Zacks Small-Cap Research

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Ian Gilson PhD; MBA; CFA
312-265-9496
igilson@zacks.com

zrs.zacks.com 111 North Canal Street, Chicago, IL 60606

# S&W Seed Co. (SANW-NASDAQ)

**S&W Seed: On May 31, 2013 SANW will be added to the MXCI Global Micro Cap Index.**

| | |
|---|---|
| **Current Recommendation** | **Outperform** |
| Prior Recommendation | Neutral |
| Date of Last Change | 07/11/2011 |
| Current Price (05/30/13) | $8.37 |
| **Target Price** | **$12.00** |

## OUTLOOK

S&W Seed is a developer of drought and salt resistant alfalfa seed varieties. The company has unused processing capacity that, when utilized, provides significant operating earnings leverage. The recent addition of Round-Up Ready alfalfa seeds could have a significant impact on selling prices. The company now owns the international distributor of its seeds.

S&W Seed has expanded the program to produce Stevia leaf to be used to make a natural, non-caloric sweetener. This is a rapidly growing market with a large potential for commercial development of varieties that will grow in California. The company has a five year sales contract with PureCircle, the world's largest producer of Stevia sweeteners, for production quantities of dried Stevia leaf.

Our recommendation remains as Outperform and our target price is $12.00.

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## SUMMARY DATA

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|---|---|
| **52-Week High** | **$11.10** |
| **52-Week Low** | **$4.67** |
| **One-Year Return (%)** | **54.14** |
| **Beta** | **0.4** |
| **Average Daily Volume (sh)** | **65,893** |
| **Shares Outstanding (mil)** | **16.6** |
| **Market Capitalization ($mil)** | **$110.4** |
| **Short Interest Ratio (days)** | **3.1** |
| **Institutional Ownership (%)** | **30** |
| **Insider Ownership (%)** | **32.3** |
| **Annual Cash Dividend** | **$0.0** |
| **Dividend Yield (%)** | **N/M** |
| **5-Yr. Historical Growth Rates** | |
| **Sales (%)** | **79.5** |
| **Earnings Per Share (%)** | **N/A** |
| **Dividend (%)** | **N/M** |
| **P/E using TTM EPS** | **N/M** |
| **P/E using 2014 Estimate** | **N/M** |
| **P/E using 2015 Estimate** | **40.4** |

| | |
|---|---|
| **Risk Level** | **Average,** |
| **Type of Stock** | **Small-Blend** |
| **Industry** | **Agri. Ops.** |

## ZACKS ESTIMATES

**Revenue**
(in millions of $)

| | Q1 (Sep) | Q2 (Dec) | Q3 (Mar) | Q4 (Jun) | Year (Jun) |
|---|---|---|---|---|---|
| **2011** | **$0.9A** | **$0.9A** | **$0.4A** | **$1.4A** | **$3.6A** |
| **2012** | **$6.1A** | **$4.7A** | **$2.5A** | **$0.8A** | **$14.1A** |
| **2013** | **$6.7A** | **$13.7A** | **$4.2A** | **$14.0E** | **$38.6E** |
| **2014** | **$26.0E** | **$16.0E** | **$6.0E** | **$16.0E** | **$64.0E** |

**Earnings per Share**
(EPS data for 2009 and 2010 do not add due to accounting changes)

| | Q1 (Sep) | Q2 (Dec) | Q3 (Mar) | Q4 (Jun) | Year (Jun) |
|---|---|---|---|---|---|
| **2011** | **-$0.04A** | **-$0.01A** | **-$0.05A** | **-$0.03A** | **-$0.14A** |
| **2012** | **$0.09A** | **$0.08A** | **$0.00A** | **-$0.10A** | **$0.06A** |
| **2013** | **$0.01A** | **$0.05A** | **-$0.21A** | **$0.00E** | **-$0.15E** |
| **2014** | **$0.16E** | **$0.05E** | **-$0.09E** | **$0.08E** | **$0.19E** |

Zacks estimated 5 year CAGR EPS % **35**

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## RECENT NEWS

S&W Seed announced on May 31, 2013 that it will be added to the MSCI Global Micro Cap Index effective at the close of the US markets on May 31, 2013.

When companies are added to market indices it often causes an increase in the price of the stock as the index funds fill their positions.

S&W Seed announced its third quarter fiscal 2013 results on May 13, 2013. The results were disappointing. S&W Seed's revenue was $0.4 million as compared to $2.5 million in 2012, $0.44 million in 2011 and $0.84 million in 2011. Last year included a large order from Saudi Arabia in 3Q12. We had expected a higher level of activity from S&W, since the company did have seed inventory at the beginning of the quarter, plus a contribution from IVS. Gross profit margin was 8.8% (before a charge on the stevia operations) as compared to 14% in 2Q13, 14% in 1Q13, 31.2% in 3Q12 and 43% in 3Q11.

The reason given for the low margins was that the wind and floods in August 2012 destroyed a significant amount of alfalfa that was contracted to IVS. To fill customer orders IVS had to buy seed at the market price and then resell it at market prices. IVS margins were 10% to 14% historically.

Looking forward the company anticipates S&W Seed margins at 20% plus (well below the 30% plus of only two years ago), SGI in low 20% and IVS in the low teens. The mix of seed is expected to be 50% SGI, 25% S&W and 25% IVS. This assumes that IVS moves its acreage to non-dormant S&W varieties over time and Round-Up Ready seeds are not included.

The good news is that SGI has 9 million pounds of seed available from this year's harvest. About 33% has been sold and will be delivered in 4Q13, generating about $12 million, assuming current exchange rates. It takes time to clean, pack and ship the seeds so the rest should be sold in 1Q14.

The stevia fields were sprayed with herbicides to kill the weeds. Unfortunately it also killed about 80% of the dormant stevia plants. This resulted in a $1.8 million charge to 3Q13 operations, after a $0.3 million stevia inventory charge in 2Q13.These were first generation plants so the company decided to select other varieties and different fields for future stevia production. The field treated with herbicide will be out of commission for about two months before they can be used for planting any crop due to presence of pre-emergence herbicide in the soil.

On May 2, 2013 the company announced the expiration of Class A warrants, with 98% of the warrants being exercised at $7.15 with the stock at $9.32. The 27,359 that were not exercised will get $0.25. The proceeds were $9.8 million and the new shares outstanding are 11,584,603. We had assumed a share count of 11.6 million in our estimates so there is a small reduction in EPS going forward. There was no change in the net income estimates.

S&W Seed has announced that Dennis Jury, managing director of SGI, will become Executive VP of Operations of S&W Seed in addition to his responsibilities with SGI. Mr. Jury has extensive experience in sales and marketing in the seed industry and will oversee the integration of SGI into S&W. This includes sales channels in 22 countries within six continents.

Mark Harvey, a director of SGI, will join the Board of Directors of S&W Seed as Vice Chairman of the Board. Mr. Harvey has over 35 years of experience in the production, processing and marketing of branded alfalfa seeds and other seeds. He was a founder of Paramount Seeds (sold to Elders Ltd.) and of SGI, where he focused on marketing and distribution.

S&W Seed Company has closed the acquisition of Seed Genetics. SGI serves similar, but not overlapping, international markets to S&W Seed and, most of its sales are outside of Australia. SGI controls about 60% of the Australian production (not intra Australian sales) of non-dormant alfalfa. Both S&W Seed and SGI have strong breeding programs that have developed leading varieties that can be sold across the new customer base.

On March 17, 2013 S&W Seed announced that it has agreed to purchase Seed Genetics International (SGI) of Unley, Adelaide, South Australia. The deal is scheduled to close in early April 2013, in time for S&W Seed to capture most of SGI's 2013 seed production. The combined companies will be the largest non-dormant alfalfa seed producer in the world.

The terms are for 865,000 shares of stock, $5 million in cash and a $3 million promissory note. SGI had revenue of AUD$18 million in the 2012 fiscal year ending June 30, 2012 with pretax income of $1.6 million (8.8% pretax margin). Due to bad weather the company sold 5.5 million pounds of alfalfa seed in fiscal 2012, well below its average of 8 million pounds over the past few years.

SGI has access to over 32,100 acres of land of which nearly 70% is under irrigation and the rest has a reasonable rainfall in most years. 75% of the acres are used to grow alfalfa and the rest is mainly under clover (which is also used as bovine and equine food although care has to be taken with clover since certain varieties under certain conditions can be toxic to cows and horses). In fiscal 2013 the overall average price for all seeds combined was AUD$3.27/#, well below the nearly $4.50/# realized by S&W Seed. However, SGI's cost of production is materially lower than S&W's California cost of production.

SGI has a market share of about 60% of Australian seed production and also has access to seed produced in the US, South Africa and Europe. The company has significant sales in South America, where S&W Seed has a minimal presence. The acquisition is expected to be immediately accretive to S&W's earnings.

If SGI sold 5.5 million pounds at $3.43 US and most of the costs are incurred before harvesting we can estimate the revenue and pre-tax profit for an 8 million pound harvest:

5.5 million pounds generates $19 million in revenue and $1.7 pretax, in US dollars. Assuming most of the seeding, irrigation, fertilizer and other costs are based on acres farmed, and not on crop yield, we have estimated that the added seed of 2.5 million pounds could have an incremental margin of 25%. In other words another $8.5 million in revenue had an incremental profit of $2.1 million, for total revenue of $27.5 million and pretax profits of about $3.8 million, or 13.8% pretax. This compares to a pretax margin for S&W of 14.3% in the 1Q12 and 12.8% in the 2Q12.

The company has announced that it will call for redemption of the Class A warrants sold as part of the units in the IPO in May 2010. There are currently 1.217 million warrants outstanding and if they are all converted the net proceeds should be $8.7 million. The warrants holders have until April 15, 2013 to exercise their warrants. There are also 1.4 million Class B warrants that could be called when the stock exceeds $12 that could raise $15 million net. These should be enough for significant acquisitions without further dilution of the common stock holders. We have adjusted our estimates to reflect the additional shares from the Class A warrants but not from the Class B. Our estimates of net income remain unchanged.

S&W Seed has announced it will start planting dormant seeds in preparation to building a plant base that will produce seeds for sale in fiscal 2015. The plants will be grown in farmland close to its seed processing facility in Five Points CA. The first variety grown will be SW4328, with a dormancy rating of 4, which is at the lowest rating of seeds produced by S&W Seed. This seed was certified by the California Crop Improvement Association in Feb. 2012.

The annual alfalfa market world-wide is about 100 million pounds of seed of which about half is of dormant varieties. North America is the largest market. Profitability should be close to that of other proprietary seeds.

With its recent acquisitions of land and the expansion of leased land under cultivation S&W Seed is one of the largest producers of non-dormant alfalfa seeds in the world. Trade sources suggest that the company could soon be the number one commercial producer, bigger than Dow, of proprietary alfalfa seeds.

S&W Seed has extended its lease on 800 acres in Kern County in the San Joaquin valley, originally signed in July, 2011 into 2024. Part of this land has been used for alfalfa cultivation and we assume that this will be expanded to include all of the 800 acres.

On February 21, 2013 the company announced that it has acquired 114 acres in Calipatria in the Imperial Valley California, where is already has significant acreage. The cost was $830,000 or $7,281 an acre. This purchase moves S&W Seed slightly closer to the target production of 10 million pounds of seed annually. This would require access to about 15,000 acres under high yield alfalfa cultivation, either owned, leased or under contract. The company currently has

seeds from about 11,000 acres. To acquire 4,000 acres at $7,500 an acre would cost about $30 million, somewhat more than the current assets on the balance sheet. An acre of productive land under cultivation with S&W Seed's high yield seed could generate about $3,500 worth of seed. With a gross profit margin of 35%, that is $1,225, it would take 6 years to pay-back the purchase price.

S&W Seed reported its second quarter results on February 13, 2013. The core S&W Seed business was a record $6.3 million and the Imperial Valley operations added another $7.3 million for a total of $13.69 million. Gross margins were a disappointing 15 % on the core business and 8.5% on the IVS business. The overall gross margin was 11.6% well below the 31.4% of last year despite an increase in average selling prices Y/Y of over 15%. The company sold 2.9 million pounds of seed at an average price of $4.68 a pound, up from $3.58 a year ago and $3.89 in the first quarter.

| | 1Q11 | 2Q11 | 3Q11 | 4Q11 | 2Q12 | 3Q12 | 4Q12 | 1Q13 | 2Q13 |
|---|---|---|---|---|---|---|---|---|---|
| **Alfalfa seed revenue** | $0.68 | $0.52 | $0.20 | $1.26 | $4.07 | $2.53 | $0.77 | $11.23 | $13.69 |
| **Other revenue** | $0.25 | $0.39 | $0.24 | $0.10 | $0.65 | $0.02 | -$0.01 | | |
| | | | | | | | | | |
| **Gross margins** | 39.8% | 50.9% | 43.2% | 24.8% | 32.2% | 31.4% | 14.6% | 14.1% | 11.6% |
| | | | | | | | | | |
| **Pretax income** | ($0.36) | ($0.21) | ($0.56) | ($0.37) | $0.61 | $0.06 | ($0.96) | $0.49 | $0.25 |
| **Net income** | ($0.25) | ($0.08) | ($0.29) | ($0.18) | $0.44 | $0.02 | ($0.61) | $0.30 | $0.15 |
| | | | | | | | | | |
| **EPS** | ($0.04) | ($0.01) | ($0.05) | ($0.03) | $0.08 | $0.00 | ($0.10) | $0.04 | $0.02 |

Adjusting for non-reoccurring expenses relating to Stevia costs and he cost of the recent stock offering the company reported earnings of $0.05 a share. On a GAAP basis the EPS was $.02.

The major problem with gross margins is the cost of preparing the acquired land for alfalfa seed cultivation. As the new land is cleaned the margins should return to higher levels. Also the cost of fertilizer is a significant factor. The decline in natural gas prices should reduce the price of ammonia (The H in $NH_3$ comes from $CH_4$ ).

Other drivers are converting the IV land from commodity alfalfa to proprietary non dormant varieties and the introduction (in 2015/6) of RoundUp-Ready varieties. S&W Seed is making a significant effort in educate farmers in the advantages of its high yield varieties. A $30 increase in seed costs per acre can generate a $200 (or more) increase in alfalfa revenue per acre per year. Since the crop is harvested for three years before replanting this is a major selling point. This could easily double its current revenue over a five year period.

So far the alfalfa crop harvested in Australia has not been very good. However, the irrigated land may have better yields.

The company had $3 million in cash on December 31 and nearly $15 million in accounts receivable since December was a strong month. The stock offering raised $10.5 million. Accounts

payable were $3.7 million. We expect more land transactions in the Imperial Valley to occur this year.

S&W Seed has announced a public offering of 1.4 million shares of common stock priced at $7.50 a share (which should generate about $ 10.5 million excluding underwriting discounts and expenses). We estimate the company will realize about $9.5 million from the transaction and basic shares outstanding will increase to 9.2 million. We have adjusted our estimates for the additional shares without changing our estimates of net income.

On January 7, 2013 the company announced the acquisition of a half interest in 182 acres in the Imperial Valley, adjacent to the 1,880 acres that S&W Seed owns and leases in Calipatria, California. The partner in both the 182 acres and the 1,880 acres is Coast Imperial Partners. The cost was close to $9,000 an acre. The land is currently under cultivation and will be used to grow alfalfa, mainly for the Middle Eastern and African markets. In past years these markets have accounted for over 80% of the company's annual revenue. Since the alfalfa can be harvested a few months before the Central Valley (from Stockton in the North to Bakersfield in the South and between I5 and Route 99) the seed will be available for shipment in time for planting in the Middle East.

S&W Seed does not have a significant penetration into the domestic market, which is highly competitive. The company's non-dormant varieties compete with both commodity and dormant seeds. The Imperial Valley (from the Dalton sea down to the Mexican border, Calipatria is less that 7 miles from the Salton Sea) prohibits growing genetically modified plants but is ideal for growing alfalfa. The Central Valley allows the cultivation of GMO varieties. However, it is very important not to get the GMO seeds mixed in with un-modified seeds since many countries prohibit the sales of GMO seeds. By keeping the growing and processing 450 miles apart there should be no problem. This allows the company to grow GMO alfalfa in the Central Valley for sale in the USA and Canada (GMO alfalfa is not sold for human consumption) a market at least as large as the Middle East.

S&W Seed filed an SEC form 8-K/A outlining the financials of the IVS acquisition. IVS has more revenue on an annual basis than does SANW but has lower gross margins. This is not surprising since ISV is a sales company and does not get the growers profit. Although IVS appears to be more profitable on an after tax basis the numbers are misleading. Since IVS was a S corporation on a tax basis it paid no state or federal taxes so the pro-forma data has to be adjusted for a 35% tax rate.

This last summer was not a good one for growing crops in the Imperial Valley. Heavy rains and thunderstorms had a significant impact on crop yields, with alfalfa yields down nearly 40% in some areas. The shortage of commodity seeds (known as CUF) allowed growers to increase prices, which squeezed the margins of the distributors. This means that the full benefits of the merger will not occur until the 1Q14 (ending Sept. 2013).

S&W Seed is trying a new technique in harvesting the stevia. Previously the leaf was picked off the plant and then dried. This time the stems are cut, cleaned and dried. The dry leaf then becomes brittle and can be easily removed from the stems. This reduces the cost of harvesting the leaf.

The current harvested stevia leaf should be cleaned, dried and shipped to PureCircle by the end of 3Q13

As shown above gross margins are impacted by the above average profitability of milling and other revenue but Y/Y comparisons are valid. In the 1Q13 margins were impacted by the high costs of fertilizer (as was the 4Q12) but margins were depressed by the cost of preparing the new land acquired in fiscal 2012. This land had not been used to grow the non-dormant proprietary version of alfalfa so the soil had to be prepared and all plants and weeds had to be removed and the soil treated to prevent other seeds from germinating. Then the alfalfa seeds were planted. Alfalfa is on a three year cycle, first seeds are planted followed by harvesting these seeds for three years. We estimate that the extra costs incurred were about $1.5 million.

S&W Seed has announced that the Roundup Ready gene has been successfully inserted into one of S&W Seed's highest yielding non-dormant alfalfa seed varieties. The next stage is to plant the seed, which S&W and FGI (Forage Genetics) is now doing, to check performance and trait efficacy by treating the plants with Round-Up. If this is successful S&W will start planting for seed for sale. The probable market is the Southwestern US where S&W currently has a presence (see below). GMO based alfalfa sells at a significant premium to other proprietary alfalfa seeds, often as much as a 50% premium. The cost of growing GMO alfalfa is not significantly different than the cost of growing S&W Seed's propriety alfalfa. There is a royalty payment to Monsanto but gross profit margins are still much higher.

S&W Seed has signed agreements with Monsanto and Forage Genetics (part of Land O'Lakes) to produce and sell Genetically Modified Organism alfalfa seeds. GMO based crops have a strong presence in US markets but are banned in many international markets so the modified seeds will be sold in the US. There are very few providers of Roundup Ready alfalfa and the world-wide market is growing rapidly. The seeds will be modified in fiscal 2013 and a test crop grown. Assuming the seeds incorporate the new gene the acreage will be expanded to include seed for sale and internal use in the fiscal 2014 growing season. At this point we do not know the number of acres that will be used or the yield per acre for the new seeds. Assuming the GMO seeds will be proprietary non-dormant species the market would be in the south western US where S&W Seed has existing customers. Growing GMO alfalfa on1,000 acres in the Central Valley has the potential of generating over $5 million of revenue and $2 million in net income.

GMO based crops are not allowed in the Imperial Valley where the company has close to 70% of its acreage owned or under contract (including the recent acquisitions), so the new seeds will be grown in the San Joaquin Valley.

S&W Seed has announced the acquisition of IV Seeds, the international marketing arm of Imperial Valley Milling. This affective October 1, 2012 which is the first day of the 2Q 2013 fiscal

year. The deal includes a long-term agreement that IV Milling will provide seeds to IV Seeds as it has in the past. IV Seeds generated $16 million in calendar 2011, at seed prices substantially below current market prices. IV Seeds also sell other products, some of which S&W Seed used to grow: see: http://www.imperialvalleyseeds.com/products. IV Seeds products include low priced generic alfalfa seeds as well as seeds for other crops. Over time we expect more acreage to be planted in higher priced and more profitable proprietary seeds.

In 2011 IV Seeds generated $16 million in revenue. During 2011 calendar year alfalfa prices were in the range of $3.50 a pound and part of its sales were from generic alfalfa and other crops selling at lower prices. Assuming an average price of all products of $3.40 a pound leads to an estimated 4.71 million pounds of seed. An average yield of between 700 to 750 pounds per acre suggests that IV Seeds has product from close to 6,000 acres of land. If S&W Seed can duplicate its productivity in the Central Valley then the potential annual revenue from the acquisition exceeds $20 million at current seed prices. We expect the acquisition to be accretive to earnings in the second quarter of fiscal 2013. We have increased our estimates to reflect the additional acres.

The deal adds substantial acreage for the production of alfalfa seeds. After the impact of the acquisition and the loss of acres as the contract with Triangle T is ending we assume the net acres under alfalfa will be 9,000 starting October 1, 2012. We do not know how much seed inventory is included in the deal so we are assume there is none. As S&W Seed moves more of the land into proprietary alfalfa varieties the acres under alfalfa will increase.

IV Seeds has a strong presence in international markets where S&W Seed has little or no revenue. There is some overlap in Saudi Arabia but demand in that market currently exceeds supply. Mr. Fred Fabre, President and Co-Founder of IV Seeds will join S&W Seed as Vice President of Sales and Marketing

The deal is for $3 million in cash (S&W Seed had over $8 million at the end of June, 2012), a $0.5 million five-year note and 0.4 million shares of common stock.

Fourth quarter revenue was $0.8 million. Due to a loss from growing wheat and triticale on some land being prepared for alfalfa seeding, earnings for the quarter was a negative $0.10 a share. Part of this loss was due to poor yields on the wheat and some was due to higher expenses than prior levels. Expenses for fertilizer have increased significantly from year ago levels and this will carry through fiscal 2013.

S&W Seed has purchased the rights to a portfolio of dormant alfalfa seeds that are suited to colder climates. The company's current product mix is more suited to hot climates and this extends its available market into colder climes. About 80% of the alfalfa seed sold in the US are the dormant varieties. This is additional potential business and does not replace the production of non-dormant seeds. The plants that produce these seeds are grown in colder climates and S&W Seed will have to make arrangements with growers, or lease or buy land to produce the seeds. The selling prices are less than those of the non-dormant varieties and gross margins would also

be below the current level. Gross margins for the full fiscal year 2011 were 37% and the dormant seed margins would probably be closer to 30%. Some of the varieties acquired have been sold in the North American market in prior years so growers have experience with them. Other varieties will be developed by S&W Seed to be more productive. Plantings will start this fall and seed should be available for sale in the fall of 2013.

Comments in the Wall Street Journal (August 20, 2012) about the plight of cattle and dairy farmers due to the drought mentions the problems of growing alfalfa (poor harvest) causing high hay prices in the Western United States. S&W Seed is not having any problems. In fact, due in part to the good health and lack of pests this year the leafcutter bees did a good job, this year's pollination was better than average. Seed yields will be higher than they have been over the past few years. *Megachile rotundata, the alfalfa leafcutter bee* is used to pollinate alfalfa grown for seed, which it does far more efficiently than honeybees. Since the problems that other growers, especially in Australia, have been having will result in lower yields, the lack of seed will mean customers will be on allocation and prices will remain high, or even increase.

On August 8, 2012 the company announced that it has started to harvest stevia for commercial sale (to PureCircle). These are the plants grown in the 114 acres in Chowchilla, CA that were harvested for the first time a year ago and showed high yields of glycosides. We expect revenue for the current harvest to be reported in the second fiscal quarter since the harvest has to be shipped to Five Points for drying and shipping before being sold. About 75% of the acres will be harvested (85 acres) and another crop from all the acres will be harvested later in 2012.

The additional 150 acres leased for stevia cultivation has been planted recently with high yield plants with superior characteristics may be harvested in the fall of 2013.

PureCircle has announced that it has received patent protection for new high yield plants grown in Paraguay and Kenya. The notice of allowance was for Stevia rebaudiana Bertoni with high concentrations of glycosides. Although S&W Seed did obtain some plants from PureCircle we think the germ plasma did not include the Bertoni variety.

S&W Seed was added to the Russell Microcap Index on June 22, 2012. This resulted in buying by microcap index funds and a short term price increase. Given a reduction the relatively small public float this could increase the stock price volatility.

On May 18, 2012 S&W Seed announced the pricing of a one million share public offering made under the shelf registration of Feb. 10, 2012. The stock was priced at $5.50 a share and the closing was May 23, 2012. We have adjusted our estimates by increasing the share count to 6.2 million shares for the fourth quarter, 5.93 million for the full year 2012 and 6.8 million for the first quarter and full fiscal year 2014. We have also added estimates of the year-end balance sheet.

The proceeds will probably be used to buy land, consistent with the company's recent actions.

On May 9, 2012 S&W Seed announced its third fiscal quarter results. We had assumed a more normal seasonal pattern in sales, that is very low levels in the third and fourth quarters. However, the very high level of demand for seed had to be met from selling seed in inventory plus the purchase of some seed (245,000 lbs was purchased in the quarter) from external sources.

The average price for the seed sold was $3.85 a pound, up slightly from the second quarter.

We estimate that some alfalfa seed will be sold in the fourth quarter, but not much. Then the first fiscal quarter starts the normal high season.

The company announced the purchase of 640 acres and the lease of an additional 1,240 acres adjacent to the 640. The acres are in Calipatria CA, in the Imperial Valley just south of the Salton Sea. This area is warmer than Five Points and the San Joaquin Valley and the crops mature about two months earlier. The first seeds should be planted in the fall of this year and harvested in July 2013. This increases the potential acreage for alfalfa to 6,554 for the 2014 growing season.

In our opinion there are other possible purchases of land. Plus, the seed milling capacity is grossly under-utilized and we would anticipate some moves to fill that capacity in fiscal 2013.

In April 23, 2012 S&W Seed Company announced it had leased 156 acres near Los Banos, CA and will dedicate all of these acres to stevia production. This is not far from the 114 acres in Chowchilla, CA where the first crop was planted.

Stevia seeds have a very low germination rate in India, China and many other parts of the world. S&W Seed has been able to increase this substantially and now has enough of the higher stevia yielding plants from the Chowchilla crop to fully utilize the additional acres.

The land has been leased for four years and has been tilled and irrigated and is ready for planting. These plants may be stronger and be more vigorous than the first crop. They may also produce even higher levels of stevia compounds.

Stevia demand in the US is amongst the highest in the world. It is now possible to buy fruit flavored drinks that are sweetened with stevia. A stable and dependable source of stevia leaf in the US is important to the producers of the steviol glycosides. The extraction of the glycosides is not much more difficult than making a cup of tea and is not capital intensive.

**Enhanced stevia plants:**

**S&W Seed** has been working with Dr. Clinton Shock for a number of years. Dr Shock, whilst in the Peace Corp. in Paraguay, developed an interest in stevia and collected many samples of stevia plants and seeds from remote villages. Many of these are atypical examples of wild stevia, and they have been made available to S&W Seed. Some of these samples have been crossed with each other and seeds grown and tested for glycoside types and concentrations. In the photo below Dr. Shock is standing behind some of the plants that are substantially bigger than the plants sourced from China (as seen in the background) The monster plants are at least waist high whereas the others are knee high.

These plants have substantially more leaf mass the leaves contain higher concentrations of Reb. B and Reb. C but, at this time, lower concentrations of Reb. A. Further crossing and selective breeding could lead to plants with higher Reb. A concentrations whilst maintaining the high plant mass.

**Stevia:**

The revenue from the stevia sold in the first quarter of fiscal 2012 will be recorded in the second quarter. On Nov. 10, 2011 S&W announced that the stevia leave provided to PureCircle passed all of the required specifications for Reb. A content, moisture content and low levels of contaminants such as seeds, stems and branches.

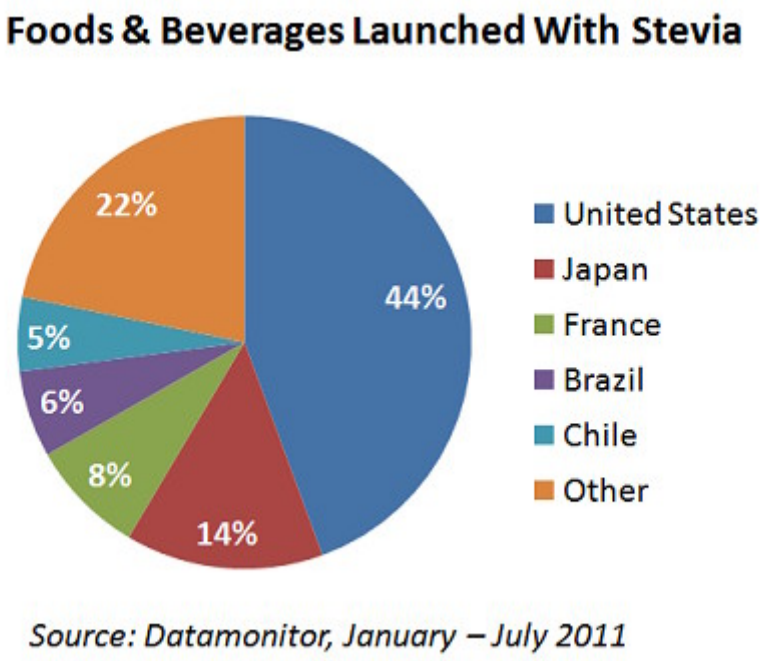
Although the stevia plant can be stripped of leaves up to three times a year the optimum Reb A concentrations would probably occur with an annual harvesting. Selective breeding for the maximum Reb A content will continue.

The Official Journal of the European Union has published regulations permitting the use of stevia sweeteners in European Union. This will allow the sale of products made with stevia as soon as December 2nd, 2011. PureCircle stated that this permission could increase the overall potential market by 50%.

PureCircle has announced the launch of a new flavor modifier, NSF-02, that works with stevia based sweeteners, Reb A and SG-95 as well as HFCS.

SG-95 is a stevia rebaudiana based glycoside that is sold as a sweetener. It is a Diterpene glycoside whose structure was recently identified by scientists at the Coca-Cola labs in Atlanta GA.

In the first six months of 2011 there 15% more foods and beverages announced than the same period in 2010. Over 40% of these were announced in the United States.




**From the 10K:**

S&W Seed recently filed its 10K. Part of the filing discussed the reduction in revenue in 2011 versus 2010 from Saudi Arabia of $2.4 million. In the fourth quarter of fiscal 2011 the company had significant sales to a Saudi customer, confirming that the market has turned up. Our revenue estimates assume that the current market strength continues, the price increases hold, there is a little revenue from stevia and the Saudi market contributes $2.5 million to this year's revenue.

**PureCircle comments:**

S&W Seed reiterated the comments made by PureCircle last August and announced that the two companies will continue to work together and expand the production of stevia by leveraging S&W Seed's relationships with its growers of alfalfa in the Central Valley of California. PureCircle will continue to work with S&W Seed in cultivating multiple breeds of stevia with higher concentration of glycosides. The first crop will be shipped to China in a few days.

**Stevia Update:**

The company has announced that the first crop of stevia leaf has been harvested and is drying prior to shipment to PureCircle. In that report S&W Seed quoted industry sources as projecting a stevia penetration of the sweetener market at 20 to 25% and that stevia has exceeded $500 million in annual revenue and could exceed billions of dollars a year.

A report on the internet (http://health.yahoo.net/rodale/RH/the-4-best-and-3-worst-sweeteners-to-have-in-your-kitchen) stated that Coke and Pepsi got the green light to use Pure Circle's Truvia (the leading stevia sweetener).

The company has exclusive rights to use improved stevia plant varieties collected by Dr.Shock of Oregon State University. Testing for Reb A sweetener concentration is currently underway in S&W Seed test plots. As the company plants and harvests plants with better Reb A values we would expect higher prices per pound.

Truvia (stevia/Reb A from Pure Circle) is now the second highest selling sugar substitute in the United States, passing Sweet N' Low in about two years after its commercial introduction, with the overall Stevia market exceeding $500 million a year.

S&W Seed's value to Pure Circle is being able to produce more productive plants using cross breeding of plants currently in test plots. As the US market grows sweetener companies will have to treat the leaf closer to the market than Asia, and S&W Seed will be a pivotal player in this market.

**The Alfalfa Market:**

The shortage of alfalfa hay (due to low levels of planted acreage in late 2010 and early 2011) has caused significant increases in prices. (Source: The Hoyt Report, Inc.). This will pull acres back into alfalfa plantings, increasing the demand for seeds from S&W Seed.

**Upgraded recommendation in July :**

The acquisition of the company's distributer, responsible for nearly half of the company's annual revenue improves S&W Seed's outlook, adds to operating profit, and builds brand awareness overseas. Consequently on July 11, 2011 we upgraded our recommendation from Neutral to Outperform.

**S&W Seed buys international distributor:**

The company announced on July 8, 2011 that it has purchased its international distributor, Genetics International (GI, owned by Richard Penner), with which it had a relationship for over 20 years. GI had generated nearly 50% of S&W Seed's total revenue in prior years but, due to profitless pricing of alfalfa seed in Saudi Arabia there has been no revenue in fiscal 2010

The acquisition of GI will increase margins on sales that are made to GI's customer list, less the 3% commission paid.

**Stevia news:**

On May 18, 2011 the company released an update of the stevia situation. 114 acres are ready for planting. Seeds were sorted before planting and this significantly improved the germination rate. About 3.8 million plants will be planted using commercially available tomato planting equipment. Assuming reasonable weather the first cutting should occur by September 2011.

At this time yield per acre is unknown but trials have yielded over 5,000 # per acre of dried leaf with three cuttings. We are assuming 1,500# per acre for each cutting and a price to S&W Seed of $0.90 a pound.

The leased land mentioned below is being prepared for planting and a drip irrigation system is being installed. Since we do not know what crop(s) will be planted and on how many acres we have not included any revenue from this land in our current estimates.

**New distributer:**

On 04/06/11 S&W Seed Company announced the expansion of its distribution network with the addition of an international distributor of forage crops currently serving international agricultural markets. The new international dealer issued a purchase order for alfalfa varieties for $260,000 which should be shipped within 30 days, and is anticipated to represent the first of several orders from this new distributor over the coming months.

**New line of credit:**

On 03/31/11 the company announced that it has completed an agreement for a one-year, revolving line of credit with Wells Fargo Bank National Association with maximum availability of $5,000,000. The outstanding principal balance of the line of credit will bear interest at one month LIBOR plus 2%, which presently equals 2.25% per annum. The line of credit bears a standby fee on one-half percent (0.50%) per annum on the average daily unused amount of the line of credit, for a maximum of $25,000 if the line is not utilized.

**Cargill pushes Truvia™.**

According to Cargill after only two years on the US market, the Truvia™ brand has become the number one stevia-based sweetener, and opened a new category of sweetness. This innovation attracted new consumers to the market and grew a previously stagnant retail sweetener category by 18 percent. As such, it has become the third best-selling of all the non-sugar sweeteners – a market currently valued at $685 million (£434 million) in the U.S. – overtaking Merisant's Equal® (aspartame) – Canderel® in Europe – for the past 12 months. Latest figures value the UK market for low calorie sweeteners at £50 million.

## KEY POINTS

- There is significant operating leverage in the wheat and other seed processing businesses.
- Stevia is a very large opportunity with modest entry costs for the company.

## OVERVIEW

The company was formed in 1980 to breed, contract to grow, process and sell agricultural commodities, primarily alfalfa seed and, to a lesser extent, wheat. It owns and operates a 40-acre seed cleaning and processing facility in Five Points, California. Seeds are harvested and cleaned from plants grown by farmers in the San Joaquin Valley of California that have worked with S&W Seed for multiple generations. Sale of proprietary alfalfa seed varieties has been a mainstay of the business for decades, but the company has also derived material revenue from processing wheat and other small grains, which should continue to generate revenue in the future.

In fiscal 2010, the company started a pilot program to produce and sell Stevia leaf, the source of an all natural, non-caloric, sweetener.

The Five Points property encompasses a total of 40 acres, of which 35 acres are in reserve for future development and five acres are paved concrete on which is situated a large complex of permanent structures and three seed-processing lines. The estimated replacement cost of the facility is approximately $12 million. This centrally located facility currently operates at a small percentage of its rated capacity, providing significant growth potential at minimal additional cost. The company plans to more aggressively market the seed cleaning and processing services for producers of alfalfa seed, wheat and barley and, potentially, for the processing of Stevia leaf.

The company has contracted for approximately 3,280 acres of farmland for alfalfa seed production to provide the seed to be processed and sold in the summer and fall of calendar year 2010. Several growers have indicated their willingness to increase the acreage they devote to alfalfa seed production, or possibly the production of other crops, as the company grows. The good reputation and long-standing presence of the company in the San Joaquin Valley community generates inquiries from potential growers and more farmers could be added to the provider base as needed.

**World Agriculture Overview:**

One of the biggest challenges the world faces is to expand agricultural production so that it can meet the food and nutritional demands of the world's growing population. The United Nations Population Division estimates that worldwide population has been consistently gaining more than 79 million people each year since 1999. The United Nations projects that the world population will increase by 35% to 7.7 billion from 1995 to 2020, with 95% of this population increase expected in developing countries.

Improvements in farm productivity have allowed agriculture to keep pace with growing food demand. Yield-enhancing technologies such as mechanization, hybrid seed and crop protection chemicals have enabled farmers to meet the ever-growing demand for food. However, due to decreases in the amount of arable land and shrinking worldwide fresh water resources, further increases in agricultural production must come from improvements in agricultural productivity. Increased use of fertilizer has improved crop yields but overuse can cause problems of increased salt content in the soil.

S&W Seed attacks this problem by breeding high-yielding alfalfa seeds that are tolerant to inferior, saline soils, thereby increasing the productivity of marginal soils with inferior water quality.

**Alfalfa Seed Industry:**

Alfalfa (Medicago sativa L.) is often referred to as the “Queen of Forages” due to its relatively good digestibility, high protein content, and ability to readily fix nitrogen. As a result of fixing nitrogen, the protein produced by alfalfa has a high economic return in dairy systems because minimal outside inputs are required to produce it (i.e., no expensive nitrogen-based fertilizers).

The alfalfa plant is primarily used for animal feed. Seed is planted to produce alfalfa that is then used for grazing, ‘‘greenchop’’ (fresh alfalfa cut in the field without drying), silage, baled hay, cubes or pellets as a primary food stock for the livestock industry, which includes dairy and beef cattle, horses and sheep. Although originally a hot climate plant native to the Middle East, dormant and semi-dormant varieties of alfalfa have adapted to cold climates by going dormant during periods when frost or snow conditions would otherwise kill them. Dormancy is rated using a numerical system under which fully dormant varieties are rated 2 through 4, and the most non-dormant varieties are rated 10. The non-dormant varieties are best suited to hot, dry climates, where the growing season is able to be sustained for most of the year, resulting in larger yields per plant.

Of the approximately half-million acres under irrigation in Imperial County, California, almost half is seeded to alfalfa. Approximately 80 million pounds of alfalfa seed are produced in the U.S. each year. The Pacific Northwest produces seed of semi-dormant and dormant varieties, while substantially all of the seed produced in California is of non-dormant varieties, with dormancy ratings of between 7 and 10.

The climate in the western U.S. is excellent for production of high-quality alfalfa seed, and 85% of U.S. alfalfa seed is produced in California, Idaho, Oregon, Washington and Nevada. Although California is the largest supplier of alfalfa seed in the U.S., changes in economics, including the cost of water and the economic return to farmers for planting competing crops, as well as environmental and regulatory constraints, including pesticide regulations, have had a negative impact on California production. While expansion in Idaho, Oregon and Washington has maintained total U.S. supplies of alfalfa seed at a near constant level, this production has not replaced California’s production of non-dormant varieties because these Northwestern states lack the warm climate suited to non-dormant varieties. A significant percentage of California’s production is exported to the Middle East, North Africa, Mexico and other hot, arid regions of the world.

Alfalfa seed production is demanding for even the most experienced farmers. Farming practices must be tailored to the climatic conditions of each area. Irrigation must be carefully controlled and timed to stress the plants to cause maximum flowering and seed production. Weed control is essential in order to pass inspections for purity needed for certification. Insect pests, especially lygus bugs, must be managed throughout the season, using strategies that protect pollinators, such as honey bees,

leafcutter bees and alkali bees. Fields are desiccated using chemicals that remove moisture and then are harvested as quickly thereafter as possible to limit or avoid rain damage.

The alfalfa industry (and therefore the alfalfa seed industry) is highly dependent on the dairy industry, which is the largest consumer of alfalfa hay. In recent years, the California dairy industry has been severely impacted by prices being set below production costs. Dairy prices are now improving, albeit slowly.

S&W Seed has developed high-yielding alfalfa seed that is tolerant to inferior, saline soils, thereby allowing farmers to farm marginal soils with inferior water quality as productively as they do superior soils. Alfalfa seed is used for growing animal feed, known as ‘‘forage,’’ which is essential for dairy and beef cattle, horses and other livestock. We specialize in developing proprietary alfalfa seed varieties that are suited to warmer climates and produce high yields of superior quality alfalfa hay. Although our non-dormant seed varieties are not well suited to colder environments where freezing conditions are common, because of the highly advantageous characteristics of our varieties for hot climates, approximately 50% of our alfalfa seed is sold to end users in Saudi Arabia, Morocco and countries in Latin America.

The company's ‘‘flagship’’ salt tolerant variety, SW 9720, was rated No. 1 out of 44 top alfalfa varieties as of the end of the 2008 season in yield per acre tests conducted by the University of California at Davis (‘‘UC Davis’’). During the fall of 2009, certain growers agreed (under contract) to produce an improved seed variety that is 15% more salt tolerant than SW 9720 while producing equal or better yields. This variety will be available for sale for the first time during the 2010 sales season, which falls primarily between June and mid-October. Many years are needed to create, test and build a market for seed products. The company has used the past almost 30 years to breed and build awareness of the seed varieties it markets and sells.

This is a barrier to entry because of the long length of time required to develop competitive alfalfa seed varieties without genetic engineering. The company has not employed genetic engineering in the development of seed varieties, which permits it to sell seeds throughout the world. Europe, the Middle East, and certain other parts of the world do not permit the use of genetically modified organism (‘‘GMO’’) alfalfa, although As a result the company is investigating what actions would be required when GMO alfalfa varieties became legal.

**An All Natural Sweetener**

Over the past several years, use of an all natural sweetener made from the Stevia plant has begun to attract significant attention from flavor ingredients and consumer product companies in the U.S. Stevia is a genus of about 240 species of herbs and shrubs in the sunflower family (asteraceae), native to subtropical and tropical regions from western North America to South America. Stevia grows wild as a small shrub in parts of Paraguay and Brazil. The glycosides in its leaves, including up to 10% Stevioside, account for its incredible sweetness, making it unique among the nearly 300 species of Stevia plants. There are indications that Stevia (or Ca-he-he) has been used to sweeten a native beverage called mate since Pre-Columbian times. However, a Natural Scientist names Antonio Bertoni first recorded its usage by native tribes in 1887.

The Stevia plant has been used as a base for sweeteners around the world for hundreds of years, from Native Americans centuries ago, to the Japanese in the early 1900s, to even Russia and China during the Cold War. The majority of Stevia crop around the world today is now found in China, where a very

large number of small farmers cultivate the plant. However, as demand is increasing, production is spreading into new areas around the equator such as Paraguay, Kenya, Indonesia, and India.

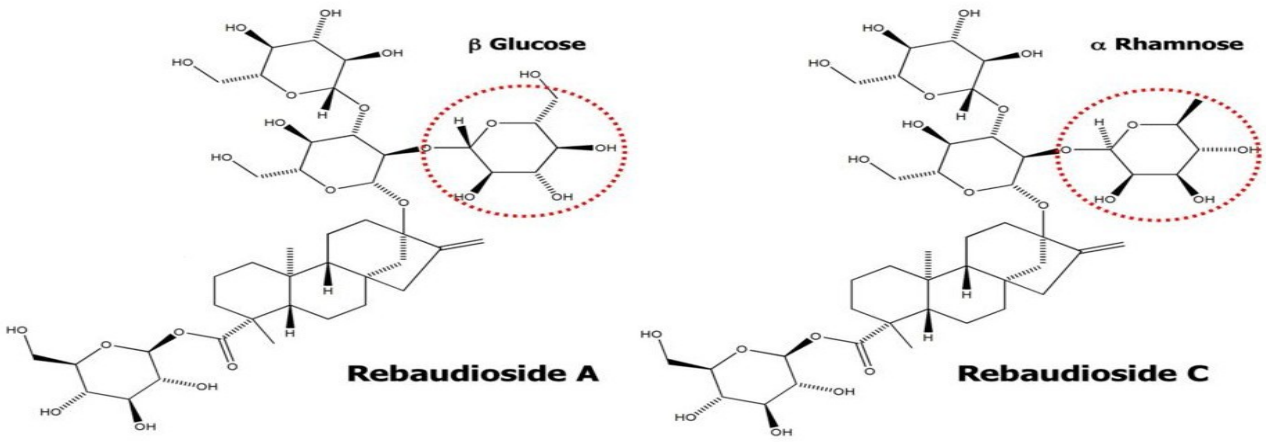
California may be an ideal environment to grow the plant. Cold weather kills the plant so it is replanted every year in northern climes. In the San Joaquin Valley the cool weather causes the plant to become dormant but it grows back in the spring. This could be a major plus since the costs of the leaf will be lower.

Leaf extracts called steviol glycosides contain a mixture of over two dozen related compounds, including several forms of rebaudiosides, steviosides, and dulcosides, the chemical structures of two rebaudiosides are shown below. Two major compounds found in steviol glycosides, stevioside and rebaudioside A (Reb-A), have a sweetness ranging from 250x to 450x that of sucrose:

**Compound Sweetness:**

| | |
|---|---|
| Lactose | 0.16x |
| Erythritol | 0.65x |
| Glucose | 0.75x |
| Sucrose (sugar) | 1x |
| Fructose | 1.5x |
| Aspartame (Equal) | 200-250x |
| Stevioside | 200-250x |
| Reb-B | 200-300x |
| Reb-A (Truvia, PureVia) | 300-400x |
| Saccharin (Sweet N Low) | 500x |
| Sucralose (Splenda) | 600x |

Not all of the compounds in the Stevia leaf have practical use. Scientists have discovered that rebaudioside A is the least bitter of all the compounds in the Stevia plant, and thus it has the most applicable use for foods and beverages as a low-calorie sweetener. Medical research has also shown Stevia has a negligible effect on blood glucose, thus making it an attractive natural alternative to people on carbohydrate-controlled diets such as type 1 and type 2 diabetics. These extracts may also contain possible benefits in treating obesity and high blood pressure.




Steviol glycosides were first commercialized as a sweetener in 1971 by the Japanese firm, Morita Kagaku Kogyo Co., Ltd., a leading stevia extract producer in Japan. The path to market in the U.S. was not a smooth one however. In 1991 the U.S. FDA labeled stevia as an unsafe food additive and restricted

its import. The FDA stated at the time that the "toxicological information on stevia is inadequate to demonstrate its safety." Stevia remained banned until after the 1994 Dietary Supplement Health and Education Act forced the FDA in 1995 to revise its stance and allow stevia to be used as a dietary supplement. This was different from use as a food additive however, and stevia use remained limited until 2006 when the World Health Organization (WHO) performed a thorough evaluation of experimental animal and humans studies of stevioside conducted over the past several decades. The WHO concluded that stevioside and rebaudioside A (Reb-A) are not genotoxic *in-vitro* or *invivo* and that the genotoxicity of steviol and some of its oxidative derivatives *in-vitro* is not expressed *in-vivo*." The report also found no evidence of carcinogenic activity. Furthermore, the report noted that "stevioside has shown some evidence of pharmacological effects in patients with hypertension or with type-2 diabetes," but concluded that further study was required to determine proper dosage. This opened the door to the commercialization of broad scale stevia-based sweeteners in the U.S.

Cargill was among the first to move on the WHO report. Rebiana is the trade name for a zero-calorie sweetener containing mainly Reb-A produced by Cargill. In 2007, Cargill, in collaboration with Coca-Cola Co., announced plans to obtain approval for their stevia-derived sweetener using Rebiana and erythritol (a natural sugar alcohol) called Truvia. In December 2008, the U.S. FDA approved Reb-A at purifications greater than 95% for commercial use under the generally recognized as safe (GRAS) designation. Not coincidently, shortly after, PepsiCo and PureCircle announced PureVia, a similar stevia-based sweetener. Since their approval, stevia-derived sweeteners have gained significant market share in the alternative / natural sweetener market. In fact, both Coke and Pepsi have expanded use of their respective Reb-A products for use in food and beverages. The products perceived safety and all-natural marketing campaign has greatly increased demand for products.

The extraction process uses freshwater brewing, similar to making tea, to unlock the plant's natural components, including rebaudioside, stevioside, and dulcoside. Reb-A is the primary target for commercial use. The crude extract is then refined to isolate out the Reb-A using crystallization and separation technology. Improvements in yield, breeding, and natural selection has allowed manufacturers, including Cargill and PureCircle to dramatically increase Reb-A yields from 15 to 20% for wild Stevia to over 55% for farmed Stevia. According to PureCircle, it takes approximately 40 lbs of Stevia leaf to produce 1 lb of Reb-A. Through leveraging economies of scale and improving crop yields, PureCircle expects to be able to produce 1 lb of Reb-A from only 20 lbs of Stevia leaf in the near future. The balance of co-product, including Reb-C, is refined out and either recycled or used in the production of other products. Reb-A is a very stable product, with no degradation observed for up to five-year storage at room temperature at 60% relative humidity. The product is also highly soluble and pricing is becoming closer each year to sugar or high-fructose corn syrup.

Soft drinks including sodas, juices, teas, sports drinks, and alcoholic beverages are a $100+ billion market in the U.S. Add in confectionary products such as canned fruit, ketchup, dairy, cereals, chocolate, and snack bars, the total market opportunity eclipses $200 billion. Sugar and high-fructose corn syrup (HFCS) are an estimated $50 billion market worldwide. That being said, artificial and natural low-calorie sweeteners are a small fraction of the entire worldwide sweetener market. By comparison, artificial and natural low-calorie sweeteners are only a $5.5 billion market. But use is on the rise, especially following the approval of natural products like Stevia and highly successful marketing campaigns for Splenda to the older artificial sweeteners such as Equal, NutraSweet, and Sweet N Low. Over 200 million Americans used alternative low-calorie sweeteners in the U.S. in 2008. Stevia based sweeteners are far more common outside the U.S., mainly in Asia and South America, but gaining popularity quickly inside the U.S. following the FDA s decision in December 2008.

Consumers want a safe low-calorie alternative. J&J s Splenda (sucralose), only approved in 2006, is marketed as made from sugar. Splenda is actually an artificial product, but the advertising campaign has been so successful that the compound now dominates the market. However, the low-hanging fruit for Stevia companies is going after the artificial sweetener market. Market surveys indicate that 45% of Americans have a negative perception of artificial sweeteners such as aspartame and saccharine. Thus, Stevia manufacturers including PureCircle, Cargill / GLG LifeTech predict that the alternative sweetener market will increase in size to over $8.0 billion in 2015.

Zacks estimates that the global Stevia market is around $400 - 500 million a year, with Japan accounting for roughly half of that figure in 2009 up from the equivalent of 700 metric tons of Stevia leaves in 1987 alone. However, by 2015 the global Stevia market should eclipse $1 billion worldwide as use in the U.S. increases and regulatory approval in Europe allows for commercialization of products later this year or in 2011. The artificial sweetener market is growing only slightly, estimated by Zacks at around 3-4% annually. Stevia-derived sweeteners are growing significantly faster, our estimate is around 25% annually. At this rate we Stevia-derived sweeteners could capture 20% market share of the alternative sweetener market outside the U.S. and 15% in the U.S. by 2015.

| **Sweetener** | **Global Share** | **U.S. Share** |
|---|---|---|
| Sugars | 80% | 67% |
| HFCS | 9% | 16% |
| Alternatives (see below) | 9% | 13% |
| Other | 2% | 4% |

| Alternatives | Global Share | U.S. Share |
|---|---|---|
| Sucralose (Splenda) | 24% | 62% |
| Aspartame | 31% | 14% |
| Saccharin | 20% | 13% |
| Other | 21% | 10% |
| Stevia (Reb-A) | 4% | ~1% |

| **Cost per Metric Ton (1000 kg, 2205 lbs )** | | |
|---|---|---|
| **Sweetness (sucrose = 1x)** | | |
| **Adj. Cost per unit** | | |
| Sugar | $375 | 1x $375 |
| Aspartame | $55,000 | 250x $220 |
| Saccharin | $25,000 | 500x $50 |
| Sucralose | $450,000 | 600x $750 |
| Reb-A | $215,000 | 300x $715 |
| *Reb-A (Est. in 2015)* | *$125,000* | *300x $417* |

Economics and pricing and price stability will be key determinant in the future growth of Stevia as an alternative sweetener to sugar, HFCS, or artificial sweeteners. Prices vary widely between manufacturers for the same product making the pricing a complex issue. A position paper written in February 2009 by KnowGenix entitled, "Stevia as an alternative sweetener, promise and challenges" concludes that suppliers must rationalize Stevia prices to enter the mainstream ingredient business. Economies of scale and distribution will also throw up new challenges impacting the pricing. Sugar currently (11 July, 2010) costs around $0.17/lbs, or $375 per metric ton (2205 lbs). However, the price of sugar has increased dramatically over the past three years. We estimate the global beverage giants spend an estimated $7 billion each year on sugar.

***Price of Sugar***

Alternative (artificial) sweeteners such as aspartame and saccharin cost $55,000 and $25,000 per ton, respectively. Sucralose (Splenda) costs around $450,000 per tonne. Cost for Reb-A is still high compared to table sugar (sucrose), and still significantly higher than artificial sweeteners aspartame and saccharin. The majority of the cost associated with Reb-A today is raw leaf material sourcing, at approximately 70% to 80% of the total cost. As noted above, PureCircle can produce about 1 lbs of Reb-A from 40 lbs of Stevia leaf. Manufacturers including PureCircle and GLG / Cargill hope to improve this ratio through leveraging economies of scale and improving crop yields. By 2015 we would expect the key suppliers will be able to produce 1 lb of Reb-A from only 20 lbs of Stevia leaf. This would allow for a cost of around $125,000 per ton. Adjusting the cost per sweetness unit (1 unit = 1x), we see that current Reb-A pricing is above sugar prices. If the price of Reb-A can get down to $125,000 per ton, it would be extremely attractive for manufacturers like Coca-Cola, PepsiCo, Nestle SA, Dannon, and Corn Products Intl. to begin to use Reb-A in far greater quantities.

## INDUSTRY OUTLOOK

The demand for alfalfa depends on the number of animals that eat forage, mainly cattle for the dairy industry and cattle for meat consumption but also for horses, sheep and goats. Humans also eat alfalfa sprouts in salads and sandwiches. These are fairly stable, but low growth, markets. However, the size of the dairy herd depends on the price and demand for milk and the price of beef has a marked impact on the number of beef cattle. Overall, demand for alfalfa, and for alfalfa seed, should improve in the near term as the economy improves.

## INDUSTRY POSITION

Alfalfa is the fourth most widely grown crop in the United States (behind corn, wheat, and soybeans) with an estimated value is over $8 billion US. There are 24 million acres of alfalfa cut for hay with an average yield of 3.35 tons per acre. The acreage of all hay harvested including alfalfa per year is over 60 million with an estimated value of $13 billion. When the value of alfalfa as a mixture with other forages is considered the acreage and value of hay is approximately equal to wheat and soybeans in the U.S.

Alfalfa seed is primarily grown in the northwestern areas of the U.S. primarily in the western states of California, Idaho, Nevada, Oregon, Wyoming, and Washington. The approximate yield of alfalfa seed in 1999 for the U.S. was 115 million pounds, with average price of $190 per 100 pounds of seed, thus the estimated value of alfalfa seed is $218.5 million dollars. A fringe benefit to the production of alfalfa seed is the production of honey from bees. In the U.S., $147.7 million dollars worth of honey is produced each year from bees pollinating alfalfa.

S&W Seed is the largest seed producers in the alfalfa market. However, it is more important as a producer of salt and heat resistant products that are exported to other countries. With the recent acquisition of IV Seeds it may be the largest US company in the export market. The pending purchase of SGI makes the company the worldwide leader in non-dormant alfalfa seed production.

## VALUATION

There is no historical valuation that can be used as guidance and there are no direct peers to use as a comparison. Institutional ownership is growing, moving from less than 4% to over 29% over the last quarter (Source: Yahoo finance). Increasing institutional demand is a bullish sign.

Now that the current discounting problems end the potential growth rate of EPS exceeds 35%. The acquisition of its largest distributer in the Middle East and of IV Seeds and SGI in Australia, as well as other acreage, will ultimately enhance profitability. The introduction of GMO alfalfa will have a significant impact on gross margins and expand market penetration in the USA. We expect some revenue from GMO alfalfa in FY 2016.

| **Comparables Table** | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Company** | **Ticker** | **Price** | **Mkt Cap.** | **P/E** | **P/E** | **ROE** | **P/Sales** | **EV/Rev.** | **P/BV** | **EV/EBITDA** | **PEG** | **Instl.** |
| | | 5/31/13 | (million) | Trailing | Forward | L4Q (%) | L4Q | L4Q | LQ | | | **Ownership** |
| S&W Seed | **SANW** | $8.37 | $97.1 | NM | 71.39 | NM | 3.83 | 3.55 | 1.92 | 66.25 | 2.04 | 29.7 |
| | | | | | | | | | | | | |
| Bunge Limited | BG | $69.60 | $10,240 | 90.39 | 8.64 | 3.39 | 0.17 | 0.27 | 1.01 | 9.91 | 0.97 | 33.2 |
| Chiquita Brands Int. Inc. | CQB | $10.10 | $469 | N/A | 9.53 | N/A | 0.16 | 0.34 | 1.24 | 12.55 | 1.92 | 77.1 |
| Calava Growers Inc. | CVGW | $29.71 | $441 | 25.83 | 17.27 | 15.96 | 0.79 | 0.88 | 4.05 | 14.33 | 1.41 | 50.4 |
| Coffee Holders Inc. | JVA | $7.00 | $45 | 25.93 | 8.54 | 8.43 | 0.31 | 0.26 | 1.88 | 9.44 | 0.59 | 7.5 |
| Wilmar Int. Ltd | F34.Si | $3.26 | $20,850 | 15.90 | 13.58 | 9.17 | 0.47 | 0.76 | 1.44 | 15.83 | 1.63 | N/A |
| GLG Life Tech Corp | GLGLF | $0.32 | $11 | N/A | N/A | N/A | 0.74 | 5.64 | 0.11 | N/M | N/A | 20.6 |
| Origin Agritech Ltd. | SEED | $1.54 | $36 | 11.67 | N/A | 6.83 | 0.40 | 0.41 | 1.06 | 5.33 | N/A | 7.6 |
| Sygenta AG | SYT | $77.84 | $35,700 | 19.15 | N/A | 23.06 | 2.59 | 2.72 | 4.20 | 12.43 | N/A | N/A |
| Stevia Corp. | STEV | $0.23 | 15.40 | N/A | N/A | N/A | N/M | N/A | 23.00 | N/A | N/A | 7.5 |
| | | | | | | | | | | | | |
| (Source: Yahoo Finance and Zacks Investment Research estimates) | | | | | | | | | | | | |
| **Mean** | | | | 31.5 | 21.5 | 11.1 | 1.1 | 1.6 | 4.0 | 18.3 | 1.4 | |
| **Median** | | | | 22.5 | 11.6 | 8.8 | 0.5 | 0.8 | 1.7 | 12.5 | 1.5 | |

## RISKS

### Risks Relating to the alfalfa Business and Industry:

- ***Adverse weather conditions, natural disasters, crop disease, pests and other natural conditions can impose significant costs and losses on the company.***

Alfalfa seed is vulnerable to adverse weather conditions, including windstorms, floods, drought and temperature extremes, which are quite common but difficult to predict. In addition, alfalfa seed is vulnerable to crop disease and to pests, which may vary in severity and effect, depending on the stage of production at the time of infection or infestation, the type of treatment applied and climatic conditions.

Unfavorable growing conditions can reduce both crop size and quality. These factors can nevertheless directly impact the company by decreasing the quality and yields of seed, reducing the amount of product for sale, increasing costs and decreasing revenue and gross margins.

- ***Earnings may be sensitive to fluctuations in market prices and demand for alfalfa seeds.***

  Growing conditions, particularly weather conditions such as windstorms, floods, droughts and freezes, as well as diseases and pests, are primary factors affecting market prices because of their influence on the supply and quality of product. Recently, the severe downturn in the California dairy industry that resulted from over-supply had a corresponding negative effect on sales of alfalfa hay and therefore alfalfa seed.

- ***Because the seed business is highly seasonal, revenue, cash flows from operations and operating results will fluctuate on a seasonal and quarterly basis.***

  The seasonal nature of operations results in significant fluctuations in working capital during the growing and selling cycles. As a result, operating activities during the first and second fiscal quarters use significant amounts of cash, and in contrast, operating activities for the fourth and first fiscal quarters generate substantial cash as inventory is shipped and collect accounts receivable.

- ***The company depends on a core group of significant customers, financial and operating results of operations will be negatively affected if key customers reduce the amount of products they purchase.***

  The top three customers together accounted for approximately 61% of net sales in fiscal 2009, with the largest customer accounted for approximately 43% of fiscal 2009 net sales, the second largest customer accounted for approximately 11% of 2009 net sales and the third largest customer accounted for approximately 6% of 2009 net sales. Operating results are significantly impacted not only by the quantity of seed purchased by these customers, but also by the timing of their purchases, a factor over which S&W Seed does not have any control. Timing of purchases, particularly by customers for sale in Saudi Arabia, has in the past impacted the financial results.

- ***No long term contracts***

  There are no long-term contracts with any of the customers, and they may not continue to purchase products. The loss of, or a significant adverse change in, the company's relationship with these customers, or any other major customer, could have a material adverse effect on business, financial position, results of operations and operating cash flows. The loss of, or a reduction in orders from any significant customer, losses arising from customers' disputes regarding shipments, product quality, or related matters, or an inability to collect accounts receivable from any major customer could have a material adverse effect. In addition, revenue from customers that have accounted for significant revenue in past periods, individually or as a group, may not continue, or if continued, may not reach or exceed historical levels in any period.

- ***Because the company does not grow any of the alfalfa seed that it sells, it is entirely dependent on its network of growers, and sales, cash flows from operations and results of operations may be negatively affected if any of the largest growers were to stop supplying seed.***

  The company has a relatively small network of growers of alfalfa seed that together provide all of the seed sold to customers. Of these growers, one grower accounted for approximately 37% of planted acreage and over 13% of the total amount of seed purchased from our growers in fiscal 2009. Three growers accounted for approximately 44% of total seed purchases from growers in fiscal 2009.

- ***S&W Seed is particularly dependent on Triangle T Ranch, a related party.***

  Triangle T Ranch is one of the company's largest growers of alfalfa seed, as well as one of its customers. Triangle T Ranch is also the sole source of stevia leaf for pilot production trials. Certain indirect owners of Triangle T also are limited partners of Yellowjacket, the largest stockholder in S&W Seed, and there is substantial management overlap between Triangle T and S&W Seed. However, these connections do not assure that the relationship will continue indefinitely.

- ***A lack of availability of water in California's San Joaquin Valley and Central Valley could impact business.***

  Adequate quantities and correct timing of the application of water are vital for most agriculture to thrive. 2010 will be the fourth consecutive year of drought conditions in California, causing below normal snowpack, river runoff and reservoir levels. Federal allocations of water to farmers have been severely cut back during the drought years and are expected to continue in the future. These conditions have caused some farmers to revise their crop plans to plant less water-intensive crops or, in the most severe cases, to lose their farms. Whether particular farms are experiencing water shortages depends, in large part, on their location, although continuing drought conditions could threaten all farmland other than those properties with their own water sources. Although alfalfa seed is not a water-intensive crop, the availability or the cost of water is a factor in the planting of the alfalfa hay. If the dairy farmers and others who purchase alfalfa seed to grow hay cannot get an adequate supply of water, or if the cost of water makes it uneconomical for the farmers to grow alfalfa, they may not buy alfalfa seed.

- ***Roundup Ready alfalfa will be available for sale in 2015 or soon thereafter, and its availability could negatively impact existing product sales if S&W Seed does not license the technology.***

  In a 7-1 ruling on June 21,2010, the U.S. Supreme Court overturned a lower court's order that has prohibited farmers from planting Roundup Ready alfalfa for the past three years. However, there has been considerable discussion by lawmakers about the risks to the dairy industry and the organic food industry if Roundup Ready alfalfa is cleared for commercial use. Roundup Ready alfalfa successfully completed a food safety review by the Food and Drug Administration (FDA) and was granted non-regulated status by USDA in 2005. A separate review by the Environmental Protection Agency (EPA) found the use of Roundup on the crop to be safe. Prior to the injunction, Roundup Ready alfalfa was planted by approximately 5,500 growers across more than 220,000 acres. Alfalfa is the fourth-largest crop grown in the U.S. with 23 million acres grown in 48 U.S. states annually.

## INSIDER TRADING AND OWNERSHIP

After the initial public offering there were 5.8 million shares outstanding, of which Yellowjacket, LP owns 2.566 million shares and Triangle T Partners, LLC owns 0.24 million shares.

Grover Wickersham, Chairman, purchased 1,000 shares on the open market on June 25, 2011 at $3.52.

**Insider Transactions Reported - Last Two Years**

| Date | Insider | Shares | Type | Transaction | Value* |
|---|---|---|---|---|---|
| May 6, 2013 | SZOT MATTHEW KOfficer | 2,445 | Direct | Disposition (Non Open Market) at $9.55 per share. | 23,349 |
| May 6, 2013 | GREWAL MARK SOfficer | 4,035 | Direct | Disposition (Non Open Market) at $9.55 per share. | 38,534 |
| Apr 14, 2013 | SEIDLER CHARLES BDirector | 19,000 | Direct | Option Exercise at $7.15 per share. | 135,850 |
| Apr 11, 2013 | WICKERSHAM GROVER TOfficer | 1,500 | Indirect | Option Exercise at $7.15 per share. | 10,725 |
| Mar 31, 2013 | JURY DENNIS CHARLESOfficer | 216,217 | Indirect | Statement of Ownership | N/A |
| Mar 31, 2013 | HARVEY MARK JAMESOfficer | 216,216 | Indirect | Statement of Ownership | N/A |
| Dec 26, 2012 | WICKERSHAM GROVER TOfficer | 67,700 | Direct | Acquisition (Non Open Market) at $0 per share. | N/A |
| Dec 26, 2012 | YELLOWJACKET, LPBeneficial Owner (10% or more) | 450 | Direct | Acquisition (Non Open Market) at $0 per share. | N/A |
| Dec 26, 2012 | WICKERSHAM GROVER TOfficer | 53,500 | Indirect | Acquisition (Non Open Market) at $0 per share. | N/A |
| Dec 26, 2012 | YELLOWJACKET, LPBeneficial Owner (10% or more) | 500,000 | Direct | Disposition (Non Open Market) at $0 per share. | N/A |
| Dec 12, 2012 | GREWAL MARK SOfficer | 1,000 | Direct | Purchase at $6.99 per share. | 6,990 |
| Dec 11, 2012 | GREWAL MARK SOfficer | 1,000 | Direct | Purchase at $6.99 per share. | 6,990 |
| Dec 7, 2012 | BORNT GLEN DDirector | 400,000 | Indirect | Statement of Ownership | N/A |
| Dec 6, 2012 | YELLOWJACKET, LPBeneficial Owner (10% or more) | 78,000 | Direct | Sale at $7.20 per share. | 561,600 |
| Dec 2, 2012 | NORDSTROM MICHAEL N.Director | 4,000 | Direct | Purchase at $7.37 - $7.4 per share. | 30,000[2] |
| Nov 28, 2012 | GREWAL MARK SOfficer | 1,000 | Direct | Purchase at $7.40 per share. | 7,400 |
| Nov 27, 2012 | GREWAL MARK SOfficer | 1,000 | Direct | Purchase at $7.35 - $7.42 per share. | 7,385[2] |
| Oct 14, 2012 | SEIDLER CHARLES BDirector | 6,420 | Direct | Sale at $8.02 - $8.15 per share. | 52,000[2] |
| Oct 14, 2012 | GARDNER DANIELSON B.Officer | N/A | Direct | Statement of Ownership | N/A |
| Oct 14, 2012 | YELLOWJACKET, LPBeneficial | 20,291 | Direct | Sale at $8 - $8.05 per share. | 163,000[2] |

| | | | | | | |
|---|---|---|---|---|---|---|
| | Owner (10% or more) | | | | | |
| Oct 8, 2012 | LISHMAN ROBERT W Beneficial Owner (10% or more) | 200 | Indirect | Sale at $7.50 per share. | | 1,500 |
| Oct 8, 2012 | YELLOWJACKET, LP Beneficial Owner (10% or more) | 200 | Direct | Sale at $7.50 per share. | | 1,500 |

**Breakdown**

| | |
|---|---|
| % of Shares Held by All Insider and 5% Owners: | 32% |
| % of Shares Held by Institutional & Mutual Fund Owners: | 30% |
| % of Float Held by Institutional & Mutual Fund Owners: | 44% |
| Number of Institutions Holding Shares: | 21 |

**Top Institutional Holders**

| Holder | Shares | % Out | Value* | Reported |
|---|---|---|---|---|
| BMO Financial Corp | 917,567 | 9.89 | 9,643,629 | Mar 31, 2013 |
| Sophrosyne Capital LLC | 559,048 | 6.03 | 4,315,850 | Dec 31, 2012 |
| ACK Asset Management, LLC | 469,890 | 5.07 | 4,938,543 | Mar 31, 2013 |
| Kennedy Capital Management, Inc. | 310,405 | 3.35 | 2,396,326 | Dec 31, 2012 |
| Bard Associates Inc. | 282,800 | 3.05 | 2,183,216 | Dec 31, 2012 |
| Wellington Management Company, LLP | 219,370 | 2.37 | 1,693,536 | Dec 31, 2012 |
| Gerry Faber, LLC | 136,000 | 1.47 | 1,429,360 | Mar 31, 2013 |
| Levitt Capital Management LLC | 91,868 | 0.99 | 965,532 | Mar 31, 2013 |
| Coe Capital Management, LLC | 90,714 | 0.98 | 953,404 | Mar 31, 2013 |
| HighTower Advisors, LLC | 85,400 | 0.92 | 897,554 | Mar 31, 2013 |

**Top Mutual Fund Holders**

| Holder | Shares | % Out | Value* | Reported |
|---|---|---|---|---|
| Clearwater Small Companies Fund | 54,863 | 0.59 | 423,542 | Dec 31, 2012 |
| Vanguard Extended Market Index Fund | 43,914 | 0.47 | 339,016 | Dec 31, 2012 |
| Virtus Opportunities Tr-Virtus Global Commodities Stock Fd | 33,584 | 0.36 | 259,268 | Dec 31, 2012 |
| iShares Russell Micro Cap (TM) Index Fund | 17,286 | 0.19 | 181,675 | Mar 31, 2013 |
| Spartan Extended Market Index Fund | 7,560 | 0.08 | 79,455 | Mar 31, 2013 |
| Bridgeway Funds Inc-Small Cap Momentum Fund | 75 | 0.00 | 579 | Dec 31, 2012 |

# PROJECTED INCOME STATEMENT & BALANCE SHEET

| S & W Seed Company | | | | | | | | | | | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Consolidated Statements of Operations | | | | | | | | | | | Pr0-Forma | | | Pro-Forma | | | | | | | | | |
| (Dollars in millions except per share data) | | | | | | | | | | | | | IVS | | | | | | | | | | |
| Fiscal Year Jun. 30 | 2010A | 1Q11 | 2Q11 | 3Q11 | 2011A | 1Q12 | 2Q12 | 3Q12 | 4Q12 | 2012A | 2012A | 1Q13 | 1Q13 | 1Q13 | 2Q13 | 3Q13 | 4Q13 | 2013E | 1Q14 | 2Q14 | 3Q14 | 4Q14 | 2014E | 2015E |
| | | | | | | | | | | | | Act. | Act. | Act. | Act. | Act. | Est. | | | | | | | |
| **Net sales** | **$6.73** | **$0.93** | **$0.91** | **$0.44** | **$3.64** | **$6.12** | **$4.73** | **$2.55** | **$0.76** | **$14.15** | **$30.00** | **$6.72** | **$4.51** | **$11.23** | **$13.69** | **$4.21** | **$14.00** | **$38.61** | **$26.00** | **$16.00** | **$6.00** | **$16.00** | **$64.00** | **$70.50** |
| % Change | 36.03 | (42.90) | (69.95) | (47.59) | (45.87) | 555.41 | 419.73 | 479.46 | (44.41) | 288.40 | | 9.89 | 0.00 | 340.68 | 189.45 | 65.12 | 1751.85 | 172.93 | 286.90 | 16.92 | 42.55 | 14.29 | 65.74 | 10.16 |
| Cost Goods | 4.92 | 0.56 | 0.45 | 0.25 | 2.28 | 4.36 | 3.21 | 1.75 | 0.65 | 9.96 | 13.74 | 5.64 | 4.01 | 9.65 | 11.80 | 3.88 | 12.32 | 33.64 | 22.36 | 13.60 | 5.10 | 13.00 | 54.06 | 57.80 |
| G & A | 1.05 | 0.53 | 0.49 | 0.61 | 2.17 | 0.71 | 0.76 | 0.63 | 0.67 | 2.77 | 0.36 | 0.75 | 0.10 | 0.84 | 1.07 | 1.28 | 1.40 | 4.50 | 1.50 | 1.60 | 1.70 | 1.80 | 6.60 | 7.60 |
| R&D | 0.21 | 0.13 | 0.13 | 0.08 | 0.45 | 0.09 | 0.06 | 0.04 | 0.05 | 0.24 | 0.00 | 0.10 | 0.00 | 0.10 | 0.10 | 0.07 | 0.10 | 0.38 | 0.10 | 0.10 | 0.10 | 0.10 | 0.40 | 0.60 |
| Depreciation | 0.21 | 0.06 | 0.06 | 0.06 | 0.24 | 0.07 | 0.07 | 0.07 | 0.07 | 0.27 | 0.00 | 0.07 | 0.00 | 0.15 | 0.15 | 0.15 | 0.15 | 0.52 | 0.15 | 0.15 | 0.15 | 0.15 | 0.60 | 0.80 |
| Op Income | 0.33 | (0.36) | (0.22) | (0.56) | (1.50) | 0.88 | 0.64 | 0.06 | (0.68) | 0.90 | 1.72 | 0.16 | 0.41 | 0.50 | 0.57 | (1.17) | 0.03 | (0.42) | 1.89 | 0.55 | (1.05) | 0.95 | 2.34 | 3.70 |
| Interest Expenses | 0.10 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.01 | 0.02 | 0.00 | 0.01 | 0.00 | 0.01 | 0.00 | 0.01 | 0.00 | 0.02 | 0.02 | 0.02 | 0.02 | 0.02 | 0.08 | 0.00 |
| Interest Income | 0.00 | 0.00 | 0.00 | 0.00 | 0.01 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | (0.01) | 0.00 | 0.00 | (0.01) | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Calc.Pretax | 0.24 | (0.36) | (0.21) | (0.56) | (1.50) | 0.88 | 0.61 | 0.06 | (0.96) | 0.58 | 1.72 | 0.15 | 0.41 | 0.49 | 0.25 | (2.98) | 0.03 | (2.55) | 1.87 | 0.53 | (1.07) | 0.93 | 2.26 | 3.70 |
| Taxes | (0.46) | (0.11) | (0.13) | (0.27) | (0.69) | 0.35 | 0.16 | 0.04 | (0.35) | 0.20 | 0.03 | 0.06 | 0.01 | 0.19 | 0.11 | (1.11) | 0.00 | (0.95) | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 1.30 |
| Tax Rate, Pro-forma basis | -195.9% | 29.3% | 61.5% | 47.6% | 45.8% | 39.2% | 26.6% | 63.2% | 36.4% | 34.6% | 1.6% | 39.5% | 1.5% | 39.6% | 19.2% | 37.2% | 0.0% | 42.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 35.0% |
| Net Income | 0.58 | (0.25) | (0.08) | (0.29) | (0.81) | 0.52 | 0.44 | 0.02 | (0.61) | 0.38 | 1.69 | 0.09 | 0.40 | 0.30 | 0.15 | (1.87) | 0.03 | (1.61) | 1.87 | 0.53 | (1.07) | 0.93 | 2.26 | 2.41 |
| | | | | | | | | | | | | | | | | | | | | | | | | |
| GAAP Adj. | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.02 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.30 | 0.00 | 0.00 | 0.30 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Net For Common | 0.58 | (0.25) | (0.08) | (0.29) | (0.81) | 0.52 | 0.44 | 0.02 | (0.61) | 0.38 | 1.69 | 0.09 | 0.40 | 0.30 | 0.15 | (1.87) | 0.03 | (1.61) | 1.87 | 0.53 | (1.07) | 0.93 | 2.26 | 2.41 |
| | | | | | | | | | | | | | | | | | | | | | | | | |
| Shares Used, millions | 3.42 | 5.80 | 5.80 | 5.80 | 5.80 | 5.84 | 5.80 | 5.88 | 5.90 | 5.90 | 7.00 | 6.95 | 7.26 | 7.35 | 8.35 | 9.09 | 11.60 | 9.00 | 11.60 | 11.60 | 11.60 | 11.60 | 11.60 | 11.60 |
| | | | | | | | | | | | | | | | | | | | | | | | | |
| Earnings Per Share | | | | | | | | | | | | | | | | | | | | | | | | |
| **EPS (pro-forma)** | **$0.17** | **($0.04)** | **($0.01)** | **($0.05)** | **($0.14)** | **$0.09** | **$0.08** | **$0.00** | **($0.10)** | **$0.06** | **$0.24** | **$0.01** | **$0.05** | **$0.04** | **$0.05** | **($0.21)** | **$0.00** | **($0.15)** | **$0.16** | **$0.05** | **($0.09)** | **$0.08** | **$0.19** | **$0.21** |
| | | | | | | | | | | | | | | | | | | | | | | | | |
| **Proforma EPS for the first three quarters of 2009 and 2010 are based on Zacks estimates and do not conform with the company's current accounting treatment.** | | | | | | | | | | | | | | | | | | | | | | | | |
| | | | | | | | | | | | | | | | | | | | | | | | | |
| Gross margins | 26.88% | 39.79% | 50.87% | 43.23% | 37.37% | 28.63% | 32.21% | 31.42% | 14.55% | 29.58% | | 16.06% | 11.26% | 14.13% | 13.77% | 7.89% | 12.00% | 12.88% | 14.00% | 15.00% | 15.00% | 18.75% | 15.53% | 18.01% |

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| S & W Seed Company | | | | | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Consolidated Balance Sheet (in millions) | | | | | | | | | | | | | | | | | |
| Fiscal Year Jun. 30 | | | | | | | | | | | | | | | | | |
| | | | | | | | | | | | | | | | | | |
| **ASSETS** | **1Q10** | **2Q10** | **3Q10** | **4Q10** | | **1Q11** | **2Q11** | **3Q11** | **4Q11** | | **1Q12** | **2Q12** | **3Q12** | **4Q12** | | **1Q13** | **2Q13** | **3Q13** |
| Cash & equiv. | 0.00 | 0.38 | 0.36 | 7.83 | | 7.18 | 5.70 | 4.13 | 3.74 | | 4.19 | 6.81 | 6.23 | 8.24 | | 8.65 | 3.04 | 14.08 |
| A/R | 0.00 | 2.58 | 1.46 | 2.12 | | 2.46 | 1.67 | 1.01 | 1.80 | | 6.10 | 4.06 | 3.08 | 2.72 | | 6.07 | 14.67 | 8.84 |
| Inventories | 0.00 | 4.29 | 3.63 | 2.71 | | 6.83 | 6.83 | 6.60 | 5.66 | | 5.78 | 3.92 | 4.14 | 6.12 | | 8.27 | 3.01 | 3.53 |
| Prepaid exp & other | 0.00 | 0.07 | 0.09 | 0.26 | | 0.42 | 0.20 | 0.17 | 0.41 | | 0.46 | 0.41 | 0.47 | 0.35 | | 0.25 | 0.29 | 0.73 |
| Total current assets | 0.00 | 7.32 | 5.53 | 12.92 | | 16.89 | 14.39 | 11.91 | 11.62 | | 16.52 | 15.20 | 13.91 | 17.42 | | 23.25 | 21.01 | 27.18 |
| | | | | | | | | | | | | | | | | | | |
| Property, plant & equip. | 0.00 | 2.47 | 2.14 | 2.11 | | 2.26 | 2.24 | 2.19 | 2.30 | | 2.34 | 2.34 | 2.29 | 2.44 | | 7.86 | 8.73 | 9.68 |
| | | | | | | | | | | | | | | | | | | |
| Investments | | | | | | | | | | | | | | | | | | |
| Intangibles | 0.00 | 0.66 | 0.56 | 0.55 | | 0.54 | 0.53 | 0.51 | 0.50 | | 0.65 | 0.64 | 0.62 | 0.61 | | 0.65 | 6.73 | 6.63 |
| Other | 0.00 | 0.00 | 0.00 | 0.00 | | 0.00 | 0.36 | 0.55 | 0.52 | | 0.76 | 1.00 | 0.01 | 0.46 | | 0.46 | 0.46 | 1.03 |
| | | | | | | | | | | | | | | | | | | |
| **All Assets** | **0.00** | **10.45** | **8.24** | **15.58** | | **19.68** | **17.52** | **15.17** | **15.16** | | **20.27** | **19.18** | **17.82** | **22.03** | | **33.57** | **39.98** | **47.17** |
| | | | | | | | | | | | | | | | | | | |
| **LIABILITIES AND NET WORTH** | | | | | | | | | | | | | | | | | | |
| A/P | 0.00 | 3.67 | 2.33 | 0.30 | | 4.61 | 2.41 | 0.36 | 0.43 | | 5.08 | 3.48 | 1.99 | 1.45 | | 7.02 | 5.94 | 3.95 |
| Accrued liabilities | 0.00 | 0.60 | 0.00 | 0.00 | | 0.00 | 0.00 | 0.00 | 0.00 | | 0.00 | 0.00 | 0.00 | 0.00 | | 0.00 | 0.00 | 0.00 |
| ST debt | | | | | | | | | | | | | | | | | | |
| Current portion of LTD-related parties | | | | | | | | | | | | | | | | | | |
| Other | 0.00 | 0.10 | 0.71 | 0.03 | | 0.03 | 0.12 | 0.10 | 0.17 | | 0.08 | 0.10 | 0.16 | 0.45 | | 0.17 | 0.31 | 0.36 |
| Total current liabilities | 0.00 | 4.37 | 3.05 | 0.33 | | 4.64 | 2.53 | 0.46 | 0.60 | | 5.16 | 3.58 | 2.15 | 1.90 | | 7.19 | 6.25 | 4.31 |
| | | | | | | | | | | | | | | | | | | |
| L.T. Debt, net of current portion-related parties | 0.00 | 0.00 | 0.00 | 0.00 | | 0.00 | 0.00 | 0.00 | 0.00 | | 0.00 | 0.00 | 0.00 | 0.00 | | 2.46 | 6.83 | 2.84 |
| L.T. Debt, net of current portion | 0.00 | 0.00 | 0.00 | 0.00 | | 0.00 | 0.00 | 0.00 | 0.00 | | 0.00 | 0.00 | 0.00 | 0.00 | | 0.00 | 0.20 | 0.20 |
| Total liabilities | 0.00 | 4.37 | 3.05 | 0.33 | | 4.64 | 2.53 | 0.46 | 0.60 | | 5.16 | 3.58 | 2.15 | 1.90 | | 9.65 | 13.28 | 7.35 |
| | | | | | | | | | | | | | | | | | | |
| Common Stock | 0.00 | 0.00 | 0.00 | 0.01 | | 0.01 | 0.01 | 0.01 | 0.01 | | 0.01 | 0.01 | 0.01 | 0.01 | | 0.01 | 0.01 | 0.01 |
| Additional paid-in capital | 0.00 | 2.56 | 0.94 | 14.48 | | 14.53 | 14.55 | 14.57 | 14.61 | | 14.63 | 14.67 | 14.72 | 19.80 | | 23.35 | 25.88 | 40.85 |
| Retained earnings | 0.00 | 0.00 | 1.02 | 0.76 | | 0.51 | 0.43 | 0.13 | (0.05) | | 0.48 | 0.92 | 0.94 | 0.33 | | 0.42 | 0.56 | (1.31) |
| Other | 0.00 | 0.58 | 0.00 | 0.00 | | 0.00 | 0.00 | 0.00 | 0.00 | | 0.00 | 0.00 | 0.00 | 0.00 | | 0.00 | 0.00 | 0.00 |
| Total stockholders' equity | 0.00 | 3.14 | 1.96 | 15.25 | | 15.04 | 14.98 | 14.71 | 14.56 | | 15.11 | 15.60 | 15.66 | 20.13 | | 23.77 | 26.45 | 39.55 |
| **Total liabilities & stockholders' equity** | **$0.00** | **$10.45** | **$8.24** | **$15.58** | | **$19.68** | **$17.52** | **$15.17** | **$15.16** | | **$20.27** | **$19.18** | **$17.82** | **$22.03** | | **$33.57** | **$39.98** | **$47.17** |

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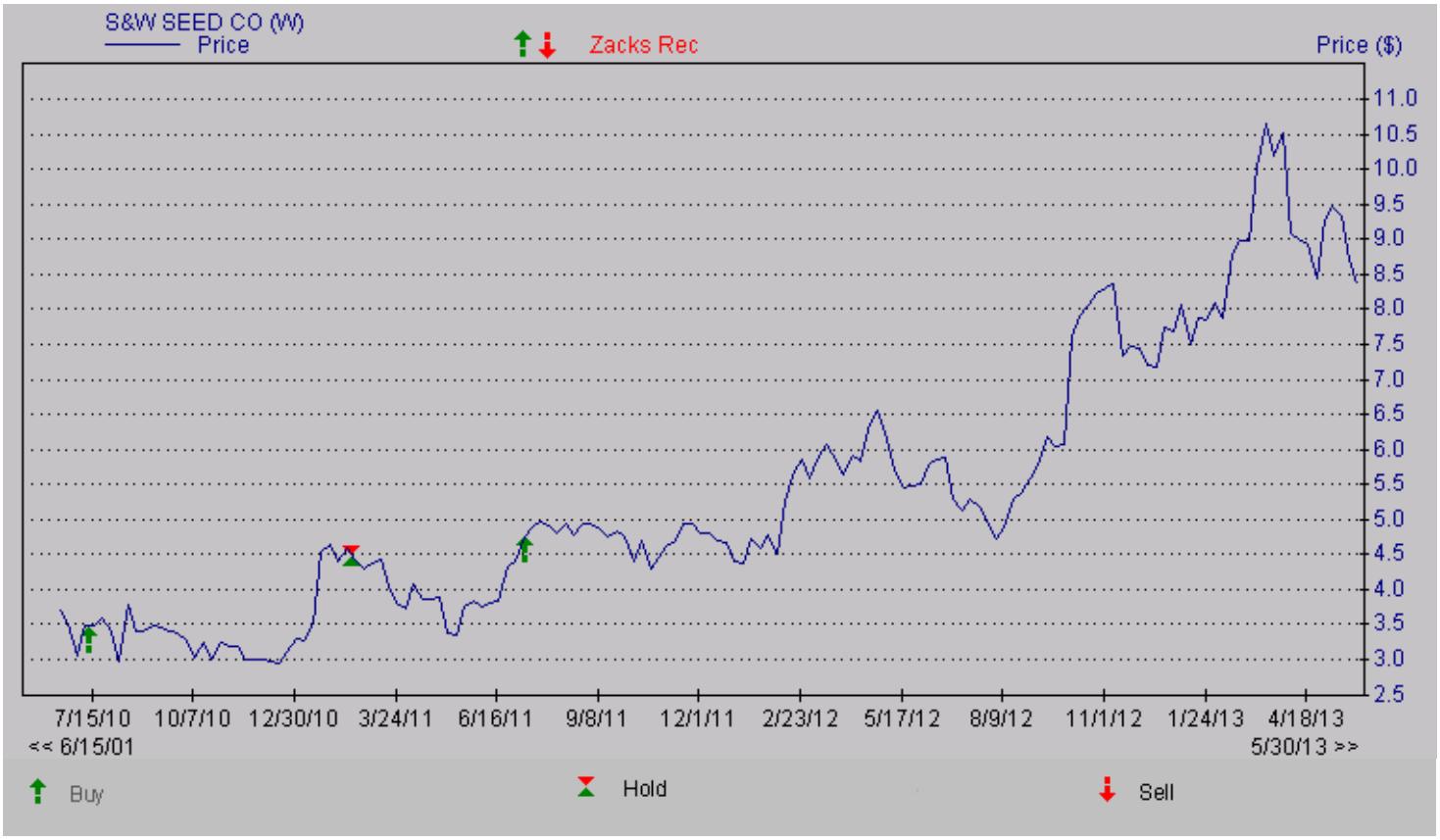
| S & W Seed Company | | | | | | | |
|---|---|---|---|---|---|---|---|
| Condensed Consolidated Statements of Cash Flows | | | | | | | |
| Dollars in millions | | | | | | | |
| Fiscal Year Jun. 30 | 2010 | 2011 | 2012 | | 1Q13 | 2Q13 | 3Q13 |
| Cash flow from operations: | | | | | | | |
| Net (Loss) Income | 0.48 | (0.81) | 0.38 | | 0.09 | 0.15 | (1.87) |
| Depreciation & amortization | 0.22 | 0.24 | 0.27 | | 0.07 | 0.15 | 0.15 |
| Impairment of goodwill | | | | | | | |
| Amortization of goodwill | | | | | | | |
| Stock issued for services | | | | | | | |
| Stock based compensation | | 0.12 | 0.19 | | 0.09 | 0.10 | 0.18 |
| Impairment of machinery | | | | | | | |
| Loss on disposal of fixed assets | | 0.01 | | | | | |
| CROP PRODUCTION COSTS | | | | | (0.26) | (1.69) | (1.03) |
| Stevia charge | includes $0.3 in INV change plus charge of $1.8 | | | | | | 2.14 |
| (Increase) decrease in A/R | | | | | | | |
| (Increase) decrease in inventoris | | | | | | | |
| (Increase) decrease in prepaid exp. & other current assets | | | | | | | |
| Increase (decrease) in A/P | | | | | | | |
| Other | (3.18) | (3.26) | (0.79) | | (0.12) | (6.75) | (2.00) |
| **Net cash provided by (used in) operating activites** | **$(2.48)** | **$(3.70)** | **$0.05** | | **$(0.13)** | **$(8.04)** | **$(2.43)** |
| | | | | | | | |
| Cash flow from investments: | | | | | | | |
| Purchase of PP&E | (0.04) | (0.40) | (0.55) | | (5.46) | (3.94) | (0.94) |
| Proceeds from disposal of PP&E | | 0.01 | 0.01 | | (0.06) | | (0.06) |
| **Net cash provided by (used in) investing activities** | **$(0.04)** | **$(0.39)** | **$(0.54)** | | **$(5.52)** | **$(3.94)** | **$(1.00)** |
| | | | | | | | |
| Cash flow from financing activities: | | | | | | | |
| Other | (3.65) | | | | | | |
| Proceeds from issuance of common stock | 14.00 | | 5.01 | | 3.46 | | 9.42 |
| Proceeds from warrants | | | | | | | 5.38 |
| Proceeds (payment) on lines of credit, net | | | | | | | |
| Proceeds from debt - related parties | | | | | | | |
| Proceeds fromo debt | | | | | 2.625 | 4 | |
| Payment on debt - related parties | | | | | | | |
| Payment on debt | | | | | 0.016 | -0.046 | -0.325 |
| **Net cash provided by (used in) financing activities** | **$10.35** | **$0.00** | **$5.01** | | **$6.10** | **$3.95** | **$14.48** |
| | | | | | | | |
| Increase (decrease) in cash and equivalents | $7.83 | $(4.09) | $4.51 | | $0.42 | $(8.06) | $11.05 |
| Cash & equivalents at beginning of period | $0.00 | $7.83 | $3.73 | | $8.24 | $8.66 | $3.03 |
| Cash & equivalents at end of period | $7.83 | $3.73 | $8.24 | | $8.66 | $3.03 | $14.08 |

## HISTORICAL ZACKS RECOMMENDATIONS

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