, China and Paraguay. We planted our first small-scale commercial crop of stevia in May and June 2011 and completed the first harvest and its first small-scale shipment of dried stevia leaf under a previously signed supply agreement during the second quarter of fiscal 2012. In May 2013, as the result of substantial herbicide damage and root diseases to our then-existing stevia crop, we determined to shift the focus of our stevia program away from commercial production and towards the breeding of improved varieties of stevia. As a further result of these damaged crops, we recorded a crop loss on stevia totaling \$2,333,123 for the year ended June 30, 2013.

In our breeding program, we have identified stevia plant lines that we believe grow to heights and plant mass that compare favorably to the results for stevia plants grown in China and Paraguay, which have historically been the primary regions for growing stevia. Our lines contain high overall steviol glycosides, including *rebaudioside A* ("Reb A"), stevioside, Reb B and Reb C. These plants have also been selected for their hardiness. We have conducted extensive HPLC sample testing of stevia plants under development and have made further selections and crosses of these plants this season based upon test results. The goal is to develop a stevia plant with an inherently pleasant taste profile, a higher-yielding and agronomic superior plant type, and high Reb A content. Based upon current taste testing, we believe that we have selected plants to cross that do not have the bitterness or aftertaste issues which have plagued stevia since its first discovery. The improved taste profile will permit the use of the entire stevia leaf by consumers. We are focused on developing our proprietary stevia germplasm into commercial varieties and we are now ready to begin the process of filing patent applications.

At this time, we are evaluating several strategies with respect to future commercial applications for our proprietary stevia, including commercial production of "dry leaf" stevia. We are also investigating the potential for a simple, water-based, extraction method which would lead to the production of a stevia-based sweetener containing the full spectrum of the sweeteners found in the plant. We believe that a California-sourced product such as this will have wide appeal among those consumers seeking a natural, non-caloric, sugar substitute. Presently, there is no commercial scale stevia extraction facility located in the U.S.

Because stevia is a new line of business for us, and the incorporation of stevia extracts into food and beverages sold in the U.S. is still a relatively new industry, our plans may not succeed to the extent we expect or on the time schedule we have planned, or at all. We incurred substantial expenses and earned no revenue during the 2011 fiscal year as we entered the stevia production business. In fiscal 2012, we moved into commercial production of stevia leaf, but we earned only nominal revenue from our stevia operations. In fiscal 2013, we

increased our spending on research and development, but also recorded a stevia crop loss charge of \$2,333,123. We expect our stevia revenue will be nominal in fiscal 2014, but that our stevia expenditures will be substantially lower for these periods as we focus our spending on research and development.

Results of Operations

Three Months ended December 31, 2013 Compared to the Three Months Ended December 31, 2012

Revenue and Cost of Revenue

Revenue for the three months ended December 31, 2013 was \$11,460,197 compared to \$13,685,883 for the three months ended December 31, 2012. The \$2,225,686, or 16%, decrease in revenue for the current quarter was primarily due to a \$4.0 million decrease in revenue from S&W's existing ("organic") business which was partially offset by the acquisition of SGI which contributed approximately \$2.0 million of additional revenue. SGI was acquired on April 1, 2013 and therefore not included in the prior year's second quarter results. The decrease in the company's S&W proprietary operations were attributed to a decrease in sales to our main customer in Saudi.

Sales direct to international customers represented 74% and 70% of revenue during the three months ended December 31, 2013 and 2012, respectively. Domestic revenue accounted for 26% and 30% of our total revenue for the three months ended December 31, 2013 and 2012, respectively. The increase in the international sales percentage was due to the acquisition of SGI which was not included in the comparable period of the prior year. Revenue for the three months ended December 31, 2013 included approximately \$730,548 of milling and other revenue compared to \$112,527 for the three months ended December 31, 2012.

Cost of revenue of \$9,082,367 in the three months ended December 31, 2013 was 79% of revenue, while the cost of revenue of \$12,101,431 in the three months ended December 31, 2012 was 88% of revenue. The dollar decrease in cost of revenue for the current quarter was primarily attributable to the reduction in revenue of the company's S&W proprietary varieties.

Total gross profit margins for the current quarter totaled 20.7% versus 11.6% in the comparable period of the prior year. The improvement in gross profit margins can be attributed to the following factors: 1) the newly acquired SGI business generated higher gross profit margins which improved the overall profit margins of the combined business; and 2) the Company increased pricing and created lower cost blended products to improve margins which is consistent with the Company's strategic initiatives. There will continue to be quarterly fluctuations in gross profit margins based on revenue mix, but we expect to obtain stable sales pricing for the fiscal year 2014 and anticipate that we will improve gross margins in our core business in fiscal year 2014 compared to fiscal year 2013.

Selling, General and Administrative Expenses

Selling, general and administrative expenses ("SG&A") for the three months ended December 31, 2013 totaled \$1,471,041 compared to \$1,065,089 for the three months ended December 31, 2012. The \$405,952, or 38%, increase in SG&A expense versus the prior year was primarily due to the acquisition of SGI which contributed

an additional \$318,000 of SG&A expenses that were not included in the prior periods results. In addition, non-cash stock-based compensation which totaled \$222,469 in the current quarter increased \$123,339 versus \$99,130 in the comparable period in the prior year. As a percentage of revenue, SG&A expenses were 13% in the current period compared to 8% during the three months ended December 31, 2012.

Research and Development Expenses

Research and development expenses ("R&D") for the three months ended December 31, 2013 totaled \$246,449 compared to \$102,036 in the comparable period in the prior year. R&D expenses increased \$144,413 in the current quarter due to a \$91,025 increase in our alfalfa seed product development expenses and a \$53,388 increase in stevia product development expenses.

In May 2013 we determined to shift the focus of our stevia program away from commercial production and towards the breeding of improved varieties of stevia. Our stevia efforts are focused on breeding improved varieties of stevia, perfecting our harvesting and milling techniques, and developing our marketing and distribution programs for stevia products. In order to minimize risk going forward, we have decided to delay new commercial replanting until we have optimized our farming methodology and our new stevia varieties under development are ready for production.

Depreciation and Amortization

Depreciation and amortization expense for the three months ended December 31, 2013 was \$317,334 compared to \$150,364 for the three months ended December 31, 2012. Included in the amount was amortization expense for intangible assets, which totaled \$239,466 in the current quarter and \$98,169 in the comparable period of the prior year. The \$141,297 increase in amortization expense in the current quarter was directly attributable to the addition of intangible assets acquired in the SGI business combination which were not included in amortization expense in the comparable period of the prior year. The Company expects amortization expense to total approximately \$950,000 in fiscal year 2014 which will include a full year of amortization expense for both the IVS and SGI intangible assets.

Foreign Currency (Gain) Loss

The Company incurred \$24,343 of foreign currency losses associated with SGI, its wholly owned subsidiary in Australia. The Company did not have any foreign currency transactions in the prior year.

Interest Expense, Net

Interest expense, net during the three months ended December 31, 2013 totaled \$122,571 compared to \$14,229 for the three months ended December 31, 2012. Interest expense primarily consisted of interest incurred on the SGI's credit facility with NAB and to a lesser extent interest on the credit facility with Wells Fargo.

Income Tax Expense

Income tax expense totaled \$85,960 for the three months ended December 31, 2013 compared to income tax expense of \$106,125 for the three months ended December 31, 2012. The Company's effective tax rate was 43.8% in the current quarter versus 42.0% in the three months ended December 31, 2012.

Net Income

We had net income of \$110,132 for the three months ended December 31, 2013 compared to net income of \$146,609 for the three months ended December 31, 2012. The decrease in profitability was attributable primarily to the increased operating expenses from the SGI and IVS acquisitions, as discussed above. The net income per basic and diluted common share for the current quarter was \$0.01, compared to net income per basic and diluted common share of \$0.02 for the three months ended December 31, 2012.

Six Months ended December 31, 2013 Compared to the Six Months Ended December 31, 2012

Revenue and Cost of Revenue

Revenue for the six months ended December 31, 2013 was \$23,838,783 compared to \$20,405,618 for the six months ended December 31, 2012. The \$3,433,165, or 17%, increase in revenue for the six months was primarily due to the acquisition of IVS on October 1, 2012 which contributed an incremental \$4.5 million of seed revenue in current period compared to the same period in the prior year as prior year results only included three months of operations versus a full six months in the current year. The increase can also be attributed to the acquisition of SGI which contributed \$6.6 million of revenue in the current period. These increases were partially offset by a \$7.7 million or 59% decrease in revenue from S&W's existing ("organic") business. The decreases in the company's S&W proprietary operations were due to a decrease in sales to our main customer in Saudi Arabia.

Sales direct to international customers represented 80% and 73% of revenue during the six months ended December 31, 2013 and 2012, respectively. Domestic revenue accounted for 20% and 27% of our total revenue for the six months ended December 31, 2013 and 2012, respectively. The increase in the international sales percentage was due to the acquisition SGI which was not included in the comparable period of the prior year and IVS which was only included in the second quarter of the prior year. Revenue for the six months ended December 31, 2013 included approximately \$959,710 of milling and other compared to \$476,210 for the six months ended December 31, 2012.

Cost of revenue of \$19,153,374 in the six months ended December 31, 2013 was 80% of revenue, while the cost of revenue of \$17,742,764 in the six months ended December 31, 2012 was 87% of revenue. The dollar increase in cost of revenue for the six months was primarily attributable to the revenue growth of the company from the IVS and SGI acquisitions.

Total gross profit margins for the six months totaled 19.7% versus 13.0% in the comparable period of the prior year. The improvement in gross profit margins can be attributed to the following factors: 1) the newly acquired SGI business generated higher gross profit margins which improved the overall profit margins of the combined business; and 2) the Company increased pricing and created lower cost blended products to improve margins which is consistent with the Company's strategic initiatives. These improvements were partially offset by

contributions from the company's non-proprietary IVS business which inherently have lower margins. There will continue to be quarterly fluctuations in gross profit margins based on revenue mix, but we expect to obtain stable pricing for fiscal year 2014 and anticipate that we will improve gross margins in our core business in fiscal year 2014 compared to fiscal year 2013.

Selling, General and Administrative Expenses

Selling, general and administrative expenses ("SG&A") for the six months ended December 31, 2013 totaled \$3,065,243 compared to \$1,815,440 for the six months ended December 31, 2012. The \$1,249,803, or 69%, increase in SG&A expense versus the prior year was primarily due to the acquisition of SGI which contributed an additional \$667,000 of SG&A expenses and the acquisition of IVS which contributed an additional \$84,000 that were not included in the first quarter of prior periods results. In addition, non-cash stock-based compensation which totaled \$437,495 in the current quarter increased \$247,534 versus \$189,961 in the comparable period in the prior year. In addition, the Company had an increase in personnel costs and legal costs as the Company continues to invest in resources to support its overall growth. As a percentage of revenue, SG&A expenses were 13% in the current period compared to 9% in the comparable period in the prior year.

Research and Development Expenses

Research and development expenses ("R&D") for the six months ended December 31, 2013 totaled \$480,088 compared to \$205,467 in the comparable period in the prior year. R&D expenses increased \$274,621 in the current period due to a \$192,222 increase in our alfalfa seed product development expenses and an \$82,399 increase in stevia product development expenses.

Depreciation and Amortization

Depreciation and amortization expense for the six months ended December 31, 2013 was \$631,788 compared to \$220,149 for the six months ended December 31, 2012. Included in the amount was amortization expense for intangible assets, which totaled \$477,025 in the current period and \$114,323 in the comparable period of the prior year. The \$362,702 increase in amortization expense for the six months ending December 31, 2013 was directly attributable to the addition of intangible assets acquired in the SGI business combination which were not included in amortization expense in the comparable period of the prior year as well as the addition of intangible assets acquired in the IVS business combination which were only included for the second quarter of the comparable period of the prior year. The Company expects amortization expense to total approximately \$950,000 in fiscal year 2014 which will include a full year of amortization expense for both the IVS and SGI intangible assets.

Foreign Currency (Gain) Loss

During the six months ended December 31, 2013, the Company incurred 30,198 of foreign currency gains associated with SGI, its wholly owned subsidiary in Australia. The Company did not have any foreign currency transactions in the prior year.

Interest Expense, Net

Interest expense, net during the six months ended December 31, 2013 totaled \$280,125 compared to \$22,097 for the six months ended December 31, 2012. Interest expense primarily consisted of interest incurred on the SGI's credit facility with NAB and to a lesser extent interest on the credit facility with Wells Fargo.

Income Tax Expense

Income tax expense totaled \$107,022 for the six months ended December 31, 2013 compared to income tax expense of \$164,336 for the six months ended December 31, 2012. The Company's effective tax rate was 41.4% in the current year versus 41.1% in the comparable period of the prior year.

Net Income

We had net income of \$151,341 for the six months ended December 31, 2013 compared to net income of \$235,365 for the six months ended December 31, 2012. The decrease in profitability was attributable primarily to the increased operating expenses from the SGI and IVS acquisitions and additional interest expense, as discussed above. The net income per basic and diluted common share for the current period was \$0.01, compared to net income per basic and diluted common share of \$0.03 for the six months ended December 31, 2012.

Liquidity and Capital Resources

Our working capital and working capital requirements fluctuate from quarter to quarter depending on the phase of the growing and sales cycle that falls during a particular quarter. Our need for cash has historically been highest in the second and third fiscal quarters (October through March) because we typically pay our California contracted growers progressively, starting in the second quarter. In fiscal 2013, we paid our growers approximately 50% in October 2012, and the remaining 50% was paid in February 2013. The recent acquisition of SGI, an Australian-based alfalfa seed company, in April 2013 provides the Company with a geographically diversified and year-round production cycle which will likely result in less quarter-to-quarter fluctuation in revenues; however, it will put a greater demand on our working capital and working capital requirements during the second and third quarters as the Company expects to pay its Australian growers during these periods as well as our California growers.

Historically, due to the concentration of sales to certain distributors and key customers, which typically represented a significant percentage of alfalfa seed sales, our month-to-month and quarter-to-quarter sales and associated cash receipts were highly dependent upon the timing of deliveries to and payments from these distributors and customers, which varied significantly from year to year.

We continuously monitor and evaluate our credit policies with all of our customers based on historical collection experience, current economic and market conditions and a review of the current status of the respective trade accounts receivable balance. Our principal working capital components include cash and cash equivalents, accounts receivable, inventory, prepaid expense and other current assets and accounts payable.

In May 2012, we sold 1,000,000 shares of our common stock in a confidentially marketed public offering that priced at \$5.50 per share. We received total proceeds, net of underwriting discounts and equity offering costs, of \$5,006,311. In September 2012, we sold 600,000 shares of our common stock in a private placement to one accredited investor, which was priced at \$5.85 per share, resulting in net proceeds received by us of approximately \$3.5 million.

Edgar Filing: S&W Seed Co - Form 10-Q

On January 16, 2013, we closed on an underwritten public offering of 1,400,000 common shares, which priced at \$7.50 per share. We received total proceeds, net of underwriting discounts and equity offering costs, of approximately \$9.4 million.

On March 12, 2013, we announced that we were exercising our option to call for redemption the Class A warrants. As a result, 1,372,641 shares of common stock were issued as a result of 1,372,641 Class A warrants being exercised. We received proceeds, net of fees and expenses, of \$9,366,212 during the year ended June 30, 2013. The 27,359 remaining Class A Warrants that were not exercised by the deadline were redeemed by the Company for a price of \$0.25 each, for an aggregate redemption cost to S&W of \$6,765. There are no remaining Class A Warrants outstanding.

In fiscal 2012, we increased our working capital line of credit with Wells Fargo Bank under the terms of which we are able to draw down up to \$7,500,000 to fund our seasonal working capital needs. The outstanding principal balance of the line of credit bears interest at the one month LIBOR plus 2%, which equaled 2.2% per annum as of December 2013. The line of credit bears a standby fee on one-half percent per annum on the average daily unused amount of the line of credit. The Company had an outstanding balance of \$4,900,000 on this line of credit at December 31, 2013.

In July 2012, we obtained a term loan from Wells Fargo in a principal amount of up to \$2,625,000 (the "Term Loan"), which we used to fund a portion of the purchase of the 640 acres of Imperial Valley farmland. The Term Loan bears interest at a rate per annum equal to 2.35% above LIBOR as specified in the term note. Under the term loan, we are also required to pay both monthly and annual principal reduction as follows: The first installment of monthly principal repayments commenced in August 2012 and continued at a fixed amount per month until the first annual increase in July 2013. Thereafter, the amount of monthly principal reduction will increase in August of each year through August 2018. The last monthly payment will be made in July 2019. The monthly principal repayments range from \$8,107 per month through the July 2013 payment up to a high of \$9,703 per month in the final year (August 2018 through July 2019). Annual principal payments in August 2013 and 2014 in the amount of \$56,000, with a final installment, consisting of all remaining unpaid principal due and payable in full on July 5, 2019. We may prepay the principal at any time, provided that a minimum of the lesser of \$100,000 or the entire outstanding principal balance is prepaid at any one time.

S&W finances the purchase of most of its seed inventory from growers pursuant to a seasonal credit facility with National Australia Bank Limited ("NAB"). The current facility expires on April 30, 2014 (the "NAB Facility Agreement") and, as of December 31, 2013, \$5,961,456 was outstanding under this facility.

The NAB Facility Agreement comprises several facility lines, including an overdraft facility (AUD \$1,000,000 limit which translates to USD \$887,300 at December 31, 2013) and an interchangeable market rate facility and an overseas bills purchased facility (AUD \$9,000,000 combined limit which translates to USD \$7,985,700 at December 31, 2013). The overseas bills purchased facility limit at December 31, 2013 is AUD \$1,000,000 (which translates to USD \$887,300 at December 31, 2013). The market rate facility is to be reduced in stages according to the following schedule: AUD \$7,000,000 by October 31, 2013; AUD \$6,000,000 by November 30, 2013; and AUD \$5,500,000 by December 31, 2013.

S&W may access the facilities in combination; however, each facility bears interest at a unique interest rate calculated per pricing period--an interval (ranging from 7 to 180 days) between interest rate adjustments. Each facility's interest rate is calculated as the sum of an applicable indicator rate plus customer margin. The indicator rate for the market rate facility is equal to the "bid rate" quoted on the Bank Bill Swap Bid (BBSY) page of the Reuters Monitor System at or about 10:15 am Sydney Time on the banking date immediately preceding the commencement of the applicable pricing period. Under the market rate facility the customer margin is equal to 2.6% per annum. Currently, S&W's facilities accrue interest at approximately the following effective rates: market rate facility, 6.6% calculated daily; overseas bills purchased facility, 3.6% to 3.9% calculated daily; and overdraft facility, 7.6% calculated daily.

For all NAB facilities, interest is payable each month in arrears. In the event of a default, as defined in the NAB Facility Agreement, the principal balance due under the facilities will thereafter bear interest at an increased rate per annum above the interest rate that would otherwise have been in effect from time to time under the terms of each facility (*e.g.*, the interest rate increases by 4.5% per annum under the market rate and overdraft facilities upon the occurrence of an event of default).

The NAB facility is secured by a fixed and floating lien over all the present and future rights, property and undertakings of S&W. The NAB facility contains customary representations and warranties, affirmative and negative covenants and customary events of default that permit NAB to accelerate S&W's outstanding obligations, all as set forth in the NAB Facility Agreement.

Summary of Cash Flows

The following table shows a summary of our cash flows for the six months ended December 31, 2013 and 2012:

	Six Months Ended	
	December 31,	
	2013	2012
Cash flows from operating activities	\$ (12,217,572)	\$ (5,791,388)
Cash flows from investing activities	(244,858)	(9,453,684)
Cash flows from financing activities	3,273,248	10,047,051
Effect of exchange rate changes on cash	(2,483)	-
Net increase (decrease) in cash	(9,191,665)	(5,198,021)
Cash and cash equivalents, beginning of period	11,781,074	8,235,495
Cash and cash equivalents, end of period	\$ 2,589,409	\$ 3,037,474

As of December 31, 2013, we had cash and cash equivalents of approximately \$2.6 million. Cash and cash equivalents consist of cash and money market accounts. To date, we have experienced no loss or lack of access to our invested cash or cash equivalents; however, we can provide no assurances that access to our invested cash and cash equivalents will not be impacted by adverse conditions in the financial markets.

Amounts deposited with third-party financial institutions exceed the Federal Deposit Insurance Corporation, or FDIC, and Securities Investor Protection Corporation, or SIPC, insurance limits, as applicable. These cash and cash equivalents balances could be impacted if the underlying financial institutions fail or are subjected to other adverse conditions in the financial markets. To date, we have experienced no loss or lack of access to our cash and cash equivalents.

Operating Activities

For the six months ended December 31, 2013, operating activities used \$12,217,572 in cash, as a result of an increase in inventories of \$2,207,989 and a decrease in accounts payable of \$13,853,616 primarily due to grower payments. For the six months ended December 31, 2012, operating activities used \$5,791,388 in cash, as a result of net income of \$235,365 and an increase in accounts receivable of \$11,962,940 and an increase in crop production costs of \$1,949,711 partially offset by a decrease in inventories of \$2,804,918 and an increase in accounts payable (including related parties) of \$4,493,417.

Our largest customer, which is located in Saudi Arabia, owed us approximately \$2.4 million at December 31, 2013. In January 2014, we received payments of approximately \$0.6 million and expect the remaining balances to be collected during the third quarter. These outstanding invoices have 120-day payment terms. Our relationship with this customer is strong, and we intend to continue to do a significant amount of business together. Our largest customer comprised 20% of our accounts receivable at December 31, 2013.

Investing Activities

Our investing activities during the six months ended December 31, 2013 totaled \$244,858 and consisted primarily of the purchase of equipment. Our investing activities during the six months ended December 31, 2012 totaled \$9,453,684. These activities consisted primarily of: 1) the purchase of 640 acres of farmland in the Imperial Valley of California which are used for alfalfa seed production; 2) the acquisition of Imperial Valley Seeds on October 1, 2012; 3) the purchase of additional farmland in Imperial Valley in December 2012; and 4) the acquisition of proprietary dormant alfalfa seed varieties.

Financing Activities

Our financing activities during the six months ended December 31, 2013 consisted primarily of \$4,900,000 of net borrowings from our line of credit with Wells Fargo partially offset by \$625,354 of net pay-downs on SGI's line of credit. We also made principal payments totaling \$692,399 on the long-term loans.

Our financing activities during the six months ended December 31, 2012 consisted of a private placement of 600,000 common shares, which was completed in September 2012. We received proceeds, net of equity offering costs, of approximately \$3.5 million from this transaction. We also entered into a long-term loan with Wells Fargo generating proceeds of \$2,625,000 all of which were used for the purchase of Imperial Valley farmland. During December 2012, we also borrowed \$4,000,000 on our line of credit with Wells Fargo to fund inventory purchases.

Inflation Risk

We do not believe that inflation has had a material effect on our business, financial condition or results of operations. However, if our costs were to become subject to significant inflationary pressures, we may not be able to fully offset such higher costs through price increases. Our inability or failure to do so could harm our business, financial condition and results of operations.

Off Balance Sheet Arrangements

We did not have any off-balance sheet arrangements during the three and six months ended December 31, 2013.

Capital Resources and Requirements

Our future liquidity and capital requirements will be influenced by numerous factors, including:

- the extent and duration of future operating income;
- the level and timing of future sales and expenditures;
- working capital required to support our growth;
- investment capital for plant and equipment;
- our sales and marketing programs;
- investment capital for potential acquisitions;
- competition; and
- market developments.

Critical Accounting Policies

The accounting policies and the use of accounting estimates are set forth in the footnotes to the unaudited consolidated financial statements.

In preparing our financial statements, we must select and apply various accounting policies. Our most significant policies are described in Note 2 - Significant Accounting Policies set forth in the notes to the financial statements. In order to apply our accounting policies, we often need to make estimates based on judgments about future events. In making such estimates, we rely on historical experience, market and other conditions, and on assumptions that we believe to be reasonable. However, the estimation process is by its nature uncertain given that estimates depend on events over which we may not have control. If market and other conditions change from those that we anticipate, our results of operations, financial condition and changes in financial condition may be materially affected. In addition, if our assumptions change, we may need to revise our estimates, or to take other corrective actions, either of which may also have a material effect on our results of operations, financial condition or changes in financial condition. Members of our senior management have discussed the development and selection of our critical accounting estimates, and our disclosure regarding them, with the audit committee of our board of directors, and do so on a regular basis.

We believe that the following estimates have a higher degree of inherent uncertainty and require our most significant judgments. In addition, had we used estimates different from any of these, our results of operations, financial condition or changes in financial condition for the current period could have been materially different from those presented.

Intangible Assets: All amortizable intangible assets are assessed for impairment whenever events indicate a possible loss. Such an assessment involves estimating undiscounted cash flows over the remaining useful life of the intangible. If the review indicates that undiscounted cash flows are less than the recorded value of the intangible asset, the carrying amount of the intangible is reduced by the estimated cash-flow shortfall on a discounted basis, and a corresponding loss is charged to the consolidated statement of operations. Significant changes in key assumptions about the business, market conditions and prospects for which the intangible asset is currently utilized or expected to be utilized could result in an impairment charge.

Stock-Based Compensation

: We account for stock-based compensation in accordance with Financial Accounting Standards Board ("FASB") Accounting Standards Codification Topic 718 Stock Compensation, which establishes accounting for equity instruments exchanged for employee services. Under such provisions, stock-based compensation cost is measured at the grant date, based on the calculated fair value of the award, and is recognized as an expense, under the straight-line method, over the employee's requisite service period (generally the vesting period of the equity grant).

We account for equity instruments, including stock options, issued to non-employees in accordance with authoritative guidance for equity based payments to non-employees (FASB ASC 505-50). Stock options issued to non-employees are accounted for at their estimated fair value. The fair value of options granted to non-employees is re-measured as they vest.

We use the lattice valuation model to estimate the fair value of options granted under share-based compensation plans. The lattice valuation model requires us to estimate a variety of factors including, but not limited to, the expected term of the award, stock price volatility, dividend rate, risk-free interest rate, attrition rate, and exercise rate. The input factors to use in the valuation model are based on subjective future expectations combined with management judgment. The expected term used represents the weighted-average period that the stock options are expected to be outstanding. We have used the historical volatility for our stock for the expected volatility assumption required in the lattice model as it is more representative of future stock price trends. We use a risk-free interest rate that is based on the implied yield available on U.S. Treasury issued with an equivalent remaining term at the time of grant. We have not paid dividends in the past and currently do not plan to pay any dividends in the foreseeable future, and as such, dividend yield is assumed to be zero for the purposes of valuing the stock options granted. We evaluate the assumptions used to value stock awards on a quarterly basis. If factors change and we employ different assumptions, share-based compensation expense may differ significantly from what we have recorded in the past. When there are any modifications or cancellations of the underlying unvested securities, we may be required to accelerate, increase or cancel any remaining unearned share-based compensation expense. To the extent that we grant additional equity securities to employees, our share-based compensation expense will be increased by the additional unearned compensation resulting from those additional.

Income Taxes: We regularly assess the likelihood that deferred tax assets will be recovered from future taxable income. To the extent management believes that it is more likely than not that a deferred tax asset will not be realized, a valuation allowance is established. When a valuation allowance is established or increased, an income tax charge is included in the consolidated financial statements and net deferred tax assets are adjusted accordingly. Changes in tax laws, statutory tax rates and estimates of the Company's future taxable income levels could result in actual realization of the deferred tax assets being materially different from the amounts provided for in the consolidated financial statements. If the actual recovery amount of the deferred tax asset is less than anticipated, we would be required to write-off the remaining deferred tax asset and increase the tax provision, resulting in a reduction of net income and stockholders' equity.

Inventories

: All inventories are accounted for on a lower of cost or market basis. Inventories consist of raw materials and finished goods as well as in the ground crop inventories. Depending on market conditions, the actual amount received on sale could differ from our estimated value of inventory. In order to determine the value of inventory at the balance sheet date, we evaluate a number of factors to determine the adequacy of provisions for inventory. The factors include the age of inventory, the amount of inventory held by type, future demand for products and the expected future selling price we expect to realize by selling the inventory. Our estimates are judgmental in nature and are made at a point in time, using available information, expected business plans and expected market conditions. We perform a review of our inventory by product line on a quarterly basis.

Our subsidiary SGI does not fix the final price for seed payable to its growers until the completion of a given year's sales cycle pursuant to its standard contract production agreement. We record an estimated unit price, accordingly, inventory, cost of goods sold and gross profits are based upon management's best estimate of the final purchase price to our SGI growers. To the extent the estimated purchase price varies from the final purchase price for seed, the adjustment to actual could materially impact the results in the period when the difference between estimates and actuals are identified. If the actual purchase price is in excess of our estimated purchase price, this would negatively impact our financial results including a reduction in gross profits and net income.

Recently Adopted and Recently Enacted Accounting Pronouncements

In February 2013, the Financial Accounting Standards Board, or FASB, issued Accounting Standards Update, or ASU, 2013-02, Comprehensive Income: Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income, which requires companies to report, in one place, information about significant reclassifications out of accumulated other comprehensive income, or AOCI, and disclose more information about changes in AOCI balances. We adopted this ASU in the first quarter of fiscal 2014. The adoption of this standard did not have a material impact on our consolidated financial statements.

In July 2013, the FASB issued ASU 2013-11, Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists, which provides guidance for the financial statement presentation of an unrecognized tax benefit when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists. We will adopt the standard effective July 1, 2014. The adoption of this ASU is not expected to have a material impact on our consolidated financial statements.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

We are a smaller reporting company and therefore, we are not required to provide information required by this item of Form 10-Q.

Item 4. Controls and Procedures.

Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive Officer and our Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures as of December 31, 2013. The term "disclosure controls and procedures," as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, means controls and other procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the company's management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure. Management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives and management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Based on the evaluation of our disclosure controls and procedures as of December 31, 2013, our Chief Executive Officer and Chief Financial Officer concluded that, as of such date, our disclosure controls and procedures were effective at the reasonable assurance level.

Changes in Internal Control over Financial Reporting

There have been no significant changes in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) or in other factors that occurred during the period of our evaluation or subsequent to the date we carried out our evaluation which have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting. Potential investors should be aware that the design of any system of controls and procedures is based in part upon certain assumptions about the likelihood of future events. There can be no assurance that any system of controls and procedures will succeed in achieving its stated goals under all potential future conditions, regardless of how remote.

Part II

OTHER INFORMATION

Item 1. Legal Proceedings.

We are not a party to any material legal proceedings.

Item 1A. Risk Factors.

There have been no material changes to the risk factors previously disclosed under the caption "Risk Factors" in Item 1A of Part 1 of our Annual Report on Form 10-K filed with the SEC on September 30, 2013.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

Issuer Purchases of Equity Securities

On June 25, 2013, our Board of Directors authorized a share repurchase program. Under the program, we are authorized to repurchase up to \$3.0 million of our outstanding shares of common stock from time to time until June 25, 2014. The amount and timing of repurchases, if any, will depend on a number of factors, including price, trading volume, general market conditions, legal requirements, and other factors. The repurchases may be made on the open market, in block trades, or in privately negotiated transactions. Any shares of common stock repurchased under the program will be considered issued but not outstanding shares of the company's common stock. A summary of our common stock repurchases during the three months ended December 31, 2013 under the repurchase program is set forth in the following table:

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Program	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Program
Month #1 (October 1 to October 31)	-	\$ -	-	\$ -
Month #2 (November 1 to November 30)	21,950	\$ 5.12	21,950	\$ 2,865,804
Month #3 (December 1 to December 31)	-	\$ -	-	\$ -

Item 3. Defaults Upon Senior Securities.

None.

Item 4. Mine Safety Disclosures.

Not applicable.

Item 5. Other Information.

None.

Item 6. Exhibits.

Exhibit No.	Description
31.1	Certification of Chief Executive Officer Pursuant to Rule 13-14(a) of the Securities Exchange Act of 1934 as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Chief Financial Officer Pursuant to Rule 13-14(a) of the Securities Exchange Act of 1934 as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on the 12th day of February 2014.

S&W SEED COMPANY

By: /s/ Matthew K. Szot

Matthew K. Szot

Senior Vice President Finance and Chief Financial Officer

(Principal Accounting and Financial Officer and Duly Authorized
Signatory)