

S&W Seed Co
Form 10-Q
May 10, 2018

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2018

OR

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

For the transition period from _____ to _____

Commission file number 001-34719

S&W SEED COMPANY

(Exact name of Registrant as Specified in its Charter)

Nevada

(State or Other Jurisdiction of Incorporation or Organization)

27-1275784

(I.R.S. Employer Identification Number)

106 K Street, Suite 300
Sacramento, California 95814

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(Address of Principal Executive Offices, including Zip Code)

(559) 884-2535

(Registrant's Telephone Number, including Area Code)

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

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

NO

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

| | | | | | | | | | |
|---|--------------------------|-------------------|--------------------------|-----------------------|--------------------------|---------------------------|-------------------------------------|-------------------------|--------------------------|
| Large accelerated filer | <input type="checkbox"/> | Accelerated filer | <input type="checkbox"/> | Non-accelerated filer | <input type="checkbox"/> | Smaller reporting company | <input checked="" type="checkbox"/> | Emerging growth company | <input type="checkbox"/> |
| (Do not check if a smaller reporting company) | | | | | | | | | |

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

As of May 9, 2018, 24,342,806 shares of the registrant's common stock were outstanding.

S&W SEED COMPANY
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FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the "Securities Act"), and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), which are subject to the "safe harbor" created by those sections. These forward-looking statements include but are not limited to, any statements concerning 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 or to diversify our product offerings; 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," "designed," "estimate," "expect," "intend," "may," "plan," "potential," "project," "seek," "should," "target," "will," "would," and similar expressions or variations intended to identify forward-looking statements, although not all forward-looking statements contain these identifying words. 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 following:

- whether we are successful in securing sufficient acreage to support the growth of our alfalfa seed business,
- our plans for expansion of our business (including through acquisitions) and our ability to successfully integrate acquisitions into our operations;
- the continued ability of our distributors and suppliers to have access to sufficient liquidity to fund their operations;
- trends and other factors affecting our financial condition or results of operations from period to period;
- the impact of crop disease, severe weather conditions, such as flooding, or natural disasters, such as earthquakes, on crop quality and yields and on our ability to grow, procure or export our products;
- the impact of pricing of other crops that may be influence what crops our growers elect to plant;
- whether we are successful in aligning expense levels to revenue changes;
- whether we are successful in monetizing our stevia business;
- the cost and other implications 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 "Risk Factors" below, and that are otherwise described or updated from time to time in our filings with the Securities and Exchange Commission ("SEC").

You are urged to carefully review the disclosures made concerning risks and uncertainties that may affect our business or operating results, which include, among others, those listed in Part I, Item 1A. "Risk Factors" of our Annual Report on Form 10-K for the fiscal year ended June 30, 2017, as updated in Part II, Item 1A. "Risks Factors" of this Quarterly Report on Form 10-Q.

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 Quarterly Report on Form 10-Q, some of which are beyond our control, will be important in determining our future performance. Consequently, these statements are inherently uncertain and 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 Quarterly Report on Form 10-Q 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. All forward-looking statements included herein are expressly qualified in their entirety by the cautionary statements contained or referred to in this section. Furthermore, such forward-looking statements represent our views as of, and speak only as of, the date of this Quarterly Report on Form 10-Q, and such statements should not be read to indicate that we have conducted an exhaustive inquiry into, or review of, all potentially available relevant information. We undertake no obligation to publicly update any forward-looking statements, or to update the reasons why actual results could differ materially from those anticipated in any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law.

When used in this Quarterly Report on Form 10-Q, the terms "we," "us," "our," "the Company," "S&W" and "S&W Seed" refer to S&W Seed Company and its subsidiaries or, as the context may require, S&W Seed Company only. Our fiscal year ends on June 30, and accordingly, the terms "fiscal 2018," "fiscal 2017" and "fiscal 2016" in this Quarterly Report on Form 10-Q refer to the respective fiscal year ended June 30, 2018, 2017 and 2016, respectively, with corresponding meanings to any fiscal year reference beyond such dates. Trademarks, service marks and trade names of other companies appearing in this report are the property of their respective holders.

Part I

FINANCIAL INFORMATION

Item 1. Financial Statements

S&W SEED COMPANY
CONSOLIDATED BALANCE SHEETS
(UNAUDITED)

| | March 31, 2018 | June 30, 2017 |
|---|---------------------------|--------------------------|
| ASSETS | | |
| CURRENT ASSETS | | |
| Cash and cash equivalents | \$ 2,988,392 | \$ 745,001 |
| Accounts receivable, net | 14,589,886 | 23,239,325 |
| Inventories, net | 63,654,908 | 31,489,945 |
| Prepaid expenses and other current assets | 1,511,024 | 1,249,921 |
| TOTAL CURRENT ASSETS | 82,744,210 | 56,724,192 |
| Property, plant and equipment, net | 13,496,922 | 13,581,576 |
| Intangibles, net | 33,311,053 | 34,939,079 |
| Goodwill | 10,292,265 | 10,292,265 |
| Other assets | 1,303,489 | 1,563,176 |
| TOTAL ASSETS | \$ 141,147,939 | \$ 117,100,288 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| CURRENT LIABILITIES | | |
| Accounts payable | \$ 12,384,239 | \$ 7,157,745 |
| Accounts payable - related parties | 120,081 | 331,694 |
| Deferred revenue | 107,897 | 880,326 |
| Accrued expenses and other current liabilities | 3,146,874 | 2,733,718 |
| Lines of credit, net | 25,128,689 | 27,399,784 |
| Current portion of contingent consideration obligation | - | 2,500,000 |
| Current portion of long-term debt, net | 509,297 | 10,309,664 |
| TOTAL CURRENT LIABILITIES | 41,397,077 | 51,312,931 |
| Long-term debt, net, less current portion | 13,038,521 | 1,096,155 |
| Derivative warrant liabilities | - | 2,836,600 |
| Other non-current liabilities | 553,498 | 632,947 |
| TOTAL LIABILITIES | 54,989,096 | 55,878,633 |
| 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; 24,362,579 issued and 24,337,579 outstanding at March 31, 2018; 18,004,681 issued and 17,979,681 outstanding at June 30, 2017; | 24,362 | 18,004 |
| Treasury stock, at cost, 25,000 shares | (134,196) | (134,196) |
| Additional paid-in capital | 108,663,983 | 83,312,518 |
| Accumulated deficit | (16,875,228) | (16,436,286) |
| Accumulated other comprehensive loss | (5,520,078) | (5,538,385) |
| TOTAL STOCKHOLDERS' EQUITY | 86,158,843 | 61,221,655 |
| TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY | \$ 141,147,939 | \$ 117,100,288 |

See notes to consolidated financial statements.

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

| | Three Months Ended | | Nine Months Ended | |
|---|---------------------------|---------------|--------------------------|---------------|
| | March 31, | | March 31, | |
| | 2018 | 2017 | 2018 | 2017 |
| Revenue | \$ 22,949,170 | \$ 21,012,243 | \$ 54,193,682 | \$ 57,487,560 |
| Cost of revenue | 16,303,436 | 15,208,896 | 40,540,193 | 44,520,476 |
| Gross profit | 6,645,734 | 5,803,347 | 13,653,489 | 12,967,084 |
| Operating expenses | | | | |
| Selling, general and administrative expenses | 2,676,166 | 2,720,131 | 8,037,202 | 7,767,530 |
| Research and development expenses | 1,065,323 | 714,512 | 2,662,404 | 2,204,625 |
| Depreciation and amortization | 838,585 | 798,559 | 2,597,818 | 2,475,710 |
| Disposal of property, plant and equipment loss (gain) | - | 7,766 | (81,776) | 7,630 |
| Impairment charges | - | 319,001 | - | 319,001 |
| Total operating expenses | 4,580,074 | 4,559,969 | 13,215,648 | 12,774,496 |
| Income from operations | 2,065,660 | 1,243,378 | 437,841 | 192,588 |
| Other expense | | | | |
| Foreign currency (gain) loss | (27,939) | 2,125 | (5,908) | (4,358) |
| Change in derivative warrant liabilities | - | (1,009,901) | (431,300) | (841,400) |
| Change in contingent consideration obligations | - | (86,688) | - | 77,675 |
| Loss on equity method investment | - | 95,591 | - | 144,841 |
| Interest expense - amortization of debt discount | 51,185 | 150,875 | 118,284 | 1,131,994 |
| Interest expense | 512,892 | 300,627 | 1,244,515 | 948,211 |
| Income (loss) before income taxes | 1,529,522 | 1,790,749 | (487,750) | (1,264,375) |
| Provision (benefit) for income taxes | (248,931) | 463,509 | (48,808) | (533,414) |
| Net income (loss) | \$ 1,778,453 | \$ 1,327,240 | \$ (438,942) | \$ (730,961) |
| Net income (loss) per common share: | | | | |
| Basic | \$ 0.07 | \$ 0.07 | \$ (0.02) | \$ (0.04) |
| Diluted | \$ 0.07 | \$ 0.02 | \$ (0.02) | \$ (0.09) |
| Weighted average number of common shares outstanding: | | | | |
| Basic | 24,335,821 | 17,963,598 | 21,861,038 | 17,630,906 |
| Diluted | 24,353,082 | 17,979,177 | 21,861,038 | 17,718,243 |

See notes to consolidated financial statements.

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

| | Three Months Ended March 31, | | Nine Months Ended March 31, | |
|--|---------------------------------|--------------|--------------------------------|--------------|
| | 2018 | 2017 | 2018 | 2017 |
| Net income (loss) | \$ 1,778,453 | \$ 1,327,240 | \$ (438,942) | \$ (730,961) |
| Foreign currency translation adjustment, net of income taxes | (97,123) | 454,319 | 18,307 | 210,701 |
| Comprehensive income (loss) | \$ 1,681,330 | \$ 1,781,559 | \$ (420,635) | \$ (520,260) |

See notes to consolidated financial statements.

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

| | Common Stock | | Treasury Stock | | Additional | Accumulated | Accumulated | Total |
|--|--------------|-----------|----------------|--------------|--------------------|-----------------|--------------------------------|-------------------------|
| | Shares | Amount | Shares | Amount | Paid-In Capital | Deficit | Other Comprehensive Loss | Stockholders' Equity |
| Balance, June 30, 2016 | 17,086,111 | \$ 17,086 | (25,000) | \$ (134,196) | \$ 78,282,461 | \$ (4,614,244) | \$ (5,789,663) | \$ 67,761,444 |
| Stock-based compensation - options, restricted stock, and RSUs | - | - | - | - | 885,456 | - | - | 885,456 |
| Net issuance to settle RSUs | 56,954 | 57 | - | - | (107,552) | - | - | (107,495) |
| Issuance of common stock upon conversion of principal and interest of convertible debentures | 684,321 | 684 | - | - | 3,160,588 | - | - | 3,161,272 |
| Exercise of stock options, net of withholding taxes | 161,781 | 162 | - | - | 601,921 | - | - | 602,083 |
| Other comprehensive income | - | - | - | - | - | - | 210,701 | 210,701 |
| Net loss | - | - | - | - | - | (730,961) | - | (730,961) |
| Balance, March 31, 2017 | 17,989,167 | \$ 17,989 | (25,000) | \$ (134,196) | \$ 82,822,874 | \$ (5,345,205) | \$ (5,578,962) | \$ 71,782,500 |
| Balance, June 30, 2017 | 18,004,681 | \$ 18,004 | (25,000) | \$ (134,196) | \$ 83,312,518 | \$ (16,436,286) | \$ (5,538,385) | \$ 61,221,655 |
| Stock-based compensation - options, restricted stock, and RSUs | - | - | - | - | 600,231 | - | - | 600,231 |
| Net issuance to settle RSUs | 97,898 | 98 | - | - | (107,145) | - | - | (107,047) |
| Proceeds from sale of common stock, net of fees and expenses | 6,260,000 | 6,260 | - | - | 22,453,079 | - | - | 22,459,339 |
| Reclassification of warrants upon expiration of repricing provisions | - | - | - | - | 2,405,300 | - | - | 2,405,300 |
| Other comprehensive income | - | - | - | - | - | - | 18,307 | 18,307 |
| Net loss | - | - | - | - | - | (438,942) | - | (438,942) |
| Balance, March 31, 2018 | 24,362,579 | \$ 24,362 | (25,000) | \$ (134,196) | \$ 108,663,983 | \$ (16,875,228) | \$ (5,520,078) | \$ 86,158,843 |

See notes to consolidated financial statements.

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

| | Nine Months Ended | |
|--|--------------------------|--------------|
| | March 31, | |
| | 2018 | 2017 |
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Net loss | \$ (438,942) | \$ (730,961) |
| Adjustments to reconcile net loss from operating activities to net cash used in operating activities | | |
| Stock-based compensation | 600,231 | 885,456 |
| Bad debt expense | 20,547 | 99,640 |
| Depreciation and amortization | 2,597,818 | 2,475,710 |
| (Gain) loss on disposal of property, plant and equipment | (81,776) | 7,630 |
| Impairment charges | - | 319,001 |
| Change in deferred tax asset | - | (448,447) |
| Change in foreign exchange contracts | 192,360 | 50,522 |
| Change in derivative warrant liabilities | (431,300) | (841,400) |
| Change in contingent consideration obligation | - | 77,675 |
| Amortization of debt discount | 118,284 | 1,131,994 |
| Loss on equity method investment | - | 144,841 |
| Changes in: | | |
| Accounts receivable | 8,663,419 | 4,481,129 |
| Inventories | (32,191,993) | (15,972,829) |
| Prepaid expenses and other current assets | (461,883) | (245,248) |
| Other non-current asset | 259,683 | - |
| Accounts payable | 5,236,255 | (7,323,842) |
| Accounts payable - related parties | (216,449) | (318,428) |
| Deferred revenue | (561,615) | 60,298 |
| Accrued expenses and other current liabilities | 396,478 | (770,337) |
| Other non-current liabilities | (79,096) | (67,915) |
| Net cash used in operating activities | (16,377,979) | (16,985,511) |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Additions to property, plant and equipment | (1,062,406) | (1,624,493) |
| Proceeds from disposal of property, plant and equipment | 46,218 | 6,000 |
| Additions to internal use software | - | (118,121) |
| Net cash used in investing activities | (1,016,188) | (1,736,614) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Net proceeds from sale of common stock | 22,459,339 | - |
| Net proceeds from exercise of common stock options | - | 602,083 |
| Taxes paid related to net share settlements of stock-based compensation awards | (107,047) | (107,495) |
| Borrowings and repayments on lines of credit, net | (2,371,486) | 19,325,988 |
| Repayment of contingent consideration obligation | (2,500,000) | - |
| Borrowings of long-term debt | 12,836,896 | 89,717 |
| Debt issuance costs | (257,964) | - |
| Repayments of long-term debt | (10,470,302) | (209,454) |
| Repayments of convertible debt | - | (4,721,551) |
| Net cash provided by financing activities | 19,589,436 | 14,979,288 |
| EFFECT OF EXCHANGE RATE CHANGES ON CASH | 48,122 | 158,996 |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | 2,243,391 | (3,583,841) |
| CASH AND CASH EQUIVALENTS, beginning of the period | 745,001 | 6,904,500 |
| CASH AND CASH EQUIVALENTS, end of period | \$ 2,988,392 | \$ 3,320,659 |
| SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION | | |
| Cash paid (received) during the period for: | | |
| Interest | \$ 1,121,977 | \$ 1,039,100 |
| Income taxes | (118,224) | 194,886 |

See notes to consolidated financial statements.

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

NOTE 1 - BACKGROUND AND ORGANIZATION

Organization

S&W Seed Company, a Nevada corporation (the "Company"), began as S&W Seed Company, a general partnership, in 1980 and was originally in the business of breeding, growing, processing and selling alfalfa seed. We then incorporated a corporation with the same name in Delaware in October 2009, which is the successor entity to Seed Holding, LLC, having purchased a majority interest in the general partnership between June 2008 and December 2009. Following the Company's initial public offering in May 2010, the Company purchased the remaining general partnership interests and became the sole owner of the general partnership's original business. Seed Holding, LLC remains a consolidated subsidiary of the Company.

In December 2011, the Company reincorporated in Nevada as a result of a statutory short-form merger of the Delaware corporation into its wholly-owned subsidiary, S&W Seed Company, a Nevada corporation.

On April 1, 2013, the Company, together with its wholly-owned subsidiary, S&W Holdings Australia Pty Ltd, an Australia corporation (f/k/a S&W Seed Australia Pty Ltd "S&W Holdings"), consummated an acquisition of all of the issued and outstanding shares of Seed Genetics International Pty Ltd, an Australia corporation ("SGI"), from SGI's shareholders. In April 2018, SGI changed its name to S&W Seed Company Australia Pty Ltd ("S&W Australia").

Business Overview

Since its establishment, the Company, including its predecessor entities, has been principally engaged in breeding, growing, processing and selling agricultural seeds, primarily alfalfa seed. The Company owns seed cleaning and processing facilities, which are located in Five Points, California, Nampa, Idaho and Keith, South Australia. The Company's seed products are primarily grown under contract by farmers. The Company began its stevia initiative in fiscal year 2010 and is currently focused on breeding improved varieties of stevia and developing marketing and distribution programs for its stevia products.

The Company has also been actively engaged in expansion initiatives through a combination of organic growth and strategic acquisitions, including in December 31, 2014, when the Company purchased certain alfalfa research and production facilities and conventional (non-GMO) alfalfa germplasm assets and assumed certain related liabilities ("the Pioneer Acquisition") of Pioneer Hi-Bred International, Inc. ("DuPont Pioneer").

The Asset Purchase and Sale Agreement for the Pioneer Acquisition previously contemplated that, subject to the satisfaction of certain conditions, the Company would acquire certain GMO germplasm varieties and other related assets from DuPont Pioneer for a purchase price of \$7.0 million. The conditions for this additional acquisition were not satisfied by the required date, and DuPont Pioneer has informed the Company that it does not intend to extend the deadline or complete the transaction at this point in time. As a result, the Company does not expect to close the acquisition of DuPont Pioneer's GMO germplasm varieties and related assets in the previously disclosed structure or pay the \$7,000,000 purchase price.

The Company has a long-term distribution agreement with DuPont Pioneer regarding conventional (non GMO) varieties, the term of which extends into 2024. The Company's production and research agreements with DuPont Pioneer (relating to GMO-traited varieties) terminated on February 28, 2018. As a result, DuPont Pioneer's minimum purchase commitments from the Company will be reduced by approximately \$6 million annually, commencing with the Company's Fiscal Year 2019. However, the Company expects that the DuPont Pioneer distribution agreement will

continue to be a significant source of the Company's annual revenue through December 2024.

The Company is in discussions with DuPont Pioneer regarding the orderly transition of activities previously conducted by the Company under the production and research agreements, as well as the possibility of certain ongoing commercial relationships between the parties relating to GMO-traited varieties, among other things.

In May 2016, the Company acquired the assets and business of SV Genetics, a private Australian company specializing in the breeding and licensing of proprietary hybrid sorghum and sunflower seed germplasm, which represented the Company's initial effort to diversify its product portfolio beyond alfalfa seed and stevia.

The Company's operations span the world's alfalfa seed production regions with operations in the San Joaquin and Imperial Valleys of California, five other U.S. states, Australia, and three provinces in Canada, and the Company sells its seed products in more than 30 countries around the globe.

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 accounting principles generally accepted in the United States of America ("GAAP").

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

Unaudited Interim Financial Information

The Company has prepared the accompanying consolidated financial statements pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC") for interim financial reporting. These consolidated financial statements are unaudited and, in the Company's opinion, include all adjustments, consisting of normal recurring adjustments and accruals, necessary for a fair presentation of the Company's consolidated balance sheets, statements of operations, comprehensive income (loss), cash flows and stockholders' equity for the periods presented. Operating results for the periods presented are not necessarily indicative of the results to be expected for the full year ending June 30, 2018. Certain information and disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been omitted in accordance with the rules and regulations of the SEC. These consolidated financial statements should be read in conjunction with the audited consolidated financial statements and accompanying notes included in the Company's Annual Report on Form 10-K for the year ended June 30, 2017, as filed with the SEC.

Use of Estimates

The preparation of financial statements in conformity with GAAP 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, inventory valuation, asset impairments, provisions for income taxes, grower accruals (an estimate of amounts payable to farmers who grow seed for the Company), contingent consideration obligations, derivative liabilities, 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, goodwill as well as valuing stock-based compensation. Actual results may differ from those estimates and assumptions, and such results may affect income, financial position or cash flows.

Certain Risks and Concentrations

The Company's revenue is principally derived from the sale of alfalfa seed, the market for which is highly competitive. The Company depends on a core group of significant customers. One customer accounted for 82% and 77% of its revenue for the three months ended March 31, 2018 and 2017, respectively. One customer accounted for 68% and 59% of its revenue for the nine months ended March 31, 2018 and 2017, respectively.

One customer accounted for 38% of the Company's accounts receivable at March 31, 2018. Two customers accounted for 52% of the Company's accounts receivable at June 30, 2017.

In addition, the Company sells a substantial portion of its products to international customers. Sales to international markets represented 16% and 20% of revenue during the three months ended March 31, 2018 and 2017, respectively. Sales to international markets represented 29% and 36% of revenue during the nine months ended March 31, 2018 and 2017, respectively. The net book value of fixed assets located outside the United States was 20% and 19% of total assets at March 31, 2018 and June 30, 2017, respectively. Cash balances located outside of the United States may not be insured and totaled \$334,603 and \$192,879 at March 31, 2018 and June 30, 2017, respectively.

The following table shows revenue from external sources by destination country:

| | Three Months Ended March 31, | | | | Nine Months Ended March 31, | | | |
|---------------|------------------------------|------|---------------|------|-----------------------------|------|---------------|------|
| | 2018 | | 2017 | | 2018 | | 2017 | |
| United States | \$ 19,258,699 | 84% | \$ 16,850,655 | 80% | \$ 38,523,953 | 71% | \$ 36,633,044 | 64% |
| Mexico | 301,390 | 1% | 549,420 | 3% | 4,682,016 | 9% | 4,294,447 | 7% |
| Argentina | 7,630 | 0% | 316,046 | 2% | 2,750,249 | 5% | 2,881,050 | 5% |
| Australia | 750,762 | 3% | 291,405 | 1% | 1,309,105 | 2% | 1,082,041 | 2% |
| Peru | 427,358 | 2% | 297,438 | 1% | 1,035,770 | 2% | 821,213 | 1% |
| Saudi Arabia | - | 0% | 1,051,593 | 5% | 844,908 | 2% | 6,273,365 | 11% |
| China | 374,824 | 2% | 790,486 | 4% | 748,748 | 1% | 889,834 | 2% |
| South Africa | 251,116 | 1% | 278,737 | 1% | 718,458 | 1% | 915,607 | 2% |
| Algeria | 308,700 | 1% | 330 | 0% | 308,700 | 1% | 562,778 | 1% |
| Egypt | 284,760 | 1% | 394,560 | 2% | 284,760 | 1% | 677,520 | 1% |
| Other | 983,931 | 5% | 191,573 | 1% | 2,987,015 | 5% | 2,456,661 | 4% |
| Total | \$ 22,949,170 | 100% | \$ 21,012,243 | 100% | \$ 54,193,682 | 100% | \$ 57,487,560 | 100% |

International Operations

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

Revenue Recognition

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

The Company recognizes revenue from milling services according to the terms of the sales agreements and when delivery has occurred, performance is complete 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.

Cost of Revenue

The Company records purchasing and receiving costs, inspection costs and warehousing costs in cost of revenue. 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 revenue.

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. At times, cash and cash equivalents balances exceed amounts insured by the Federal Deposit Insurance Corporation.

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 \$526,495 at March 31, 2018 and June 30, 2017.

Inventories

Inventories consist of seed and packaging materials.

Inventories are stated at the lower of cost or net realizable value, and an inventory reserve permanently 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.

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

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

Components of inventory are:

| | March 31, 2018 | June 30, 2017 |
|----------------------------|---------------------------|--------------------------|
| Raw materials and supplies | \$ 477,770 | \$ 266,551 |
| Work in progress | 9,780,874 | 5,603,825 |
| Finished goods | 53,396,264 | 25,619,569 |
| | \$ 63,654,908 | \$ 31,489,945 |

Property, Plant and Equipment

Property, plant and equipment is depreciated using the straight-line method over the estimated useful life of the asset - periods of 5-28 years for buildings, 3-20 years for machinery and equipment, and 3-5 years for vehicles.

Intangible Assets

Intangible assets acquired in business acquisitions are reported at their initial fair value less accumulated amortization. Intangible assets are amortized using the straight-line method over the estimated useful life of the asset. Periods of 10-30 years for technology/IP/germplasm, 10-20 years for customer relationships and trade names and 3-20 for other intangible assets. The weighted average estimated useful lives are 26 years for technology/IP/germplasm, 18 years for customer relationships and 20 years for trade names and other intangible assets.

Goodwill

Goodwill originated from acquisitions of Imperial Valley Seeds, Inc. ("IVS") and SGI in fiscal year 2013, the acquisition of the alfalfa business from DuPont Pioneer in fiscal year 2015 and the acquisition of assets of SV Genetics in fiscal year 2016. Goodwill is assessed at least annually, or when certain triggering events occur, for impairment using fair value measurement techniques. These events could include a significant change in the business climate, legal factors, a decline in operating performance, competition, sale or disposition of a significant portion of the business, or other factors. The Company first assesses qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount, including goodwill. If management concludes that it is more likely than not that the fair value of a reporting unit is less than its carrying amount, management conducts a two-step quantitative goodwill impairment test. The first step of the goodwill impairment test is used to identify potential impairment by comparing the fair value of a reporting unit with its carrying amount, including goodwill. The Company uses market capitalization to estimate the fair value of its one reporting unit. If the fair value of a reporting unit exceeds its carrying amount, goodwill of the reporting unit is considered not impaired, and the second step of the impairment test is unnecessary. If the carrying amount of a reporting unit exceeds its fair value, the second step of the goodwill impairment test is performed to measure the amount of impairment loss, if any. The second step of the goodwill impairment test compares the implied fair value of the reporting unit's goodwill with the carrying amount of that goodwill. If the carrying amount of the reporting unit's goodwill exceeds the implied fair value of that goodwill, an impairment loss is recognized in an amount equal to that excess. The implied fair value of goodwill is determined in the same manner as the amount of goodwill recognized in a business combination. That is, the fair value of the reporting unit is allocated to all of the assets and liabilities of that unit (including any unrecognized intangible assets) as if the reporting unit had been acquired in a business combination and the fair value of the reporting unit was the purchase price paid to acquire the reporting unit. The Company performed a quantitative assessment of goodwill at June 30, 2017 and determined that goodwill was not impaired.

Equity Method Investments

Investee companies that are not consolidated, but over which the Company exercises significant influence, are accounted for under the equity method of accounting. Whether or not the Company exercises significant influence with respect to an investee depends on an evaluation of several factors including, among others, representation on the investee company's board of directors and ownership level, which is generally a 20% to 50% interest in the voting securities of the investee company. Under the equity method of accounting, an investee company's accounts are not reflected within the Company's consolidated balance sheets and statements of operations; however, the Company's share of the earnings or losses of the investee company is reflected in the caption "Loss on equity method investment" in the consolidated statements of operations. The Company's carrying value in an equity method investee company is included in the Company's consolidated balance sheets. When the Company's carrying value in an equity method investee company is reduced to zero, no further losses are recorded in the Company's consolidated financial statements unless the Company guaranteed obligations of the investee company or has committed additional funding. When the investee company subsequently reports income, the Company will not record its share of such income until it equals the amount of its share of losses not previously recognized.

Cost Method Investments

Investee companies not accounted for under the consolidation or the equity method of accounting are accounted for under the cost method of accounting. Under this method, the Company's share of the earnings or losses of such investee companies is not included in the consolidated balance sheet or statement of operations. However, impairment charges are recognized in the consolidated statement of operations. If circumstances suggest that the value of the investee company has subsequently recovered, such recovery is not recorded.

Research and Development Costs

The Company is engaged in ongoing research and development ("R&D") of proprietary seed and stevia varieties. 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.

Income Taxes

Deferred tax assets and liabilities are determined based on differences between the financial statement and tax basis 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. The Company's effective tax rate for the three and nine months ended March 31, 2018 has been effected by the valuation allowance on the Company's deferred tax assets.

Net Income (Loss) Per Common Share Data

Basic net income (loss) per common share ("EPS"), is calculated by dividing net income (loss) by the weighted average number of common shares outstanding during the period.

Diluted EPS is calculated by adjusting both the numerator (net income (loss)) and the denominator (weighted-average number of shares outstanding) for the dilutive effects of potentially dilutive securities, including options, restricted stock awards, convertible debt and common stock warrants.

- The if-converted method is used for convertible debt. Under the if-converted method, interest expense recognized in the period on the convertible debt is added to net income, and the number of shares that would be obtained upon conversion is added to the denominator.

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- The treasury stock method is used for common stock warrants, stock options, and restricted stock awards. Under this method, consideration that would be received upon exercise (as well as remaining compensation cost to be recognized for awards not yet vested) is assumed to be used to repurchase shares of stock in the market, with the net number of shares assumed to be issued added to the denominator.

The calculation of Basic and Diluted EPS is shown in the table below. Classes of securities identified in the table with no adjustments in the calculation of Diluted EPS were determined to be antidilutive for the applicable periods.

| | Three Months Ended March 31, | | Nine Months Ended March 31, | |
|--|---------------------------------|--------------|--------------------------------|----------------|
| | 2018 | 2017 | 2018 | 2017 |
| Numerator: | | | | |
| Net income (loss) | \$ 1,778,453 | \$ 1,327,240 | \$ (438,942) | \$ (730,961) |
| Numerator for basis EPS | 1,778,453 | 1,327,240 | (438,942) | (730,961) |
| Effect of dilutive securities: | | | | |
| Warrants | - | (1,009,901) | - | (841,400) |
| | - | (1,009,901) | - | (841,400) |
| Numerator for diluted EPS | \$ 1,778,453 | \$ 317,339 | \$ (438,942) | \$ (1,572,361) |
| Denominator: | | | | |
| Denominator for basic EPS - weighted-average shares | 24,335,821 | 17,963,598 | 21,861,038 | 17,630,906 |
| Effect of dilutive securities: | | | | |
| Employee stock options | - | - | - | - |
| Employee restricted stock units | 17,261 | - | - | - |
| Warrants | - | 15,579 | - | 87,337 |
| Dilutive potential common shares | 17,261 | 15,579 | - | 87,337 |
| Denominator for diluted EPS - adjusted weighted average shares and assumed conversions | 24,353,082 | 17,979,177 | 21,861,038 | 17,718,243 |
| Basic EPS | \$ 0.07 | \$ 0.07 | \$ (0.02) | \$ (0.04) |
| Diluted EPS | \$ 0.07 | \$ 0.02 | \$ (0.02) | \$ (0.09) |

Impairment of Long-Lived Assets

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.

Derivative Financial Instruments

Foreign Exchange Contracts

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

The Company has entered into certain derivative financial instruments (specifically foreign currency forward contracts), and accounts for these instruments in accordance with ASC Topic 815, "Derivatives and Hedging", which establishes accounting and reporting standards requiring that derivative instruments be recorded on the balance sheet as either an asset or liability measured at fair value. The Company's foreign currency contracts are not designated as hedging instruments under ASC 815; accordingly, changes in the fair value are recorded in current period earnings.

Derivative Liabilities

The Company reviews the terms of the common stock, warrants and convertible debt it issues to determine whether there are embedded derivative instruments, including embedded conversion options and redemption options, which are required to be bifurcated and accounted for separately as derivative financial instruments.

Fair Value of Financial Instruments

The Company discloses assets and liabilities that are recognized and measured at fair value, 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.

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No assets or liabilities were valued at fair value on a non-recurring basis as of March 31, 2018 or June 30, 2017.

The carrying value of cash and cash equivalents, accounts payable, short-term and all long-term borrowings, as reflected in the consolidated balance sheets, approximate fair value because of the short-term maturity of these instruments or interest rates commensurate with market rates. There have been no changes in operations and/or credit characteristics since the date of issuance that could impact the relationship between interest rate and market rates. The Company used a discounted cash flows approach to measure the fair value using Level 3 inputs.

Assets and liabilities that are recognized and measured at fair value on a recurring basis are categorized as follows:

| Fair Value Measurements as of March 31, 2018 Using: | | | |
|--|----------------|----------------|----------------|
| | Level 1 | Level 2 | Level 3 |
| Foreign exchange contract liability | \$ - | \$ 22,449 | \$ - |
| Contingent consideration obligations | - | - | - |
| Total | \$ - | \$ 22,449 | \$ - |

| Fair Value Measurements as of June 30, 2017 Using: | | | |
|---|----------------|----------------|----------------|
| | Level 1 | Level 2 | Level 3 |
| Foreign exchange contract asset | \$ - | \$ 166,629 | \$ - |
| Contingent consideration obligations | - | - | 2,500,000 |
| Derivative warrant liabilities | - | - | 2,836,600 |
| Total | \$ - | \$ 166,629 | \$ 5,336,600 |

During the nine months ended March 31, 2018, a change in derivative warrant liability of \$431,300 was recorded in earnings. Upon expiration of the round-down pricing protection on December 31, 2017, the warrants were reclassified from derivative warrant liabilities to equity.

During the nine months ended March 31, 2018, there was no change in the contingent consideration obligations. The DuPont contingent consideration was settled on December 1, 2017. Refer to Note 5 for further discussion.

Recently Adopted and Issued Accounting Pronouncements

In January 2017, the FASB issued Accounting Standards Update No. 2017-04, *Simplifying the Test for Goodwill Impairment* ("ASU 2017-04"). This standard eliminates Step 2 from the goodwill impairment test. Instead, an entity should perform its annual or interim goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount and recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value, not to exceed the total amount of goodwill allocated to the reporting unit. ASU 2017-04 is effective for the Company beginning July 1, 2020. The adoption is not expected to have a material impact on the consolidated financial statements.

In August 2016, the FASB issued Accounting Standards Update No. 2016-15, *Classification of Certain Cash Receipts and Cash Payments* ("ASU 2016-15"). This standard addresses eight specific cash flow issues with the objective of reducing the existing diversity in practice. ASU 2016-15 is effective for the Company beginning July 1, 2018 and the Company is currently evaluating the impact that ASU 2016-15 will have on its consolidated financial statements.

In March 2016, the FASB issued Accounting Standards Update No. 2016-09, *Improvements to Employee Share-Based Payment Accounting* ("ASU 2016-09"). This standard was issued as part of the FASB's Simplification Initiative that involve several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities and classification on the statement of cash flows. Some of the areas for simplification apply only to nonpublic entities. For public business entities, ASU 2016-09 is effective for annual periods beginning after December 15, 2016 and interim periods within those annual periods. The method of adoption is dependent on the specific aspect of accounting addressed in this new guidance. Early adoption is permitted in any interim or annual period. The Company adopted ASU 2016-09 in the first quarter of the fiscal year ended June 30, 2018. The adoption did not have a material impact on the consolidated financial statements.

In February 2016, the FASB issued Accounting Standards Update No. 2016-02: *Leases* ("ASU 2016-02"). This standard amends various aspects of existing accounting guidance for leases, including the recognition of a right-of-use asset and a lease liability on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the statement of operations. This standard also introduces new disclosure requirements for leasing arrangements. For public business entities, ASU 2016-02 is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early adoption is permitted. The new standard must be adopted using a modified retrospective approach and provides for certain practical expedients. The Company is evaluating the impact of the adoption of ASU 2016-02 on its consolidated financial statements and related disclosures.

ASC Topic 606, *Revenue from Contracts with Customers* ("Topic 606"), is mandatorily effective for the Company in the first quarter of its next fiscal year, which begins on July 1, 2018. This ASC topic outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most existing revenue recognition guidance under U.S. GAAP. The core principle of the guidance is that an entity should recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. Topic 606 also requires enhanced disclosures about the nature, amount, timing, and uncertainty of revenues and cash flows arising from contracts with customers. The Company has the option of adopting Topic 606 using either 1) a full retrospective approach, in which comparative periods presented would be adjusted to reflect the provisions of Topic 606, or 2) a modified retrospective approach, in which the cumulative effect of applying the new standards to open contracts as of July 1, 2018 would be recognized as a cumulative effect adjustment.

The Company is evaluating the impact of the adoption of Topic 606 on its consolidated financial statements and related disclosures. The Company has identified a need to potentially change the accounting for revenue from the Dupont Pioneer distribution agreement, which made up 68% of the Company's revenues in the nine months ended March 31, 2018. If the Company determines that the accounting for this contract should change, the result would be that revenue would be recognized earlier than it currently is, because the provisions of Topic 606 would require recognition during processing of the seed, rather than upon delivery, which is the current accounting. However, the Company is still considering whether such a change is appropriate.

Although the evaluation is not yet complete, the Company has preliminarily concluded that the new standards will not result in changes to its revenue recognition policies for the rest of its customer contracts. If the Company concludes that the accounting for the Pioneer contract will be different under Topic 606, it will likely adopt the new standard using the full retrospective approach. If the Company concludes that the accounting for the Pioneer contract will not be affected, it is likely that the effects of adopting Topic 606 will be immaterial.

NOTE 3 - GOODWILL AND INTANGIBLE ASSETS

The following table summarizes the activity of goodwill for the nine months ended March 31, 2018 and the year ended June 30, 2017, respectively.

| | Balance at July 1, 2017 | | Additions | | Balance at March 31, 2018 |
|----------|------------------------------------|----|------------------|----|--------------------------------------|
| Goodwill | \$ 10,292,265 | \$ | - | \$ | 10,292,265 |

| | Balance at July 1, 2016 | | Additions | | Balance at June 30, 2017 |
|----------|------------------------------------|----|------------------|----|-------------------------------------|
| Goodwill | \$ 10,292,265 | \$ | - | \$ | 10,292,265 |

Intangible assets consist of the following:

| | Balance at July 1, 2017 | | Additions | | Amortization | | Balance at March 31, 2018 |
|------------------------|------------------------------------|----|------------------|----|---------------------|----|--------------------------------------|
| Trade name | \$ 1,244,306 | \$ | - | \$ | (63,360) | \$ | 1,180,946 |
| Customer relationships | 1,258,163 | | - | | (75,906) | | 1,182,257 |
| Non-compete | 102,035 | | - | | (37,815) | | 64,220 |
| GI customer list | 78,803 | | - | | (5,373) | | 73,430 |
| Supply agreement | 1,153,415 | | - | | (56,724) | | 1,096,691 |
| Distribution agreement | 6,728,753 | | - | | (288,375) | | 6,440,378 |
| Production agreement | 111,670 | | - | | (111,670) | | - |
| Grower relationships | 1,858,616 | | - | | (79,056) | | 1,779,560 |
| Intellectual property | 21,725,539 | | - | | (858,915) | | 20,866,624 |
| Internal use software | 677,779 | | - | | (50,832) | | 626,947 |
| | \$ 34,939,079 | \$ | - | \$ | (1,628,026) | \$ | 33,311,053 |

| | Balance at July 1, 2016 | | Additions | | Amortization | | Balance at June 30, 2017 |
|------------------------|------------------------------------|----|------------------|----|---------------------|----|-------------------------------------|
| Trade name | \$ 1,328,786 | \$ | - | \$ | (84,480) | \$ | 1,244,306 |
| Customer relationships | 1,359,371 | | - | | (101,208) | | 1,258,163 |
| Non-compete | 198,999 | | - | | (96,964) | | 102,035 |
| GI customer list | 85,967 | | - | | (7,164) | | 78,803 |
| Supply agreement | 1,229,047 | | - | | (75,632) | | 1,153,415 |
| Distribution agreement | 7,113,253 | | - | | (384,500) | | 6,728,753 |
| Production agreement | 335,002 | | - | | (223,332) | | 111,670 |
| Grower relationships | 1,964,024 | | - | | (105,408) | | 1,858,616 |
| Intellectual property | 22,870,760 | | - | | (1,145,221) | | 21,725,539 |
| Internal use software | 521,593 | | 156,186 | | - | | 677,779 |
| | \$ 37,006,802 | \$ | 156,186 | \$ | (2,223,909) | \$ | 34,939,079 |

Amortization expense totaled \$499,634 and \$555,977 for the three months ended March 31, 2018 and 2017, respectively. Amortization expense totaled \$1,628,026 and \$1,667,932 for the nine months ended March 31, 2018 and 2017, respectively. Estimated aggregate remaining amortization is as follows:

| | 2018 | | 2019 | | 2020 | | 2021 | | 2022 | | Thereafter |
|----------------------|-------------|----|-------------|----|-------------|----|-------------|----|-------------|----|-------------------|
| Amortization expense | \$ 494,347 | \$ | 1,977,388 | \$ | 1,977,388 | \$ | 1,977,388 | \$ | 1,977,388 | \$ | 24,907,154 |

NOTE 4 - PROPERTY, PLANT AND EQUIPMENT

Components of property, plant and equipment were as follows:

| | March 31, 2018 | June 30, 2017 |
|-------------------------------------|-------------------|------------------|
| Land and improvements | \$ 2,083,687 | \$ 2,223,674 |
| Buildings and improvements | 8,930,265 | 6,401,277 |
| Machinery and equipment | 5,718,765 | 5,435,542 |
| Vehicles | 1,159,636 | 1,005,455 |
| Construction in progress | 143,506 | 2,196,513 |
| Total property, plant and equipment | 18,035,859 | 17,262,461 |
| Less: accumulated depreciation | (4,538,937) | (3,680,885) |
| Property, plant and equipment, net | \$ 13,496,922 | \$ 13,581,576 |

Depreciation expense totaled \$338,951 and \$242,582 for the three months ended March 31, 2018 and 2017, respectively. Depreciation expense totaled \$969,792 and \$807,778 for the nine months ended March 31, 2018 and 2017, respectively.

NOTE 5 - DEBT

Total debt outstanding, excluding convertible debt addressed in Note 6, are presented on the consolidated balance sheet as follows:

| | March 31, 2018 | June 30, 2017 |
|--|-------------------|------------------|
| Working capital lines of credit | | |
| KeyBank | \$ 19,434,357 | \$ 18,695,896 |
| National Australia Bank Limited | 5,838,320 | 8,703,888 |
| Debt issuance costs | (143,988) | - |
| Total working capital lines of credit, net | \$ 25,128,689 | \$ 27,399,784 |
| Current portion of long-term debt | | |
| Capital lease | \$ 28,737 | \$ 26,648 |
| Keith facility (building loan) - National Australia Bank Limited | 3,841 | - |
| Keith facility (machinery & equipment loans) - National Australia Bank Limited | 203,232 | 183,016 |
| Unsecured subordinate promissory note | 100,000 | 100,000 |
| Promissory note - DuPont Pioneer | - | 10,000,000 |
| Secured real estate note - Conterra | 229,789 | - |
| Debt issuance costs | (77,272) | - |
| Secured equipment note - Conterra | 37,824 | - |
| Debt issuance costs | (16,854) | - |
| Total current portion, net | 509,297 | 10,309,664 |
| Long-term debt, less current portion | | |
| Capital lease | - | 26,648 |
| Keith facility (building loan) - National Australia Bank Limited | 437,874 | 499,524 |
| Keith facility (machinery & equipment loans) - National Australia Bank Limited | 500,556 | 569,983 |
| Secured real estate note - Conterra | 10,170,211 | - |
| Debt issuance costs | (119,765) | - |
| Secured equipment note - Conterra | 2,062,176 | - |
| Debt issuance costs | (12,531) | - |
| Total long-term portion, net | 13,038,521 | 1,096,155 |
| Total debt, net | \$ 13,547,818 | \$ 11,405,819 |

On September 22, 2015, the Company entered into a credit and security agreement (the "KeyBank Credit Facility") with KeyBank. Key provisions of the KeyBank Credit Facility, as amended, include:

- An aggregate principal amount that the Company may borrow, repay and reborrow, of up to \$35.0 million in the aggregate, subject to a requirement that the Company maintain a reduced loan balance of (i) not more than \$20.0 million for at least 30 consecutive days over the prior twelve months (measured each quarter on a trailing 12 month basis) and (ii) not more than \$25.0 million for at least 60 consecutive days over the prior twelve months (measured each quarter on a trailing 12 month basis).
- All amounts due and owing, including, but not limited to, accrued and unpaid principal and interest, will be payable in full on September 12, 2019.
- A borrowing base of up to 85% of eligible domestic accounts receivable and 90% of eligible foreign accounts receivable, plus up to the lesser of (i) 75% of the cost eligible inventory or (ii) 90% of the net orderly liquidation value of the inventory, subject to lender reserves.
- Loans may be based on a Base Rate or Eurodollar Rate (which is increased by an applicable margin of 2.2% per annum) (both as defined in the KeyBank Credit Facility), generally at the Company's option. In the event of a default, at the option of KeyBank, the interest rate on all obligations owing will increase by 3% per annum over the rate otherwise applicable.
- Subject to certain exceptions, the KeyBank Credit Facility is secured by a first priority perfected security interest in all of the Company's now owned and after acquired tangible and intangible assets and its domestic subsidiaries, which have guaranteed the Company's obligations under the KeyBank Credit Facility. The KeyBank Credit Facility is further secured by a lien on, and a pledge of, 65% of the stock of its wholly-owned subsidiary, S&W Holdings Australia Pty Ltd.
- At March 31, 2018, the Company was in compliance with all KeyBank debt covenants.

On December 31, 2014, the Company issued a three-year secured promissory note to DuPont Pioneer in the initial principal amount of \$10,000,000 (the "Pioneer Note"), with a maturity date of December 31, 2017. The Pioneer Note accrued interest at 3% per annum. Interest was payable in three annual installments, in arrears, commencing on December 31, 2015. On December 31, 2014, the Company also issued contingent consideration to DuPont Pioneer which required the Company to increase the principal amount of the Pioneer Note by up to an additional \$5,000,000 if the Company met certain performance metrics during the three-year period following December 31, 2014. The earn out payment to DuPont Pioneer was finalized in October 2017 and this amount of \$2,500,000 was added to the Pioneer Note in October 2017. On December 1, 2017, the Company repaid the Pioneer Note. The repayment amount included the \$2.5 million earn-out payment related to the Pioneer Acquisition that was added to the principal amount of the Pioneer Note in October 2017.

On November 30, 2017, the Company entered into a secured note financing transaction (the "Loan Transaction") with Conterra Agricultural Capital, LLC ("Conterra") for \$12.5 million in gross proceeds. Pursuant to the Loan Transaction, the Company issued two secured promissory notes (the "Notes") to Conterra as follows:

- Secured Real Estate Note

. The Company issued one Note in the principal amount of \$10.4 million (the "Secured Real Estate Note") that is secured by a first priority security interest in the property, plant and fixtures (the "Real Estate Collateral") located at the Company's Five Points, California and Nampa, Idaho production facilities and its Nampa, Idaho and Arlington, Wisconsin research facilities (the "Facilities"). The Secured Real Estate Note matures on November 30, 2020, which, subject to Conterra's approval, may be extended to November 30, 2022. The Secured Real Estate Note bears interest of 7.75% per annum. The Company has agreed to make semi-annual payments of interest and amortized principal on a 20-year amortization schedule, for a combined payment of \$515,711, starting July 1, 2018, in addition to a one-time interest only payment on January 1, 2018. The Company may prepay the Secured Real Estate Note, in whole or in part, at any time after it has paid a minimum of twelve months of interest on the Secured Real Estate Note.

- Secured Equipment Note

. The Company issued a second Note in the principal amount of \$2.1 million (the "Secured Equipment Note") that is secured by a first priority security interest in certain equipment not attached to real estate located at the Facilities. The Secured Equipment Note is also secured by the Real Estate Collateral. The Secured Equipment Note matures on November 30, 2019, which, subject to Conterra's approval, may be extended to November 30, 2020. The Secured Equipment Note bears interest at a rate of 9.5% per annum. The Company has agreed to make semi-annual payments of interest and amortized principal on a 20-year amortization schedule, for a combined payment of \$118,223, starting July 1, 2018, in addition to a one-time interest only payment on January 1, 2018. The Company may prepay the Secured Equipment Note, in whole or in part, at any time.

The Notes and related documents include customary representations and warranties in addition to customary affirmative and negative covenants (including financial covenants), and customary events of default that permit Conterra to accelerate the Company's obligations under the Notes, including, among other things, that a default under one of the Notes would constitute a default under the other Note. On December 1, 2017, the Company used the proceeds from the Loan Transaction to repay the Pioneer Note.

S&W Australia finances the purchase of most of its seed inventory from growers pursuant to a seasonal credit facility with National Australia Bank Ltd ("NAB"). The current facility, referred to as the 2016 NAB Facilities, was amended as of April 13, 2018 and expires on March 31, 2020. As of March 31, 2018, AUD \$7,600,000 (USD \$5,838,320) was outstanding under the 2016 NAB Facilities.

The 2016 NAB Facilities, as currently in effect, comprises two distinct facility lines: (i) an overdraft facility (the "Overdraft Facility"), having a credit limit of AUD \$1,000,000 (USD \$768,200 at March 31, 2018) and a borrowing base facility (the "Borrowing Base Facility"), having a credit limit of AUD \$12,000,000 (USD \$9,218,400 at March 31, 2018).

The Borrowing Base Facility permits S&W Australia to borrow funds for periods of up to 180 days, at S&W Australia's discretion, provided that the term is consistent with its trading terms. Interest for each drawdown is set at the time of the drawdown as follows: (i) for Australian dollar drawings, based on the Australian Trade Refinance Rate plus 1.5% per annum and (ii) for foreign currency drawings, based on the British Bankers' Association Interest Settlement Rate for the relevant foreign currency for the relevant period, or if such rate is not available, the rate reasonably determined by NAB to be the appropriate equivalent rate, plus 1.5% per annum. As of March 31, 2018, the Borrowing Base Facility accrued interest on Australian dollar drawings at approximately 5.18% calculated daily. The Borrowing Base Facility is secured by a lien on all the present and future rights, property and undertakings of S&W Australia, the mortgage on S&W Australia's Keith, South Australia property and the Company's corporate guarantee (up to a maximum of AUD \$15,000,000).

The Overdraft Facility permits S&W Australia to borrow funds on a revolving line of credit up to the credit limit. Interest accrues daily and is calculated by applying the daily interest rate to the balance owing at the end of the day and is payable monthly in arrears

. As of March 31, 2018, the Overdraft Facility accrued interest at approximately 6.77% calculated daily.

For both the Overdraft Facility and the Borrowing Base Facility, interest is payable each month in arrears. In the event of a default, as defined in the NAB Facility Agreement, the principal balance due under the facilities will thereafter bear interest at an increased rate per annum above the interest rate that would otherwise have been in effect from time to time under the terms of each facility (*i.e.*, the interest rate increases by 4.5% per annum under the Borrowing Base Facility and the Overdraft Facility rate increases to 13.92% per annum upon the occurrence of an event of default).

Both facilities constituting the 2016 NAB Facilities are secured by a fixed and floating lien over all the present and future rights, property and undertakings of S&W Australia and are guaranteed by the Company as noted above. The 2016 NAB Facilities contain customary representations and warranties, affirmative and negative covenants and customary events of default that permit NAB to accelerate S&W Australia's outstanding obligations, all as set forth in the NAB facility agreements. S&W Australia was in compliance with all NAB debt covenants at March 31, 2018.

In January 2015, NAB and S&W Australia entered into a new business markets - flexible rate loan (the "Keith Building Loan") and a separate machinery and equipment facility (the "Keith Machinery and Equipment Facility"). At March 31, 2018, the principal balance on the Keith Building Loan was AUD \$575,000 (USD \$441,715) with unused availability of AUD \$100,000 (USD \$76,820). At March 31, 2018, the principal balance on the Keith Machinery and Equipment Facility was AUD \$569,275 (USD \$437,317) with no unused availability. In February 2016, NAB and S&W Australia also entered into a master asset finance facility (the "Master Assets Facility"). At March 31, 2018, the principal balance on the Master Assets Facility was AUD \$346,877 (USD \$266,471) with unused availability of AUD \$403,123 (USD \$309,679). The Master Asset Facility has various maturity dates through 2021 and have interest rates ranging from 4.89% to 5.31%.

The Keith Building Loan and Keith Machinery and Equipment Facility are used for the construction of a building on S&W Australia's Keith, South Australia property, purchase of adjoining land and for the machinery and equipment for use in the operations of the building. The Keith Building Loan matures on November 30, 2024. The interest rate on the Keith Building Loan varies from pricing period to pricing period (each such period approximately 30 days), based on the weighted average of a specified basket of interest rates (6.15% as of March 31, 2018). Interest is payable each month in arrears. The Keith Machinery and Equipment Facility bears interest, payable in arrears, based on the Australian Trade Refinance Rate quoted by NAB at the time of the drawdown, plus 2.9%. The Keith Credit Facilities contain customary representations and warranties, affirmative and negative covenants and customary events of default that permit NAB to accelerate S&W Australia's outstanding obligations, all as set forth in the facility agreement. They are secured by a lien on all the present and future rights, property and undertakings of S&W Australia, the Company's corporate guarantee and a mortgage on S&W Australia's Keith, South Australia property.

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

| Fiscal Year | Amount |
|--------------------|---------------|
| 2018 | \$ 149,864 |
| 2019 | 505,969 |
| 2020 | 2,660,221 |
| 2021 | 10,171,291 |
| 2022 | 91,004 |
| Thereafter | 195,891 |
| Total | \$ 13,774,240 |

NOTE 6 - SENIOR CONVERTIBLE NOTES AND WARRANTS

On December 31, 2014, the Company consummated the sale of senior secured convertible debentures (the "Debentures") and common stock purchase warrants (the "Warrants") to various institutional investors ("Investors") pursuant to the terms of a securities purchase agreement among the Company and the Investors. At closing, the Company received \$27,000,000 in gross proceeds. Offering expenses of \$1,931,105 attributed to the Debentures were recorded as deferred financing fees and recorded as a debt discount and offering expenses of \$424,113 attributed to the Warrants were expensed during the year ended June 30, 2015. The net proceeds were paid directly to DuPont Pioneer in partial consideration for the purchase of certain DuPont Pioneer assets, the closing for which also took place on December 31, 2014.

Debentures

At the date of issuance, the Debentures were due and payable on November 30, 2017, unless earlier converted or redeemed. The Debentures bear interest on the aggregate unconverted and then outstanding principal amount at 8% per annum, payable in arrears monthly beginning February 2, 2015. Commencing on the occurrence of any Event of Default (as defined in the Debentures) that results in the eventual acceleration of the Debentures, the interest rate will increase to 18% per annum. The monthly interest is payable in cash, or in any combination of cash or shares of the Company's common stock at the Company's option, provided certain "equity conditions" defined in the Debentures are satisfied.

Beginning on July 1, 2015, the Company was required to make monthly payments of principal as well, payable in cash or any combination of cash or shares of its common stock at the Company's option, provided all of the applicable equity conditions are satisfied. The Debentures contain certain rights of acceleration and deferral at the holder's option in the event a principal payment is to be made in stock and contains certain limited acceleration rights of the Company, provided certain conditions are satisfied.

During Fiscal Year 2016, the Company accelerated three redemption payments totaling \$2,830,049.

During the year ended June 30, 2017, certain holders of the Debentures converted an aggregate of \$3,168,342 of principal and interest into 684,321 shares of the Company's common stock in accordance with the terms of the Debentures. Upon conversion, the Company recognized interest expense of \$194,939 related to unamortized debt discount on the Debentures and incurred \$7,070 of stock issuance costs.

As of June 30, 2017, the Debentures were fully retired and had no outstanding balance.

Warrants

The Warrants entitle the holders to purchase, in the aggregate, 2,699,999 shares of the Company's common stock. The Warrants are exercisable through their expiration on June 30, 2020, unless earlier redeemed. The Warrants were initially exercisable at an exercise price equal to \$5.00. On September 30, 2015, pursuant to the terms of the Warrants, the exercise price was reset to \$4.63. In addition, if the Company issues or is deemed to have issued securities at a price lower than the then applicable exercise price during the three-year period ending December 31, 2017, the exercise price of the Warrants will adjust based on a weighted average anti-dilution formula ("down-round protection"). On November 24, 2015, the Company closed on a private placement transaction in which 1,180,722 common shares were sold at \$4.15 per share. Pursuant to the down-round protection terms of the Warrants, the exercise price was adjusted to \$4.59 on November 24, 2015. On February 29, 2016, the Company completed a rights offering and accompanying noteholders' participation rights offering in which an aggregate of 2,125,682 shares of common stock were sold at \$4.15 per share, triggering an adjustment of the exercise price of the Warrants to \$4.53. On July 19, 2017, the Company completed a private placement transaction in which an aggregate of 2,685,000 shares of common stock were sold at \$4.00 per share, triggering an adjustment of the exercise price of the Warrants to \$4.46. On December 22, 2017, the Company completed a rights offering and backstop commitment in which an aggregate of 3,500,000 shares of common stock were sold at \$3.50 per share, triggering an adjustment of the exercise price of the Warrants to \$4.32. The down-round protection provision of the warrants expired on December 31, 2017.

The Warrants may be exercised for cash, provided that, if there is no effective registration statement available registering the exercise of the Warrants, the Warrants may be exercised on a cashless basis. At any time that (i) all equity conditions set forth in the Warrants have been satisfied, and (ii) the closing sales price of the common stock equals or exceeds \$12.00 for 15 consecutive trading days (subject to adjustment for stock splits, reverse stock splits and other similar recapitalization events), the Company may redeem all or any part of the Warrants then outstanding for cash in an amount equal to \$0.25 per Warrant.

Accounting for the Conversion Option and Warrants

Due to the down-round price protection included in the terms of the Warrants, the Warrants are treated as a derivative liability in the consolidated balance sheet, measured at fair value and marked to market each reporting period until the earlier of the Warrants being fully exercised or December 31, 2017, when the down-round protection expires. The down-round price protection expired on December 31, 2017, accordingly, the fair value of the Warrants as of December 31, 2017 was reclassified to additional paid in capital within the equity section of the balance sheet. The initial fair value of the Warrants on December 31, 2014 was \$4,862,000. At December 31, 2017 and June 30, 2017, the fair value of the Warrants was estimated at \$2,405,300 and \$2,836,600, respectively. The Warrants were valued at December 31, 2017 using the Monte Carlo simulation model, under the following assumptions: (i) remaining expected life of 2.5 years, (ii) volatility of 39.0%, (iii) risk-free interest rate of 1.92% and (iv) dividend rate of zero. The aggregate fair value of the Warrants derived via the Monte Carlo analysis were also weighted by a prior third-party market transaction and third-party indications of fair value. The prior third-party market transaction was provided a weighting of 10.0% while the third-party indications of fair value were provided a 50% weighting in the fair value analysis.

The Warrants were valued at June 30, 2017 using the Monte Carlo simulation model, under the following assumptions: (i) remaining expected life of 3 years, (ii) volatility of 45.6%, (iii) risk-free interest rate of 1.54% and (iv) dividend rate of zero. The aggregate fair value of the Warrants derived via the Monte Carlo analysis were also weighted by a prior third-party market transaction and third-party indications of fair value. The prior third-party market transaction was provided a weighting of 10.0% while the third-party indications of fair value were provided a 50% weighting in the fair value analysis.

Of the \$27,000,000 in principal amount of Debentures sold in December 2014, \$22,138,000 of the initial proceeds was allocated to the Debentures. The required redemption contingent upon the real estate sale was determined to be an embedded derivative not clearly and closely related to the borrowing. As such, it was bifurcated and treated as a derivative liability, recorded initially at its fair value of \$150,000, leaving an allocation to the host debt of \$21,988,000. The difference between the initial amount allocated to the borrowing and the face value of the Debentures was amortized over the term of the Debentures using the effective interest method. Debt issuance costs totaling \$1,931,105 were also amortized over the term of the Debentures using the effective interest method. In addition, the reduction in the conversion price of the Debentures as of September 30, 2015 resulted in a beneficial conversion feature of \$871,862, which was recognized as additional debt discount and an increase to additional paid-in capital.

NOTE 7 - WARRANTS

The following table summarizes the total warrants outstanding at March 31, 2018:

Exercise
Price

Expiration

Outstanding as

Outstanding as

Issue Date

Per Share

Date

of June 30, 2017

New Issuances

Expired

of March 31, 2018

Warrants

Dec 2014

\$
4.32

Jun 2020

2,699,999

-

-

2,699,999

2,699,999

-

-

2,699,999

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The following table summarizes the total warrants outstanding at June 30, 2017:

| | Issue Date | Exercise Price Per Share | Expiration Date | Outstanding as of June 30, 2016 | New Issuances | Expired | Outstanding as of June 30, 2017 |
|----------------------|------------|--------------------------|-----------------|---------------------------------|---------------|----------|---------------------------------|
| Underwriter warrants | May 2012 | \$ 6.88 | Feb 2017 | 50,000 | - | (50,000) | - |
| Warrants | Dec 2014 | \$ 4.53 | Jun 2020 | 2,699,999 | - | - | 2,699,999 |
| | | | | 2,749,999 | - | (50,000) | 2,699,999 |

The warrants issued in December 2014 were subject to down-round price protection until December 31, 2017. See Note 6 for further discussion.

NOTE 8 - FOREIGN CURRENCY CONTRACTS

The Company's subsidiary, S&W Australia, is exposed to foreign currency exchange rate fluctuations in the normal course of its business, which the Company manages through the use of foreign currency forward contracts. These foreign currency contracts are not designated as hedging instruments; accordingly, changes in the fair value are recorded in current period earnings. These foreign currency contracts had a notional value of \$3,579,325 at March 31, 2018 and their maturities range from April 2018 to July 2018.

The Company records an asset or liability on the consolidated balance sheet for the fair value of the foreign currency forward contracts. The foreign currency contract liability totaled \$22,449 at March 31, 2018 and the foreign currency contract asset totaled \$166,629 at June 30, 2017. The Company recorded a loss on foreign exchange contracts of \$91,811 and a gain of \$360,216, which is reflected in cost of revenue, for the three months ended March 31, 2018 and 2017, respectively. The Company recorded a loss on foreign exchange contracts of \$192,360 and \$212,859, which is reflected in cost of revenue for the nine months ended March 31, 2018 and 2017, respectively.

NOTE 9 - COMMITMENTS AND CONTINGENCIES

Contingencies

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

Legal Matters

The Company may be subject to various legal proceedings from time to time. The results of any future litigation cannot be predicted with certainty, and regardless of the outcome, litigation can have an adverse impact on the Company because of defense and settlement costs, diversion of management resources, and other factors. Any current litigation is considered immaterial and counter claims have been assessed as remote.

NOTE 10 - RELATED PARTY TRANSACTIONS

Glen D. Bornt, a member of the Company's Board of Directors until January 9, 2018, is the founder and President of Imperial Valley Milling Co. ("IVM"). He is IVM's majority shareholder and a member of its Board of Directors. Glen D. Bornt is also a majority shareholder of Kongal Seeds Pty. Ltd. ("Kongal"). IVM had a 15-year supply agreement with IVS, and this agreement was assigned by IVS to the Company when it purchased the assets of IVS in October 2012. IVM contracts with alfalfa seed growers in California's Imperial Valley and sells its growers' seed to the Company pursuant to a supply agreement. Under the terms of the supply agreement, IVM's entire certified and uncertified alfalfa seed production must be offered and sold to the Company, and the Company has the exclusive option to purchase all or any portion of IVM's seed production. The Company paid \$2,458,889 to IVM during the nine months ended March 31, 2018. Amounts due to IVM totaled \$120,081 and \$326,941 at March 31, 2018 and June 30, 2017, respectively. The Company paid \$155,215 to Kongal during the nine months ended March 31, 2018. Amounts due to Kongal totaled \$0 and \$4,753 at March 31, 2018 and June 30, 2017, respectively.

On July 19, 2017, the Company entered into a Securities Purchase Agreement with certain purchasers, including MFP Partners, L.P. ("MFP"), a stockholder of the Company, and certain entities related to Wynnefield Capital Management LLC (collectively, "Wynnefield"), pursuant to which MFP purchased approximately \$3.7 million of shares of its common stock and Wynnefield purchased approximately \$3.0 million of shares of its common stock. Each of MFP and Wynnefield is a beneficial owner of more than 5% of the Company's common stock. Alexander C. Matina, a member of the Company's Board, is Vice President, Investments of MFP. Robert Straus, a member of the Company's Board since January 9, 2018, is a Portfolio Manager and Analyst at Wynnefield.

On October 11, 2017, the Company entered into a Securities Purchase Agreement with Mark W. Wong, the Company's President and Chief Executive Officer, pursuant to which the Company sold and issued an aggregate of 75,000 shares of its Common Stock at a purchase price of \$3.50 per share, for aggregate gross proceeds of \$262,500.

On December 22, 2017, the Company completed the closing of its previously announced rights offering. At the closing, the Company sold and issued an aggregate of 2,594,923 shares of its Common Stock at a subscription price of \$3.50 per share pursuant to the exercise of subscriptions and oversubscriptions in the rights offering from its existing stockholders. Pursuant to an Investment Agreement, dated October 3, 2017, between the Company and MFP, MFP agreed to purchase, at the subscription price, all of the shares not purchased in the Rights Offering (the "Backstop Commitment"). Accordingly, on December 22, 2017, the Company and MFP completed the closing of the Backstop Commitment, in which the Company sold and issued 905,077 shares of its Common Stock to MFP. Combined, the Company sold and issued an aggregate of 3,500,000 shares of its common stock for aggregate gross proceeds of \$12.25 million.

NOTE 11 - EQUITY-BASED COMPENSATION

2009 Equity Incentive Plan

In October 2009 and January 2010, the Company's Board of Directors and stockholders, respectively, approved the 2009 Equity Incentive Plan (as amended and/or restated from time to time, the "2009 Plan"). The plan authorized the grant and issuance of options, restricted shares and other equity compensation to the Company's directors, employees, officers and consultants, and those of the Company's subsidiaries and parent, if any. In October 2012 and December 2012, the Company's Board of Directors and stockholders, respectively, approved the amendment and restatement of the 2009 Plan, including an increase in the number of shares available for issuance as grants and awards under the Plan to 1,250,000 shares. In September 2013 and December 2013, the Company's Board of Directors and stockholders, respectively, approved the amendment and restatement of the 2009 Plan, including an increase in the number of shares available for issuance as grants and awards under the Plan to 1,700,000 shares. In September 2015 and December 2015, the Company's Board of Directors and stockholders, respectively, approved the amendment and restatement of the 2009 Plan, including an increase in the number of shares available for issuance as grants and awards under the Plan to 2,450,000 shares.

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

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The Company measures the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award. 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. The Company amortizes stock-based compensation expense on a straight-line basis over the requisite service period.

The Company utilizes a Black-Scholes-Merton option pricing model, which includes assumptions regarding the risk-free interest rate, dividend yield, life of the award, and the volatility of the Company's common stock to estimate the fair value of employee options grants.

Weighted average assumptions used in the Black-Scholes-Merton model are set forth below:

| | March 31, | |
|--------------------------------|-------------|---------------|
| | 2018 | 2017 |
| Risk free rate | 1.9% - 2.3% | 1.2% - 1.9% |
| Dividend yield | 0% | 0% |
| Volatility | 45.5% | 39.2% - 51.6% |
| Average forfeiture assumptions | 1.4% | 2.4% |

During the nine months ended March 31, 2018, the Company granted 103,283 options to the Directors, certain members of the executive management team and other employees at exercise prices ranging from \$3.00 to \$4.03. These options vest in either quarterly or annual periods over one to three years, and expire ten years from the date of grant.

A summary of stock option activity for the nine months ended March 31, 2018 and year ended June 30, 2017 is presented below:

| | Number Outstanding | | Weighted - Average Exercise Price Per Share | Weighted- Average Remaining Contractual Life (Years) | Aggregate Intrinsic Value |
|--|-----------------------|----|--|--|---------------------------------|
| Outstanding at June 30, 2016 | 1,021,418 | \$ | 5.14 | 4.2 | 142,381 |
| Granted | 230,610 | | 4.19 | - | - |
| Exercised | (232,000) | | 4.20 | - | - |
| Canceled/forfeited/expired | (29,500) | | 5.95 | - | - |
| Outstanding at June 30, 2017 | 990,528 | | 5.12 | 4.3 | 100,344 |
| Granted | 103,283 | | 3.45 | - | - |
| Exercised | (49,000) | | 3.95 | - | - |
| Canceled/forfeited/expired | (214,000) | | 6.72 | - | - |
| Outstanding at March 31, 2018 | 830,811 | | 4.57 | 6.2 | 32,378 |
| Options vested and exercisable at March 31, 2018 | 592,873 | | 4.86 | 5.1 | 4,394 |
| Options vested and expected to vest as of March 31, 2018 | 830,053 | \$ | 4.57 | 6.2 | \$ 32,140 |

The weighted average grant date fair value of options granted and outstanding at March 31, 2018 was \$1.52. At March 31, 2018, the Company had \$333,457 of unrecognized stock compensation expense, net of estimated forfeitures, related to the options under the 2009 Plan, which will be recognized over the weighted average remaining service period of 1.84 years. The Company settles employee stock option exercises with newly issued shares of common stock.

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During the year ended June 30, 2017, the Company issued 77,275 restricted stock units to its directors, certain members of the executive management team, and other employees. The restricted stock units have varying vesting periods ranging from immediate vesting to annual installments over a three-year period. The fair value of the awards totaled \$374,530 and was based on the closing stock price on the date of grants.

During the nine months ended March 31, 2018, the Company issued 78,642 restricted stock units to its directors, certain members of the executive management team and other employees. The restricted stock units vest in either quarterly or annual periods and vest in either quarterly or annual periods over three-years. The fair value of the awards totaled \$279,611 and was based on the closing stock price on the date of grants.

The Company recorded \$397,309 and \$674,076 of stock-based compensation expense associated with grants of restricted stock units during the nine months ended March 31, 2018 and 2017, respectively. A summary of activity related to non-vested restricted stock units is presented below:

| | Number of Nonvested Restricted Stock Units | Weighted- Average Grant Date Fair Value | Weighted - Average Remaining Contractual Life (Years) |
|--|---|--|--|
| Beginning nonvested restricted units outstanding | 120,971 | \$ 5.59 | 1.5 |
| Granted | 78,642 | 3.56 | 1.3 |
| Vested | (98,358) | 5.57 | - |
| Forfeited | (4,435) | 4.45 | - |
| Ending nonvested restricted units outstanding | 96,820 | \$ 4.01 | 1.2 |

At March 31, 2018, the Company had \$291,932 of unrecognized stock compensation expense related to the restricted stock units, which will be recognized over the weighted average remaining service period of 1.18 years.

At March 31, 2018, there were 671,844 shares available under the 2009 Plan for future grants and awards.

Stock-based compensation expense recorded for stock options and restricted stock units for the three months ended March 31, 2018 and 2017, totaled \$149,198 and \$306,800, respectively. Stock-based compensation expense recorded for stock options and restricted stock units for the nine months ended March 31, 2018 and 2017, totaled \$600,231 and \$885,456, respectively.

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

The below table represents supplemental information to the Company's consolidated statements of cash flows for non-cash activities during the nine months ended March 31, 2018 and 2017, respectively.

| | Nine Months Ended March 31, | |
|--|--|--------------|
| | 2018 | 2017 |
| Issuance of common stock upon conversion of principal and interest of convertible debentures | \$ - | \$ 3,168,342 |

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

You should read the following discussion of our financial condition and results of operations in conjunction with our consolidated financial statements and the related notes included in Part I, Item 1, "Financial Statements" of this Quarterly Report on Form 10-Q. In addition to our historical consolidated financial information, the following discussion contains forward-looking statements that reflect our plans, estimates, and beliefs. Our actual results could differ materially from those discussed in the forward-looking statements as referred to on page 2 of this Quarterly Report on Form 10-Q. Factors that could cause or contribute to these differences include those discussed in our Annual Report on Form 10-K for the fiscal year ended June 30, 2017, particularly in Part I, Item 1A, "Risk Factors", as updated in Part II, Item 1A. "Risks Factors" of this Quarterly Report on Form 10-Q.

Executive Overview

Founded in 1980 and headquartered in Sacramento, California, we are a global agricultural company. Grounded in our historical expertise and what we believe is our present leading position in the breeding, production and sale of alfalfa seed, we continue to build towards our goal of being recognized as the world's preferred proprietary forage, grain and specialty crop seed company. In addition to our primary activities in alfalfa seed, we have recently expanded our product portfolio by adding hybrid sorghum and sunflower seed, which complement our alfalfa seed offerings by allowing us to leverage our infrastructure, research and development expertise and our distribution channels, as we begin to diversify into what we believe are higher margin opportunities. We also continue to conduct our stevia breeding program, having four patents granted.

Following our initial public offering in fiscal year 2010, we expanded certain pre-existing business initiatives and added new ones, including:

- diversifying our production geographically by expanding from solely producing seed in the San Joaquin Valley of California to initially adding production capability in the Imperial Valley of California, then expanding into Australia (primarily South Australia) and, most recently, adding production in other western states and Canada;
- expanding from solely offering non-dormant varieties to now having a full range of both dormant and non-dormant varieties;
- expanding the depth and breadth of our research and development capabilities in order to develop new varieties of both dormant and non-dormant alfalfa seed with traits sought after by our existing and future customers;
- diversifying into complementary proprietary crops by acquiring the assets of a Queensland, Australia company specializing in breeding and licensing of hybrid sorghum and sunflower seed;
- expanding our distribution channels and customer base, initially through the acquisition of the customer list of a key international customer in the Middle East in July 2011, and thereafter, through certain strategic acquisitions;

- expanding our sales geographically both through the expansion of our product offerings to make available product needed in regions we historically did not cover and through an expansion of our sales and marketing efforts generally; and
- implementing a stevia breeding program to develop new stevia varieties that incorporate the most desirable characteristics of this all-natural, zero calorie sweetener.

We have accomplished these expansion initiatives through a combination of organic growth and strategic acquisitions, foremost among them:

- the acquisition in July 2011 of certain intangible assets, including the customer information, related to the field seed and small grain business of Genetics International, Inc., which had previously operated in the Middle East and North Africa ("MENA") and which began our transition into selling directly to MENA distributors;
- the acquisition of Imperial Valley Seeds, Inc. ("IVS") in October 2012, which enabled us to expand production of non-GMO seed into California's Imperial Valley, thereby ensuring a non-GMO source of seed due to the prohibition on GMO crops in the Imperial Valley, as well as enabling us to diversify our production areas and distribution channels;
- the acquisition of a portfolio of dormant alfalfa seed germplasm in August 2012 to launch our entry into the dormant market;
- the acquisition of the leading local producer of non-dormant alfalfa seed in South Australia, Seed Genetics International Pty Ltd ("S&W Australia") in April 2013, which greatly expanded our production capabilities and geographic diversity;
- the acquisition of the alfalfa production and research facility assets and conventional (non-GMO) alfalfa germplasm from DuPont Pioneer, a wholly-owned subsidiary of E.I. du Pont de Nemours and Company ("DuPont Pioneer") in December 2014, thereby substantially expanding upon our initial entrance into the dormant alfalfa seed market that began in 2012 and enabling us to greatly expand our production and research and product development capabilities;
- the acquisition, in May 2016, of the assets and business of SV Genetics Pty Ltd ("SV Genetics"), a private Australian company specializing in the breeding and licensing of proprietary hybrid sorghum and sunflower seed germplasm, which represents our initial effort to diversify our product portfolio beyond alfalfa seed breeding and production and stevia R&D; and
- the acquisition of a portfolio of sorghum germplasm in April 2018 to expand our portfolio of sorghum products to include biofuel types.

We believe our 2013 combination with S&W Australia created the world's largest non-dormant alfalfa seed company and gave us the competitive advantages of year-round production in that market. With the completion of the acquisition of dormant alfalfa seed assets from DuPont Pioneer in December 2014, we believe we have become the largest alfalfa seed company worldwide (by volume), with industry-leading research and development, as well as production and distribution capabilities in both hemispheres and the ability to supply proprietary dormant and non-dormant alfalfa seed. Our operations span the world's alfalfa seed production regions, with operations in the San Joaquin and Imperial Valleys of California, five additional Western states, Australia and three provinces in Canada.

Our May 2016 acquisition of the hybrid sorghum and sunflower germplasm business and assets of SV Genetics signals management's commitment to our strategy of identifying opportunities to diversify our product lines and improve our gross margins.

The Asset Purchase and Sale Agreement for the Pioneer Acquisition previously contemplated that, subject to the satisfaction of certain conditions, we would acquire certain GMO germplasm varieties and other related assets from DuPont Pioneer for a purchase price of \$7.0 million. The conditions for this additional acquisition were not satisfied by the required date, and DuPont Pioneer has informed us that it does not intend to extend the deadline or complete the transaction at this point in time. As a result, we do not expect to close the acquisition of DuPont Pioneer's GMO germplasm varieties and related assets in the previously disclosed structure or pay the \$7,000,000 purchase price.

We continue to have a long-term distribution agreement with DuPont Pioneer regarding conventional (non GMO) varieties, the term of which extends into 2024. Our production and research agreements with DuPont Pioneer (relating to GMO-traited varieties) terminated on February 28, 2018. As a result, DuPont Pioneer's minimum purchase commitments from us will be reduced by approximately \$6 million annually, commencing with our Fiscal Year 2019. However, we expect that the DuPont Pioneer distribution agreement will continue to be a significant source of our annual revenue through December 2024.

We are in discussions with DuPont Pioneer regarding the orderly transition of activities previously conducted by us under the production and research agreements, as well as the possibility of certain ongoing commercial relationships between us relating to GMO-traited varieties, among other things.

Components of Our Statements of Operations Data

Revenue and Cost of Revenue

Revenue

We derive most of our revenue from the sale of our proprietary alfalfa seed varieties. We expect that over the next several years, a substantial majority of our revenue will continue to be generated from the sale of alfalfa seed, although we are continually assessing other possible product offerings or means to increase revenue, including expanding into other, higher margin crops. In late fiscal year 2016, we began that expansion with the acquisition of the hybrid sorghum and sunflower business and assets of SV Genetics. Revenue from the newly-acquired SV Genetics germplasm will be primarily derived from the sale of sorghum and sunflower seed as well as royalty-based payments set forth in various licensing agreements.

Fiscal year 2016 was the first full fiscal year in which we had a full range of non-dormant and dormant alfalfa seed varieties. This is expected to enable us to significantly expand the geographic reach of our sales efforts. The mix of our product offerings will continue to change over time with the introduction of new alfalfa seed varieties resulting from our robust research and development efforts, including our potential expansion into gene edited varieties in future periods. Currently, we have a long-term distribution agreement with DuPont Pioneer, which we expect will be the source of a significant portion of our annual revenue through December 2024.

Our revenue will fluctuate depending on the timing of orders from our customers and distributors. Because some of our large customers and distributors order in bulk only one or two times per year, our product revenue may fluctuate significantly from period to period. However, some of this fluctuation is offset by having operations in both the northern and southern hemispheres.

Our stevia breeding program has yet to generate any meaningful revenue. However, management continues to evaluate this portion of our business and assess various means to monetize the results of our effort to breed new, better tasting stevia varieties. Such potential opportunities include possible licensing agreements and royalty-based

agreements.

Cost of Revenue

Cost of revenue relates to sale of our seed varieties and consists of the cost of procuring seed, plant conditioning and packaging costs, direct labor and raw materials and overhead costs.

Operating Expenses

Research and Development Expenses

Seed and stevia research and development expenses consist of costs incurred in the discovery, development, breeding and testing of new products incorporating the traits we have specifically selected. These expenses consist primarily of employee salaries and benefits, consultant services, land leased for field trials, chemicals and supplies and other external expenses. With the acquisition of SV Genetics in late fiscal 2016, similar costs are now being incurred as we continue the research and development efforts begun by SV Genetics in the development of new varieties of hybrid sorghum and sunflower seed germplasm. Because we have been in the alfalfa seed breeding business since our inception in 1980, we have expended far more resources in development of our proprietary alfalfa seed varieties throughout our history than on our stevia breeding program, which we commenced in fiscal year 2010.

In fiscal year 2013, we made the decision to shift the focus of our stevia program away from commercial production and towards the breeding of improved varieties of stevia. We have continued that effort, which has resulted in the granting by the USPTO of four patents covering stevia plant varieties SW 107, SW 201, SW 129 and SW 227.

Our research and development expenses increased significantly with the acquisition of the alfalfa research and development assets of DuPont Pioneer in December 2014. We also have expanded our genetics research both internally and in collaboration with third parties. In addition, we acquired additional research and development operations in connection with our May 2016 acquisition of SV Genetics that we expect will factor into an overall increase in R&D expense. Overall, we have been focused on controlling research and development expenses, while balancing that objective against the recognition that continued advancement in product development is an important part of our strategic planning. We expect our research and development expenses will fluctuate from period to period as a result of the timing of various research and development projects.

Our internal research and development costs are expensed as incurred, while third party research and development 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 construed for research and development activities that have alternative future uses are capitalized and depreciated on a straight-line basis over the estimated useful life of the asset.

Selling, General and Administrative Expenses

Selling, general, and administrative expenses consist primarily of employee costs, including salaries, employee benefits and share-based compensation, as well as professional service fees, insurance, marketing, travel and entertainment expense, public company expense and other overhead costs. We proactively take steps on an ongoing basis to control selling, general and administrative expense as much as is reasonably possible.

Depreciation and Amortization

Most of the depreciation and amortization expense on our statement of operations consists of amortization expense. We amortize intangible assets, including those acquired from DuPont Pioneer in December 2014 and from SV Genetics in May 2016, using the straight-line method over the estimated useful life of the asset, consisting of periods of 10-30 years for technology/IP/germplasm, 20 years for customer relationships and trade names and 2-20 years for other intangible assets. Property, plant and equipment is depreciated using the straight-line method over the estimated useful life of the asset, consisting of periods of 5-28 years for buildings, 3-20 years for machinery and equipment and 3-5 years for vehicles.

Other Expense

Other expense consists primarily of foreign currency gains and losses, changes in the fair value of derivative liabilities related to our warrants, changes in the fair value of our contingent consideration obligations and interest expense in connection with amortization of debt discount. In addition, interest expense consists of interest costs related to outstanding borrowings on our credit facilities, including our current KeyBank revolving line of credit and on S&W Australia's credit facilities in South Australia, our 8% senior secured convertible debentures that were issued in December 2014 which were fully paid off on March 1, 2017, our three-year secured promissory note issued in December 2014 in connection with the DuPont Pioneer Acquisition which was paid off on December 1, 2017, and our newly issued secured promissory notes with Conterra.

Provision (Benefit) for Income Taxes

Our effective tax rate is based on income, statutory tax rates, differences in the deductibility of certain expenses and inclusion of certain income items between financial statement and tax return purposes, and tax planning opportunities available to us in the various jurisdictions in which we operate. Under U.S. GAAP, if we determine that a tax position is more likely than not of being sustained upon audit, based solely on the technical merits of the position, we recognize the benefit. Tax regulations require certain items to be included in the tax return at different times than when those items are required to be recorded in the consolidated financial statements. As a result, our effective tax rate reflected in our consolidated financial statements is different from that reported in our tax returns. Some of these differences are permanent, such as meals and entertainment expenses that are not fully deductible on our tax return, and some are temporary differences, such as depreciation expense. Temporary differences create deferred tax assets and liabilities. Deferred tax assets generally represent items that can be used as a tax deduction or credit in our tax return in future years for which we have already recorded the tax benefit in our consolidated statements of operations. In the fourth quarter of fiscal year 2017, we recorded a valuation allowance against all of our deferred tax assets. The full valuation allowance was recorded during the fiscal year 2017 as a result of changes to our operating results and future projections, resulting from a recent decline in export sales to Saudi Arabia. In addition, our available tax planning strategies are currently not expected to overcome the uncertainty of the Saudi Arabian market. As a result of these factors, we don't believe that it is more likely than not that our deferred tax assets will be realized.

Results of Operations

Three Months Ended March 31, 2018 Compared to the Three Months Ended March 31, 2017

Revenue and Cost of Revenue

Revenue for three months ended March 31, 2018 was \$22,949,170 compared to \$21,012,243 for the three months ended March 31, 2017. The \$1,936,927 increase in revenue for the three months ended March 31, 2018 was primarily due to timing of shipments to our largest customer Dupont Pioneer partially offset by a decrease of sales to the Saudi Arabia markets of approximately \$1.1 million. Regulatory uncertainty in Saudi Arabia surrounding water use restrictions for large forage producers caused customers in the region to defer purchases and/or reduce inventory carrying levels. The outlook for demand for our non-dormant varieties in Saudi Arabia over the next two to four years continues to be uncertain because of the potential for water use restrictions and further regulations from the Saudi Arabian government on water usage. If there continues to be an absence of demand from our customers in Saudi Arabia, we would experience a material decline in revenue and earnings in the absence of growth in other regions and other products.

Sales into international markets represented 16% and 20% of revenue during the three months ended March 31, 2018 and 2017, respectively. Domestic revenue accounted for 84% and 80% of our total revenue for the three months ended March 31, 2018 and 2017, respectively. The increase in domestic revenue as a percentage of total revenue is primarily attributed to timing differences in shipments to our largest customer.

We recorded sales of approximately \$18.7 million from our distribution and production agreements with DuPont Pioneer during the three months ended March 31, 2018, which was an increase of \$2.5 million from the prior year amount of \$16.2 million. We expect sales to DuPont Pioneer under our distribution agreement will continue to represent a significant portion of our domestic sales, as well as overall sales, for the foreseeable future.

The following table shows revenue from external sources by destination country:

| | Three Months Ended March 31, | | | |
|---------------|-------------------------------------|------|---------------|------|
| | 2018 | | 2017 | |
| United States | \$ 19,258,699 | 84% | \$ 16,850,655 | 80% |
| Mexico | 301,390 | 1% | 549,420 | 3% |
| Argentina | 7,630 | 0% | 316,046 | 2% |
| Australia | 750,762 | 3% | 291,405 | 1% |
| Peru | 427,358 | 2% | 297,438 | 1% |
| Saudi Arabia | - | 0% | 1,051,593 | 5% |
| China | 374,824 | 2% | 790,486 | 4% |
| South Africa | 251,116 | 1% | 278,737 | 1% |
| Algeria | 308,700 | 1% | 330 | 0% |
| Egypt | 284,760 | 1% | 394,560 | 2% |
| Other | 983,931 | 5% | 191,573 | 1% |
| Total | \$ 22,949,170 | 100% | \$ 21,012,243 | 100% |

Cost of revenue of \$16,303,436 for the three months ended March 31, 2018 was 71.0% of revenue, while the cost of revenue of \$15,208,896 for the three months ended March 31, 2017 was 72.4% of revenue. Cost of revenue increased on a dollar basis primarily due to the increase in revenue.

Total gross profit margin for the three months ended March 31, 2018 was 29.0% compared to 27.6% in the comparable period of the prior year. The increase in gross profit margins was primarily due to product sales mix during the current period where we had a higher concentration of sales, as a percentage of total revenue, to DuPont Pioneer which are higher margin sales. Additionally, the product costs of proprietary seed are lower in the current year due to more favorable production contracts and arrangements.

While there will continue to be quarterly fluctuations in gross profit margin based on product sales mix, we anticipate improved gross margins in fiscal 2018 as a result of a number of initiatives we are deploying.

Selling, General and Administrative Expenses

Selling, General and Administrative ("SG&A") expense for the three months ended March 31, 2018 totaled \$2,676,166 compared to \$2,720,131 for the three months ended March 31, 2017. The \$43,965 decrease in SG&A expense versus the third quarter of the prior year was primarily due to a decrease in stock-based compensation of \$157,602 partially offset by an increase in consulting expense. As a percentage of revenue, SG&A expenses were 11.7% in the current quarter compared to 12.9% in the three months ended March 31, 2017.

Research and Development Expenses

Research and development expenses for the three months ended March 31, 2018 totaled \$1,065,323 compared to \$714,512 for the three months ended March 31, 2017. The \$350,811 increase in research and development expense is driven by additional investment in our hybrid sorghum and sunflower programs as well as our stevia program.

Depreciation and Amortization

Depreciation and amortization expense for the three months ended March 31, 2018 was \$838,585 compared to \$798,559 for the three months ended March 31, 2017. Included in the amount was amortization expense for intangible assets, which totaled \$499,634 in the three months ended March 31, 2018 and \$555,977 in the three months ended March 31, 2017. The \$40,026 increase in depreciation and amortization expense over the comparable period of the prior year is primarily driven by additional depreciation expense associated with fixed asset additions.

Foreign Currency (Gain) Loss

We incurred a foreign currency gain of \$27,939 for the three months ended March 31, 2018 compared to a loss of \$2,125 for the three months ended March 31, 2017. The foreign currency gains and losses are associated with S&W Australia, our wholly-owned subsidiary in Australia.

Change in Derivative Warrant Liability

The derivative warrant liability was considered a level 3 fair value financial instrument and was measured at each reporting period until December 31, 2017 at which time the warrants were reclassified to equity due to the expiration of the down-round price protection provision. We recorded a non-cash change in derivative warrant liability gain of \$1,009,901 in the three months ended March 31, 2017.

Change in Contingent Consideration Obligations

The contingent consideration obligations are considered level 3 fair value financial instruments and will be measured at each reporting period. The \$0 and \$86,688 gain from non-cash change in contingent consideration obligations for the three months ended March 31, 2018 and 2017, respectively; represents the decrease in the estimated fair value of the contingent consideration obligations during that respective period. The earn-out payment to DuPont Pioneer was finalized in the amount of \$2,500,000 and this was added to the Pioneer Note in October 2017 and subsequently paid off in December 2017.

Interest Expense - Amortization of Debt Discount

Non-cash amortization of debt discount expense for the three months ended March 31, 2018 was \$51,185 compared to \$150,875 for the three months ended March 31, 2017. The expense in the current quarter represents the amortization of the debt issuance costs associated with our KeyBank working capital facility and our secured property and equipment notes with Conterra. The expense in the prior year represents the amortization of the debt discount, beneficial conversion feature and debt issuance costs associated with the convertible debentures issued December 31, 2014 and the debt issuance costs associated with our KeyBank working capital facility.

Interest Expense

Interest expense during the three months ended March 31, 2018 totaled \$512,892 compared to \$300,627 for the three months ended March 31, 2017. Interest expense for the three months ended March 31, 2018 primarily consisted of interest incurred on the working capital credit facilities with KeyBank and NAB, and the new secured property and equipment loans entered into in November 2017. Interest expense for the three months ended March 31, 2017 primarily consisted of interest incurred on the convertible debentures issued on December 31, 2014, on the note payable issued to DuPont Pioneer as part of the purchase consideration for the DuPont Pioneer Acquisition and the working capital credit facilities with KeyBank and NAB. The \$212,265 increase in interest expense for the three months ended March 31, 2018 is primarily driven by \$251,375 of interest on the new secured property and equipment loans partially offset by a \$75,000 reduction in interest expense from the pay-off of the DuPont Pioneer note.

Provision (Benefit) for Income Taxes

Income tax benefit totaled \$248,931 for the three months ended March 31, 2018 compared to an income tax expense of \$463,509 for the three months ended March 31, 2017. Our effective tax rate was (16.3%) for the three months ended March 31, 2018 compared to 25.9% for the three months ended March 31, 2017. The decrease in our effective tax rate for the three months ended March 31, 2018 is attributable to

the full valuation allowance established against our deferred tax assets which was recorded during the fourth quarter of fiscal 2017. Due to the valuation allowance, we do not record the income tax expense or benefit related to substantially all of our current year operating results, as such results are generally incorporated in our net operating loss deferred tax asset position, which has a full valuation allowance against it. However, we did record tax expense related to certain other factors occurring throughout the year. For example, we have certain intangible assets with indefinite lives for financial reporting purposes. The write down of these assets cannot be assumed and thus, the deferred tax liability created by the difference in the basis in these assets for financial reporting and tax purposes cannot be used as a source of taxable income against our deferred tax assets. The increase in the deferred tax liability due the yearly tax amortization on these intangible assets is recorded as income tax expense. We also analyzed additional information on our tax return filings in the third quarter of fiscal 2018. To the extent that differences arise from the estimates of tax return filings, these differences are generally recorded in the quarter that they arise and are commonly referred to as provision to return adjustments. Such adjustments related to our Australian tax return filings also generated additional income tax expense for the quarter ended March 31, 2018.

On December 22, 2017, President Trump signed into law the Tax Cuts and Jobs Act (the "Tax Act"). The Tax Act reduced the corporate tax rate from the maximum federal statutory rate of 35% to 21%. The Tax Act states that the 21% corporate tax rate is effective for tax years beginning on or after January 1, 2018. However, existing tax law, which was not amended under the Tax Act, governs when a change in tax rate is effective. Existing tax law provides that if the taxable year includes the effective date of any rate change (unless the change is the first date of the taxable year), taxes should be calculated by applying a blended rate to the taxable income for the year. Our blended federal rate is 27.6%. As a result of the new law, we have concluded that our deferred tax assets will need to be revalued. Our deferred tax assets represent a reduction in corporate taxes that are expected to be paid in the future. As a result of the Tax Act, we have estimated a reduction to the value of our deferred tax assets which is almost entirely offset by a reduction to our valuation allowance in the second quarter of the year ending June 30, 2018. The net impact of the decrease to both the deferred tax assets and the valuation allowance will be a remeasuring of our net deferred tax liability associated with indefinite lived intangibles for which we cannot predict a reversal into taxable income. In conjunction with the tax law changes, the SEC staff issued Staff Accounting Bulletin No. 118 ("SAB 118") to address the application of U.S. GAAP in situations when a registrant does not have the necessary information available, prepared, or analyzed (including computations) in reasonable detail to complete the accounting for certain income tax effects of the Tax Act. We have recognized the provisional tax impacts related to deemed repatriated earnings, the potential impact of new section 162(m) rules on our deferred tax balances, and the revaluation of deferred tax assets and liabilities and included these amounts in our consolidated financial statements for the quarter ended March 31, 2018. The ultimate impact, which is expected to be recorded by June 30, 2018, may differ from these provisional amounts, possibly materially, due to, among other things, additional analysis, changes in interpretations and assumptions we have made, additional regulatory guidance that may be issued, and actions we may take as a result of the Tax Act, and the fact that we cannot definitively predict what our deferred tax balance will ultimately be as of June 30, 2018. The Tax Act allows for one hundred percent expensing of the cost of qualified property acquired and placed in service after September 27, 2017 and before January 1, 2023. We do not plan to take advantage of this provision for the near term and have the option of opting out of this provision. In addition, net operating losses incurred

in tax years beginning after December 31, 2017 are only allowed to offset a taxpayer's taxable income by eighty percent, but those net operating losses are allowed to be carried forward indefinitely with no expiration. Also, as part of the Tax Act, our net interest expense deductions are limited to 30% of earnings before interest, taxes, depreciation, and amortization through 2021 and of earnings before interest and taxes thereafter. This provision also takes effect for tax years beginning after 2017 and isn't expected to have a material impact to our deferred tax asset position. The Tax Act also incorporates changes to certain international tax provisions. There is a one-time transition tax on foreign income earned by subsidiaries at a rate of 15.5% for cash and cash equivalents and at a rate of 8% for the remainder of the foreign earnings. There is a provision for the current inclusion in US taxable income of global intangible low-tax income and also the imposition of a tax equal to its base erosion minimum tax amount. The new laws incorporate a potential benefit for foreign derived intangible income, but the benefit only applies if the foreign derived sales and services income exceeds a calculated 'routine return' and if we have taxable income. We do not currently anticipate that any of the foreign provisions will have an impact to our tax accounts.

Nine Months Ended March 31, 2018 Compared to the Nine Months Ended March 31, 2017

Revenue and Cost of Revenue

Revenue for the nine months ended March 31, 2018 was \$54,193,682 compared to \$57,487,560 for the nine months ended March 31, 2017. The \$3,293,878 decrease in revenue for the nine months ended March 31, 2018 was primarily due to a decrease of sales to the Saudi Arabia markets of approximately \$5.4 million. Regulatory uncertainty in Saudi Arabia surrounding water use restrictions for large forage producers caused customers in the region to defer purchases and/or reduce inventory carrying levels. The outlook for demand for our non-dormant varieties in Saudi Arabia over the next two to four years continues to be uncertain because of the potential for water use restrictions and further regulations from the Saudi Arabian government on water usage. If there continues to be an absence of demand from our customers in Saudi Arabia, we would experience a material decline in revenue and earnings in the absence of growth in other regions and other products. The decrease in revenue directed to the Saudi Arabia markets was partially offset by an increase in sales to the domestic market.

Sales into international markets represented 29% and 36% of revenue during the nine months ended March 31, 2018 and 2017, respectively. Domestic revenue accounted for 71% and 64% of our total revenue for the nine months ended March 31, 2018 and 2017, respectively. The increase in domestic revenue as a percentage of total revenue is primarily attributable to reduced sales to customers in Saudi Arabia and timing of shipments to our largest customer Dupont Pioneer.

We recorded sales of approximately \$36.9 million from our distribution and production agreements with DuPont Pioneer during the nine months ended March 31, 2018, which was an increase of \$3.0 million from the prior year amount of \$33.9 million. We expect sales to DuPont Pioneer under our distribution agreement will continue to represent a significant portion of our domestic sales, as well as overall sales, for the foreseeable future.

The following table shows revenue from external sources by destination country:

| | Nine Months Ended March 31, | | | |
|---------------|------------------------------------|------|---------------|------|
| | 2018 | | 2017 | |
| United States | \$ 38,523,953 | 71% | \$ 36,633,044 | 64% |
| Mexico | 4,682,016 | 9% | 4,294,447 | 7% |
| Argentina | 2,750,249 | 5% | 2,881,050 | 5% |
| Australia | 1,309,105 | 2% | 1,082,041 | 2% |
| Peru | 1,035,770 | 2% | 821,213 | 1% |
| Saudi Arabia | 844,908 | 2% | 6,273,365 | 11% |
| China | 748,748 | 1% | 889,834 | 2% |
| South Africa | 718,458 | 1% | 915,607 | 2% |
| Algeria | 308,700 | 1% | 562,778 | 1% |
| Egypt | 284,760 | 1% | 677,520 | 1% |
| Other | 2,987,015 | 5% | 2,456,661 | 4% |
| Total | \$ 54,193,682 | 100% | \$ 57,487,560 | 100% |

Cost of revenue of \$40,540,193 for the nine months ended March 31, 2018 was 74.8% of revenue, while the cost of revenue of \$44,520,476 for the nine months ended March 31, 2017 was 77.4% of revenue. Cost of revenue decreased on a dollar basis primarily due to the decrease in revenue as well as a reduction in product costs.

Total gross profit margin for the nine months ended March 31, 2018 was 25.2% compared to 22.6% in the comparable period of the prior year. The increase in gross profit margins was primarily due to product sales mix during the current period where we had a higher concentration of sales, as a percentage of total revenue, to DuPont Pioneer which are higher margin sales. Additionally, the product costs of proprietary seed are lower in the current year due to more favorable production contracts and arrangements.

While there will continue to be quarterly fluctuations in gross profit margin based on product sales mix, we anticipate improved gross margins in fiscal 2018 as a result of a number of initiatives we are deploying.

Selling, General and Administrative Expenses

Selling, General and Administrative ("SG&A") expense for the nine months ended March 31, 2018 totaled \$8,037,202 compared to \$7,767,530 for the nine months ended March 31, 2017. The \$269,672 increase in SG&A expense versus the comparable period of the prior year was primarily due to an increase in sales personnel and related costs, as well as an increase in consulting fees of approximately \$319,000, partially offset by other expense reductions. As a percentage of revenue, SG&A expenses were 14.8% in the nine months ended March 31, 2018, compared to 13.5% in the nine months ended March 31, 2017.

Research and Development Expenses

Research and development expenses for the nine months ended March 31, 2018 totaled \$2,662,404 compared to \$2,204,625 for the nine months ended March 31, 2017. The \$457,779 increase in research and development expense versus the comparable period of the prior year is driven by additional investment in our hybrid sorghum and sunflower programs as well as our stevia program. We expect our research and development spend for fiscal 2018 to total approximately \$3.5 million.

Depreciation and Amortization

Depreciation and amortization expense for the nine months ended March 31, 2018 was \$2,597,818 compared to \$2,475,710 for the nine months ended March 31, 2017. Included in the amount was amortization expense for intangible assets, which totaled \$1,628,026 for the nine months ended March 31, 2018 and \$1,667,932 for the nine months ended March 31, 2017. The \$122,108 increase in depreciation and amortization expense over the comparable period of the prior year is primarily driven by additional depreciation expense associated with fixed asset additions.

Foreign Currency (Gain) Loss

We incurred a foreign currency gain of \$5,908 for the nine months ended March 31, 2018 compared to a gain of \$4,358 for the nine months ended March 31, 2017. The foreign currency gains and losses are associated with S&W Australia, our wholly-owned subsidiary in Australia.

Change in Derivative Warrant Liability

The derivative warrant liability was considered a level 3 fair value financial instrument and was measured at each reporting period until December 31, 2017 at which time the warrants were reclassified to equity due to the expiration of the down-round price protection provision. We recorded a non-cash change in derivative warrant liability gain of \$431,300 in the nine months ended March 31, 2018 compared to a gain of \$841,400 in the nine months ended March 31, 2017. The gain represents the decrease in fair value of the outstanding warrants issued in December 2014.

Change in Contingent Consideration Obligations

The contingent consideration obligations are considered level 3 fair value financial instruments and will be measured at each reporting period. The \$0 and \$77,675 charges to non-cash change in contingent consideration obligations expense for the nine months ended March 31, 2018 and 2017, respectively; represents the increase in the estimated fair value of the contingent consideration obligations during that respective period due to the decrease in the present value discount factor used to estimate the fair value of the contingent consideration obligations. The earn-out payment to DuPont Pioneer was finalized in the amount of \$2,500,000 and this was added to the Pioneer Note in October 2017.

Loss on Equity Method Investment

Loss on equity method investment totaled \$0 and \$144,841 for the nine months ended March 31, 2018 and 2017, respectively. This represents our 50% share of losses incurred by our joint corporation (S&W Semillas S.A.) in Argentina. Our carrying value in the equity method investee company has been reduced to zero, accordingly, no further losses will be recorded in our consolidated financial statements related to this equity method investment.

Interest Expense - Amortization of Debt Discount

Non-cash amortization of debt discount expense for the nine months ended March 31, 2018 was \$118,284 compared to \$1,131,994 for the nine months ended March 31, 2017. The expense in the current period represents the amortization of the debt issuance costs associated with our KeyBank working capital facility and our secured property and equipment notes with Conterra. The expense in the prior year period represents the amortization of the debt discount, beneficial conversion feature and debt issuance costs associated with the convertible debentures issued December 31, 2014 and the debt issuance costs associated with our KeyBank working capital facility. As of March 1, 2017, the convertible debentures have been fully retired and accordingly, the amortization of debt discount associated with the convertible debentures is complete.

Interest Expense

Interest expense during the nine months ended March 31, 2018 totaled \$1,244,515 compared to \$948,211 for the nine months ended March 31, 2017. Interest expense for the nine months ended March 31, 2018 primarily consisted of interest incurred on the note payable issued to DuPont Pioneer as part of the purchase consideration for the DuPont Pioneer Acquisition, the working capital credit facilities with KeyBank and NAB, and the new secured property and equipment loans entered into in November 2017. Interest expense for the nine months ended March 31, 2017 primarily consisted of interest incurred on the convertible debentures issued on December 31, 2014, on the note payable issued to DuPont Pioneer as part of the purchase consideration for the DuPont Pioneer Acquisition and the working capital credit facilities with KeyBank and NAB. The \$296,304 increase in interest expense for the nine months ended March 31, 2018 is primarily driven by \$344,878 of interest on the secured property and equipment loans partially offset by a \$100,000 reduction in interest expense from the pay-off of the DuPont Pioneer note and a \$169,000 reduction in interest expense from the pay-off of the convertible debentures. Provision

Provision (Benefit) for Income Taxes

Income tax benefit totaled \$48,808 for the nine months ended March 31, 2018 compared to \$533,414 for the nine months ended March 31, 2017. Our effective tax rate was (10.0%) for the nine months ended March 31, 2018 compared to 42.2% for the nine months ended March 31, 2017. The decrease in our effective tax rate for the nine months ended March 31, 2018 was primarily attributable to the full valuation allowance recorded against substantially all of our deferred tax assets in the fourth quarter of the year ended June 30, 2017. For the nine months ended March 31, 2017 we recorded a benefit associated with the tax losses incurred in that period. However, for the nine months ended March 31, 2018, we have not recorded a benefit related to our losses due to the valuation allowance. The benefit recorded for the nine months ended March 31, 2018 is primarily attributed to additional deferred tax liabilities recorded during the year on indefinite lived intangible assets and the recording of additional tax expense on our prior year Australian tax return, which was filed in the third quarter of fiscal 2018.

Liquidity and Capital Resources

Our working capital and working capital requirements fluctuate from quarter to quarter depending on the phase of the growing and sales cycle that falls during a particular quarter. Our need for cash has historically been highest in the second and third fiscal quarters (October through March) because we historically have paid our North American contracted growers progressively, starting in the second fiscal quarter. In fiscal year 2017, we paid our North American growers approximately 50% in October 2016 and the balance was paid in February 2017. This payment cycle to our growers is similar in fiscal year 2018. S&W Australia, our Australian-based subsidiary, has a production cycle that is counter-cyclical to North America; however, this also puts a greater demand on our working capital and working capital requirements during the second, third and fourth fiscal quarters based on timing of payments to growers in the second through fourth quarters.

Historically, due to the concentration of sales to certain distributors, which typically represented a significant percentage of 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, which varied significantly from year to year. The timing of collection of receivables from DuPont Pioneer, which is our largest customer, is defined in the distribution agreement with DuPont Pioneer and consists of three installment payments, the first on September 15th, the second on January 15th, and the third payment on February 15th. Our future revenue and cash collections pertaining to the distribution agreement with DuPont Pioneer is expected to provide us with greater predictability, as sales to DuPont Pioneer are expected to be primarily concentrated in our second, third and fourth fiscal quarters, and payments will be received in three installments over the September to mid-February time period.

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, accounts payable and our working capital lines of credit.

In addition to funding our business with cash from operations, we have historically relied upon occasional sales of our debt and equity securities and credit facilities from financial institutions, both in the United States and South Australia.

In recent periods, we have consummated the following equity and debt financings:

On December 31, 2014, in connection with the Pioneer Acquisition, we issued a secured promissory note (the "Pioneer Note") payable by us to DuPont Pioneer in the initial principal amount of \$10,000,000 (issued at closing), and a potential earn-out payment (payable as an increase in the principal amount of the Pioneer Note) of up to \$5,000,000 based on our sales under the distribution and production agreements entered into in connection with the Pioneer Acquisition, as well as other sales of products we consummate containing the acquired germplasm in the three-year period following the closing. The earn-out payment of \$2,500,000 to DuPont Pioneer was finalized in October 2017 and this amount was added to the Pioneer Note in October 2017. The Pioneer Note accrued interest at 3% per annum. Interest was payable in three annual installments, in arrears, commencing on December 31, 2015. On December 1, 2017, we repaid the Pioneer Note. The repayment amount included the \$2.5 million earn-out payment related to the Pioneer Acquisition that was added to the principal amount of the Pioneer Note in October 2017.

On November 30, 2017, we entered into a secured note financing transaction (the "Loan Transaction") with Conterra Agricultural Capital, LLC ("Conterra") for \$12.5 million in gross proceeds. Pursuant to the Loan Transaction, we issued two secured promissory notes (the "Notes") to Conterra as follows:

- Secured Real Estate Note

. We issued one Note in the principal amount of \$10.4 million (the "Secured Real Estate Note") that is secured by a first priority security interest in the property, plant and fixtures (the "Real Estate Collateral") located at our Five Points, California and Nampa, Idaho production facilities and our Nampa, Idaho and Arlington, Wisconsin research facilities (the "Facilities"). The Secured Real Estate Note matures on November 30, 2020, which, subject to Conterra's approval, may be extended to November 30, 2022. The Secured Real Estate Note bears interest of 7.75% per annum. We have agreed to make semi-annual payments of interest and amortized principal on a 20-year amortization schedule, for a combined payment of \$515,711, starting July 1, 2018, in addition to a one-time interest only payment on January 1, 2018. We may prepay the Secured Real Estate Note, in whole or in part, at any time after we have paid a minimum of twelve months of interest on the Secured Real Estate Note.

- Secured Equipment Note

. We issued a second Note in the principal amount of \$2.1 million (the "Secured Equipment Note") that is secured by a first priority security interest in certain equipment not attached to real estate located at the Facilities. The Secured Equipment Note is also secured by the Real Estate Collateral. The Secured Equipment Note matures on November 30, 2019, which, subject to Conterra's approval, may be extended to November 30, 2020. The Secured Equipment Note bears interest at a rate of 9.5% per annum. We have agreed to make semi-annual payments of interest and amortized principal on a 20-year amortization schedule, for a combined payment of \$118,223, starting July 1, 2018, in addition to a one-time interest only payment on January 1, 2018. We may prepay the Secured Equipment Note, in whole or in part, at any time.

The Notes and related documents include customary representations and warranties in addition to customary affirmative and negative covenants (including financial covenants), and customary events of default that permit Conterra to accelerate our obligations under the Notes, including, among other things, that a default under one of the Notes would constitute a default under the other Note. On December 1, 2017, we used the proceeds from the Loan Transaction to repay the Pioneer Note.

On September 22, 2015, we entered into a credit and security agreement (the "KeyBank Credit Facility") with KeyBank. Key provisions of the KeyBank Credit Facility, as amended, include:

- An aggregate principal amount that we may borrow, repay and reborrow, of up to \$35.0 million in the aggregate, subject to a requirement that we maintain a reduced loan balance of (i) not more than \$20.0 million for at least 30 consecutive days over the prior twelve months (measured each quarter on a trailing 12 month basis) and (ii) not more than \$25.0 million for at least 60 consecutive days over the prior twelve months (measured each quarter on a trailing 12 month basis).

- All amounts due and owing, including, but not limited to, accrued and unpaid principal and interest, will be payable in full on September 12, 2019.
- A borrowing base of up to 85% of eligible domestic accounts receivable and 90% of eligible foreign accounts receivable, plus up to the lesser of (i) 75% of the cost eligible inventory or (ii) 90% of the net orderly liquidation value of the inventory, subject to lender reserves.
- Loans may be based on a Base Rate or Eurodollar Rate (which is increased by an applicable margin of 2.2% per annum) (both as defined in the KeyBank Credit Facility), generally at our option. In the event of a default, at the option of KeyBank, the interest rate on all obligations owing will increase by 3% per annum over the rate otherwise applicable.
- Subject to certain exceptions, the KeyBank Credit Facility is secured by a first priority perfected security interest in all our now owned and after acquired tangible and intangible assets and our domestic subsidiaries, which have guaranteed our obligations under the KeyBank Credit Facility. The KeyBank Credit Facility is further secured by a lien on, and a pledge of, 65% of the stock of our wholly-owned subsidiary, S&W Holdings Australia Pty Ltd.
- At March 31, 2018, we were in compliance with all KeyBank debt covenants.

S&W Australia finances the purchase of most of its seed inventory from growers pursuant to a seasonal credit facility with National Australia Bank Ltd ("NAB"). The current facility, referred to as the 2016 NAB Facilities, was amended as of April 13, 2017 and expires on March 31, 2020. As of March 31, 2018, AUD \$7,600,000 (USD \$5,838,320) was outstanding under the 2016 NAB Facilities.

The 2016 NAB Facilities, as currently in effect, comprises two distinct facility lines: (i) an overdraft facility (the "Overdraft Facility"), having a credit limit of AUD \$1,000,000 (USD \$768,200 at March 31, 2018) and a borrowing base facility (the "Borrowing Base Facility"), having a credit limit of AUD \$12,000,000 (USD \$9,218,400 at March 31, 2018).

The Borrowing Base Facility permits S&W Australia to borrow funds for periods of up to 180 days, at S&W Australia's discretion, provided that the term is consistent with its trading terms. Interest for each drawdown is set at the time of the drawdown as follows: (i) for Australian dollar drawings, based on the Australian Trade Refinance Rate plus 1.5% per annum and (ii) for foreign currency drawings, based on the British Bankers' Association Interest Settlement Rate for the relevant foreign currency for the relevant period, or if such rate is not available, the rate reasonably determined by NAB to be the appropriate equivalent rate, plus 1.5% per annum. As of March 31, 2018, the Borrowing Base Facility accrued interest on Australian dollar drawings at approximately 5.18% calculated daily. The Borrowing Base Facility is secured by a lien on all the present and future rights, property and undertakings of S&W Australia, the mortgage on S&W Australia's Keith, South Australia property and the our corporate guarantee (up to a maximum of AUD \$15,000,000).

The Overdraft Facility permits S&W Australia to borrow funds on a revolving line of credit up to the credit limit. Interest accrues daily and is calculated by applying the daily interest rate to the balance owing at the end of the day and is payable monthly in arrears. As of March 31, 2018, the Overdraft Facility accrued interest at approximately 6.77% calculated daily.

For both the Overdraft Facility and the Borrowing Base Facility, interest is payable each month in arrears. In the event of a default, as defined in the NAB Facility Agreement, the principal balance due under the facilities will thereafter bear interest at an increased rate per annum above the interest rate that would otherwise have been in effect from time to time under the terms of each facility (*i.e.*, the interest rate increases by 4.5% per annum under the Borrowing Base Facility and the Overdraft Facility rate increases to 13.92% per annum upon the occurrence of an event of default).

Both facilities constituting the 2016 NAB Facilities are secured by a fixed and floating lien over all the present and future rights, property and undertakings of S&W Australia and are guaranteed by us as noted above. The 2016 NAB Facilities contain customary representations and warranties, affirmative and negative covenants and customary events of default that permit NAB to accelerate S&W Australia's outstanding obligations, all as set forth in the NAB facility agreements. S&W Australia was in compliance with all NAB debt covenants at March 31, 2018.

In January 2015, NAB and S&W Australia entered into a new business markets - flexible rate loan (the "Keith Building Loan") and a separate machinery and equipment facility (the "Keith Machinery and Equipment Facility"). At March 31, 2018, the principal balance on the Keith Building Loan was AUD \$575,000 (USD \$441,715) with unused availability of AUD \$100,000 (USD \$76,820). At March 31, 2018, the principal balance on the Keith Machinery and Equipment Facility was AUD \$569,275 (USD \$437,317) with no unused availability. In February 2016, NAB and S&W Australia also entered into a master asset finance facility (the "Master Assets Facility"). At March 31, 2018, the principal balance on the Master Assets Facility was AUD \$346,877 (USD \$266,471) with unused availability of AUD \$403,123 (USD \$309,679). The Master Asset Facility has various maturity dates through 2021 and have interest rates ranging from 4.89% to 5.31%.

The Keith Building Loan and Keith Machinery and Equipment Facility are used for the construction of a building on S&W Australia's Keith, South Australia property, purchase of adjoining land and for the machinery and equipment for use in the operations of the building. The Keith Building Loan matures on November 30, 2024. The interest rate on the Keith Building Loan varies from pricing period to pricing period (each such period approximately 30 days), based on the weighted average of a specified basket of interest rates (6.15% as of March 31, 2018). Interest is payable each month in arrears. The Keith Machinery and Equipment Facility bears interest, payable in arrears, based on the Australian Trade Refinance Rate quoted by NAB at the time of the drawdown, plus 2.9%. The Keith Credit Facilities contain customary representations and warranties, affirmative and negative covenants and customary events of default that permit NAB to accelerate S&W Australia's outstanding obligations, all as set forth in the facility agreement. They are secured by a lien on all the present and future rights, property and undertakings of S&W Australia, our corporate guarantee and a mortgage on S&W Australia's Keith, South Australia property.

On July 19, 2017, we entered into a Securities Purchase Agreement with certain purchasers, pursuant to which we sold and issued an aggregate of 2,685,000 shares of our Common Stock at a purchase price of \$4.00 per share, for aggregate gross proceeds of \$10.74 million.

On October 11, 2017, we entered into a Securities Purchase Agreement with Mark W. Wong, our President and Chief Executive Officer, pursuant to which we sold and issued an aggregate of 75,000 shares of our Common Stock at a purchase price of \$3.50 per share, for aggregate gross proceeds of \$262,500.

On December 22, 2017, we completed the closing of our rights offering of 3,500,000 shares of our Common Stock. At the closing, we sold and issued an aggregate of 2,594,923 shares of our Common Stock at a subscription price of \$3.50 per share (the "Subscription Price"). Pursuant to a backstop commitment with MFP Partners, L.P. ("MFP"), concurrently with the closing of rights offering, we sold and issued the remaining 905,077 shares of our Common Stock not purchased in the rights offering to MFP at the subscription price of \$3.50 per share. Combined, we sold and issued an aggregate of 3,500,000 shares of our common stock for aggregate gross proceeds of \$12.25 million.

Summary of Cash Flows

The following table shows a summary of our cash flows for the nine months ended March 31, 2018 and 2017:

| | Nine Months Ended | |
|--|--------------------------|-----------------|
| | March 31, | |
| | 2018 | 2017 |
| Cash flows from operating activities | \$ (16,377,979) | \$ (16,985,511) |
| Cash flows from investing activities | (1,016,188) | (1,736,614) |
| Cash flows from financing activities | 19,589,436 | 14,979,288 |
| Effect of exchange rate changes on cash | 48,122 | 158,996 |
| Net increase (decrease) in cash and cash equivalents | 2,243,391 | (3,583,841) |
| Cash and cash equivalents, beginning of period | 745,001 | 6,904,500 |
| Cash and cash equivalents, end of period | \$ 2,988,392 | \$ 3,320,659 |

Operating

Activities

For the nine months ended March 31, 2018, operating activities used \$16,377,979 in cash. Net loss plus and minus the adjustments for non-cash items as detailed on the statement of cash flows provided \$2,577,222 in cash, and changes in operating assets and liabilities as detailed on the statement of cash flows used \$18,955,201 in cash. The decrease in cash from changes in operating assets and liabilities was primarily driven by increases in inventory of \$32,191,993 due to timing of the US harvest and an increase in production, partially offset by an increase in accounts payable of \$5,236,255.

For the nine months ended March 31, 2017, operating activities used \$16,985,511 in cash. Net loss plus and minus the adjustments for non-cash items as detailed on the statement of cash flows provided \$3,171,661 in cash, and changes in operating assets and liabilities as detailed on the statement of cash flows used \$20,157,172 in cash. The decrease in cash from changes in operating assets and liabilities was primarily driven by an increase in inventories of \$15,972,829 and a decrease in accounts payable (including related parties) of \$7,642,270 partially offset by a decrease in accounts receivable of \$4,481,129.

Investing Activities

Investing activities during the nine months ended March 31, 2018 used \$1,016,188 in cash. These activities consisted primarily of additions to a build out of a new research and development facility in Nampa, Idaho.

Investing activities during the nine months ended March 31, 2017 used \$1,736,614 in cash. These activities consisted primarily of additions to a build out of a new research and development facility in Nampa, Idaho and investment in internal use software.

Financing Activities

Financing activities during the nine months ended March 31, 2018 provided \$19,589,436 in cash. We completed two separate private placements of common stock during the nine months ended March 31, 2018 which raised net proceeds of \$10.7 million in cash. In December 2017, we also completed the closing of our rights offering and backstop commitment with MFP. Pursuant to the rights offering and backstop commitment with MFP, we sold and issued an aggregate of 3,500,000 shares of our common stock in December 2017 for aggregate net proceeds of \$11.8 million. On November 30, 2017, we entered into a secured note financing transaction for \$12.5 million in gross proceeds. The proceeds from the secured note financing were used to repay the Pioneer Note. The repayment amount included the \$2.5 million earn-out payment related to the Pioneer Acquisition that was added to the principal amount of the Pioneer Note in October 2017.

Financing activities during the nine months ended March 31, 2017 provided \$14,979,288 in cash. We had net borrowings of \$19.3 million on our lines of credit and made \$4.7 million of redemptions on our convertible debentures. We also generated \$0.6 million in net proceeds from the exercise of stock options during the nine months ended March 31, 2017.

Inflation Risk

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

Off Balance Sheet Arrangements

We did not have any off-balance sheet arrangements during the three and nine months ended March 31, 2018.

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;
- our ability to renew and/or refinance our debt on acceptable terms;
- competition; and
- market developments.

Critical Accounting Policies

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

In preparing our financial statements, we must select and apply various accounting policies. Our most significant policies are described in Note 2 - Summary of Significant Accounting Policies of the footnotes to the consolidated 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 FASB Accounting Standards Codification Topic 718 Stock Compensation, which establishes accounting for equity instruments exchanged for employee services. Under such provisions, stock-based compensation cost is measured at the grant date, based on the calculated fair value of the award, and is recognized as an expense, under the straight-line method, over the employee's requisite service period (generally the vesting period of the equity grant).

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

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

Income Taxes

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

Inventories

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

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

Allowance for Doubtful Accounts

We regularly assess the collectability of receivables and provide 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. Our estimates are judgmental in nature and are made at a point in time. Management believes the allowance for doubtful accounts is appropriate to cover anticipated losses in our accounts receivable under current conditions; however, unexpected, significant deterioration in any of the factors mentioned above or in general economic conditions could materially change these expectations.

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 Principal Executive Officer and our Principal Financial Officer, evaluated the effectiveness of our disclosure controls and procedures as of March 31, 2018 (the "Evaluation Date"). The term "disclosure controls and procedures," as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, means controls and other procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the company's management, including its principal executive and principal financial officers, as appropriate, to allow timely decisions regarding required disclosure. Management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives and management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Based on the evaluation of our disclosure controls and procedures as of March 31, 2018, our Principal Executive Officer and Principal 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 that have significantly affected, or are reasonably likely to significantly affect, our internal control over financial reporting.

Part II

OTHER INFORMATION

Item 1. Legal Proceedings.

None.

Item 1A. Risk Factors.

You should carefully consider the factors discussed in Part I, Item 1A. "Risk Factors" in our Annual Report on Form 10-K for the fiscal year ended June 30, 2017, which could materially affect our business, financial condition, cash flows or future results. Except for the risk factors set forth below, there have been no material changes in our risk factors included in our Annual Report on Form 10-K for the fiscal year ended June 30, 2017. The risks described in this Quarterly Report on Form 10-Q and in our Annual Report on Form 10-K for the fiscal year ended June 30, 2017 are not the only risks facing our company. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition or future results.

DuPont Pioneer may purchase alfalfa seed from other sources and reduce its purchase commitments to us.

Under our distribution agreement with DuPont Pioneer, DuPont Pioneer has made minimum purchase commitments for our dormant alfalfa seed products that extend through September 30, 2024. However, there are circumstances under which DuPont Pioneer is permitted to purchase seed from other sources and reduce its purchase commitments to us, including:

- *Production Shortfalls.*

If in any year we fail to produce an adequate supply of alfalfa seed to meet DuPont Pioneer's demand, and we are unable to source alternative supply, DuPont Pioneer may purchase seed from third parties to meet the shortfall in our production.

- *New Products.*

If a third party offers for license a new product (a new transgenic and/or novel trait for alfalfa seed) that offers a superior value pricing opportunity compared to varieties we offer, and DuPont Pioneer wishes to sell the new product, we would have a one-year period to obtain rights to produce and sell the new product to DuPont Pioneer. If we fail to obtain rights to the new product within the one-year period or otherwise do not offer the new product on substantially the same terms as offered by a third party, then DuPont Pioneer would be free to purchase the new product from the third party, and DuPont Pioneer's minimum purchase commitment to us would be reduced by the amount of the new product purchased.

- *GMO-Traited Varieties.*

Our December 2014 acquisition of Dupont Pioneer's conventional dormant alfalfa varieties contemplated a potential subsequent acquisition of Dupont Pioneer's GMO-traited alfalfa varieties and provided for an interim production agreement under which we produced those GMO-traited varieties for Dupont Pioneer. We did not (and do not expect to) complete the acquisition of Dupont Pioneer's GMO-traited alfalfa varieties. Our production agreement with Dupont Pioneer (relating to contract production of those GMO-traited varieties) expired on February 28, 2018. As a result, DuPont Pioneer continues to own (and is free to pursue alternative production arrangements for) the GMO-traited varieties. DuPont Pioneer's minimum purchase commitment to us under our distribution agreement is materially lower than if we had completed the acquisition of the GMO-traited varieties, and we expect that Dupont Pioneer's overall purchases of dormant alfalfa seed products from us will be materially reduced from historical volumes (reflecting the loss of sales of GMO-traited varieties).

We are committed to sell dormant alfalfa seed to DuPont Pioneer at initial fixed prices with fixed subsequent maximum price increases per year. Increases in our costs of production at rates higher than our contractual ability to increase prices would erode our profit margins and could have a material adverse effect on our results of operations.

Under our distribution agreement with DuPont Pioneer, we were committed to sell dormant alfalfa seed at prices that can only increase by up to a fixed percentage per year by variety. Although DuPont Pioneer has agreed to discuss in good faith an increase in the fixed maximum percentage price increase cap for any sales year in which an increase in grower compensation costs due to changes in market conditions cause our total production costs to increase at a percentage exceeding the amount of the cap, we cannot be certain that any such discussions will result in additional pricing flexibility for us. If our grower compensation costs or other productions costs increase at a rate greater than the fixed maximum percentage increase per year, our profit margins would erode, and we could potentially be required to sell product at a loss. Any such change in our cost structure would have a material adverse effect on our results of operations.

If we fail to perform our obligations under our distribution agreement with DuPont Pioneer, DuPont Pioneer could terminate the agreement and reduce or eliminate purchases of alfalfa seed from us, and we could be exposed to claims for damages.

The DuPont Pioneer distribution agreement imposes numerous obligations on us relating to, among other things, product and service quality and compliance with laws and third party obligations. The distribution agreement permits DuPont Pioneer to terminate the agreement if we materially breach the agreement and fail to cure the breach within a 60-day notice period, or in the case of certain bankruptcy or insolvency events. If DuPont Pioneer terminates the distribution agreement, DuPont Pioneer could reduce or eliminate altogether its purchase of alfalfa seed from us, and we could be left with inventory of seed that it would be difficult or impossible for us to dispose of on commercially reasonable terms. In addition, we could be exposed to significant claims for damages to DuPont Pioneer if the termination of an agreement results from our material breach of the agreement.

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

None.

Item 3. Defaults Upon Senior Securities.

None.

Item 4. Mine Safety Disclosures.

Not applicable.

Item 5. Other Information.

None.

Item 6. Exhibits.

| Exhibit No. | Description |
|-------------|---|
| 3.1(1) | <u>Registrant's Articles of Incorporation.</u> |
| 3.2(2) | <u>Registrant's Second Amended and Restated Bylaws.</u> |
| 4.1 | Reference is made to Exhibits 3.1 and 3.2. |
| 4.2(3) | <u>Form of Common Stock Certificate.</u> |
| 4.3(4) | <u>Form of Common Stock Purchase Warrant.</u> |
| 10.1 | <u>Fifth Amendment to Credit and Security Agreement between the Registrant and KeyBank, dated March 14, 2018.</u> |
| 10.2 | <u>Business Letter of Advice for S&W Seed Company Pty Ltd from National Australia Bank Ltd, dated April 13, 2018.</u> |
| 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> |
| 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> |
| 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> |
| 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> |
| 101.INS | XBRL Instance Document |
| 101.SCH | XBRL Taxonomy Extension Schema Document |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase Document |
| 101.LAB | XBRL Taxonomy Extension Label Linkbase Document |
| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase Document |
| 101.DEF | XBRL Taxonomy Extension Definition Linkbase Document |

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- (1) Incorporated by reference to the Registrant's Current Report on Form 8-K, filed on December 19, 2011.
 - (2) Incorporated by reference to the Registrants' Current Report on Form 8-K, filed on December 16, 2015.
 - (3) Incorporated by reference to the Registrant's Registration Statement on Form S-1 (File No. 333-164588), filed on April 23, 2010.
 - (4) Incorporated by reference to the Registrant's Current Report on Form 8-K, filed on December 31, 2014.

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 10th day of May, 2018.

S&W SEED COMPANY

By: /s/ Matthew K. Szot

Matthew K. Szot

Executive Vice President of Finance and Administration and Chief

Financial Officer

(duly authorized on behalf of the registrant and
principal financial and accounting officer)