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)

[X] 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	**27-1275784**
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification Number)

106 K Street, Suite 300
Sacramento, California 95814

(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. x 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

x 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 ¨	Accelerated filer ¨	Non-accelerated filer ¨ (Do not check if a smaller reporting company)	Smaller reporting company x	Emerging growth 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 x

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 March 31,		Nine Months Ended 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 Paid-In	Accumulated	Accumulated Other Comprehensive	Total Stockholders'
	Shares	Amount	Shares	Amount	Capital	Deficit	Loss	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	Nine Months Ended March 31, 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.

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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.

- 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.

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.