

S&W Seed Co  
Form 10-Q  
February 09, 2017

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

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FORM 10-Q

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(Mark One)

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

For the quarterly period ended December 31, 2016

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)

802 N. Douty Street  
Hanford, California 93230

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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

☒ NO

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

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

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

As of February 9, 2017, 17,963,501 shares of the registrant's common stock were outstanding.

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FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q contains forward-looking statements that involve risks and uncertainties, as well as assumptions that, if they never materialize or prove incorrect, could cause our results to differ materially from those expressed or implied by such forward-looking statements. The statements contained in this Form 10-Q that are not purely historical are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the "Securities Act"), and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and are subject to the "safe harbor" created by those sections. All statements other than statements of historical fact are statements that could be deemed forward-looking statements, including but not limited to any projections of revenue, margins, expenses, tax provisions, earnings, cash flows and other financial items; any statements of the plans, strategies and objectives of management for future operations; any statements regarding our ability to raise capital in the future; any statements concerning expected development, performance or market acceptance relating to our products or services or our ability to expand our grower or customer bases 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," "estimate," "expect," "intend," "may," "will," "plan," "project," "seek," "should," "target," "will," "would," and similar expressions or variations intended to identify forward-looking statements. We have based these forward-looking statements on our current expectations about future events. Such forward-looking statements are subject to risks, uncertainties and other important factors that could cause actual results and the timing of certain events to differ materially from future results expressed or implied by such forward-looking statements. Risks, uncertainties and assumptions include the 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 or updated from time to time in our filings with the 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, 2016.

Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, level of activity, performance or achievements. Many factors discussed in this Report, some of which are beyond our control, will be important in determining our future performance. Consequently, actual results may differ materially from those that might be anticipated from the forward-looking statements. In light of these and other uncertainties, you should not regard the inclusion of a forward-looking statement in this Report as a representation by us that our plans and objectives will be achieved, and you should not place undue reliance on such forward-looking statements. 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 speak only as of the date of this Report. 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 2017," "fiscal 2016" and "fiscal 2015" in this Quarterly Report on Form 10-Q refer to the fiscal years ended June 30, 2017, 2016 and 2015, 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)**

	December 31, 2016	June 30, 2016
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 2,108,295	\$ 6,904,500
Accounts receivable, net	25,631,555	27,619,599
Inventories, net	42,550,711	21,846,130
Prepaid expenses and other current assets	1,054,665	1,218,280
<b>TOTAL CURRENT ASSETS</b>	<b>71,345,226</b>	<b>57,588,509</b>
Property, plant and equipment, net	13,223,114	12,600,106
Intangibles, net	36,013,237	37,006,802
Goodwill	10,292,265	10,292,265
Deferred tax assets	8,314,362	7,279,923
Other assets	2,154,332	2,237,380
<b>TOTAL ASSETS</b>	<b>\$ 141,342,536</b>	<b>\$ 127,004,985</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 24,349,997	\$ 14,303,877
Accounts payable - related parties	3,858,676	396,027
Deferred revenue	357,239	509,857
Accrued expenses and other current liabilities	1,189,545	2,385,160
Foreign exchange contract liabilities	179,203	-
Lines of credit	22,218,516	16,687,473
Current portion of contingent consideration obligation	2,290,850	-
Current portion of long-term debt	10,250,100	275,094
Current portion of convertible debt, net	1,193,618	6,840,608
<b>TOTAL CURRENT LIABILITIES</b>	<b>65,887,744</b>	<b>41,398,096</b>
Contingent consideration obligation	141,929	2,268,416
Long-term debt, less current portion	1,018,361	11,114,333
Derivative warrant liabilities	4,522,600	4,354,100
Other non-current liabilities	45,345	108,596
<b>TOTAL LIABILITIES</b>	<b>71,615,979</b>	<b>59,243,541</b>
<b>STOCKHOLDERS' EQUITY</b>		
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; 17,973,483 issued and 17,948,483 outstanding at December 31, 2016; 17,086,111 issued and 17,061,111 outstanding at June 30, 2016;	17,973	17,086
Treasury stock, at cost, 25,000 shares	(134,196)	(134,196)
Additional paid-in capital	82,548,506	78,282,461
Accumulated deficit	(6,672,442)	(4,614,244)
Accumulated other comprehensive loss	(6,033,284)	(5,789,663)
<b>TOTAL STOCKHOLDERS' EQUITY</b>	<b>69,726,557</b>	<b>67,761,444</b>
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b>\$ 141,342,536</b>	<b>\$ 127,004,985</b>

See notes to consolidated financial statements.





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

	<b>Three Months Ended December 31,</b>		<b>Six Months Ended December 31,</b>	
	<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>
Revenue	\$ 24,225,744	\$ 24,141,257	\$ 36,475,317	\$ 36,396,169
Cost of revenue	19,005,270	20,109,824	29,311,580	30,389,855
Gross profit	5,220,474	4,031,433	7,163,737	6,006,314
Operating expenses				
Selling, general and administrative expenses	2,592,059	2,306,144	5,047,263	4,780,121
Research and development expenses	748,571	732,607	1,490,113	1,422,980
Depreciation and amortization	842,454	791,242	1,677,151	1,580,038
Total operating expenses	4,183,084	3,829,993	8,214,527	7,783,139
Income (loss) from operations	1,037,390	201,440	(1,050,790)	(1,776,825)
Other expense				
Foreign currency (gain)	(2,837)	(335,159)	(6,483)	(251,813)
Change in derivative warrant liabilities	(959,200)	(943,000)	168,500	(1,482,000)
Change in contingent consideration obligations	57,282	47,811	164,363	(47,473)
Loss on equity method investment	-	129,341	49,249	223,703
Gain on sale of marketable securities	-	(123,038)	-	(123,038)
Interest expense - amortization of debt discount	381,660	1,055,202	981,118	1,961,454
Interest expense - convertible debt and other	295,042	537,749	647,584	1,233,984
Income (loss) before income taxes	1,265,443	(167,466)	(3,055,121)	(3,291,642)
Provision (benefit) from income taxes	106,485	(1,529,252)	(996,923)	(2,779,195)
Net income (loss)	\$ 1,158,958	\$ 1,361,786	\$ (2,058,198)	\$ (512,447)
Net income (loss) per common share:				
Basic	\$ 0.07	\$ 0.10	\$ (0.12)	\$ (0.04)
Diluted	\$ 0.01	\$ 0.10	\$ (0.12)	\$ (0.04)
Weighted average number of common shares outstanding:				
Basic	17,821,547	14,120,650	17,467,370	13,792,002
Diluted	17,996,221	14,120,650	17,467,370	13,792,002

See notes to consolidated financial statements.

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

	Three Months Ended December 31,		Six Months Ended December 31,	
	2016	2015	2016	2015
Net income (loss)	\$ 1,158,958	\$ 1,361,786	\$ (2,058,198)	\$ (512,447)
Foreign currency translation adjustment, net of income taxes	(448,784)	595,832	(243,621)	(841,117)
Comprehensive income (loss)	\$ 710,174	\$ 1,957,618	\$ (2,301,819)	\$ (1,353,564)

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
<b>Balance, June 30, 2015</b>	13,479,101	\$ 13,479	(25,000)	\$ (134,196)	\$ 62,072,379	\$ (4,979,471)	\$ (5,096,586)	\$ 51,875,605
Stock-based compensation - options, restricted stock, and RSUs	-	-	-	-	628,173	-	-	628,173
Beneficial conversion feature	-	-	-	-	871,862	-	-	871,862
Net issuance to settle RSUs	29,329	29	-	-	(56,810)	-	-	(56,781)
Proceeds from sale of common stock, net of fees and expenses	1,180,722	1,181	-	-	4,871,613	-	-	4,872,794
Exercise of stock options, net of withholding taxes	8,751	9	-	-	34,557	-	-	34,566
Other comprehensive loss	-	-	-	-	-	-	(841,117)	(841,117)
Net loss	-	-	-	-	-	(512,447)	-	(512,447)
Balance, December 31, 2015	14,697,903	\$ 14,698	(25,000)	\$ (134,196)	\$ 68,421,774	\$ (5,491,918)	\$ (5,937,703)	\$ 56,872,655
<b>Balance, June 30, 2016</b>	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	-	-	-	-	578,659	-	-	578,659
Net issuance to settle RSUs	41,270	41	-	-	(75,124)	-	-	(75,083)
Issuance of common stock upon conversion of principal and interest of convertible debentures	684,321	684	-	-	3,160,589	-	-	3,161,273
Exercise of stock options, net of withholding taxes	161,781	162	-	-	601,921	-	-	602,083
Other comprehensive loss	-	-	-	-	-	-	(243,621)	(243,621)
Net loss	-	-	-	-	-	(2,058,198)	-	(2,058,198)
Balance, December 31, 2016	17,973,483	\$ 17,973	(25,000)	\$ (134,196)	\$ 82,548,506	\$ (6,672,442)	\$ (6,033,284)	\$ 69,726,557

See notes to consolidated financial statements.

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

	<b>Six Months Ended December 31,</b>	
	<b>2016</b>	<b>2015</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net loss	\$ (2,058,198)	\$ (512,447)
Adjustments to reconcile net loss to net cash (used in) provided by operating activities		
Stock-based compensation	578,659	628,173
Change in allowance for doubtful accounts	-	(7,350)
Depreciation and amortization	1,677,151	1,580,038
Change in deferred tax asset	(1,034,439)	(3,243,453)
Change in foreign exchange contracts	234,286	(55,845)
Change in derivative warrant liabilities	168,500	(1,482,000)
Change in contingent consideration obligations	164,363	(47,473)
Amortization of debt discount	981,118	1,961,454
Gain on sale of marketable securities	-	(123,038)
Loss on equity method investment	49,249	223,703
Changes in operating assets and liabilities, net:		
Accounts receivable	1,820,501	13,712,154
Inventories	(20,836,483)	(12,016,814)
Prepaid expenses and other current assets	72,841	(389,135)
Other non-current assets	-	(140,569)
Accounts payable	10,098,122	1,764,241
Accounts payable - related parties	3,462,649	4,174,847
Deferred revenue	(151,463)	218,023
Accrued expenses and other current liabilities	(1,150,794)	(945,516)
Other non-current liabilities	(61,677)	(42,731)
Net cash (used in) provided by operating activities	(5,985,615)	5,256,262
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Additions to property, plant and equipment	(1,264,395)	(711,981)
Purchase of marketable securities	-	(316,000)
Sale of marketable securities	-	439,038
Equity method investment	-	(439,038)
Additions to internal use software	(118,389)	(191,844)
Net cash used in investing activities	(1,382,784)	(1,219,825)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Net proceeds from sale of common stock	-	4,872,794
Net proceeds from exercise of common stock options	602,083	34,566
Taxes paid related to net share settlements of stock-based compensation awards	(75,083)	(56,781)
Borrowings and repayments on lines of credit, net	5,646,664	(1,820,939)
Borrowings of long-term debt	88,150	440,179
Repayments of long-term debt	(169,598)	(104,463)
Repayments of convertible debt	(3,427,837)	(5,471,724)
Net cash provided by (used in) financing activities	2,664,379	(2,106,368)
<b>EFFECT OF EXCHANGE RATE CHANGES ON CASH</b>	<b>(92,185)</b>	<b>(244,289)</b>
<b>NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(4,796,205)</b>	<b>1,685,780</b>
<b>CASH AND CASH EQUIVALENTS, beginning of the period</b>	<b>6,904,500</b>	<b>3,535,458</b>
<b>CASH AND CASH EQUIVALENTS, end of period</b>	<b>\$ 2,108,295</b>	<b>\$ 5,221,238</b>
<b>SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION</b>		
Cash paid during the period for:		
Interest	\$ 823,844	\$ 1,331,288
Income taxes	148,019	212,926

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 Seed Australia Pty Ltd, an Australia corporation ("S&W Australia"), 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.

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 and Nampa, Idaho. 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").

More recently, 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 Australia, which owns 100% of SGI, 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, 2017. 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, 2016, 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 66% and 58% of its revenue for the three months ended December 31, 2016 and 2015, respectively. One customer accounted for 49% and 40% of its revenue for the six months ended December 31, 2016 and 2015, respectively.

Two customers accounted for 45% of the Company's accounts receivable at December 31, 2016. One customer accounted for 35% of the Company's accounts receivable at June 30, 2016.

In addition, the Company sells a substantial portion of its products to international customers. Sales direct to international customers represented 30% and 35% of revenue during the three months ended December 31, 2016 and 2015, respectively. Sales direct to international customers represented 46% and 52% of revenue during the six months ended December 31, 2016 and 2015, respectively. The net book value of fixed assets located outside the United States was 18% and 17% of total assets at December 31, 2016 and June 30, 2016, respectively. Cash balances located outside of the United States may not be insured and totaled \$997,692 and \$1,923,290 at December 31, 2016 and June 30, 2016, respectively.

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

	Three Months Ended December 31,				Six Months Ended December 31,			
	2016		2015		2016		2015	
United States	\$ 16,858,325	70%	\$ 15,698,541	65%	\$ 19,782,389	54%	\$ 17,495,514	48%
Saudi Arabia	1,843,949	8%	4,246,575	18%	5,221,772	14%	9,631,357	26%
Argentina	1,677,035	7%	907,070	4%	2,565,004	7%	1,568,061	4%
Mexico	1,404,133	6%	1,548,990	6%	3,745,027	10%	3,086,500	8%
South Africa	634,768	3%	283,554	1%	636,870	2%	283,554	1%
Peru	314,650	1%	403,506	2%	523,775	1%	1,166,007	3%
Australia	71,175	0%	90,485	0%	790,636	2%	866,563	2%
Other	1,421,709	5%	962,536	4%	3,209,844	10%	2,298,613	8%
Total	\$ 24,225,744	100%	\$ 24,141,257	100%	\$ 36,475,317	100%	\$ 36,396,169	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. No customer has a right of return.

The Company recognizes revenue from milling and other services provided according to the terms of the underlying agreement 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 \$177,295 at December 31, 2016 and June 30, 2016.

#### Inventories

Inventories consist of alfalfa seed and packaging materials.

Inventories are stated at the lower of cost or market, 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.



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The Company's subsidiary, SGI, does not fix the final price for seed payable to its growers until the completion of a given year's sales cycle pursuant to its standard contract production agreement. SGI records an estimated unit price; accordingly, inventory, cost of 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. A reserve is recorded against inventory that is determined to be obsolete or impaired 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:

	<b>December 31, 2016</b>	<b>June 30, 2016</b>
Raw materials and supplies	&	