

S&W Seed Co
Form 10-Q
November 14, 2011

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

FORM 10-Q

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

For the quarterly period ended September 30, 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)

27-1275784

(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 November 14, 2011, 5,800,000 shares of the registrant's common stock were outstanding.

PDF, as a courtesy

S&W SEED COMPANY
Table of Contents

| PART I. FINANCIAL INFORMATION | <u>Page No.</u> |
|--|------------------------|
| Item 1. Financial Statements (Unaudited): | |
| <u>Consolidated Balance Sheets at September 30, 2011 and June 30, 2011</u> | 3 |
| <u>Consolidated Statements of Operations for the Three Months Ended September 30, 2011 and 2010</u> | 4 |
| <u>Consolidated Statements of Stockholders' Equity for the Fiscal Year Ended June 30, 2011 and for the Three Months Ended September 30, 2011</u> | 5 |
| <u>Consolidated Statements of Cash Flows for the Three Months Ended September 30, 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> | 22 |
| <u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u> | 33 |
| <u>Item 4. Controls and Procedures</u> | 34 |
| PART II. OTHER INFORMATION | |
| <u>Item 1. Legal Proceedings</u> | 35 |
| <u>Item 1A. Risk Factors</u> | 35 |
| <u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u> | 35 |
| <u>Item 3. Defaults Upon Senior Securities</u> | 35 |
| Item 4. [Removed and Reserved] | |
| <u>Item 5. Other Information</u> | 35 |
| <u>Item 6. Exhibits</u> | 36 |

Part I -- FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

| ASSETS | September 30, 2011 | June 30, 2011 |
|---|-----------------------|----------------------|
| CURRENT ASSETS | | |
| Cash and cash equivalents | \$ 4,191,898 | \$ 3,738,544 |
| Accounts receivable, net | 6,099,608 | 1,803,909 |
| Inventories | 5,775,159 | 5,664,119 |
| Prepaid expenses and other current assets | 102,985 | 58,451 |
| Deferred tax asset | 352,393 | 352,393 |
| TOTAL CURRENT ASSETS | 16,522,043 | 11,617,416 |
| Property, plant and equipment, net of accumulated depreciation | 2,336,807 | 2,299,306 |
| Other intangibles, net | 652,240 | 502,436 |
| Crop production costs | 554,988 | 220,431 |
| Deferred tax asset - long term | 203,743 | 517,672 |
| TOTAL ASSETS | \$ 20,269,821 | \$ 15,157,261 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| CURRENT LIABILITIES | | |
| Accounts payable | \$ 3,845,087 | \$ 207,074 |
| Accounts payable - related party | 1,232,943 | 218,863 |
| Accrued expenses and other current liabilities | 82,442 | 169,060 |
| TOTAL CURRENT LIABILITIES | 5,160,472 | 594,997 |
| TOTAL LIABILITIES | 5,160,472 | 594,997 |
| STOCKHOLDERS' EQUITY | | |
| Preferred stock, \$0.001 par value; 5,000,000 shares authorized; no shares issued and outstanding | - | - |
| Common stock, \$0.001 par value; 50,000,000 shares authorized; 5,800,000 issued and outstanding at September 30, 2011 and June 30, 2011 | 5,800 | 5,800 |
| Additional paid-in capital | 14,629,036 | 14,604,716 |
| Retained earnings (deficit) | 474,513 | (48,252) |
| TOTAL STOCKHOLDERS' EQUITY | 15,109,349 | 14,562,264 |
| TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY | \$ 20,269,821 | \$ 15,157,261 |

See notes to consolidated financial statements.

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

| | Three Months Ended September 30, | |
|---|-------------------------------------|--------------|
| | 2011 | 2010 |
| Revenue | | |
| Seed revenue | \$ 5,885,312 | \$ 679,126 |
| Milling and other revenue | 230,367 | 254,017 |
| Total revenue | 6,115,679 | 933,143 |
| Cost of revenue | | |
| Cost of seed revenue | 4,297,945 | 523,779 |
| Cost of milling and other revenue | 66,442 | 38,041 |
| Total cost of revenue | 4,364,387 | 561,820 |
| Gross profit | 1,751,292 | 371,323 |
| Operating expenses | | |
| Selling, general and administrative expenses (including stock-based compensation expense of \$24,320 and \$46,248) | 707,953 | 534,562 |
| Research and development expenses | 92,876 | 134,278 |
| Depreciation and amortization | 71,095 | 59,391 |
| Total operating expenses | 871,924 | 728,231 |
| Income (loss) from operations | 879,368 | (356,908) |
| Other (income) expense | | |
| Loss on sale of fixed assets | - | 5,706 |
| Interest (income) expense, net | 4,162 | (3,978) |
| Net income (loss) before income tax expense (benefit) | 875,206 | (358,636) |
| Income tax expense (benefit) | 352,441 | (104,557) |
| Net income (loss) | \$ 522,765 | \$ (254,079) |
| Net income (loss) per common share: | | |
| Basic | \$ 0.09 | \$ (0.04) |
| Diluted | \$ 0.09 | \$ (0.04) |
| Weighted average number of common shares outstanding: | | |
| Basic | 5,800,000 | 5,800,000 |
| Diluted | 5,836,607 | 5,800,000 |

See notes to consolidated financial statements.

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

| | Common Stock | | Additional | Retained | Total |
|--|--------------|----------|---------------|-------------|---------------|
| | Shares | Amount | Paid-In | Earnings | Stockholders' |
| | | | Capital | (Deficit) | Equity |
| Balance, June 30, 2010 | 5,800,000 | \$ 5,800 | \$ 14,482,531 | \$ 763,196 | \$ 15,251,527 |
| Stock-based compensation | - | - | 122,185 | - | 122,185 |
| Net loss for the year ended June 30, 2011 | - | - | - | (811,448) | (811,448) |
| Balance, June 30, 2011 | 5,800,000 | \$ 5,800 | \$ 14,604,716 | \$ (48,252) | \$ 14,562,264 |
| Stock-based compensation | - | - | 24,320 | - | 24,320 |
| Net income for the three months ended September 30, 2011 | - | - | - | 522,765 | 522,765 |
| Balance, September 30, 2011 | 5,800,000 | \$ 5,800 | \$ 14,629,036 | \$ 474,513 | \$ 15,109,349 |

See notes to consolidated financial statements.

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

| | Three Months Ended September 30, | |
|---|-------------------------------------|--------------|
| | 2011 | 2010 |
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Net income (loss) | \$ 522,765 | \$ (254,079) |
| Adjustments to reconcile net income (loss) from operating activities to net cash provided by (used in) operating activities | | |
| Stock-based compensation | 24,320 | 46,248 |
| Change in allowance for doubtful accounts | (3,587) | - |
| Depreciation and amortization | 71,095 | 59,391 |
| Loss on disposal of fixed assets | - | 5,706 |
| Changes in: | | |
| Accounts receivable | (4,292,112) | (348,878) |
| Inventories | (111,040) | (4,113,907) |
| Prepaid expenses and other current assets | (44,534) | (53,094) |
| Crop production costs | (334,557) | - |
| Deferred tax asset | 313,929 | (104,557) |
| Accounts payable | 3,638,013 | 3,086,322 |
| Accounts payable - related party | 1,014,080 | 1,230,711 |
| Accrued expenses and other current liabilities | (86,618) | (5,713) |
| Net cash provided by (used in) operating activities | 711,754 | (451,850) |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Additions to property, plant and equipment | (93,400) | (206,382) |
| Acquisition of customer list | (165,000) | - |
| Proceeds from disposal of property, plant and equipment | - | 4,500 |
| Net cash used in investing activities | (258,400) | (201,882) |
| NET INCREASE OR (DECREASE) IN CASH | 453,354 | (653,732) |
| CASH AND CASH EQUIVALENTS, beginning of the period | 3,738,544 | 7,830,517 |
| CASH AND CASH EQUIVALENTS, end of period | \$ 4,191,898 | \$ 7,176,785 |
| SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION | | |
| Cash paid during the period for: | | |
| Interest | \$ - | \$ - |
| Income taxes | - | - |

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.

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. The Company began its stevia initiative in fiscal 2010 and moved from a pilot program to commercial production in fiscal 2011, but the Company has not earned any revenue from stevia through the first quarter of fiscal

2012. The Company expects to have its first stevia revenues in fiscal 2012, primarily in fulfillment under a commercial supply agreement with a major stevia processor.

NOTE 2 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation and Principles of Consolidation

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

The consolidated financial statements include the accounts of Seed Holding, LLC and its other wholly-owned subsidiary, Stevia California, LLC. All significant intercompany balances and transactions have been eliminated.

Unaudited Interim Financial Information

The accompanying consolidated balance sheet as of September 30, 2011, consolidated statements of operations for the three months ended September 30, 2011 and 2010, consolidated statement of owners' equity for the three months ended September 30, 2011 and consolidated statements of cash flows for the three months ended September 30, 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 September 30, 2011 and its results of operations and its cash flows for the three months ended September 30, 2011 and 2010. The results for the three months ended September 30, 2011 are not necessarily indicative of the results to be expected for the fiscal year ending June 30, 2012.

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 2011 fiscal year consolidated financial statements have been reclassified to conform to the 2012 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

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accounted for 87% of its net sales for the three months ended September 30, 2011. Three different customers accounted for 48% of its net sales for the three months ended September 30, 2010. The concentration of revenue from these customers and the related accounts receivable balances at the end of the respective periods are as follows:

| | September 30, 2011 | | | September 30, 2010 | |
|------------|--------------------|---------------------|------------|--------------------|---------------------|
| | Revenue | Accounts Receivable | | Revenue | Accounts Receivable |
| Customer A | 80% | 88% | Customer D | 31% | 12% |
| Customer B | 3% | 5% | Customer E | 8% | 3% |
| Customer C | 4% | 0% | Customer F | 8% | 0% |
| Total | 87% | 93% | Total | 47% | 15% |

Sales direct to international customers represented 81% and 0% of revenue during the three months ended September 30, 2011 and 2010, respectively.

The Company is also dependent upon a small network of growers of alfalfa seed that together provide the majority of the seed the Company sells to its customers. Three growers accounted for 65% and 50% of the Company's seed requirements for three months ended September 30, 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 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 September 30, 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 some 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 and \$3,587 at September 30, 2011 and June 30, 2011, respectively.

Inventories

Alfalfa Seed Inventory

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.

Stevia Growing Crops

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

Components of inventory are:

| | September 30, 2011 | | June 30, 2011 |
|----------------------------|-------------------------------|-----------|--------------------------|
| Raw materials and supplies | \$ 3,046,362 | \$ | 124,402 |
| Work in progress | 243,166 | | 100,812 |
| Finished goods | 2,485,631 | | 5,438,905 |
| Reserve for obsolescence | - | | - |
| | \$ 5,775,159 | \$ | 5,664,119 |

Crop Production Costs

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

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 the S&W general partnership in 2008 are reported at their initial fair value less accumulated amortization. Intangible assets acquired in the acquisition of the customer list in July 2011 are reported at their initial cost less accumulated

amortization. See Note 3 for further discussion. 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.

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| | Three Months Ended | |
|---|--------------------|--------------|
| | September 30, | |
| | 2011 | 2010 |
| Net income (loss) | \$ 522,765 | \$ (254,079) |
| Net income (loss) per common share: | | |
| Basic | \$ 0.09 | \$ (0.04) |
| Diluted | \$ 0.09 | \$ (0.04) |
| Weighted average number of common shares outstanding: | | |
| Basic | 5,800,000 | 5,800,000 |
| Diluted | 5,836,607 | 5,800,000 |

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:

| | September 30, | |
|----------------------|---------------|-----------|
| | 2011 | 2010 |
| Class A warrants | 1,400,000 | 1,400,000 |
| Class B warrants | 1,400,000 | 1,400,000 |
| Underwriter warrants | 280,000 | 280,000 |
| Other warrants | - | 50,000 |
| Stock options | - | 480,000 |
| Total | 3,080,000 | 3,610,000 |

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, 2011.

Fair Value of Financial Instruments

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

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

No assets were valued at fair value on a recurring or non-recurring basis as of September 30, 2011 or June 30, 2011, 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 did not have a material effect on the Company's consolidated statement of financial position, results of operations or cash flows.

In May 2011, the FASB issued Accounting Standards Update (ASU) No. 2011-04, *Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs*. This update clarifies the application of certain existing fair value measurement guidance and expands the disclosures for fair value measurements that are estimated using significant unobservable (Level 3) inputs. This update is effective on a prospective basis for annual and interim reporting periods beginning on or after December 15, 2011, which for the Company is January 1, 2012. The Company does not expect that adopting this update will have a material impact on its consolidated financial statements.

NOTE 3 — ACQUISITION OF CUSTOMER LIST

On July 6, 2011, the Company entered into a Customer List Purchase Agreement (the "Purchase Agreement") by and between Richard Penner ("Mr. Penner"), the former owner of Genetics International, Inc., a California corporation ("Genetics International"), and the Company. For more than two decades, Genetics International was the Company's international distributor in the Middle East region and other international locations and provided the majority of the Company's international distribution. In connection with the sale of Genetics International's vegetable seed business to new owners, Mr. Penner acquired the right to sell Genetics International's alfalfa seed business customer list. Pursuant to the Purchase Agreement, the Company acquired the list of customers and related information (the "Customer List") from Mr. Penner related to Genetics International's customer list.

Pursuant to the Purchase Agreement, the Company paid \$165,000 in cash and entered into a consulting agreement with Mr. Penner's consulting company. The transaction closed on July 7, 2011. The Purchase Agreement includes customary representations, warranties and covenants. The Purchase Agreement also contains a five-year non-competition provision.

The purchase was accounted for as an asset acquisition and the consideration paid of \$165,000 was allocated to the intangible assets acquired based on their relative fair values on the acquisition date.

The following table summarizes the final allocation of the purchase price and the estimated useful lives of the acquired intangibles:

| | | Useful Lives |
|---------------|------------|---------------------|
| Customer list | \$ 121,786 | 17 |
| Non-compete | 43,214 | 5 |
| | \$ 165,000 | |

NOTE 4 — OTHER INTANGIBLE ASSETS

Other intangible assets consist of the following:

| | Balance at June 30, 2011 | Additions | Amortization | Balance at September 30, 2011 |
|------------------------|---|------------------|---------------------|--|
| Trade name | \$ 210,351 | \$ - | \$ (3,093) | \$ 207,258 |
| Customer relationships | 108,620 | - | (1,599) | 107,021 |
| Technology/IP | 183,465 | - | (6,552) | 176,913 |
| Customer list | - | 121,786 | (1,791) | 119,995 |
| Non-compete | - | 43,214 | (2,161) | 41,053 |
| | \$ 502,436 | \$ 165,000 | \$ (15,196) | \$ 652,240 |

Amortization expense totaled \$15,196 and \$11,562 for the three months ended September 30, 2011 and 2010, respectively. Estimated aggregate amortization expense for each of the five succeeding fiscal years is as follows:

| | 2012 | 2013 | 2014 | 2015 | 2016 |
|----------------------|-------------|-------------|-------------|-------------|-------------|
| Amortization expense | \$ 60,779 | \$ 60,779 | \$ 60,779 | \$ 60,779 | \$ 60,779 |

NOTE 5 — PROPERTY, PLANT AND EQUIPMENT

Components of property, plant and equipment were as follows:

| | September 30, 2011 | June 30, 2011 |
|-------------------------------------|-----------------------|------------------|
| Land and improvements | \$ 139,827 | \$ 139,827 |
| Buildings and improvements | 2,006,862 | 2,006,862 |
| Machinery and equipment | 564,348 | 470,949 |
| Vehicles | 183,884 | 183,884 |
| Total property, plant and equipment | 2,894,921 | 2,801,522 |
| Less: accumulated depreciation | (558,114) | (502,216) |
| Property, plant and equipment, net | \$ 2,336,807 | \$ 2,299,306 |

Depreciation expense totaled \$55,899 and \$47,829 for the three months ended September 30, 2011 and 2010, respectively.

NOTE 6 — SHORT TERM DEBT

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. During the three months ended September 30, 2011, the Company incurred \$6,389 of fees for the unused portion of the credit facility.

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 line of credit.

NOTE 7 — STOCKHOLDERS' EQUITY

On May 7, 2010, the Company closed its initial public offering ("IPO") of 1,400,000 units, which priced at \$11.00 per unit, raising gross proceeds of \$15,400,000. Each unit consisted of two shares of common stock, one Class A warrant and one Class B warrant. In connection with the IPO, the Company issued Representative's Warrants to Paulson Investment Company, Inc. and Feltl and Company to purchase up to an aggregate of 140,000 units at \$13.20, expiring May 3, 2015. 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 September 30, 2011 and June 30, 2011, there were 5,800,000 shares issued and outstanding.

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 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 2010 and now owns such interest directly as a member of Triangle T Partners. Michael N. Nordstrom, one of the Company's directors, was also a member of the board of managers of Triangle T Partners until April 2011 and, until December 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 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 three months ended September 30, 2011 and 2010, the Company purchased from Triangle T \$1,390,569 and \$1,232,815, 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 2011 production for which the Company will pay Triangle T the same price it agreed to pay its other growers. Mr. Wickersham, the sole remaining related party affiliated with both Triangle T and the Company, did not personally receive or will receive any portion of these funds.

As one of the Company's customers, Triangle T purchases certified 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 certified alfalfa seed to Triangle T under the same commercial terms and conditions as other alfalfa seed customers in the San Joaquin Valley. The Company also generates revenue from selling milling services to Triangle T under the same commercial terms and conditions as other milling customers. The Company sold \$36,915 and \$12,944 of certified alfalfa seed and milling services to Triangle T during the three months ended September 30, 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 incurred \$40,638 of charges from Triangle T during the three months ended September 30, 2011 for its services and costs in connection with the stevia cultivation program. Mr. Wickersham personally did not receive 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 September 30, 2011 and June 30, 2011, respectively. Amounts due to Triangle T totaled \$1,232,943 and \$218,863 at September 30, 2011 and June 30, 2011, respectively.

In July 2011, the Company purchased 20 bee trailers from Triangle T for a total price of \$85,000. Mr. Wickersham personally did not receive any portion of these funds.

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 September 30, 2011, options to purchase 417,500 shares of common stock were outstanding and unexercised, and 332,500 shares remain available under the 2009 Plan for future grants and awards.

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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.

The Company accounts for equity instruments, including stock options, issued to non-employees in accordance with authoritative guidance for equity based payments to non-employees. Stock options issued to non-employees are accounted for at their estimated fair value. The fair value of options granted to non-employees is re-measured as they vest, and the resulting increase in value, if any, is recognized as expense during the period the related services are rendered.

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.

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

| | Employee Options | | Non-Employee Options | |
|----------------------------|------------------|------------------|----------------------|------------------|
| | Sept 30, 2011 | June 30, 2011 | Sept 30, 2011 | June 30, 2011 |
| Risk-free rate of interest | - | - | 0.81% | 0.81% |
| Dividend yield | - | - | 0% | 0% |
| Volatility of common stock | - | - | 68% | 68% |
| Exit / attrition rates | - | - | 20% | 20% |
| Target exercise factor | - | - | 1.25 | 1.25 |

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

| | Number Outstanding | Weighted- Average Exercise Price Per Share | Weighted- Average Remaining Contractual Life (Years) |
|--|-----------------------|---|--|
| Outstanding at June 30, 2010 | 480,000 | \$ 4.00 | 4.75 |
| Granted | - | - | - |
| Exercised | - | - | - |
| Canceled/forfeited/expired | (62,500) | 4.00 | 4.00 |
| Outstanding at June 30, 2011 | 417,500 | \$ 4.00 | 3.75 |
| Granted | - | - | - |
| Exercised | - | - | - |
| Canceled/forfeited/expired | - | - | - |
| Outstanding at September 30, 2011 | 417,500 | \$ 4.00 | 3.50 |
| Options vested and exercisable at September 30, 2011 | 173,958 | \$ 4.00 | 3.50 |

The weighted average grant date fair value of options granted during the year ended June 30, 2010 was \$0.68. At September 30, 2011, the Company had \$169,182 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 1.75 years. Stock-based compensation expense recorded for the three months ended September 30, 2011 and 2010 totaled \$24,320 and \$46,248, respectively. The Company settles employee stock option exercises with newly issued shares of common stock.

NOTE 11 — SUBSEQUENT EVENTS

On October 24, 2011, the Company granted 259,500 stock options to its directors, officers, employees and certain consultants at an exercise price of \$4.20, which was the closing price for the Company's common stock on the date of grant. These options vest in equal quarterly installments over one and two year periods, commencing on January 1, 2012 and expire five years from the date of grant.

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

This Quarterly Report on Form 10-Q, including, but not limited to, this "Management's Discussion and Analysis of Financial Condition and Results of Operations," contains forward-looking statements that involve risks and uncertainties, as well as assumptions that, if they never materialize or prove incorrect, could cause our results to differ materially from those expressed or implied by such forward-looking statements. The statements contained in this Report that are not purely historical are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). All statements other than statements of historical fact are statements that could be deemed forward-looking statements, including but not limited to any projections of revenue, margins, expenses, tax provisions, earnings, cash flows and other financial items; any statements of the plans, strategies and objectives of management for future operations; any statements regarding our ability to raise capital in the future; any statements concerning expected development, performance or market acceptance relating to our products or services or our ability to expand our grower or customer bases; any statements regarding future economic conditions or performance; any statements of expectation or belief; any statements regarding our ability to retain key employees; and any statements of assumptions underlying any of the foregoing. These forward-looking statements are often identified by the use of words such as, but not limited to, "anticipate," "believe," "can," "continue," "could," "estimate," "expect," "intend," "may," "will," "plan," "project," "seek," "should," "target," "will," "would," and similar expressions or variations intended to identify forward-looking statements. We have based these forward-looking statements on our current expectations about future events. Such forward-looking statements are subject to risks, uncertainties and other important factors that could cause actual results and the timing of certain events to differ materially from future results expressed or implied by such forward-looking statements. Risks, uncertainties and assumptions include the possibility that certain foreign markets into which our seed is sold could be adversely impacted by discounted pricing of non-proprietary seed by competitors, our alfalfa seed growers choose to grow more profitable crops instead of our alfalfa seed and the dairy industry decline does not recover as quickly as we anticipate, macro-economic and geopolitical trends and events; the execution and performance of contracts by our company and our customers, suppliers and partners; the challenge of managing asset levels, including inventory; the difficulty of aligning expense levels with revenue changes; the outcome of pending or future legislation or court decisions and pending or future accounting pronouncements; and other risks that are described herein, including but not limited to the items discussed in the Risk Factors set forth in Item 1A of our Annual Report on Form 10-K, filed with the Commission on September 26, 2011, and that are otherwise described or updated from time to time in our Securities and Exchange Commission reports.

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

Executive Overview

Our business includes (i) our core alfalfa seed business; (ii) our more recently initiated stevia breeding and production operations; and (iii) our seed and small grain cleaning and processing operations that leverage the excess capacity in our mill. Until we incorporated in 2009, our business was operated for almost 30 years as a general partnership and was owned by five general partners. We incorporated in October 2009, bought out the former partners between June 2008 and May 2010 and raised capital in our May 2010 initial public offering in order both to grow the existing alfalfa seed business and take the company in a new direction.

Our alfalfa seed business consists of breeding our proprietary alfalfa seed varieties, primarily with San Joaquin Valley farmers, for the production of that seed, cleaning, processing and bagging the seed at our facility and marketing and selling it as certified seed to agribusiness firms and farmers throughout the world. We contract annually at fixed prices with growers who have established a history of yields that provide some predictability into anticipated supply volume and cost. Nevertheless, yields are subject to agriculture risk and the farming practices of each grower. Our principal business is subject to uncertainty, caused by the following factors, among others: (i) our growers may decide to grow different crops when prices for alternative commodities are on the rise, which can create a shortage of our certified seed; (ii) farmers who typically purchase our seed to grow alfalfa hay may plant alternative crops either in reaction to a decline in the dairy industry, which in turn causes shrinking demand for alfalfa hay or because they can make a higher profit planting alternative crops, either way, with the result that smaller quantities of our seed are purchased, or (iii) farmers may choose to convert their hay crops to non-certified common seed, and an overabundance of non-certified seed entering the market can drive down the overall market price for alfalfa seed, including the market for certified alfalfa seed. Consequently our revenue and margins can be difficult to project.

In connection with our alfalfa seed operations since our May 2010 IPO, we have (i) expanded our sales and marketing efforts; (ii) leased approximately 800 acres in Kern County in California's San Joaquin Valley, on which we are producing a portion of our alfalfa seed supply ourselves as well as other crops; and (iii) purchased the customer list of our principal international distributor from its owner in order to begin direct international sales rather than relying upon distributors for sales of our alfalfa seed in Saudi Arabia, and to other Middle Eastern and North African countries such as Sudan, Egypt and Morocco. We began direct international sales in June 2011. Our first crop of internally produced alfalfa seed is being planted in the second fiscal quarter of 2012 and will be harvested, cleaned, bagged and made available for sale to our customers in the first and second quarters of 2013, along with the seed we purchase from our growers. We believe that by vertically integrating our alfalfa seed business to include our own production, we can leverage our existing management infrastructure, experienced agronomics team and milling capacity, while reducing our costs and more directly controlling our inventory.

While the dairy business on which our alfalfa seed business is largely dependent is subject to significant cycles of over-supply and under-supply, these fluctuations are generally localized. Consequently, although we are subject to the volatility of local markets, the breadth of our market and the quality niche of our certified seed have resulted in relatively stable demand in most years. However, the supply of seed in the marketplace is subject to substantial swings. Fiscal 2011 proved to be a particularly challenging year, but the first quarter of fiscal 2012 reflects a significant turnaround in seed revenues.

From inception until 2003, almost all our seed sales were to distributors who exported our products to international markets. Modest sales efforts in the western U.S. were initiated around 2003, and in the fiscal year ended June 30, 2010, our seed shipments were allocated approximately 51% to the domestic market and 49% to distributors who sold into international markets. In fiscal 2011, both markets were negatively impacted by events beyond our control: The domestic market continued to be impacted by the dairy industry downturn that began in fiscal 2009 when dairy prices declined due to over-supply.

While in normal years, we are typically able to offset this situation with sales to our distributors in our international markets, in fiscal 2011, our Middle East distributor experienced the most challenging year in its history due to an over-supply of uncertified common seed being sold at significantly reduced prices. We and our distributor elected to hold back much of our certified proprietary seed rather than sell into that depressed market in fiscal 2011. As a result of all of these factors, seed sales were down in fiscal 2011 compared to the prior year. However because of our decisions in fiscal 2011, we had strong levels of certified seed inventory available for sale in the first quarter of fiscal 2012 when most of the common seed that glutted those markets in fiscal 2011 had been sold out. This allowed us to meet expected demand and, to some extent, control pricing as we began our first year selling directly into international markets, after having purchased our distributor's customer list in the first quarter of fiscal 2012 in order to build a direct sales network of customers. We plan to continue to expand our served markets and therefore minimize the risks associated with any specific geographic market.

Our alfalfa seed business is seasonal, with domestic sales concentrated in the first five months of our fiscal year 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. Tests show that seed that has been held in inventory for over one year improves quality of the seed. Therefore, provided that we have sufficient capital to carry additional inventory, we may increase our seed purchases and planned season end inventory if, in our judgment, we can generate increased margins and revenue with the aged seed. This will also reduce the potential for inventory shortages in the event that we have higher than anticipated demand or other factors, such as growers electing to plant alternative, higher priced crops, reducing our available seed supply in a particular year.

Although we believe an opportunity exists to materially expand our alfalfa seed business without substantially overhauling our operations, we could nevertheless encounter unforeseen problems. For example, in fiscal 2011 and 2012, some of our growers elected to grow crops, such as cotton, that yielded greater profit than alfalfa seed, and this could reoccur from time to time as commodity prices shift. However, having leased farmland beginning in fiscal 2011, we now have the ability to grow a portion of our alfalfa seed production ourselves, which could partially mitigate this risk in future years. Our growers could also decide to grow stevia for us instead of alfalfa seed, which is another uncertainty facing our primary business, although, to date, we have not contracted with third parties to grow our stevia crop. Beginning in fiscal 2011, we also faced the new risk caused by the availability of Roundup Ready alfalfa ("RRA") in the U.S., which could materially impact sales of our seed. We are still uncertain as to the extent to which RRA will negatively impact our business, if at all, but lack of regulations regarding field isolation could raise concerns about contamination of our non-GMO seed. Moreover, we sell into regions of the world that have a zero tolerance policy regarding GMO seed, so we will have to be able to maintain the integrity of our seed in order to sell in certain parts of the world. Therefore, we acknowledge that our plans to grow our alfalfa seed business are subject to some uncertainties.

We currently are using less than 25% of our mill capacity, leaving room for substantial revenue growth without having to incur significant capital costs. In particular, we clean, process and bag seed and small grains for growers in the Five Points, California. Although only representing a small portion of our business, our milling services operations experienced an increase in revenues in fiscal 2011 and is the highest margin portion of our business.

Since our May 2010 IPO, we have also been developing our stevia business, working with top stevia breeders and the world's largest stevia processor to conduct trials on numerous varieties to order to breed and select the best stevia varieties for the climate, soil and water conditions in the San Joaquin Valley. In July 2010, we entered into a five-year supply agreement with the stevia processor under which the processor has agreed to purchase all of our dried stevia leaf produced from seeds, plants and plant materials sourced from the processor or its agents that meets the contractual specifications, up to 130% of the quantity agreed upon by the parties on an annual basis. In May 2011, we commenced the planting of our first commercial crop of stevia on 114 acres and harvested a portion of that crop in the fall of 2012.

We expect to earn modest revenue from this harvest during the second quarter when leaf is shipped to our customer. Our agronomists focused their efforts on ensuring our plantation has a healthy stand for the first winter months, not on maximizing yield. This was essentially a test harvest in which we cut only the top portion of the plants and experimented with harvesting methods and equipment settings. We expect the next stevia harvest will take place in the quarter ending March 2012, at which time we expect our use of best agronomic practices to be rewarded by continuing yield improvement. 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 incurred substantial expenses and earned no revenues during the 2011 fiscal year as we entered the stevia production business. We expect that the amount of stevia research and development expenses will decrease and that we will record our first stevia revenues in fiscal 2012 as we move to commercial production of stevia leaf.

Historical Background

Our business was operated as a partnership beginning in 1980. On June 27, 2008, the general partners entered into an agreement with Seed Holding, LLC 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 on October 2, 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.

Results of Operations

Three Months Ended September 30, 2011 Compared to the Three Months Ended September 30, 2010

Revenue and Cost of Revenue

Alfalfa Seed and Milling and Other Services

Revenue for the three months ended September 30, 2011 was \$6,115,679 compared to \$933,143 for the three months ended September 30, 2010. The \$5,182,536 or 555% increase in revenue for the current period was due to a \$5,206,186 increase in alfalfa seed revenue partially offset by \$23,650 decrease in milling and other services. The substantial increase in alfalfa seed revenue is due primarily to the commencement of direct sales to our customers in Saudi Arabia and to a lesser extent other international markets, which reflects the success of our initiatives to sell direct into the international markets along with strong demand for our proprietary alfalfa seed varieties. As previously communicated, we and our former distributor had intentionally decided to withhold our certified seed from the market in fiscal 2011 due to pricing, rather than sell it at prices we felt were too low. Sales (both direct and through distributors) into international markets accounted for 84% of our current period revenue compared to 13% in the comparable period of the prior year. Domestic revenues accounted for 16% and 87% of our total revenues for the three months ended September 30, 2011 and 2010, respectively.

Throughout fiscal 2011, the prices of commodities, such as cotton, corn and wheat, which compete with alfalfa hay for acreage, increased dramatically and, in some cases, hit all-time record highs. Additionally, the economic recovery of the U.S. dairy industry continues to lag 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 experienced dramatic price increases in fiscal 2011. This posed certain sales challenges in the domestic market during the 2011 fiscal year, but also created the opportunity of a developing shortage (and pricing power) for our alfalfa seed product, in the 2012 fiscal year. We experienced an 18% increase in domestic revenues over the same period of the prior year.

Revenue for the three months ended September 30, 2011 included approximately \$230,367 of milling and other services compared to \$254,017 for the three months ended September 30, 2010. The slight decrease is primarily due to the timing of the harvests in the first quarter of fiscal 2012, which occurred later in the quarter than it had in the comparable period in the prior year. This, in turn, resulted in a shift in some revenue to the second quarter of this fiscal year.

Cost of revenue of \$4,364,387 in the three months ended September 30, 2011 was 71% of revenue, while the cost of revenue of \$561,820 in the three months ended September 30, 2010 was 60% of revenue. The dollar increase in cost of revenue for the current period was primarily attributable to an increase in the amount seed sold partially offset by a decrease in the average cost of seed sold. Margins on seed revenue totaled 27% in the current period versus 23% in the comparable period in the prior year. The improvement of seed margins can be primarily attributed to a 15% decrease in the average cost of seed sold versus the comparable period in the prior year as prior period sales consisted of higher concentrations of seed from the 2009 harvest which had higher costs than the subsequent 2010 and 2011 harvests.

Total gross profit margins for the current period totaled 28.6% versus 39.8% in the comparable period of the prior year. The significant increase in seed revenue in the current period principally contributed to the decrease in the total gross profit margins in the current period because seed sales constituted most of the revenue in the current period and margins are lower than for milling services, which represented only 4% of the revenue in the first quarter of fiscal 2012. By comparison, in the first quarter of fiscal 2011, milling and other services contributed over 27% of the total revenue recorded in the period, and therefore, the higher margin line of business impacted the gross profit margins to a greater degree.

We have contracts with our growers for the production of seed for harvest periods that began in late summer and end in the fall. The price per pound in these 2012 grower contracts is approximately 12% more than the 2011 harvest product price.

Stevia Breeding and Production Program

We began our stevia initiative in fiscal 2010. We moved from a pilot program to commercial production in fiscal 2011, planting the first commercial crop in the spring and summer of 2011, but we did not earn any revenue from stevia through the first fiscal quarter of 2012. We expect to have our first stevia revenues in fiscal 2012, primarily in fulfillment under a commercial supply agreement with a major stevia processor.

We have worked with Triangle T in connection with our initial stevia efforts. We initially agreed to reimburse Triangle T for its direct and indirect costs, including costs incurred in the 2010 Fiscal Year 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. Costs related to our commercial production program are being capitalized to inventory, and costs related to our pilot program were expensed as incurred. The \$15,000 monthly management expense was reduced to \$2,500 as of October 1, 2010, and, with the consent of Triangle T, we hired the key stevia employee on a part-time basis to work with us directly on stevia R&D, breeding, 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.

As a result of the foregoing arrangements, we incurred \$406,319 in stevia expenditures for the three months ended September 30, 2011 compared to \$103,110 in similar expenditures for the three months ended September 30, 2010. The stevia-related expenses in the first quarter of fiscal 2012 have been allocated as follows: \$340,394 has been included in work in process inventory, \$8,400 has been recorded as another long-term asset at September 30, 2011 and the balance of the stevia-related costs are included in research and development on the consolidated statements of operations. With respect to the fiscal 2011 period amount, \$12,556 has been included as work in process inventory and the remaining costs are included in research and development expense on the consolidated statement of operations.

We harvested the first commercial crop of stevia leaf in the quarter ended September 30, 2011. We expect to earn modest revenue from this harvest during the second quarter when leaf is shipped to our customer. Our agronomists focused their efforts on ensuring our plantation has a healthy stand for the first winter months, not on maximizing yield. This was essentially a test harvest in which we cut only the top portion of the plants and experimented with harvesting methods and equipment settings. We expect the next stevia harvest will take place in the quarter ending June 2012, at which time we expect our use of best agronomic practices to be rewarded by continuing yield improvement.

Selling, General and Administrative Expenses

Selling, general and administrative expenses ("SG&A") for the three months ended September 30, 2011 totaled \$707,953 compared to \$534,562 in the three months ended September 30, 2010. The \$173,391 or 32% increase in SG&A expense versus the prior year period was primarily due to a \$148,000 increase in sales commissions paid to our international sales consultant and a \$24,000 increase in personnel costs for sales and marketing and administration. Included in SG&A expenses is non-cash stock based compensation, which totaled \$24,320 in the current period versus \$46,248 in the comparable period in the prior year.

Research and Development Expense

Research and development expenses ("R&D") for the three months ended September 30, 2011 totaled \$92,876 compared to \$134,278 for the three months ended September 30, 2010. R&D expenses decreased \$41,402 in the current period due to a \$20,472 decrease in stevia product development expenses. In addition, we decreased our alfalfa seed product development expenses by \$20,930 in the first quarter of fiscal 2012 compared to the comparable period in fiscal 2011.

Depreciation and Amortization

Depreciation and amortization expense for the three months ended September 30, 2011 was \$71,095 compared to \$59,391 for the three months ended September 30, 2010. Included in the amount is amortization expense for intangibles assets, which totaled \$

15,196 in the current period and \$11,562 for the first quarter of the fiscal year ended September 30, 2010. The increase in depreciation expense was attributable primarily to the addition of certain new fixed assets, including additional storage containers, irrigation equipment and bee trailers.

Interest (Income) Expense, Net

Interest expense, net during the three months ended September 30, 2011 totaled \$4,162 compared to interest income, net of \$3,978 for the three months ended September 30, 2010. Current period interest expense consisted of the fee for the unused credit facility partially offset by interest income derived from cash and cash equivalents.

Income Tax (Benefit)

Income tax expense totaled \$352,441 for the three months ended September 30, 2011 compared to an income tax benefit of \$104,557 for the three months ended September 30, 2010.

Net Income (Loss)

We had net income of \$522,765 for the three months ended September 30, 2011 compared to a net loss of \$254,079 for the three months ended September 30, 2010. The increase in profitability was attributable primarily to the increase in shipments into international markets in the first quarter of fiscal 2012, partially offset by an increase in SG&A and income tax expense, all of which are discussed above. The net income per basic and diluted common share for the current period was \$0.09, compared to a net loss per basic and diluted common share of \$0.04 for the three months ended September 30, 2010.

Liquidity and Capital Resources

Our working capital and working capital requirements fluctuate from quarter to quarter depending on the phase of the growing and sales cycle that falls during a particular quarter. Our need for cash 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 most of our growers, we have the ability to negotiate extended payment terms with them to coincide with the timing of our cash collections from customers. In the 2011 Fiscal Year, we paid our growers approximately 50% of the amount owed in October 2010 (the second fiscal quarter) and the remaining 50% in February 2011 (the third fiscal quarter), in accordance with the annual contracts. We expect to pay our growers on a similar schedule in fiscal 2012. 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).

Historically, due to the concentration of sales to certain distributors and key customers, which typically represented a significant percentage of alfalfa seed sales, our month-to-month and quarter-to-quarter sales and associated cash receipts were highly dependent upon the timing of deliveries to and payments from these distributors and customers, which varied significantly from year to year. At the end of fiscal 2011, our largest international distributor left the alfalfa seed sales business, and we purchased its customer list in July 2011. Although we have no history of directly selling into the Middle East and other international markets, we believe that we will be able to successfully transition into our direct sales model into the Middle East. We commenced direct international sales in June 2011. We expect that as direct sellers, we will experience similar timing constraints to that which we were accustomed when we sold into these markets through our former distributor.

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

In the 2011 Fiscal Year, we established a working capital line of credit with Wells Fargo Bank under the terms of which we are able to draw down up to \$5,000,000 to fund our seasonal working capital needs. The outstanding principal balance of the line of credit bears interest at the one month LIBOR plus 2%, which equals 2.25% per annum as of November 2, 2011. The line of credit bears a standby fee on one-half percent per annum on the average daily unused amount of the line of credit, for a maximum of \$25,000 if the line is not utilized. As of November 14, 2011, we have not drawn down on the line, and during the three months ended September 30, 2011, we incurred \$6,389 of fees for the unused portion of the credit facility.

Summary of Cash Flows

The following table shows a summary of our cash flows for the three months ended September 30, 2011 and 2010:

| | Three Months Ended September 30, | |
|--|---|--------------|
| | 2011 | 2010 |
| Cash flows from operating activities | \$ 711,754 | \$ (451,850) |
| Cash flows from investing activities | (258,400) | (201,882) |
| Net increase (decrease) in cash | 453,354 | (653,732) |
| Cash and cash equivalents, beginning of period | 3,738,544 | 7,830,517 |
| Cash and cash equivalents, end of period | \$ 4,191,898 | \$ 7,176,785 |

As of September 30, 2011, we had cash and cash equivalents of approximately \$4.2 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 three months ended September 30, 2011, operating activities provided \$711,754 in cash, as a result of net income of \$522,765 and an increase in accounts payable of \$4,652,093, partially offset by an increase in accounts receivable of \$4,292,112. For the three months ended September 30, 2010, operating activities used \$451,850 in cash, as a result of a net loss of \$254,079, and an increase in accounts receivables of \$348,878, an increase in inventories of \$4,113,907, partially offset by an increase in accounts payable of \$4,317,033. 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 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, although the anticipated timing of such possible increased demand, if any, cannot be ascertained.

Our largest international customer, which is located in Saudi Arabia, owed us \$712,600 at June 30, 2011. These outstanding invoices have 90 day payment terms. The outstanding balance of \$712,600 was paid in full in September 2011. At September 30, 2011, this particular customer owed us approximately \$5.4 million. During October and November 2011, we continued to receive payments within our agreed upon payment terms and collected \$4.15 million of the balance outstanding at September 30, 2011. Our relationship with this customer is strong, and we intend to continue to do a significant amount of business together. In future periods, we may also further extend credit to this customer. We believe that we will fully collect all accounts receivable balances outstanding at September 30, 2011, although the exact timing cannot be predicted with certainty.

Investing Activities

Our investing activities during the three months ended September 30, 2011 totaled \$258,400, funded with a portion of the net proceeds of our initial public offering in May 2010. These activities consisted primarily of the purchase of our distributor's customer list for \$165,000 and the purchase of bee trailers and irrigation equipment totaling \$93,400. Our investing activities during the three months ended September 30, 2010 totaled \$201,882 and consisted of the addition of certain new fixed assets, including upgrades to the milling facility, additional storage containers, a vehicle and other equipment. During fiscal 2012, 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.

Financing Activities

We did not have any financing activities during the three months ended September 30, 2011 nor the three months ended September 30, 2010.

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 do not engage in material off-balance sheet transactions.

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.

The alfalfa seed revenue and associated fixed and variable operating expenses, as well as its associated research and development expenses, have historically been relatively stable, and we expect this trend to continue. Our more recent focus on sales and marketing efforts is expected to increase sales

volume over time, which, in turn, we anticipate will result in increasing revenue. 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 generally 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 audited financial statements.

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

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

Intangible Assets:

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

Stock-Based Compensation

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

We account for equity instruments, including stock options, issued to non-employees in accordance with authoritative guidance for equity based payments to non-employees. Stock options issued to non-employees are accounted for at their estimated fair value. The fair value of options granted to non-employees is re-measured as they vest, and the resulting increase in value, if any, is recognized as expense during the period the related services are rendered.

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 rate. The input factors to use in the valuation model are based on subjective future expectations combined with management judgment. The expected term used represents the weighted-average period that the stock options are expected to be outstanding. We 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

Recently Adopted and Recently Enacted Accounting Pronouncements

In May 2011, the FASB issued Accounting Standards Update (ASU) No. 2011-04, *Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs*. This update clarifies the application of certain existing fair value measurement guidance and expands the disclosures for fair value measurements that are estimated using significant unobservable (Level 3) inputs. This update is effective on a prospective basis for annual and interim reporting periods beginning on or after December 15, 2011, which for the Company is January 1, 2012. The Company does not expect that adopting this update will have a material impact on its consolidated financial statements.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

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

Item 4. Controls and Procedures.

Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive Officer and our Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures as of September 30, 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 September 30, 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 have been no significant changes in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) or in other factors that occurred during the period of our evaluation or subsequent to the date we carried out our evaluation which have significantly affected, or are reasonably likely to significantly affect, our internal control over financial reporting. Potential investors should be aware that the design of any system of controls and procedures is based in part upon certain assumptions about the likelihood of future events. There can be no assurance that any system of controls and procedures will succeed in achieving its stated goals under all potential future conditions, regardless of how remote.

Part II

OTHER INFORMATION

Item 1. Legal Proceedings.

We are not a party to any material legal proceedings.

Item 1A. Risk Factors.

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 26, 2011. There have been no material changes to the risk factors previously disclosed under the caption "Risk Factors" in the Form 10-K.

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.

From the effective date of the registration statement through June 30, 2011, we used approximately \$8.6 million of the net proceeds primarily to pay off the revolving credit facility, complete the purchase of the partnership interests of S&W Seed Company and fund our operations including working capital investments into inventory and the improvements to our facilities to support the anticipated growth of our business. We have invested the remainder of the funds in registered money market funds and short-term investments with original maturities of less than 90 days.

Item 3. Defaults Upon Senior Securities.

None.

Item 5. Other Information.

None.

Item 6. Exhibits.

| Exhibit No. | 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.</u> (PDF as a courtesy) |
| 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.</u> (PDF as a courtesy) |
| 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.</u> (PDF as a courtesy) |
| 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.</u> (PDF as a courtesy) |
| 99.1 | <u>Press release of the registrant dated November 14, 2011(1)</u> (PDF as a courtesy) |

101

The following materials from the Company's Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2011, formatted in XBRL (eXtensible Business Reporting Language): (i) the Consolidated Balance Sheets at September 30, 2011 and June 30, 2011; (ii) the Consolidated Statements of Operations for the Three Months Ended September 30, 2011 and 2010; (iii) the Consolidated Statement of Stockholders' Equity; (iv) the Consolidated Statement of Cash Flows for the Three Months Ended September 30, 2011 and 2010; and (v) the Notes to Consolidated Financial Statements

(1) The information in Exhibit 99.1 hereto shall not be deemed "filed" for the purposes of or otherwise subject to the liabilities under Section 18 of the Securities Exchange Act of 1934, as amended (the "Exchange Act").

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 14th day of November, 2011.

S&W SEED COMPANY

By: /s/ Matthew K. Szot

Matthew K. Szot

Senior Vice President Finance and Chief Financial Officer

(Principal Accounting and Financial Officer and Duly

Authorized Signatory)
