

S&W Seed Co  
Form 10-Q  
May 16, 2011

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

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FORM 10-Q

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

For the quarterly period ended March 31, 2011

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)

**Delaware**

(State or Other Jurisdiction of Incorporation or Organization)

**27-1285894**

(I.R.S. Employer Identification Number)

25552 South Butte Avenue  
Five Points, CA 93624

(Address of Principal Executive Offices, including Zip Code)

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(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 | <input type="checkbox"/> | Accelerated filer | <input type="checkbox"/> | Non-accelerated filer                         | <input type="checkbox"/> | Smaller reporting company | <input checked="" type="checkbox"/> |
|                         |                          |                   |                          | (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 May 13, 2011, 5,800,000 shares of the registrant's common stock were outstanding.

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PDF, as a courtesy

S&W SEED COMPANY  
Table of Contents

| <b>PART I. FINANCIAL INFORMATION</b>  | <b><u>Page No.</u></b> |
|---|------------------------|
| Item 1. Financial Statements (Unaudited):   |                        |
| <u>Consolidated Balance Sheets at March 31, 2011 and June 30, 2010</u>  | 3                      |
| <u>Consolidated Statements of Operations for the Three and Nine Months Ended March 31, 2011 and 2010</u>                                    | 4                      |
| <u>Consolidated Statements of Stockholders' Equity for the Fiscal Year Ended June 30, 2010 and for the Nine Months Ended March 31, 2011</u> | 5                      |
| <u>Condensed Consolidated Statements of Cash Flows for the Nine Months Ended March 31, 2011 and 2010</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>  | 24                     |
| <u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>   | 39                     |
| <u>Item 4. Controls and Procedures</u>  | 39                     |
| <b>PART II. OTHER INFORMATION</b>   |                        |
| <u>Item 1. Legal Proceedings</u>  | 40                     |
| <u>Item 1A. Risk Factors</u>  | 40                     |
| <u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>  | 41                     |
| <u>Item 3. Defaults Upon Senior Securities</u>  | 42                     |
| <b>Item 4. [Removed and Reserved]</b>   |                        |
| <u>Item 5. Other Information</u>  | 42                     |
| <u>Item 6. Exhibits</u>   | 42                     |

## Part I -- FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS

S&W SEED COMPANY  
(A DELAWARE CORPORATION)  
CONSOLIDATED BALANCE SHEETS  
(Unaudited)

|   | <b>March 31,<br/>2011</b> | <b>June 30,<br/>2010</b> |
|---|---------------------------|--------------------------|
|   | <hr/>                     | <hr/>                    |
| <b>ASSETS</b>   |                           |                          |
| <b>CURRENT ASSETS</b>   |                           |                          |
| Cash and cash equivalents   | \$ 4,133,439              | \$ 7,830,517             |
| Accounts receivable, net  | 1,009,779                 | 2,114,868                |
| Inventories, net  | 6,601,833                 | 2,714,183                |
| Prepaid expenses and other current assets   | 31,825                    | 75,901                   |
| Deferred tax asset  | 133,978                   | 184,488                  |
|   | <hr/>                     | <hr/>                    |
| TOTAL CURRENT ASSETS  | 11,910,854                | 12,919,957               |
| Property, plant and equipment, net of accumulated depreciation  | 2,194,956                 | 2,110,503                |
| Other intangibles, net  | 513,988                   | 548,674                  |
| Deferred tax asset - long term  | 552,595                   | -                        |
|   | <hr/>                     | <hr/>                    |
| TOTAL ASSETS  | \$ 15,172,393             | \$ 15,579,134            |
|   | <hr/>                     | <hr/>                    |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>   |                           |                          |
| <b>CURRENT LIABILITIES</b>  |                           |                          |
| Accounts payable  | \$ 98,636                 | \$ 294,477               |
| Accounts payable - related party  | 259,164                   | 1,782                    |
| Accrued expenses and other current liabilities  | 101,439                   | 31,348                   |
|   | <hr/>                     | <hr/>                    |
| TOTAL CURRENT LIABILITIES   | 459,239                   | 327,607                  |
|   | <hr/>                     | <hr/>                    |
| TOTAL LIABILITIES   | 459,239                   | 327,607                  |
|   | <hr/>                     | <hr/>                    |
| <b>STOCKHOLDERS' EQUITY</b>   |                           |                          |
| Preferred stock, \$0.001 par value; 5,000,000 shares authorized;<br>no shares issued and outstanding                                      | -                         | -                        |
| Common stock, \$0.001 par value; 50,000,000 shares authorized;<br>5,800,000 issued and outstanding<br>at March 31, 2011 and June 30, 2010 | 5,800                     | 5,800                    |
| Additional paid-in capital  | 14,574,068                | 14,482,531               |
| Retained earnings   | 133,286                   | 763,196                  |
|   | <hr/>                     | <hr/>                    |
| TOTAL STOCKHOLDERS' EQUITY  | 14,713,154                | 15,251,527               |
|   | <hr/>                     | <hr/>                    |
| TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY  | \$ 15,172,393             | \$ 15,579,134            |
|   | <hr/>                     | <hr/>                    |

See notes to consolidated financial statements.



S&W SEED COMPANY  
(A DELAWARE CORPORATION)  
CONSOLIDATED STATEMENTS OF OPERATIONS  
(Unaudited)

|   | Three Months Ended<br>March 31, |              | Nine Months Ended<br>March 31, |              |
|---|---------------------------------|--------------|--------------------------------|--------------|
|   | 2011                            | 2010         | 2011                           | 2010         |
| Revenue   | \$ 439,890                      | \$ 839,306   | \$ 2,282,689                   | \$ 5,500,504 |
| Cost of revenue   | 249,707                         | 699,172      | 1,258,468                      | 3,931,166    |
| Gross profit  | 190,183                         | 140,134      | 1,024,221                      | 1,569,338    |
| Operating expenses  |                                 |              |                                |              |
| Selling, general and administrative expenses                            | 614,820                         | 253,347      | 1,640,233                      | 551,235      |
| Research and development expenses                                       | 77,645                          | 68,088       | 339,773                        | 106,217      |
| Depreciation and amortization   | 60,714                          | 54,464       | 180,411                        | 161,569      |
| Total operating expenses  | 753,179                         | 375,899      | 2,160,417                      | 819,021      |
| Income (loss) from operations   | (562,996)                       | (235,765)    | (1,136,196)                    | 750,317      |
| Other (income) expense  |                                 |              |                                |              |
| Loss on sale of fixed assets  | -                               | -            | 5,706                          | -            |
| Interest (income) expense, net  | (2,764)                         | 35,426       | (9,907)                        | 77,363       |
| Net income (loss) before income tax benefit                             | (560,232)                       | (271,191)    | (1,131,995)                    | 672,954      |
| Income tax (benefit) expense  | (266,598)                       | (66,602)     | (502,085)                      | (66,602)     |
| Net income (loss) including noncontrolling interests                    | (293,634)                       | (204,589)    | (629,910)                      | 739,556      |
| Net income attributable to noncontrolling interests                     | -                               | -            | -                              | 94,415       |
| Net income (loss) attributable to S&W Seed Company                      | \$ (293,634)                    | \$ (204,589) | \$ (629,910)                   | \$ 645,141   |
| Net income (loss) attributable to S&W Seed Company<br>per common share: |                                 |              |                                |              |
| Basic   | \$ (0.05)                       | \$ (0.07)    | \$ (0.11)                      | \$ 0.22      |
| Diluted   | \$ (0.05)                       | \$ (0.07)    | \$ (0.11)                      | \$ 0.22      |
| Weighted average number of common shares outstanding:                   |                                 |              |                                |              |
| Basic   | 5,800,000                       | 3,000,000    | 5,800,000                      | 3,000,000    |
| Diluted   | 5,800,000                       | 3,000,000    | 5,800,000                      | 3,000,000    |

See notes to consolidated financial statements.



S&W SEED COMPANY  
(A DELAWARE CORPORATION)  
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY  
(Unaudited)

|   | Common Stock |          | Additional<br>Paid-In<br>Capital | Retained<br>Earnings | Non-Controlling<br>Interests | Total<br>Stockholders'<br>Equity |
|---|--------------|----------|----------------------------------|----------------------|------------------------------|----------------------------------|
|   | Shares       | Amount   |                                  |                      |                              |                                  |
| <b>Balance, June 30, 2009</b>                       | 3,000,000    | \$ 3,000 | \$ 1,732,328                     | \$ 378,720           | \$ 135,688                   | \$ 2,249,736                     |
| Aquisition of minority interest - December 31, 2009 | -            | -        | 10,561                           | -                    | (230,103)                    | (219,542)                        |
| Equity offering costs                               | -            | -        | (1,153,444)                      | -                    | -                            | (1,153,444)                      |
| Withdrawals by owners                               | -            | -        | (79,614)                         | -                    | -                            | (79,614)                         |
| Proceeds from IPO net of underwriters fees          | 2,800,000    | 2,800    | 13,972,700                       | -                    | -                            | 13,975,500                       |
| Net income for the year ended June 30, 2010         | -            | -        | -                                | 384,476              | 94,415                       | 478,891                          |
| <b>Balance, June 30, 2010</b>                       | 5,800,000    | \$ 5,800 | \$ 14,482,531                    | \$ 763,196           | \$ -                         | \$ 15,251,527                    |
| Stock-based compensation                            | -            | -        | 91,537                           | -                    | -                            | 91,537                           |
| Net loss for the nine months ended March 31, 2011   | -            | -        | -                                | (629,910)            | -                            | (629,910)                        |
| <b>Balance, March 31, 2011</b>                      | 5,800,000    | \$ 5,800 | \$ 14,574,068                    | \$ 133,286           | \$ -                         | \$ 14,713,154                    |

See notes to consolidated financial statements.



S&W SEED COMPANY  
(A DELAWARE CORPORATION)  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
(Unaudited)

|   | Nine Months Ended<br>March 31, |             |
|---|--------------------------------|-------------|
|   | 2011                           | 2010        |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>   |                                |             |
| Net income (loss) including noncontrolling interests  | \$ (629,910)                   | \$ 739,556  |
| Adjustments to reconcile net income (loss) from operating activities to net cash used in operating activities |                                |             |
| Accretion of acquisition purchase obligation  | -                              | 27,214      |
| Stock-based compensation  | 91,537                         | -           |
| Depreciation and amortization   | 180,411                        | 161,569     |
| Loss on disposal of fixed assets  | 5,706                          | -           |
| Changes in:   |                                |             |
| Accounts receivable   | 1,105,089                      | (1,069,491) |
| Inventories   | (3,887,650)                    | (2,518,678) |
| Prepaid expenses and other current assets   | 44,076                         | (72,790)    |
| Deferred tax asset and income tax receivable  | (502,085)                      | -           |
| Due from related parties  | -                              | 63,693      |
| Accounts payable  | (195,841)                      | 2,317,323   |
| Accounts payable - related party  | 257,382                        | -           |
| Accrued expenses and other current liabilities  | 70,091                         | 26,219      |
|   | (3,461,194)                    | (325,385)   |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>   |                                |             |
| Additions to property, plant and equipment  | (240,384)                      | (29,635)    |
| Proceeds from disposal of property, plant and equipment   | 4,500                          | -           |
|   | (235,884)                      | (29,635)    |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>   |                                |             |
| Withdrawals by owners   | -                              | (79,614)    |
| Equity offering costs   | -                              | (727,727)   |
| Borrowing (repayments) on revolving credit loan   | -                              | 1,519,927   |
|   | -                              | 712,586     |
| <b>NET INCREASE OR (DECREASE) IN CASH</b>   | (3,697,078)                    | 357,566     |
| <b>CASH AND CASH EQUIVALENTS, beginning of the period</b>   | 7,830,517                      | 367         |
| <b>CASH AND CASH EQUIVALENTS, end of period</b>   | \$ 4,133,439                   | \$ 357,933  |
| <b>SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION</b>  |                                |             |
| Cash paid during the period for:  |                                |             |
| Interest  | \$ -                           | \$ 34,950   |
| Income taxes  | -                              | -           |
| Non-cash transactions:  |                                |             |
| Debt issued for acquisition of minority interests   | \$ -                           | \$ 819,542  |

See notes to consolidated financial statements.



S&W SEED COMPANY  
(A DELAWARE CORPORATION)  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(Unaudited)

NOTE 1 — BACKGROUND AND ORGANIZATION

Organization

Seed Holding, LLC ("Seed Holding") was formed as a Nevada limited liability company on June 27, 2008 for the purpose of acquiring a majority ownership interest in S&W Seed Company, a California general partnership ("S&W"), which was engaged in the business of breeding, growing, processing and selling agricultural commodities, such as alfalfa seed, and to a lesser extent, wheat and small grains.

On June 27, 2008, the general partners of S&W entered into an agreement for sale of their partnership interests to Seed Holding. Under the terms of the agreement, Seed Holding agreed to purchase 90% of S&W for \$3,600,000 in three separate closing transactions. By amendment to that agreement, in December 2009, Seed Holding agreed to purchase the entire partnership. At December 31, 2009, Seed Holding legally owned an 85% general partnership interest and had issued \$730,000 in promissory notes to the four general partners. These notes were due on June 30, 2010 but accelerated upon the closing of the Company's initial public offering. Seed Holding agreed to purchase the remaining 15% general partnership interest on the earlier of June 30, 2010 or the closing of the Company's initial public offering.

The corporate entity, S&W Seed Company (the "Company"), was incorporated in Delaware on October 2, 2009. In January 2010, the members of Seed Holding exchanged their membership units for 3,000,000 shares of the Company's common stock, the Delaware corporation became the sole member of Seed Holding, and the corporation assumed the obligation to purchase the remaining 15% general partnership interest. Following the receipt of the net proceeds from the initial public offering in May 2010, the Company repaid the promissory notes in full and purchased the final partnership interests, resulting in Seed Holding owning 100% of the former partnership.

The accounting rules applicable to the agreement mandate that Seed Holding account for the acquisition of 90% of the partnership as of June 30, 2009 and 100% of the partnership as of December 31, 2009 and subsequent periods. These financial statements reflect this accounting treatment. Prior period consolidated financial statements have been re-classified to conform to the equity presentation of the Company as a C-corporation.

See Note 3 for further discussion.

Business Overview

Since its establishment, the Company, including its predecessor entities, has been principally engaged in breeding, growing, processing and selling agricultural commodities, including alfalfa seed, and to a lesser extent, wheat and small grains. 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 grown under contract by farmers in the San Joaquin and Imperial Valleys of California. Though the Company's proprietary alfalfa seed varieties have been a mainstay of the business for decades, S&W has in the past derived material revenue from the processing of wheat and other small grains. In fiscal 2010, the Company began a pilot stevia cultivation program under which it is test growing various varieties of

stevia in the San Joaquin Valley as a prelude to operating a commercial stevia production operation in which its dried stevia leaf will be sold to stevia processors who will, in turn, sell the processed stevia to their customers for incorporation into food and beverages.

## 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 Company legally owned 60% of S&W Seed Company, a California general partnership, as of June 30, 2009, 85% as of December 31, 2009 and 100% as of May 18, 2010 and March 31, 2011, respectively, but has accounted for a 90% ownership interest at June 30, 2008 and 2009 and a 100% ownership interest at December 31, 2009 and subsequent periods for accounting purposes due to the contractual obligation to purchase the remaining ownership interests. See Note 3 for further discussion. The consolidated financial statements include the accounts of Seed Holding, LLC and its other wholly-owned subsidiary, Stevia California, LLC. All significant intercompany balances and transactions have been eliminated. The Company records net income attributable to non-controlling interest in the consolidated statements of operations for any non-owned portion of its consolidated subsidiary. Non-controlling interest is recorded in stockholders' equity on the consolidated balance sheet.

### Unaudited Interim Financial Information

The accompanying consolidated balance sheet as of March 31, 2011, consolidated statements of operations for the three and nine months ended March 31, 2011 and 2010, consolidated statement of owners' equity for the nine months ended March 31, 2011 and consolidated statements of cash flows for the nine months ended March 31, 2011 and 2010 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 March 31, 2011 and its results of operations and its cash flows for the nine months ended March 31, 2011 and 2010. The results for the three and nine months ended March 31, 2011 are not necessarily indicative of the results to be expected for the fiscal year ending June 30, 2011.

### 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 obsolescence, asset impairments, 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.

## Reclassifications

Certain amounts in the 2010 fiscal year consolidated financial statements have been reclassified to conform to the 2011 fiscal year presentation.

## 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. Three customers accounted for 35% and 50% of its net sales for the three and nine months ended March 31, 2011, respectively. Three different customers accounted for 75% and 70% of its net sales for the three and nine months ended March 31, 2010.

Three customers comprised 94% and 99% of the Company's accounts receivable at March 31, 2011 and June 30, 2010, respectively.

The Company is also dependent upon a small network of growers of alfalfa seed that together provide all of the seed the Company sells to its customers. Three growers accounted for 52% and 43% of the Company's seed requirements for the nine months ended March 31, 2011 and 2010, respectively.

## Revenue Recognition

The Company derives its revenue from sales of alfalfa seed and milling services. Revenue from seed sales is recognized when risk and title to the product is transferred to the customer, which usually occurs at the time shipment is made from the Company's facilities. When selling to distributors who distribute the Company's products internationally, title to the product is transferred at the time the product is delivered to the port of debarkation.

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 March 31, 2011, 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 most instances, products are shipped F.O.B. shipping point and, as a result, 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.

The Company maintains cash and cash equivalent balances at financial institutions that are insured by the Federal Deposit Insurance Corporation up to \$250,000. 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.

## 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 \$0 at March 31, 2011 and June 30, 2010.

## Inventories

Inventories consist of alfalfa seed purchased from the Company's growers under year-to-year production contracts as well as packaging materials. Alfalfa inventories are accounted for on a specific lot-by-lot identification basis. Inventories are sold to the Company's customers on the same specific lot-by-lot identification basis.

Inventories are stated at the lower of cost or market, and the inventory reserve reduces 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.

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 is not a material concern. The Company sells its inventory to distributors, dealers and directly to growers.

Components of inventory are:

|                            | <b>March 31,<br/>2011</b> | <b>June 30,<br/>2010</b> |
|----------------------------|---------------------------|--------------------------|
| Raw materials and supplies | \$ 85,955                 | \$ 64,948                |
| Work in progress           | 114,172                   | -                        |
| Finished goods             | 6,401,706                 | 2,649,235                |
| Reserve for obsolescence   | -                         | -                        |
|                            | <b>\$ 6,601,833</b>       | <b>\$ 2,714,183</b>      |

### 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 the business acquisition of S&W in 2008 are reported at their initial fair value less accumulated amortization. The intangible assets are amortized based on useful lives ranging from 3-20 years.

### 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 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 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 binomial lattice valuation model and the assumptions shown in Note 10. The excess tax benefits recognized in equity related to equity award exercises are reflected as financing cash inflows. See Note 10 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 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.

|   | Three Months Ended<br>March 31, |              | Six Months Ended<br>December 31, |            |
|---|---------------------------------|--------------|----------------------------------|------------|
|   | 2011                            | 2010         | 2011                             | 2010       |
| Net income (loss) including noncontrolling interests                    | \$ (293,634)                    | \$ (204,589) | \$ (629,910)                     | \$ 739,556 |
| Net income attributable to noncontrolling interests                     | -                               | -            | -                                | 94,415     |
| Net income (loss) attributable to S&W Seed Company                      | \$ (293,634)                    | \$ (204,589) | \$ (629,910)                     | \$ 645,141 |
| Net income (loss) attributable to S&W Seed Company<br>per common share: |                                 |              |                                  |            |
| Basic   | \$ (0.05)                       | \$ (0.07)    | \$ (0.11)                        | \$ 0.22    |
| Diluted   | \$ (0.05)                       | \$ (0.07)    | \$ (0.11)                        | \$ 0.22    |
| Weighted average number of common shares outstanding:                   |                                 |              |                                  |            |
| Basic   | 5,800,000                       | 3,000,000    | 5,800,000                        | 3,000,000  |
| Diluted   | 5,800,000                       | 3,000,000    | 5,800,000                        | 3,000,000  |

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

|                       | March 31, |         |
|-----------------------|-----------|---------|
|                       | 2011      | 2010    |
| Class A warrants      | 1,400,000 | -       |
| Class B warrants      | 1,400,000 | -       |
| Under-writer warrants | 280,000   | -       |
| Other warrants        | 50,000    | -       |
| Stock options         | 480,000   | 375,000 |
| Total                 | 3,610,000 | 375,000 |

## Income Taxes

Organized as a limited liability company until January 28, 2010, the Company was not a taxable entity for income tax purposes until January 28, 2010. Prior to January 28, 2010, items of membership income, deductions and credits are allocated among the members for inclusion in their respective income tax returns.

Effective January 28, 2010, 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 performed an annual review for impairment and none existed as of June 30, 2010 and 2009.

## Forward Purchase Contracts

Pursuant to FASB ASC 480-10-55-53 through ASC 480-10-55-54, the Company records fixed price forward purchase contracts at the estimated net present value of the obligation and accretes the net present value of the obligation up to the face value of the obligation using the effective interest method as a component of interest expense. During the years ended June 30, 2010 and 2009, the Company recorded a liability for its obligations to purchase additional interests in S&W Seed Company, a California general partnership. See Note 3 for further discussion.

## 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:

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- 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 were valued at fair value on a recurring or non-recurring basis as of March 31, 2011 or June 30, 2010, 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 and short-term borrowings, as reflected in the balance sheets, approximate fair value because of the short-term maturity of these instruments.

### Recent Accounting Pronouncements

In December 2010, the FASB issued FASB ASU No. 2010-28, "When to Perform Step 2 of the Goodwill Impairment Test for Reporting Units with Zero or Negative Carrying Amounts," which is now codified under FASB ASC Topic 350, "Intangibles - Goodwill and Other." This ASU provides amendments to Step 1 of the goodwill impairment test for reporting units with zero or negative carrying amounts. For those reporting units, an entity is required to perform Step 2 of the goodwill impairment test if it is more likely than not a goodwill impairment exists. When determining whether it is more likely than not an impairment exists, an entity should consider whether there are any adverse qualitative factors, such as a significant deterioration in market conditions, indicating an impairment may exist. FASB ASU No. 2010-28 is effective for fiscal years (and interim periods within those years) beginning after December 15, 2010. Early adoption is not permitted. Upon adoption of the amendments, an entity with reporting units having carrying amounts which are zero or negative is required to assess whether it is more likely than not the reporting units' goodwill is impaired. If the entity determines impairment exists, the entity must perform Step 2 of the goodwill impairment test for that reporting unit or units. Step 2 involves allocating the fair value of the reporting unit to each asset and liability, with the excess being implied goodwill. An impairment loss results if the amount of recorded goodwill exceeds the implied goodwill. Any resulting goodwill impairment should be recorded as a cumulative-effect adjustment to beginning retained earnings in the period of adoption. This ASU is not expected to have any material impact to the Company's consolidated financial statements.

In December 2010, the FASB issued FASB ASU No. 2010-29, "Disclosure of Supplementary Pro Forma Information for Business Combinations," which is now codified under FASB ASC Topic 805, "Business Combinations." A public entity is required to disclose pro forma data for business combinations occurring during the current reporting period. This ASU provides amendments to clarify the acquisition date to be used when reporting the pro forma financial information when comparative financial statements are presented and improves the usefulness of the pro forma revenue and earnings disclosures. If a public company presents comparative financial statements, the entity should disclose revenue and earnings of the combined entity as though the business combination(s) which occurred during the current year had occurred as of the beginning of the comparable prior annual reporting period only. The supplemental pro forma disclosures required are also expanded to include a description of the nature and amount of material, nonrecurring pro forma adjustments directly attributable to the business combination included in the reported pro forma revenue and earnings. FASB ASU No. 2010-29 is effective on a prospective basis

for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2010, with early adoption permitted. The adoption of this ASU is not expected to have a material effect on the Company's consolidated statement of financial position, results of operations or cash flows.

In January 2010, the FASB issued ASU No. 2010-06 regarding fair value measurements and disclosures and improvement in the disclosure about fair value measurements. This ASU requires additional disclosures regarding significant transfers in and out of Levels 1 and 2 of fair value measurements, including a description of the reasons for the transfers. Further, this ASU requires additional disclosures for the activity in Level 3 fair value measurements, requiring presentation of information about purchases, sales, issuances, and settlements in the reconciliation for fair value measurements. This ASU is effective for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years. The adoption of this ASU did not impact the Company's consolidated results of operations or financial condition.

#### NOTE 3 — BUSINESS COMBINATIONS

On June 27, 2008, Seed Holding entered into an agreement to purchase a 90% interest in the general partnership interests of S&W over a two-year period (the "Purchase Agreement"). Under the terms of the Purchase Agreement, Seed Holding agreed to three separate closing transactions. Pursuant to the Purchase Agreement, Seed Holding had initially purchased a 60% interest in the partnership for \$2,400,000 in cash plus transaction costs of \$7,500, with the obligation to acquire an additional 15% interest on June 30, 2009 for \$600,000 in cash and another 15% interest on June 30, 2010 for an additional \$600,000 in cash. The Purchase Agreement contemplated that 10% of the partnership would remain in the hands of one of the original partners. Despite the legal outcome of the Purchase Agreement, the accounting standards set forth in FASB ASC 480-10-55-53 through ASC 480-10-55-54 mandated that the Company record the entire 90% interest as purchased as of the initial closing date (June 27, 2008).

The payment terms and obligations set forth in the Purchase Agreement are deemed to be a fixed price forward contract. Pursuant to FASB ASC 480-10-55-53 through ASC 480-10-55-54, the purchase of the entire 90% interest was recorded on the date of the initial Purchase Agreement (June 27, 2008) and the remaining 10% as a non-controlling interest. Because the Purchase Agreement required Seed Holding to purchase the remaining 30% interest subsequent to June 27, 2008, an acquisition purchase obligation of \$1,097,084 was recorded on the June 2008 closing date. The \$1,097,084 purchase obligation represented the present value of the \$600,000 payment initially due on June 30, 2009 (second closing) and the \$600,000 due on June 30, 2010 (third closing).

The Company used discount rates of 5.65% and 6.49% in calculating the net present value of the acquisition purchase obligations at the closing date. The discount rates were based on Corporate Bond spreads for industrials with 1 year and 2 year maturities added to the corresponding US treasury rates (2.36% and 2.63%). Under the effective interest method, the Company accreted the acquisition purchase obligation liability to the stated amount payable at each closing date of the contract (\$600,000 at June 30, 2009 and \$600,000 at June 30, 2010). Accretion of the acquisition purchase obligation totaled \$0 and \$27,214 for the nine months ended March 31, 2011 and 2010, respectively. Accretion of the acquisition purchase obligation was charged to interest expense in accordance with FASB ASC 480-10-55-54.

The purchase transaction was negotiated at arm's length and was accounted for as a purchase transaction. As required by the applicable guidance in effect at the time of the acquisition, the Company valued all assets and liabilities acquired at their fair values on the date of acquisition. An independent valuation expert was hired to assist the Company in determining these fair values. Accordingly, the assets and liabilities of the acquired entity were recorded at their estimated fair values at the date of the

acquisition. The fair value of the net assets acquired was in excess of the consideration paid by the Company, resulting in a "bargain purchase." The events and circumstances allowing the Company to acquire S&W at a bargain were related to the timing of the initial acquisition and the positive reputation of the Company's management team. Because the consideration paid is less than the fair value of the assets acquired, the excess fair value over cost is allocated on a pro-rata reduction to the non-current assets acquired. Non-controlling interest of 10% was recorded at the net carrying value of the partnership based upon the applicable accounting guidance at the date of the acquisition.

The following table summarizes the final allocation of the purchase price:

|                               |    |           |
|-------------------------------|----|-----------|
| Current assets                | \$ | 1,084,992 |
| Property, plant and equipment |    | 2,168,044 |
| Trade name                    |    | 247,469   |
| Customer relationships        |    | 127,796   |
| Technology/IP                 |    | 262,090   |
| Non-compete                   |    | 3,791     |
| Assumed liabilities           |    | (295,990) |
| Non-controlling interest      |    | (93,608)  |
|                               |    | <hr/>     |
| Total purchase price          | \$ | 3,504,584 |
|                               |    | <hr/>     |

The total purchase price of \$3,504,584 consisted of \$2,400,000 in cash, \$7,500 of acquisition costs and \$1,097,084, which was the net present value of the acquisition purchase obligation.

The intangible assets included the fair value of trade name, customer relationships, technology/IP and non-compete agreements. The useful lives of the acquired intangibles are as follows:

|                        | <u>Useful Lives</u><br>(Years) |
|------------------------|--------------------------------|
| Trade name             | 20                             |
| Customer relationships | 20                             |
| Technology / IP        | 10                             |
| Non-compete            | 3                              |

Effective December 1, 2009, Seed Holding entered into an amendment to the Purchase Agreement among the original general partners of S&W and Seed Holding. Amendment Number 1 to the Purchase Agreement, dated December 1, 2009, deferred the date of the second closing (originally, June 30, 2009) and provided for the issuance of promissory notes bearing 4% interest ("Notes") in lieu of the \$600,000 cash payment originally contemplated to be paid at the second closing for 15% of the general partnership interests. The Notes were payable on May 1, 2011, but upon the occurrence of certain specified events, including the Company's initial public offering, the maturity date would be accelerated. At the time the December 1, 2009 Notes were issued, the Company recorded a \$600,000 note payable and reduced the acquisition purchase obligation by the corresponding amount. In exchange for the Notes, the selling general partners, as parties to Amendment Number 1, collectively transferred to the Company an additional 15% ownership interest in S&W, which resulted in the Company's legal ownership increasing to 75% at December 1, 2009. The Company paid the \$600,000 Notes in full in May 2010.

Seed Holding entered into Amendment Number 2 to the Purchase Agreement, dated effective December 31, 2009, which provided for the transfer of a selling general partner's 10% interest in S&W to the Company in exchange for a cash payment of \$89,542, a \$130,000 4% promissory note and 560 member units in Seed Holding. The promissory note was payable May 1, 2011, but upon the occurrence

of certain specified events, including the Company's initial public offering, the maturity date would be accelerated. The note payable was measured at par value which approximated fair value. The membership units were recorded at their fair value of \$276,000. The Company accounted for the acquisition of the remaining 10% non-controlling interests pursuant to FASB Standard ASC 810. The reduction to the carrying amount of non-controlling interests in connection with the December 31, 2009 acquisition exceeded the consideration the Company paid. Pursuant to the guidance in ASC 810-45-23, the Company recorded those differences as increases in contributed capital. The cash payment of \$89,542 was paid by Yellowjacket, LP, the Company's principal stockholder, on behalf of the Company. The Company repaid the \$89,542 balance in full on June 10, 2010. The Company paid the \$130,000 note in full in May 2010. See Note 9 for further discussion of related party transactions.

The closing of the transactions contemplated by Amendment Number 1 and Amendment Number 2 to the Purchase Agreement resulted in the Company having acquired an 85% legal ownership interest in S&W at December 31, 2009. The Company's financial statements reflect a 100% ownership interest at December 31, 2009 and subsequent periods, as mandated by the applicable accounting guidance in FASB ASC 480-10-55-53 through ASC 480-10-55-54 due to the Company's fixed price forward contract to acquire the remaining partnership interests.

The transactions contemplated by the Purchase Agreement Amendment Number 1 and Amendment Number 2 were negotiated at arm's length among unrelated parties.

#### NOTE 4 — OTHER INTANGIBLE ASSETS

Other intangible assets consist of the following:

|                        | <u>Balance at<br/>July 1, 2010</u> | <u>Additions</u> | <u>Amortization</u> | <u>Balance at<br/>March 31,<br/>2011</u> |
|------------------------|------------------------------------|------------------|---------------------|--|
| Trade name             | \$ 222,723                         | \$ -             | \$ (9,279)          | \$ 213,444                               |
| Customer relationships | 115,016                            | -                | (4,797)             | 110,219                                  |
| Technology/IP          | 209,672                            | -                | (19,656)            | 190,016                                  |
| Non-compete            | 1,263                              | -                | (954)               | 309                                      |
|                        | <u>\$ 548,674</u>                  | <u>\$ -</u>      | <u>\$ (34,686)</u>  | <u>\$ 513,988</u>                        |

Amortization expense totaled \$11,562 and \$11,558 for the three months ended March 31, 2011 and 2010, respectively. Amortization expense totaled \$34,686 and \$34,676 for the nine months ended March 31, 2011 and 2010, respectively.

Estimated aggregate amortization expense for each of the five succeeding fiscal years is as follows:

|                      | <u>2011</u> | <u>2012</u> | <u>2013</u> | <u>2014</u> | <u>2015</u> |
|----------------------|-------------|-------------|-------------|-------------|-------------|
| Amortization expense | \$ 46,236   | \$ 44,972   | \$ 44,972   | \$ 44,972   | \$ 44,972   |

## NOTE 5 — PROPERTY, PLANT AND EQUIPMENT

Components of property, plant and equipment were as follows:

|                                     | March 31,<br>2011 | June 30,<br>2010 |
|-------------------------------------|-------------------|------------------|
| Land and improvements               | \$ 139,827        | \$ 136,376       |
| Buildings and improvements          | 1,998,878         | 1,984,749        |
| Machinery and equipment             | 321,859           | 143,546          |
| Vehicles                            | 183,884           | 156,468          |
|                                     | <hr/>             | <hr/>            |
| Total property, plant and equipment | 2,644,448         | 2,421,139        |
| Less: accumulated depreciation      | (449,492)         | (310,636)        |
|                                     | <hr/>             | <hr/>            |
| Property, plant and equipment, net  | \$ 2,194,956      | \$ 2,110,503     |
|                                     | <hr/>             | <hr/>            |

Depreciation expense totaled \$49,152 and \$42,906 for the three months ended March 31, 2011 and 2010, respectively. Depreciation expense totaled \$145,725 and \$126,893 for the nine months ended March 31, 2011 and 2010, respectively.

## NOTE 6 — SHORT TERM DEBT

S&W was party to a revolving line of credit with Wells Fargo Bank dated December 26, 2008. S&W was entitled to borrow up to \$2,500,000 for working capital purposes beginning December 26, 2008 and up to and including December 1, 2009. The credit agreement was evidenced by a promissory note dated December 26, 2008. The line of credit was secured by all of S&W's accounts receivable, inventory and general intangibles. Further, the indebtedness was guaranteed by Seed Holding, Grover T. Wickersham, Yellowjacket, LP and other parties. On December 18, 2009, the line of credit maturity date was extended to March 1, 2010. On February 26, 2010, Wells Fargo Bank renewed the line of credit. Under the renewed credit facility, the outstanding principal balance and all accrued and unpaid interest was due and payable in full on April 1, 2011. In May 2010, the Company repaid the outstanding balance under its revolving credit facility with Wells Fargo Bank credit facility and terminated the facility.

Interest charged on the outstanding principal balance of the line of credit was variable and equal to the daily one-month LIBOR (London Interbank Offered Rate) plus 3.00%. Interest incurred on the Wells Fargo Bank line of credit was \$26,348 and \$50,149 for the three and nine months ended March 31, 2010. There was no interest expense incurred during the three and nine months ended March 31, 2011.

## NOTE 7 — STOCKHOLDERS' EQUITY

On January 28, 2010, the members of Seed Holding transferred 100% of their members' interest to S&W Seed Delaware, in exchange for 3,000,000 shares of authorized and unissued common stock in a tax-free exchange pursuant to Section 351 of the Internal Revenue Code. As a result, S&W Seed Delaware became the sole member of Seed Holding and became the legal owner of 85% of the general partnership. S&W Seed Delaware also assumed Seed Holding's obligations to repay the \$730,000 Notes when they come due and to purchase the remaining 15% general partnership interest in S&W. The

Company accounted for the January 2010 exchange transaction in accordance with standards promulgated by the FASB regarding transactions between entities under common control, ASC 805-50-15.

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. Equity offering costs included \$1,424,500 of underwriters' fees and \$1,153,444 of other equity offering costs.

Each Class A warrant entitles its holder to purchase one share of the Company's common stock at an exercise price of \$7.15. Each Class B warrant entitles its holder to purchase one share of common stock at an exercise price of \$11.00. The Class A warrants and Class B warrants are exercisable at any time until their expiration on May 3, 2015. The Class A warrants and 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 A warrants are redeemable provided that the Company's common stock has closed at a price at least equal to \$8.80 for at least five consecutive trading days. The Class B warrants are redeemable on the same terms, provided the Company's common stock has closed at a price at least equal to \$13.75 for five consecutive trading days.

S&W Seed Delaware is authorized to issue up to 50,000,000 shares of its \$0.001 par value common stock. At March 31, 2011 and June 30, 2010, there were 5,800,000 shares issued and outstanding. The Company's equity section of the consolidated financial statements has been retroactively restated as if the Company was a Delaware corporation at June 30, 2008.

During the year ended June 30, 2010, there were \$79,614 of owners' withdrawals.

On May 7, 2010, the Company issued common stock purchase warrants to Cardiff Partners, LLC ("Cardiff Partners") pursuant to its prior agreement under which Cardiff Partners provided certain consulting services in connection with the Company's IPO. The warrants grant Cardiff Partners the right to purchase up to 25,000 shares of the Company's Common Stock at an exercise price of \$4.00 per share, vest upon issuance and are subject to a cashless exercise right. The warrants expire on May 7, 2015. The issuance of these warrants were treated as equity offering costs and recorded to additional paid in capital accordingly.

On May 7, 2010, the Company issued common stock purchase warrants to PR Financial Marketing, LLC ("PRFM") pursuant to its Client Services Agreement under which PRFM provides certain investor and public relations services, including services in connection with the Company's IPO. The warrants grant PRFM the right to purchase up to 25,000 shares of the Company's common stock at an exercise price of \$4.00 per share, vest upon issuance and are subject to a cashless exercise right. The warrants expire on May 7, 2015. The issuance of these warrants were treated as equity offering costs and recorded to additional paid in capital accordingly.

See Note 10 for discussion on equity-based compensation.



NOTE 8 — 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 9 — RELATED PARTY TRANSACTIONS

Grover T. Wickersham, the Company's Chairman of the Board, also serves as the Chairman of the Board of Triangle T Partners, LLC ("Triangle T Partners") and, until December 14, 2010 was chairman of the board of directors of Triangle T Ranch, Inc. ("Triangle T Ranch" and, collectively with Triangle T Partners, "Triangle T"). Mr. Wickersham indirectly owned a controlling interest in Triangle T Partners until December 14, 2010 and now owns such interest directly as a member of Triangle T Partners. Michael N. Nordstrom, one of the Company's directors, is also a member of the board of managers of Triangle T Partners and, until December 14, 2010, was a director of Triangle T Ranch. Until October 2010, Mark S. Grewal, the Company's President and Chief Executive Officer, as well as a member of the Company's board, also served as President and Chief Executive Officer and was on the boards of Triangle T Partners and Triangle T Ranch. He no longer holds these positions. Triangle T Ranch was dissolved on December 14, 2010.

Triangle T is one of the Company's alfalfa seed growers and is also a customer. The Company enters into annual alfalfa seed production contracts with Triangle T on the same commercial terms and conditions as with the other growers with whom the Company contracts for alfalfa seed production. For the nine months ended March 31, 2011 and 2010, the Company purchased from Triangle T \$1,381,458 and \$832,486, respectively, of alfalfa seed Triangle T grew and sold to the Company under one-year production agreements. The Company entered into agreements with Triangle T to plant 893 acres of various alfalfa seed varieties as part of its calendar 2010 production for which the Company will pay Triangle T the same price it agreed to pay its other growers. None of Mr. Wickersham, Mr. Grewal nor Mr. Nordstrom personally received or will receive any portion of these funds.

As one of the Company's customers, Triangle T purchases milled alfalfa seed from the Company to plant alfalfa on its own property for the production of alfalfa hay and to grow alfalfa seed for the Company. The Company sells milled alfalfa seed to Triangle T under the same commercial terms and conditions as other alfalfa seed customers in the San Joaquin Valley. The Company sold \$10,880 and \$405,601 of milled alfalfa seed to Triangle T during the nine months ended March 31, 2011 and 2010, respectively.

Triangle T also works with the Company as the initial service provider for the Company's stevia cultivation program, and the Company has planted its stevia plantings on Triangle T property. The Company paid Triangle T \$267,151 during the nine months ended March 31, 2011 for its services and costs in connection with the stevia cultivation program. None of Mr. Wickersham, Mr. Grewal nor Mr. Nordstrom personally received any portion of these funds. Through September 2010, the Company paid Triangle T \$15,000 per month for management services, plus reimbursement of its direct and indirect costs in connection with the stevia cultivation program. Effective October 1, 2010, the Company agreed to pay Triangle T \$2,500 per month for management services and \$4,245 in monthly rent charges for the use of the 25 acre test plot and the 114 acre main plot being used for commercial production. The arrangement changed because, with Triangle T's consent, S&W has directly hired the key Triangle T personnel who are working on the stevia project.

There were no amounts due from Triangle T at March 31, 2011 and June 30, 2010, respectively. Amounts due to Triangle T totaled \$259,164 and \$1,782 at March 31, 2011 and June 30, 2010, respectively.

In December 2008, S&W entered into a one-year revolving line of credit arrangement with Wells Fargo Bank, National Association, under the terms of which S&W was allowed to draw down up to \$2,500,000 (bearing interest at 3% over the daily one-month LIBOR in effect from time to time), which the Company used for working capital requirements. In connection with this credit arrangement, Mr. Wickersham and Yellowjacket, LP, the principal stockholder of the Company ("Yellowjacket"), among other parties, executed continuing guaranties of S&W's obligations under the revolving line of credit. In May 2010, the Company repaid the outstanding balance under its revolving credit facility with Wells Fargo Bank credit facility and terminated the facility. See Note 6 for further discussion.

The \$89,542 cash payment, made as part of the consideration for the acquisition of a selling general partner's 10% interest in S&W dated effective December 31, 2009, was advanced by Yellowjacket. The Company repaid the balance in full on June 10, 2010.

#### NOTE 10 — 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. Initially, 750,000 shares of have been reserved for issuance under the 2009 Plan.

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. As of March 31, 2011, options to purchase 480,000 shares of common stock were outstanding and unexercised, and 270,000 shares remain available under the 2009 Plan for future grants and awards.

The outstanding options are exercisable at \$4.00 per share. These options vest in equal quarterly installments over three years, commencing on July 1, 2010 and expire five years from the date of grant.

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.

For stock-based awards granted, the Company amortizes stock-based compensation expense on a straight-line basis over the requisite service period, which is generally a three-year vesting period.

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The fair value of each option grant is estimated on the date of grant using a binomial lattice model. The weighted average assumptions used in the model are outlined in the following table:

|                            |       |
|----------------------------|-------|
| Risk-free rate of interest | 2.34% |
| Dividend yield             | 0%    |
| Volatility of common stock | 61%   |
| Exit / attrition rates     | 14%   |
| Target exercise factor     | 1.68  |

A summary of activity related to the Company's stock option incentive plans for the year ended June 30, 2010 and nine months ended March 31, 2011 is presented below:

|  | <b>Number<br/>Outstanding</b> | <b>Weighted-<br/>Average<br/>Exercise Price<br/>Per Share</b> | <b>Weighted-<br/>Average<br/>Remaining<br/>Contractual<br/>Life (Years)</b> |
|--|-------------------------------|---|---|
| Outstanding at June 30, 2009                     | -                             | -   | -   |
| Granted  | 480,000                       | \$ 4.00   | 5.00  |
| Exercised  | -                             | -   | -   |
| Canceled/forfeited/expired                       | -                             | -   | -   |
| Outstanding at June 30, 2010                     | 480,000                       | \$ 4.00   | 4.75  |
| Granted  | -                             | -   | -   |
| Exercised  | -                             | -   | -   |
| Canceled/forfeited/expired                       | -                             | -   | -   |
| Outstanding at March 31, 2011                    | 480,000                       | \$ 4.00   | 4.00  |
| Options vested and exercisable at March 31, 2011 | 119,976                       | \$ 4.00   | 4.00  |

The weighted average grant date fair value of options granted during the year ended June 30, 2010 was \$0.62. At March 31, 2011, the Company had \$204,795 of unrecognized stock compensation expense, net of estimated forfeitures, related to the stock option plan, which will be recognized over the weighted average remaining service period of 2.25 years. Stock-based compensation expense recorded for the nine months ended March 31, 2011 and 2010 totaled \$91,537 and \$0, respectively. The Company settles employee stock option exercises with newly issued shares of common stock.

NOTE 11 — SUBSEQUENT EVENTS

The Company entered into a Credit Agreement (the "Credit Agreement") with Wells Fargo Bank, National Association (the "Lender") and related loan documents, dated April 1, 2011. The Credit Agreement provides the Company with a revolving credit facility of up to \$5,000,000 that can be used for working capital requirements. Amounts outstanding under the revolving credit facility may be repaid and reborrowed through April 1, 2012, at which time all amounts outstanding become due and payable. There is no borrowing base under the terms of the Credit Agreement. The loans comprising each borrowing 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. Under the Credit Agreement, the Company also will pay the Lender certain fees, including, without limitation, a fee of 0.5% of the unused portion of the credit facility, calculated quarterly.

The loan is secured by all of the Company's existing and after-acquired goods, tools, machinery, furnishings, furniture and other equipment. The Company has also granted the Lender a continuing security interest in all existing and after-acquired "Rights to Payment" and "Inventory," both as defined in the Continuing Security Agreement - Rights to Payment and Inventory. The Credit Agreement contains customary representations and warranties, and affirmative and negative covenants, including but not limited to, minimum working capital and tangible net worth and quick ratio affirmative covenants and limitations on liens and certain additional indebtedness, guarantees and certain merger, consolidation or transfer of asset transactions, among others. The Company has not yet drawn down on the newly-available line of credit.

On April 22, 2011, the Company entered into a Farmland Lease Agreement with Widgeon Land Company, Inc. of Delano, California. The leased property includes approximately 800 acres, for which the Company will annually pay \$125 per acre actually farmed, plus the cost of water and all farming-related expenses. The initial lease term provides for four planting years (2011 through 2014). The lease will expire in October 2014, subject to a two-year extension that will automatically go into effect unless either party gives notice in September 2014 that it does not intend to extend the original term.

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

This Quarterly Report on Form 10-Q 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 Quarterly Report on Form 10-Q 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"). 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. These statements are based on the beliefs and assumptions of our management based on information currently available to management. 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. Factors that could cause or contribute to such differences include, but are not limited to, the possibility that certain foreign markets into which our distributors sell continue to be adversely impacted by discounted pricing of non-proprietary seed by competitors, our alfalfa seed growers choose to grow more profitable crops instead of our alfalfa seed and the dairy industry decline does not recover as quickly as we anticipate, as well as those additional risks and factors discussed in the section titled "Risk Factors" included in Item 1A of Part II, below, and in our Form 10-K filed with the Securities and Exchange Commission on September 28, 2010. Furthermore, such forward-looking statements speak only as of the date of this Report. Except as required by law, we undertake no obligation to update any forward-looking statements to reflect events or circumstances after the date of such statements.

Overview

We are in the business of contracting production of our proprietary alfalfa seed varieties, processing the seed at our facility and marketing it as certified seed to agribusiness firms and farmers throughout the world. Until we incorporated in October 2009, our business was operated for almost 30 years as a general partnership owned by five general partners. Our business has been relatively consistent for many years: (i) we contract with a small network of growers, many of whom have grown our proprietary seed for us for more than two decades; (ii) we process the seed purchased from our growers in our seed cleaning and processing facility, which we modernized and rebuilt in the late 1980's and which has been more than adequate for our needs since then; and (iii) we sell our seed through our network of dealers and distributors, as well directly to farmers, many of whom have been our customers for many years. Beginning in the fiscal year ended June 30, 2009, we have employed a small internal sales staff to supplement our dealer and distributor networks. Although never a large portion of our business, we also have historically provided cleaning and processing services for other growers of alfalfa seed and small grains, including wheat, barley and triticale.

Beginning in the fiscal 2010 year that started on July 1, 2009 (the "2010 Fiscal Year"), we began to alter this historical course of business. We raised capital in our May 2010 initial public offering in order both to grow the existing business and take the Company in a new direction. We have begun to expand our sales and marketing efforts, both domestically and internationally, and we intend to extend the breadth and depth of our product offerings. In fiscal 2010, we initiated our stevia cultivation program. In addition, in the fourth quarter of fiscal 2011, we entered into a farmland lease that will allow us to grow some of our own seed, although we do not expect to see a material impact on our results of operations in the short term.

Although we believe a real opportunity exists to materially expand our alfalfa seed business without substantially overhauling our operations, we could nevertheless encounter unforeseen problems, some of which have impacted our business in fiscal 2011. These could include, by way of example, the decision by growers in the San Joaquin and Imperial Valleys to grow crops that provide greater profit than alfalfa seed. Or our distributors that sell internationally could continue to face severe price competition from discounted pricing of non-proprietary seed. Both of these factors have, in fact, proven to be challenges for us in the first three quarters of fiscal 2011. We also could be negatively impacted by the recent deregulation of Roundup Ready alfalfa, which became legal to plant without any restrictions on field separation or isolation in January 2011, making available to farmers a GMO alfalfa on which the powerful herbicide, Roundup, can be applied. Our growers could also decide to grow stevia for us instead of alfalfa seed, which is another uncertainty facing our current business. We could also fail to accurately anticipate the impact of our expanded sales and marketing efforts and not see a material increase in revenue after we ramp up sales and marketing activities. Therefore, we acknowledge that our plans to grow our alfalfa seed business are subject to uncertainties, some of which have been realized in fiscal 2011.

We also are entering a new line of business by beginning the operation of a stevia cultivation project. Inasmuch as this is a new line of business for us and incorporation of stevia extracts into food and beverages sold in the U.S. is a relatively new development, our plans may not succeed to the extent we expect or on the time schedule we have planned, or at all.

We are incurring substantial additional expenses during the 2011 fiscal year as we expand our alfalfa seed development, processing, sales and marketing activities and enter the stevia production business. Additionally, commencing on January 28, 2010, our operations are subject to federal and state income taxes as a result of converting the Company from a limited liability company to a corporation. As a result, our results of operations subsequent to January 28, 2010 are subject to a statutory tax rate of approximately 42.8%.

We continue to have excess capacity in our mill, leaving room for substantial growth without having to incur significant capital costs. We anticipate hiring additional personnel to run additional shifts, if and as needed. In fiscal 2012, we also expect to make some alterations to a portion of our mill facility to accommodate our stevia business.

Our business is seasonal, with sales historically concentrated in the first and second fiscal quarters when customers are planting their fields. This coincides with the period during which seed growers harvest and deliver seed to us. We contract with growers based upon our anticipated market demand; we mill, clean and stock the seed during the harvest season and ship from inventory throughout the year, with the objective of selling most of the inventory from the current year's harvest before the next year's harvest. However, tests show that seed that has been properly stored in inventory for over one year has higher germination rates. Therefore, although we have not specifically contracted for inventory carryover for the fiscal 2011 growing season, provided that we have sufficient capital to carry additional inventory, in the future we may increase our planned season end inventory with additional seed purchases or by growing our own seed if, in our judgment, we can generate increased margins and revenue with the aged seed. This will also reduce the potential for insufficient inventory availability in the event that we have higher than anticipated demand. To date, we have had sufficient inventory levels to fill demand.

We contract annually at fixed prices with approximately 15 growers who have established a history of yields that provide some predictability of anticipated supply volume and cost. Nevertheless, yields are subject to agriculture risk and the farming practices of each grower.

The supply and demand for alfalfa seed, and consequently our revenue and margins, are difficult to project, particularly with respect to our distributor who sells our seed to its customers in Saudi Arabia and other international markets. Additionally, depending upon market prices for hay, the availability of water and the market prices for alternative crops, alfalfa hay growers may choose to convert growing hay crop to non-certified seed, and this additional supply, although temporary, can drive down the overall market price for seed, including the market for certified alfalfa seed. We understand from our distributor that an abundant supply of less expensive, non-proprietary alfalfa seed in the Saudi Arabian market has had a material impact on the distributor in the current fiscal year, which, in turn, has negatively impacted our revenues in fiscal 2010 and 2011.

Although our alfalfa seed business is largely dependent upon the dairy industry's demand for alfalfa hay, our sales are made to a worldwide market. 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 43% to the domestic market and 57% to distributors who sell into international markets. During the nine months ended March 31, 2011, the domestic market comprised 95% of our revenue, primarily due to the significant decrease in seed sales to our distributor who sells into the Saudi Arabian market. We understand from our distributor that Saudi Arabian sales are being impacted by reduced pricing of alfalfa seed in Saudi Arabia by other distributors, which, in turn, negatively affected our distributor's sales efforts in the current fiscal year.

The dairy business is subject to significant cycles of over-supply and under-supply and the supply of seed in the marketplace is subject to substantial swings. Recently, we also have been negatively impacted by the increase in the price of cotton, which has caused certain of our growers to reconsider their crop plans and, in some cases, to decrease the amount of alfalfa seed they are planting or to decide to forego planting alfalfa seed altogether this year. The negative effect of the severe hay market downturn, which began in fiscal 2009 when the dairy industry prices declined due to over-supply, is somewhat offset by the need of many of our customers for the specific seed traits bred into our certified high yield, salt tolerant, non-dormancy products. However, our domestic sales have not been left unscathed by the substantial problems in the dairy industry. We plan to continue to expand our served markets and therefore attempt to minimize the risks associated with any specific geographic market.

#### Historical Background

Our business was operated as a partnership beginning in 1980. In June 2008, the general partners entered into an agreement with Seed Holding for the purchase of a 90% interest in the partnership over a two-year period. Pursuant to that purchase agreement, Seed Holding had initially purchased a 60% interest in the partnership for \$2,400,000 in cash, with the obligation to acquire an additional 15% interest on June 30, 2009 for \$600,000 in cash and another 15% interest on June 30, 2010 for an additional \$600,000 in cash. The original agreement was modified in December 2009 to permit Seed Holding to purchase the entire partnership.

The corporate entity, S&W Seed Company (S&W Seed Delaware") was incorporated in Delaware in October 2009. In January 2010, the members of the Seed Holding exchanged their membership units for 3,000,000 shares of S&W Seed Delaware, the Delaware corporation became the sole member of Seed Holding, and the corporation assumed the obligation to purchase the remaining 15% general partnership interest. Following the receipt of the net proceeds from the initial public offering in May 2010, S&W Seed Delaware repaid the former S&W partners the principal and interest due under the outstanding promissory notes and purchased the remaining 15% of the partnership, resulting in Seed Holding owning 100% of the former partnership. Seed Holding and

S&W Seed Delaware collectively paid a total of \$3,819,542 in cash plus 69,000 shares of common stock (issued in January 2010 in exchange for 560 membership units of Seed Holding) for 100% of S&W.

Despite the legal consequences intended by the purchase agreement and its amendments, the accounting rules applicable to the agreement mandate that Seed Holding account for the acquisition of 90% of the partnership as of June 30, 2009 and 100% of the partnership as of December 31, 2009 and subsequent periods. Our financial statements reflect this accounting treatment.

As mentioned above, we moved from the partnership and limited liability structures to the corporate structure as of fiscal 2010. Also, we commenced our stevia initiative in fiscal 2010, and we now have the capability to grow some of our own seed, although we have not planted in fiscal 2011. As a result of these changes, management does not believe that historical financial results are indicative of future results.

## Results of Operations

### Three Months Ended March 31, 2011 Compared to the Three Months Ended March 31, 2010

#### Revenue and Cost of Revenue

##### *Alfalfa Seed and Milling and Other Services*

Revenue for the three months ended March 31, 2011 was \$439,890 compared to \$839,306 for the three months ended March 31, 2010. The \$399,416 decrease in revenue for the current quarter was due to a \$634,198 decrease in alfalfa seed revenue, partially offset by a \$234,782 increase in milling and other services. The decrease in alfalfa seed revenue is due to a \$632,106 decrease in volume of seed sold coupled with a slight, \$2,092, decrease due to pricing. The decrease in volume represented a 75%, or 176,525 pound, decrease in the volume of seed sold, due to two concurrent factors that were largely out of our control: (i) the glut of low price, non-proprietary seed being sold in Saudi Arabia and (ii) the continued downturn in the U.S. dairy industry on which the alfalfa hay market is highly dependent.

The decrease in alfalfa seed revenue in the third fiscal quarter can be primarily attributed to the \$627,865 decrease in sales to our distributor who sells into Saudi Arabia. We made no sales to this distributor in the current quarter, whereas in the comparable quarter in the prior year, sales to this distributor represented 75% of our total sales. We understand from our distributor that the Saudi Arabian sales were impacted by reduced pricing of non-proprietary alfalfa seed in Saudi Arabia by other distributors, which, in turn, negatively affected our distributor's sales efforts in the fiscal third quarter. We and our distributor believe it is not in our long-term interest to participate in the price discounting that is now going on in the Saudi market, due to what we believe are temporary factors. We and our distributor share the belief that supplies of non-proprietary seed will drop in the 2011 calendar year while alfalfa hay prices will rise due to scarcity, prompting increased demand for alfalfa seed in Saudi Arabia and other international markets serviced by this distributor. However, the changes in market conditions may not happen in the time period anticipated, or at all, and this recent development could continue to negatively impact our sales to our distributor in Saudi Arabia.

At the present time, we cannot predict the timing of a turnaround in either the domestic or the international market, nor can we provide assurance that we will ultimately benefit as a result of anticipated shortages of alfalfa hay, but we believe our business strategy puts us in a position to be able to supply those markets with high quality, certified seed when and if the market demands it.



The \$2,092 decrease in pricing mentioned above is a result of a 1%, or \$0.04 per pound, decrease in the average selling price of our seed in the current quarter.

Revenue for the three months ended March 31, 2011 included approximately \$236,138 of milling and other services compared to \$1,356 for the three months ended March 31, 2010. The increase in milling and other services is primarily due to a concerted effort to expand our milling services business, as well as timing, as the 2010 harvest occurred later in the fiscal year as a result of an unusually cool summer in the San Joaquin Valley of California versus the comparable period in the prior year. We plan to devote additional resources in the future to expanding our milling services business and, accordingly, we expect our milling revenues to increase commensurately.

Cost of revenue of \$249,707 in the current quarter was 57% of revenue, while the cost of revenue of \$699,172 in the three months ended March 31, 2010 was 83% of revenue. The dollar decrease in cost of revenue for the current quarter was attributed to a \$502,817 decrease in volume of seed sold and a \$34,528 decrease in the cost of seed. The decrease in the percentage cost of revenue in the current quarter was attributable primarily to an increase in higher margin milling services coupled with a decrease in the cost of seed sold. Gross margins on seed revenue increased in the current quarter as the average cost of seed sold decreased by \$0.60 per pound, or 21%.

We have contracts with our growers for the production of seed for harvest periods that began in late summer and end in fall. The price per pound in these grower contracts is approximately 18% less than the 2009 harvest product price. Certain of our long-term growers chose to plant higher priced crops this year and plant less or no acreage of our alfalfa seed. However, we believe we will have sufficient supply to meet our anticipated need for seed for the upcoming harvest season. As of April 2011, have leased approximately 800 acres on which we will be able to plant seed in future years. We believe that this capability will enable us to enhance margins as well as exert greater control over our seed crop production, although we do not expect to see any material impact on our results until at least fiscal 2012.

#### Stevia Program

In the second quarter of the 2010 Fiscal Year, we began our stevia cultivation program. In May 2010, we entered into a trialing arrangement with a major stevia producer that is allowing us to plant stevia material provided by it for evaluation purposes, and we have agreed to share our evaluation results with the processor. In connection with this pilot program, one of our alfalfa seed growers (Triangle T) planted test varieties of stevia in June 2010. In July 2010, we entered into a five-year supply agreement with the same major stevia producer. We have agreed to reimburse Triangle T for its direct and indirect costs, including costs incurred in the 2010 Fiscal Year prior to planting for both the pilot program and our commercial production program. In addition, we paid a monthly fee of \$15,000 through September 30, 2010 to Triangle T for management services related to our stevia program, including services related to future fulfillment under our existing commercial supply agreement with the aforementioned major stevia producer. Costs related to our commercial production program were capitalized to inventory and costs related to our pilot program were expensed as incurred. Stevia expenditures aggregated \$108,196 during the three months ended March 31, 2011. Of this amount, \$83,356 has been included as work in process inventory at March 31, 2011, and the remaining costs are included in research and development expense on the consolidated statement of operations. The \$15,000 monthly management expense was reduced to \$2,500 as of October 1, 2010, and, with the consent of our grower, we have hired certain of their personnel on a part-time basis to work with us directly on stevia R&D, cultivation and production. Effective October 1, 2010, we agreed to pay the grower \$4,245 in monthly rent charges for the use of the 25 acre test plot and the 114 acre main plot used for commercial production. There was no harvest

of stevia in the current quarter. Based on our current progress, we expect to have stevia plants in initial commercial production, in the field, in May 2011, with the first of one or more cuttings anticipated for the second half of this calendar year. We expect to begin commercial sales of dried stevia leaf during the first half of the fiscal year ending June 30, 2012.

#### Selling, General and Administrative Expenses

Selling, general and administrative expenses ("SG&A") for the three months ended March 31, 2011 totaled \$614,820 compared to \$253,347 for the comparable period in the prior year. The \$361,473 increase in SG&A expense versus the comparable period in the prior year was primarily due to a \$124,076 increase in personnel costs for sales and marketing and administration. The remainder of the increase can be primarily attributed to an increase in advertising, marketing, and investor relation expenses of \$60,772, franchise tax fees of \$49,863, NASDAQ fees of \$30,567, non-cash stock-based compensation charges of \$22,396, board of director's fees of \$17,375, accounting expenses of \$16,935 and other miscellaneous expenses. The increase in legal, accounting, investor relations, NASDAQ fees, and board of director fee expenses are primarily associated with our new operations as a reporting company.

#### Research and Development Expense

Research and development expenses ("R&D") for the three months ended March 31, 2011 totaled \$77,645 compared to \$68,088 for the comparable period in the prior year. R&D expenses increased \$9,557 in the current quarter due to a \$28,800 increase in our alfalfa seed product development expenses, primarily due to fees paid to our geneticist for developing and improving our seed varieties. This increase was partially offset by a \$19,243 decrease in stevia product development expenses incurred in the current quarter. As we continue to move from the pilot program to stevia commercial sales, R&D expense associated with stevia will decline, and such expenses will impact cost of revenue and gross profit.

#### Depreciation and Amortization

Depreciation and amortization expense for the three months ended March 31, 2011 was \$60,714 compared to \$54,464 for the three months ended March 31, 2010. Included in the amount is amortization expense for intangibles assets, which totaled \$11,562 in the current quarter and \$11,558 for the three months ended March 31, 2010. The increase in depreciation expense was attributable primarily to the addition of certain new fixed assets, including upgrades to the milling facility, additional storage containers, a vehicle and other equipment.

#### Interest (Income) Expense, Net

Interest income during the three months ended March 31, 2011 totaled \$2,764 compared to interest expense of \$35,426 for the three months ended March 31, 2010. Current period interest income was derived from cash and cash equivalents. Interest expense in the prior year was attributable primarily to the borrowings on the working capital line of credit, which has been paid off, and interest expense (accretion expense) associated with the acquisition purchase obligation, which was completed in fiscal 2010. Accretion expense was \$0 and \$9,082 for the three months ended March 31, 2011 and 2010, respectively.

### Income Tax Benefit

Income tax benefit totaled \$266,598 and \$66,602 for the three months ended March 31, 2011 and 2010, respectively, and represents the tax benefits to be realized in future periods for losses incurred since completing the January 28, 2010 exchange transaction.

### Net Income (Loss) Including Non-Controlling Interests

We had a net loss of \$293,634 for the three months ended March 31, 2011 compared to net loss including non-controlling interests of \$204,589 for the three months ended March 31, 2010. The increase in net loss was attributable primarily to the increase in SG&A, partially offset by the income tax benefit, all of which are discussed above. The net loss per basic and diluted common share for the current quarter was \$0.05 compared to net loss per basic and diluted common share of \$0.07 in the third quarter of fiscal 2010. In the fiscal 2010 quarter, there were 3,000,000 shares outstanding compared to 5,800,000 shares outstanding in the current quarter, which difference impacts the net loss per share comparison.

### Nine Months Ended March 31, 2011 Compared to the Nine Months Ended March 31, 2010

#### Revenue and Cost of Revenue

##### *Alfalfa Seed and Milling and Other Services*

Revenue for the nine months ended March 31, 2011 was \$2,282,689 compared to \$5,500,504 for the nine months ended March 31, 2010. The \$3,217,815 decrease in revenue for the current period was due to a \$3,514,571 decrease in alfalfa seed revenue partially offset by \$296,756 increase in milling and other services. The decrease in alfalfa seed revenue is due to a \$3,619,203 decrease in volume of seed sold, partially offset by a \$104,632 increase due to pricing.

The decrease in volume represented a 74%, or 1,076,941 pound, decrease in the volume of seed sold, due to two concurrent factors that were largely out of our control: (i) the glut of low priced, non-proprietary seed being sold in Saudi Arabia and (ii) the continued downturn in the U.S. dairy industry on which the alfalfa hay market is highly dependent.

The decrease in alfalfa seed revenue in the current period can be primarily attributed to the \$2,764,340 decrease in sales to our distributor who sells into Saudi Arabia, which represented approximately 2% of total sales in the current period versus 51% in the comparable period in the prior year. We understand from our distributor that the Saudi Arabian sales are impacted by reduced pricing of non-proprietary alfalfa seed in Saudi Arabia by other distributors, which, in turn, negatively affected our distributor's sales efforts in the current fiscal year. We and our distributor believe it is not in our long-term interest to participate in the price discounting that is now going on in the Saudi market, due to what we believe are temporary factors. We and our distributor share the belief that supplies of non-proprietary seed will drop in calendar year 2011 while alfalfa hay prices will rise due to scarcity, prompting increased demand for alfalfa seed in Saudi Arabia and other international markets serviced by this distributor. However, the changes in market conditions may not happen in the time period anticipated, or at all, and this recent development could continue to negatively impact our sales to our distributor in Saudi Arabia.

The decrease in volume can also be attributed to the recent unfavorable domestic market conditions. Throughout the first three quarters of fiscal 2011, the prices of commodities, such as cotton, corn and wheat which compete with alfalfa hay for acreage, have increased dramatically and,

in some cases, have hit all-time record highs. Additionally, the economic recovery of the U.S. dairy industry is lagging in comparison to the agricultural industry as a whole and is encouraging hay growers (our customers or customers of our distributor customers) to look for alternative crops such as cotton, which has experienced dramatic price increases in the first three quarters of this fiscal year. This poses near term sales challenges in the domestic market, but also creates the possibility of a developing shortage (and pricing power) for our alfalfa seed product, in the near future.

At the present time, we cannot predict the timing of a turnaround in either the domestic or the international market, nor can we provide assurance that we will ultimately benefit as a result of anticipated shortages of alfalfa hay, but we believe our business strategy puts us in a position to be able to supply those markets with high quality, certified seed when and if the market demands it.

The \$104,632 increase in pricing mentioned above is a result of an 8%, or \$0.27 per pound, increase in the average selling price of our seed in the current period.

Revenue for the nine months ended March 31, 2011 included approximately \$883,198 of milling and other services compared to \$586,442 for the nine months ended March 31, 2010. The increase in milling and other services is due to expanding our milling services business. We plan to devote additional resources in the future to expanding our milling services business and accordingly, we expect our milling revenues to increase commensurately.

Cost of revenue of \$1,258,468 in the current period was 55% of revenue, while the cost of revenue of \$3,931,166 in the nine months ended March 31, 2010 was 71% of revenue. The dollar decrease in cost of revenue for the current period was primarily attributable to a \$2,792,860 decrease in volume of seed sold and a \$4,802 increase in the cost of seed. The decrease in the percentage cost of revenue in the current period was attributable primarily to an increase in higher margin milling services coupled with an increase in gross margins on seed revenue as the average selling price of our seed increased 8% over the comparable period in the prior year.

We have contracts with our growers for the production of seed for harvest periods that began in late summer and end in fall. The price per pound in these 2011 grower contracts is approximately 7% more than the 2010 harvest product price. Certain of our long-term growers chose to plant higher priced crops this year and plant less or no acreage of our alfalfa seed. However, we believe we will have sufficient supply to meet our anticipated need for seed for the upcoming harvest season.

#### Stevia Program

In the second quarter of the 2010 Fiscal Year, we began our stevia cultivation program. In May 2010, we entered into a trialing arrangement with a major stevia producer that is allowing us to plant stevia material provided by it for evaluation purposes, and we have agreed to share our evaluation results with the processor. In connection with this pilot program, Triangle T, one of our alfalfa seed growers, planted test varieties of stevia in June 2010. In July 2010, we entered into a five-year supply agreement with the same major stevia producer. We have agreed to reimburse Triangle T for its direct and indirect costs, including costs incurred in the 2010 Fiscal Year prior to planting for both the pilot program and our commercial production program. In addition, we paid a monthly fee of \$15,000 through September 30, 2010 to Triangle T for management services related to our stevia program, including services related to future fulfillment under our existing commercial supply agreement with the aforementioned major stevia producer. Costs related to our commercial production program were capitalized to inventory, and costs related to our pilot program were expensed as incurred. Stevia expenditures aggregated \$296,294 during the nine months ended March 31, 2011. Of this amount, \$114,172 has been included as work in process inventory at March

31, 2011, and the remaining costs are included in research and development expense on the consolidated statement of operations. The \$15,000 monthly management expense was reduced to \$2,500 as of October 1, 2010, and, with the consent of Triangle T, we have hired certain of their personnel on a part-time basis to work with us directly on stevia R&D, cultivation and production. Effective October 1, 2010, we agreed to pay Triangle T \$4,245 in monthly rent charges for the use of the 25 acre test plot and the 114 acre main plot used for commercial production. There was no harvest of stevia in the current quarter. Based on our current progress, we expect to have stevia plants in initial commercial production, in the field, in May 2011, with the first of one or more cuttings anticipated for the second half of this calendar year. We expect to begin commercial sales of dried stevia leaf during the first half of the fiscal year ending June 30, 2012.

#### Selling, General and Administrative Expenses

Selling, general and administrative expenses ("SG&A") for the nine months ended March 31, 2011 totaled \$1,640,233 compared to \$551,235 for the comparable period in the prior year. The \$1,088,998 increase in SG&A expense versus the comparable period in the prior year was primarily due to a \$488,547 increase in personnel costs for sales and marketing and administration. The remainder of the increase can be primarily attributed to an increase in advertising, marketing and investor relations expenses of \$199,067, board of director's fees of \$57,125, legal expenses of \$113,393, non-cash stock-based compensation charges of \$91,537, franchise tax fees of \$49,863 and NASDAQ fees of \$30,567. The increase in legal, investor relations, NASDAQ fees and board of director fee expenses are primarily associated with our new operations as a reporting company.

#### Research and Development Expense

Research and development expenses ("R&D") for the nine months ended March 31, 2011 totaled \$339,773 compared to \$106,217 for the comparable period in the prior year. R&D expenses increased \$233,556 in the current period due to a \$138,038 increase in stevia product development expenses. In addition, we increased our alfalfa seed product development expenses by \$95,518 in the current period, primarily due to fees paid to our geneticist for developing and improving our seed varieties. As we continue to move from the pilot program to stevia commercial sales, R&D expense associated with stevia will decline, and such expenses will impact cost of revenue and gross profit.

#### Depreciation and Amortization

Depreciation and amortization expense for the nine months ended March 31, 2011 was \$180,411 compared to \$161,569 for the nine months ended March 31, 2010. Included in the amount is amortization expense for intangibles assets, which totaled \$34,686 in the current period and \$34,676 for the nine months ended March 31, 2010. The increase in depreciation expense was attributable primarily to the addition of certain new fixed assets, including upgrades to the milling facility, additional storage containers, a vehicle and other equipment.

#### Interest (Income) Expense, Net

Interest income during the nine months ended March 31, 2011 totaled \$9,907 compared to interest expense of \$77,363 for the nine months ended March 31, 2010. Current period interest income was derived from cash and cash equivalents. Interest expense in the prior year was attributable primarily to the borrowings on the working capital line of credit, which has been paid off, and interest expense (accretion expense) associated with the acquisition purchase obligation, which was completed in fiscal 2010. Accretion expense was \$0 and \$27,214 for the nine months ended March 31, 2011 and 2010, respectively.

### Income Tax Benefit

Income tax benefit totaled \$502,085 and \$66,602 for the nine months ended March 31, 2011 and 2010, respectively, and represents the tax benefit to be realized in future periods for losses incurred since we completed the January 28, 2010 exchange transaction.

### Net Income (Loss) Including Non-Controlling Interests

We had a net loss of \$629,910 for the nine months ended March 31, 2011 compared to net income including non-controlling interests of \$739,556 for the nine months ended March 31, 2010. The decrease in profitability was attributable primarily to the decrease in gross profit and an increase in SG&A and R&D expenses, partially offset by the income tax benefit, all of which are discussed above. The net loss per basic and diluted common share for the current period was \$0.11 compared to net income per basic and diluted common share of \$0.22 for the nine months ended March 31, 2010. In the fiscal 2010 period, there were 3,000,000 shares outstanding compared to 5,800,000 shares outstanding in the current period, which difference impacts the net loss per share comparison.

### Liquidity and Capital Resources

#### Overview

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 is highest in the second and third fiscal quarters (October through March) because we typically pay our contracted growers progressively, starting in the second quarter. In certain years, we have deferred our payments until later in the year to coincide with collections from our customers. Because of our long-standing, excellent relationships with many of our growers, we historically have had the ability to negotiate extended payment terms with them to coincide with the timing of our cash collections from customers. In October 2010, we paid our growers approximately 50% of the estimated cost of the 2010 harvest, and we paid the remainder of the cost of the 2010 harvest in the third quarter of this fiscal year. Alfalfa seed harvest occurs during our first fiscal quarter (August and September), and we typically process most of our alfalfa seed during September, October and November. Therefore, the value of inventory is the highest in the first and second quarters, as are our labor costs. But we also generate the greatest amount of cash receipts during the planting season in the second fiscal quarter (October through December).

We typically have a concentration of sales to our distributor who sells into Saudi Arabia. However, that trend was altered in the first nine months of Fiscal 2011, in that only approximately 2% of sales were made to this customer compared to 51% in the comparable period in the prior year. Due to the typical concentration of sales to this customer, our month-to-month and quarter-to-quarter sales and associated cash receipts are highly dependent upon the timing of deliveries to and payments from that distributor, which have varied significantly from year to year.

At March 31, 2011, one customer accounted for 31% of our accounts receivable and another customer accounted for 59% of our accounts receivable. However, we have long-standing relationships with these customers, and we believe that all of our outstanding accounts receivable balances are fully collectible.

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 relationships with our distributors do not include a right of return.

Our principal working capital components include cash and cash equivalents, accounts receivable, inventory, prepaid expense and other current assets and accounts payable.

On April 1, 2011, we established a revolving credit facility with Wells Fargo Bank under the terms of which we are able to draw up to \$5,000,000 for working capital requirements. The line bears interest at 2% over the daily one month LIBOR in effect from time to time.

### Summary of Cash Flows

The following table shows a summary of our cash flows for the nine months ended March 31, 2011 and 2010:

|  | Nine Months Ended<br>March 31, |              |
|--|--------------------------------|--------------|
|  | 2011                           | 2010         |
| Cash flows from operating activities           | \$ (3,461,194)                 | \$ (325,385) |
| Cash flows from investing activities           | (235,884)                      | (29,635)     |
| Cash flows from financing activities           | -                              | 712,586      |
| Net increase (decrease) in cash                | (3,697,078)                    | 357,566      |
| Cash and cash equivalents, beginning of period | 7,830,517                      | 367          |
| Cash and cash equivalents, end of period       | \$ 4,133,439                   | \$ 357,933   |

As of March 31, 2011, we had cash and cash equivalents of approximately \$4.1 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 nine months ended March 31, 2011, operating activities used \$3,461,194 in cash, as a result of a net loss of \$629,910, and an increase in inventories of \$3,887,650 and an increase in deferred tax asset and income tax receivable of \$502,085, partially offset by a decrease in accounts receivable of \$1,105,089. In the nine months ended March 31, 2010, operating activities used \$325,385 in cash, as a result of net income including non-controlling interests of \$739,556, depreciation and amortization of \$161,569 and an increase in accounts payable of \$2,317,323, partially offset by an increase in accounts receivable of \$1,069,491 and an increase in inventories of \$2,518,678. Due to the seasonality of our business, our inventory and accounts payable balances are typically at their highest levels in the second quarter of the fiscal year. Because the germination rate, and therefore the quality, of alfalfa seed improves over the first year of proper storage, inventory obsolescence is not a material concern. We do not see any recoverability issues with respect to our current inventory balances on hand. We may choose to carry higher levels of inventory in future

periods to meet anticipated demand resulting from anticipated increased marketing efforts, although the anticipated timing of such possible increased demand, if any, cannot be ascertained.

We believe that we will fully collect all accounts receivable balances outstanding at March 31, 2011, although the exact timing cannot be predicted with certainty.

#### Investing Activities

Our investing activities during the nine months ended March 31, 2011 totaled \$235,884 versus \$29,635 in the comparable period in the prior year. Our investing activities during the current period consisted of the addition of certain new fixed assets, including upgrades to the milling facility, additional storage containers, a vehicle and other equipment. During the remainder of fiscal 2011, we expect to have ongoing capital expenditure requirements to support our stevia production plans and other infrastructure needs. We expect to fund this investment with a portion of the net proceeds from our initial public offering, which was completed in May 2010.

#### Financing Activities

We did not have any financing activities during the nine months ended March 31, 2011. During the nine months ended March 31, 2010, our financing activities consisted primarily of withdrawals by the general partners of the predecessor partnership of \$79,614 and borrowings on the revolving credit loan of \$1,519,927, as well as \$727,727 of equity offering costs.

#### 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 significant off-balance sheet arrangements during the nine months ended March 31, 2011.

#### 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.

Our available labor force is plentiful and stable, and many of our laborers have worked for us for over a decade. Our networks of distributors in the western United States and growers in California have been stable and productive for over 10 years. The price we pay to growers is contracted annually and prior to establishing our sales prices for the season. Therefore, while the market price for alfalfa seed may fluctuate year to year, we are generally able to maintain a profitable margin between our seed costs and selling prices. We have not seen, nor do we expect, technology changes in the methods of processing and milling alfalfa or other small grain products requiring a capital investment to maintain our competitive high quality and low cost position. Consequently, our capital investment needs and our maintenance expenses from year to year are relatively minor, predictable and stable.

#### Critical Accounting Policies

The accounting policies and the use of accounting estimates are set forth in the footnotes to the unaudited 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 recognize share-based compensation expense for costs related to all share-based payments including stock options, based on the fair value of the award at the grant date and over the requisite service period. We use the binomial lattice valuation model to estimate the fair value of options granted under share-based compensation plans. The binomial 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 price. 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 use the historical volatility of a comparable peer group to derive the expected volatility of our common stock. The peer group historical volatility is used due to the limited trading history of our common stock. 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 grants.

#### Recently Adopted and Recently Enacted Accounting Pronouncements

In January 2010, the FASB issued ASU No. 2010-06 regarding fair value measurements and disclosures and improvement in the disclosure about fair value measurements. This ASU requires additional disclosures regarding significant transfers in and out of Levels 1 and 2 of fair value measurements, including a description of the reasons for the transfers. Further, this ASU requires additional disclosures for the activity in Level 3 fair value measurements, requiring presentation of information about purchases, sales, issuances, and settlements in the reconciliation for fair value measurements. This ASU is effective for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years. The adoption of this ASU did not impact our consolidated results of operations or financial condition.

In December 2010, the FASB issued FASB ASU No. 2010-28, "When to Perform Step 2 of the Goodwill Impairment Test for Reporting Units with Zero or Negative Carrying Amounts," which is now codified under FASB ASC Topic 350, "Intangibles - Goodwill and Other." This ASU provides amendments to Step 1 of the goodwill impairment test for reporting units with zero or negative carrying amounts. For those reporting units, an entity is required to perform Step 2 of the goodwill impairment test if it is more likely than not a goodwill impairment exists. When determining whether it is more likely than not an impairment exists, an entity should consider whether there are any adverse qualitative factors, such as a significant deterioration in market conditions, indicating an impairment may exist. FASB ASU No. 2010-28 is effective for fiscal years (and interim periods within those years) beginning after December 15, 2010. Early adoption is not permitted. Upon adoption of the amendments, an entity with reporting units having carrying amounts which are zero or negative is required to assess whether it is more likely than not the reporting units' goodwill is impaired. If the entity determines impairment exists, the entity must perform Step 2 of the goodwill impairment test for that reporting unit or units. Step 2 involves allocating the fair value of the reporting unit to each asset and liability, with the excess being implied goodwill. An impairment loss results if the amount of recorded goodwill exceeds the implied goodwill. Any resulting goodwill impairment should be recorded as a cumulative-effect adjustment to beginning retained earnings in the period of adoption. This ASU is not expected to have any material impact to our consolidated financial statements.

In December 2010, the FASB issued FASB ASU No. 2010-29, "Disclosure of Supplementary Pro Forma Information for Business Combinations," which is now codified under FASB ASC Topic 805, "Business Combinations." A public entity is required to disclose pro forma data for business combinations occurring during the current reporting period. This ASU provides amendments to clarify the acquisition date to be used when reporting the pro forma financial

information when comparative financial statements are presented and improves the usefulness of the pro forma revenue and earnings disclosures. If a public company presents comparative financial statements, the entity should disclose revenue and earnings of the combined entity as though the business combination(s) which occurred during the current year had occurred as of the beginning of the comparable prior annual reporting period only. The supplemental pro forma disclosures required are also expanded to include a description of the nature and amount of material, nonrecurring pro forma adjustments directly attributable to the business combination included in the reported pro forma revenue and earnings. FASB ASU No. 2010-29 is effective on a prospective basis for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2010, with early adoption permitted. The adoption of this ASU is not expected to have a material effect on our consolidated statement of financial position, results of operations or cash flows.

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.

Evaluation of 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 March 31, 2011. 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 March 31, 2011, 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 was no change in our internal control over financial reporting identified in connection with the evaluation required by Rule 13a-15(d) and 15d-15(d) of the Exchange Act that occurred during the period covered by this report that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Part II

OTHER INFORMATION

Item 1. Legal Proceedings.

We are not a party to any material legal proceedings.

Item 1A. Risk Factors.

In addition to the other information set forth in this quarterly report on Form 10-Q, you should carefully consider the risk factors discussed under the caption "Risk Factors" in our Form 10-K, filed with the SEC on September 28, 2010. Except as set forth below, there have been no material changes to the risk factors previously disclosed under the caption "Risk Factors" in the Form 10-K.

The recent deregulation of Roundup Ready alfalfa could negatively impact our sales of proprietary alfalfa seed.

In December 2010, the U.S. Department of Agriculture ("USDA") published the final environmental impact statement on Roundup Ready Alfalfa ("RRA"). Following that publication, in late January 2011, the USDA announced the deregulation of RRA, without imposing any regulations, providing any guidance pertaining to field separation or mandating any other conditions. We believe that Forage Genetics, a co-developer of RRA, and other licensed seed companies, have a substantial supply of RRA in inventory that has been awaiting this decision, and Forage Genetics has publicly announced that RRA will be available for the spring 2011 planting season. This development potentially could adversely impact our sales. Domestically, hay farmers may choose the GMO alfalfa seed over our seed in order to control weeds with Roundup, Monsanto's powerful herbicide. Internationally, we may face a challenge to demonstrate to the customers of our distributors that our seed is free of any cross-contamination between GMO and organic and conventionally-farmed fields since GMO crops currently are prohibited in most of the international markets in which our distributors sell our proprietary seed. No decision has been made whether it is in our best interest to enter the GMO alfalfa market, and no timetable for such a decision has been fixed. In the intervening time period, our domestic sales could be negatively impacted, although the actual impact on the alfalfa seed market in general and on sales of our proprietary seed, in particular, is currently unknown.

Our actual operating results may differ significantly from our guidance.

Although we have not provided earnings guidance to date, from time to time, we may release guidance in our quarterly earnings releases, quarterly earnings conference call, or otherwise, regarding our future performance that represent our management's estimates as of the date of release. If given, this guidance, which includes forward-looking statements, will be based on projections prepared by our management. These projections are not prepared with a view toward compliance with published guidelines of the American Institute of Certified Public Accountants, and neither our registered public accountants nor any other independent expert or outside party compiles or examines the projections and, accordingly, no such person expresses any opinion or any other form of assurance with respect thereto.

Projections are based upon a number of assumptions and estimates that, while presented with numerical specificity, are inherently subject to significant business, economic and competitive uncertainties and contingencies, many of which are beyond our control and are based upon specific assumptions with respect to future business decisions, some of which will change. If we issue guidance, we will generally state possible outcomes as high and low ranges that are intended to provide a sensitivity analysis as variables are changed but are not intended to represent that actual results could not fall outside of the suggested ranges. The principal reason that we would release guidance would be to provide a basis for our management to discuss our business outlook with analysts and investors. We do not accept any responsibility for any projections or reports published by any such persons.

Guidance is necessarily speculative in nature, and it can be expected that some or all of the assumptions of the guidance furnished by us will not materialize or will vary significantly from actual results. Accordingly, our guidance, if given, is only an estimate of what management believes is realizable as of the date of release. Actual results will vary from our guidance and the variations may be material. In light of the foregoing, investors are urged not to rely upon, or otherwise consider, our guidance in making an investment decision in respect of our common stock, Class A warrants or Class B warrants.

Any failure to successfully implement our operating strategy or the occurrence of any of the events or circumstances set forth in our "Risk Factors" in the Annual Report on Form 10-K and in this Quarterly Report on Form 10-Q could result in the actual operating results being different from our guidance, and such differences may be adverse and material.

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

(a) Sales of Unregistered Securities

None.

(b) Use of Proceeds

On May 3, 2010, our registration statement on Form S-1 (File No. 333-164588) was declared effective for our initial public offering, pursuant to which we registered the offering and sale of 1,400,000 units, each unit consisting of two shares of our common stock, one Class A warrant and one Class B warrant, at a public offering price of \$11.00 per unit.

We raised approximately \$12,822,056 in net proceeds after deducting underwriting discounts of \$1,424,500 and other estimated offering costs of \$1,153,444. There has been no material change in the planned use of proceeds from our IPO as described in our final prospectus filed with the SEC pursuant to Rule 424(b) on May 4, 2010.

Since receipt of the net proceeds from the IPO, we have used \$2,173,142 to repay the outstanding balance under our revolving credit facility with Wells Fargo Bank credit facility; and \$1,342,964 to pay the principal and accrued interest owed on the promissory notes issued to the former partners of S&W Seed Company, a general partnership and to purchase the final 15% of the general partnership not previously owned by our wholly-owned subsidiary, Seed Holding, LLC. We also used approximately \$360,208 of the net proceeds allocated to working capital to pay the net amounts owed to our grower and customer, Triangle T, and approximately \$1,276,356 to pay the remaining amounts owed to our growers for alfalfa seed we previously purchased. We also have used approximately \$311,901 to fund our stevia pilot program, \$182,646 to fund research and development and \$192,441 to fund an

upgrade of our facilities to support the anticipated growth of our business. We have invested the remainder of the funds in registered money market funds.

Item 3. Defaults Upon Senior Securities.

None.

Item 5. Other Information.

None.

Item 6. Exhibits.

| Exhibit<br>Number | Description   |
|-------------------|---|
| 31.1              | <u>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. (PDF as a courtesy)</u> |
| 31.2              | <u>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. (PDF as a courtesy)</u> |
| 32.1              | <u>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. (PDF as a courtesy)</u>                               |
| 32.2              | <u>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. (PDF as a courtesy)</u>                               |

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 16th day of May, 2011.

S&W SEED COMPANY

By: /s/ Matthew K. Szot

Matthew K. Szot

Vice President Finance and Chief Financial Officer

(Principal Accounting and Financial Officer and Duly  
Authorized Signatory)

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