Zacks Small-Cap Research

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S&W Seed Co. (SANW-NASDAQ)

SANW: A stand-out quarter and a reported profit!

Current Recommendation	**Outperform**
Prior Recommendation	Neutral
Date of Last Change	07/11/2011
Current Price (11/11/11)	$4.70
Target Price	**$7.00**

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.

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 signed a five year sales contract with PureCircle, the world's largest producer of Stevia sweeteners, for production quantities of dried Stevia leaf.

The company now owns the international distributor of its seeds.

Our recommendation remains as Outperform and our target price remains at $7.00

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SUMMARY DATA

52-Week High	**$5.13**
52-Week Low	**$2.93**
One-Year Return (%)	**47.3**
Beta	**0.0**
Average Daily Volume (sh)	**12,190**
Shares Outstanding (mil)	**5.80**
Market Capitalization ($mil)	**$27.2**
Short Interest Ratio (days)	**0.5**
Institutional Ownership (%)	**4**
Insider Ownership (%)	**45**
Annual Cash Dividend	**$0.0**
Dividend Yield (%)	**N/M**
5-Yr. Historical Growth Rates	
Sales (%)	**N/A**
Earnings Per Share (%)	**N/A**
Dividend (%)	**N/M**
P/E using TTM EPS	**N/M**
P/E using N4Q Estimate	**N/M**
P/E using 2012 Estimate	**N/M**

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)
2010	**$1.6A**	**$3.0A**	**$0.8A**	**$1.2A**	**$6.7A**
2011	**$0.9A**	**$0.9A**	**$0.4A**	**$1.4A**	**$3.6A**
2012	**$6.1A**	**$3.5E**	**$0.6E**	**$1.7E**	**$11.9E**
2013	**$6.5E**	**$3.0E**	**$0.9E**	**$2.1E**	**$12.5E**

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)
2010	**$0.18A**	**$0.05A**	**-$0.08A**	**$0.03A**	**$0.17A**
2011	**-$0.04A**	**-$0.01A**	**-$0.05A**	**-$0.03A**	**-$0.14A**
2012	**$0.09A**	**$0.02E**	**-$0.06E**	**-$0.03E**	**$0.03E**
2013	**$0.07E**	**$0.03E**	**-$0.05E**	**-$0.01E**	**$0.04E**

Zacks estimated 5 year CAGR EPS % **N/M**

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RECENT NEWS

First Quarter profits.

On November 14, 2011 S&W Seed reported the 2012 first fiscal quarter results and held a conference call to discuss them. The company re-entered the Saudi Arabian market with $5.1 million in revenue, 84% of total revenue for the quarter, up from essentially nothing a year ago. This was a combination of both volume and price. S&W Seed estimates that it has about 20% of the Saudi market and is working to increase that. The price differential between generic seed and the S&W varieties has narrowed significantly and the higher yield of the proprietary seeds now offsets the price differential. Other alfalfa growers in Africa are also interested in upgrading their seeds. Margins improved year over year. Domestic revenue increased 18% Y/Y.

S&W Seed sold 1.6 million pounds of seed in the quarter, up from 0.85 million pounds last year. Current internet prices for seed vary from $3.40 to $4.50 a pound in 500 pound lots depending on the type of seed.

Alfalfa is still going up in price. Mid-central California price for premium alfalfa (Source: The Hoyt Report, Inc. in Dollars per ton at the same location) were:

	May 2010	Nov. 2010	May 2011	Nov. 2011
Premium Alfalfa	$160	$185	$275	$295

As long as these prices hold the demand for alfalfa seed should increase from the fourth quarter 2011 level.

On Sept. 30, 2011 accounts receivable were $6.1 million. Of this $4.5 million has been collected.

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.

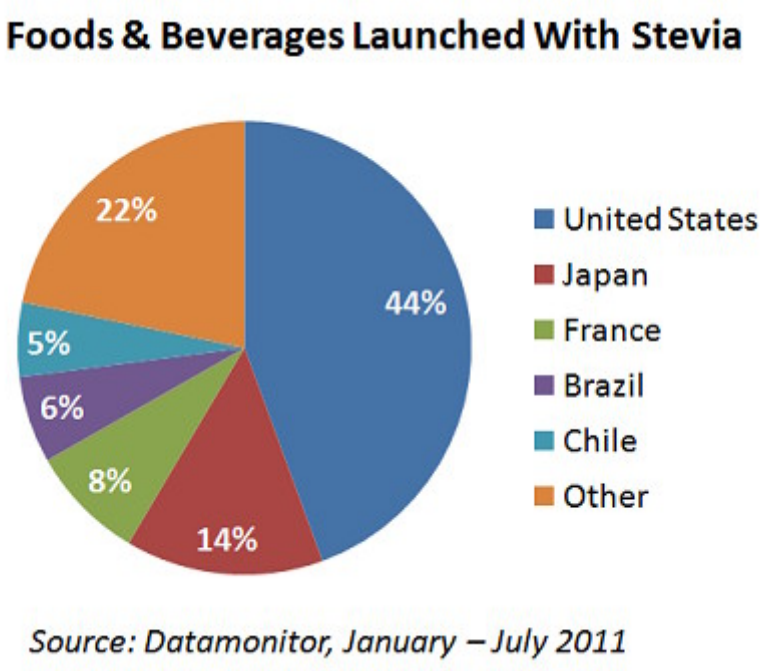
Although the stevia plant can be stripped of leaves up to three times a year the optimum Reb A concentrations would probably occur with an annual harvesting. Selective breeding for the maximum Reb A content will continue.

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.



Source: Datamonitor, January – July 2011

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.

Leasing 800 acres:

S&W Seed announced today that it has leased about 800 acres of farmland in Kern County, California for a term of 40 months (subject to a 24 month extension) to be planted with non-permanent crops (i.e. no trees). The land has a good supply of water.

We are not including any revenue from this land in fiscal 2011 and fiscal 2012 in our current estimates since we do not know what crops will be planted or how many acres will be used..

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.

Opening up the Israeli market:

S&W Seed announced on 04/04/11 that the Israeli Ministry of Agriculture and Rural Development is launching trials to confirm that S&W's high yielding, warm climate and salt tolerant alfalfa varieties can perform in Israel.

The field trials will provide for evaluation of SW 9720, SW 9215 and SW 9628 varieties on two to four acre planting sites, and will run for a period of three years. S&W plans to ship the trial seeds upon receipt of final approval from a U.S.-based seed testing facility certified by the International Seed Testing Association (ISTA), pursuant to the requirements of the Israeli import permit.

We do not expect significant sales into the Israeli market in fiscal 2011 and 2012.

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.

Company seeks acquisitions:

S&W Seed announced on January 10, 2011 that it is looking for acquisition opportunities within the agribusiness industry.

The two most logical areas are new distributors for new and existing seeds (Alfalfa) and acquiring new seed varieties, including Round-UP tolerant GMO alfalfa, that could be processed at the existing plant.

The company mentioned a series of strategic goals which include expanding distribution capabilities and increasing capacity utilization for seed processing at the Five Points facility.

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.

Stevia California, LLC

A wholly owned subsidiary, Stevia California, LLC, was formed in October 2009 to capitalize on the recent deregulation by the Food & Drug Administration (the ‘‘FDA’’) of certain Stevia plant derivatives. The stevia plant can be developed to increase the concentration of the sweet glycoside, Reb-A.

In the December quarter of 2010, S&W Seed began a stevia production pilot project and, in May 2010, entered into a trialing arrangement with a major stevia producer that will provide stevia plant material for evaluation purposes. The results of the trial will be shared with the processor. Triangle T Ranch, one of the company's largest alfalfa seed growers, has begun preparing for planting test varieties of stevia that will be planted in the summer of 2010. S&W Seed has agreed to reimburse the grower for its direct growing costs, but it is unlikely that there will be any revenue from stevia leaf sales in the 2010 Fiscal Year. Commercial sales of stevia leaf should start in the fiscal year ending June 30, 2011 but meaningful revenues are unlikely before fiscal 2012 (probably the second half of calendar 2011).

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.

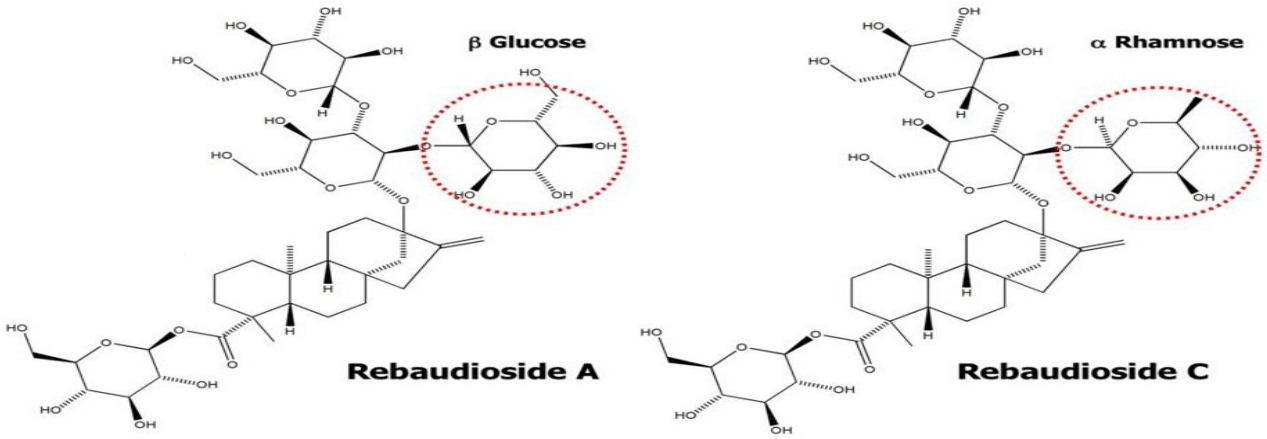
Leaf extracts called steviol glycosides contain a mixture of over two dozen related compounds, including several forms of rebaudiosides, steviosides, and dulcosides, the chemical structures of two

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.

Source: Redpoint Bio Corporation report by J. Napodano, Zacks Investment Research, March 2, 2010.

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 a small player in the alfalfa market. However, it is somewhat more important as a producer of salt and heat resistant products that are exported to other countries.

VALUATION

There is no historical valuation that can be used as guidance and there are no direct peers to use as a comparison.

Once the current discounting problems end the potential growth rate of EPS exceeds 25%. The acquisition of its largest distributer will enhance profitability starting in the current quarter. Since the company has new management and a new operating strategy we think that a price target of $7.00 a share is reasonable.

Comparables Table												
Company	**Ticker**	**Price**	**Mkt Cap.**	**P/E**	**P/E**	**ROE**	**P/Sales**	**EV/Sales**	**P/BV**	**EV/EBITDA**	**PEG**	**Instl.**
		11/14/11	(million)	Trailing	Forward	L4Q (%)	L4Q	L4Q	LQ			**Ownership**
S&W Seed	**SANW**	$4.70	$27.3	NM	NM	NM	3.09	2.67	1.87	NM	NM	2.9
Bunge Limited	BG	$62.86	$9,150	9.87	9.41	8.24	0.17	0.26	0.83	8.09	1.01	70.1
Cadiz Inc.	CDZI	$9.04	$128	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Chiquita Brands Int. Inc.	CQB	$9.00	$412	7.78	8.41	6.86	0.13	0.28	0.50	6.63	1.54	90.7
Calava Growers Inc.	CVGW	$24.18	$357	29.17	16.34	12.44	0.74	0.84	3.45	17.20	2.13	45.8
Coffee Holders Inc.	JVA	$8.98	$49	16.33	10.20	21.20	0.41	0.43	3.75	10.78	0.89	3.9
Sygenta AG	SYT	$59.59	$27,490	17.6	N/A	20.53	2.21	2.42	3.26	11.29	N/A	N/A
Mean				17.7	11.7	15.3	0.9	1.0	2.7	11.5	1.5	
Median				16.3	9.8	12.4	0.6	0.6	2.6	10.8	1.3	
(Source: Yahoo Finance and Zacks Investment Research estimates)												

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 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 2010. 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 2010 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.

  Roundup Ready alfalfa, which is a GMO product of Monsanto Corporation developed in partnership with Forage Genetics International, has not been sold in the U.S. as a result of a 2007 federal injunction that halted its sale pending release of an environmental impact statement (''EIS'') by the Animal and Plant Health Inspection Service (''APHIS'') of the U.S. Department of Agriculture (the ''USDA'').

  Once Roundup Ready alfalfa is available for sale in the U.S., it is expected that there will be end users who will choose Roundup Ready alfalfa over conventionally grown alfalfa seed varieties, including S&W Seeds proprietary varieties, because it does make weed control easier. Unless S&W Seed is willing to enter into a license with Monsanto to allow it to incorporate the Roundup Ready genetic trait into its seed, S&W Seed could potentially lose sales to customers who are want to achieve the benefits of Roundup Ready alfalfa. Licensing the technology to grow Roundup Ready alfalfa, will incur royalty costs and will need an upgrade of facilities to accommodate GMO products by adding a separate cleaning and processing line, both of which will increase expenses. However, Roundup Ready products do sell at a premium quick is an offset to the increased expenses.

INSIDER TRADING AND OWNERSHIP

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

There is a "lock-up" of these shares and so there are no insider trades.

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

Institutions purchased 25,895 shares in the last quarter reported.

PROJECTED INCOME STATEMENT & BALANCE SHEET

S & W Seed Company																	
Consolidated Statements of Operations																	
(Dollars in millions except per share data)																	
Fiscal Year Jun. 30	2009	2010	1Q11	2Q11	3Q11	4Q11	2011	1Q12	2Q12	3Q12	4Q12	2012	1Q13	2Q13	3Q13	4Q13	2013
	Act.	Act.					Act.	Act.	Est.	Est.	Est.	Est.	Est.	Est.	Est.	Est.	Est.
Net sales	**$4.95**	**$6.73**	**$0.93**	**$0.91**	**$0.44**	**$1.36**	**$3.64**	**$6.12**	**$3.50**	**$0.60**	**$1.70**	**$11.92**	**$6.50**	**$3.00**	**$0.90**	**$2.13**	**$12.53**
% Change	(2.97)	36.03	(42.90)	(69.95)	(47.59)	10.66	(45.87)	555.41	284.74	36.40	25.00	227.10	6.30	(14.29)	50.00	25.00	5.12
Cost Goods	3.65	4.92	0.56	0.45	0.25	1.02	2.28	4.36	2.50	0.40	1.11	9.19	4.55	1.65	0.59	1.38	8.17
G & A	0.56	1.05	0.53	0.49	0.61	0.53	2.17	0.71	0.60	0.60	0.60	2.51	1.00	0.80	0.60	0.60	3.00
Marketing	0.06	0.21	0.13	0.13	0.08	0.11	0.45	0.09	0.10	0.15	0.15	0.49	0.15	0.15	0.15	0.15	0.60
R&D	0.19	0.21	0.06	0.06	0.06	0.06	0.24	0.07	0.10	0.10	0.10	0.37	0.10	0.10	0.10	0.10	0.40
Op Income	0.49	0.33	(0.36)	(0.22)	(0.56)	(0.36)	(1.50)	0.88	0.20	(0.65)	(0.26)	0.17	0.70	0.30	(0.54)	(0.11)	0.36
Interest Expenses	0.08	0.10	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	0.00	0.00
Interest Income	0.00	0.00	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	0.00
Calc.Pretax	0.42	0.24	(0.36)	(0.21)	(0.56)	(0.37)	(1.50)	0.88	0.20	(0.65)	(0.26)	0.17	0.70	0.30	(0.54)	(0.11)	0.36
Taxes	0.00	(0.46)	(0.11)	(0.13)	(0.27)	(0.19)	(0.69)	0.35	0.08	(0.28)	(0.11)	(0.03)	0.30	0.13	(0.23)	(0.05)	0.15
Tax Rate, Pro-forma basis	0.0%	-195.9%	29.3%	61.5%	47.6%	50.3%	45.8%	39.2%	40.0%	43.0%	43.0%	-16.7%	43.0%	43.0%	43.0%	43.0%	43.0%
Net Income	0.38	0.58	(0.25)	(0.08)	(0.29)	(0.18)	(0.81)	0.52	0.12	(0.37)	(0.15)	0.13	0.40	0.17	(0.30)	(0.06)	0.20
GAAP Adj.	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.02	0.00	0.00	0.00	0.02	0.00	0.00	0.00	0.00	0.00
Net For Common	0.38	0.58	(0.25)	(0.08)	(0.29)	(0.18)	(0.81)	0.52	0.12	(0.37)	(0.15)	0.13	0.40	0.17	(0.30)	(0.06)	0.20
Shares Used, millions	3.00	3.42	5.80	5.80	5.80	5.80	5.80	5.84	5.80	5.80	5.80	5.80	5.80	5.80	5.80	5.80	5.80
Earnings Per Share																	
EPS (pro-forma)	**$0.13**	**$0.17**	**($0.04)**	**($0.01)**	**($0.05)**	**($0.03)**	**($0.14)**	**$0.09**	**$0.02**	**($0.06)**	**($0.03)**	**$0.03**	**$0.07**	**$0.03**	**($0.05)**	**($0.01)**	**$0.04**
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.																	

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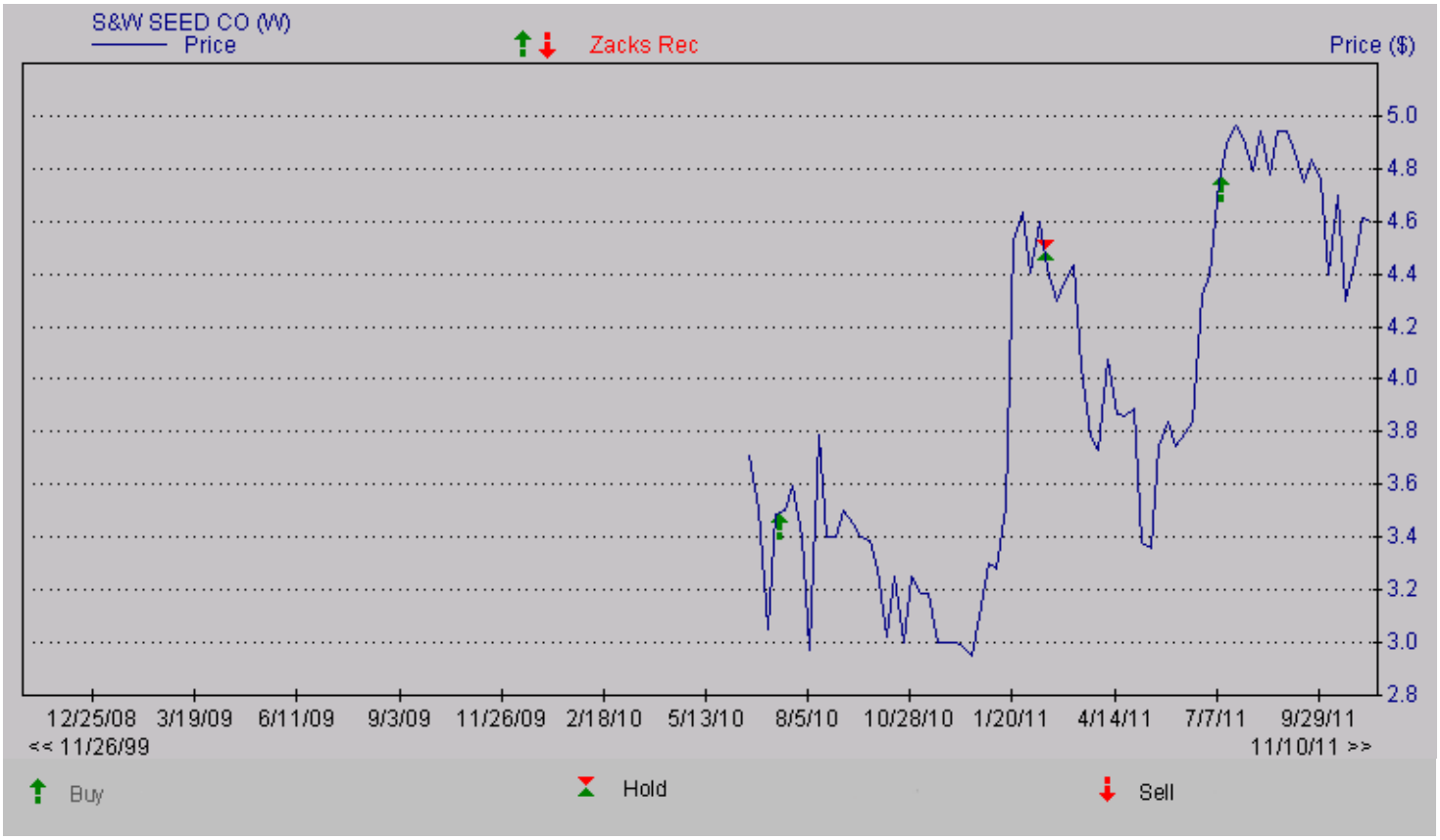
S & W Seed Company														
Consolidated Balance Sheet (in millions)														
Fiscal Year Jun. 30														
ASSETS			**4Q09**		**1Q10**	**2Q10**	**3Q10**	**4Q10**		**1Q11**	**2Q11**	**3Q11**	**4Q11**		**1Q12**
Cash & equiv.			0.00		0.00	0.38	0.36	7.83		7.18	5.70	4.13	3.74		4.19
A/R			0.39		0.00	2.58	1.46	2.12		2.46	1.67	1.01	1.80		6.10
Inventories			1.11		0.00	4.29	3.63	2.71		6.83	6.83	6.60	5.66		5.78
Prepaid exp & other			0.08		0.00	0.07	0.09	0.26		0.42	0.20	0.17	0.41		0.46
Total current assets			1.58		0.00	7.32	5.53	12.92		16.89	14.39	11.91	11.62		16.52
Property, plant & equip.			2.24		0.00	2.47	2.14	2.11		2.26	2.24	2.19	2.30		2.34
Investments															
Intangibles			0.60		0.00	0.66	0.56	0.55		0.54	0.53	0.51	0.50		0.65
Other			0.00		0.00	0.00	0.00	0.00		0.00	0.36	0.55	0.74		0.76
All Assets			**4.41**		**0.00**	**10.45**	**8.24**	**15.58**		**19.68**	**17.52**	**15.17**	**15.16**		**20.27**
LIABILITIES AND NET WORTH															
A/P			0.02		0.00	3.67	2.33	0.30		4.61	2.41	0.36	0.43		5.08
Accrued liabilities			0.00		0.00	0.60	0.00	0.00		0.00	0.00	0.00	0.00		0.00
ST debt															
Current portion of LTD-related parties															
Other			1.17		0.00	0.10	0.71	0.03		0.03	0.12	0.10	0.17		0.08
Total current liabilities			1.19		0.00	4.37	3.05	0.33		4.64	2.53	0.46	0.60		5.16
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
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
Total liabilities			1.19		0.00	4.37	3.05	0.33		4.64	2.53	0.46	0.60		5.16
Common Stock			2.11		0.00	0.00	0.00	0.01		0.01	0.01	0.01	0.01		0.01
Additional paid-in capital			0.00		0.00	2.56	0.94	14.48		14.53	14.55	14.57	14.61		14.63
Retained earnings			0.00		0.00	0.00	1.02	0.76		0.51	0.43	0.13	(0.05)		0.48
Other			0.14		0.00	0.58	0.00	0.00		0.00	0.00	0.00	0.00		0.00
Total stockholders' equity			2.25		0.00	3.14	1.96	15.25		15.04	14.98	14.71	14.56		15.11
Total liabilities & stockholders' equity			**$3.44**		**$0.00**	**$10.45**	**$8.24**	**$15.58**		**$19.68**	**$17.52**	**$15.17**	**$15.16**		**$20.27**
Ian Gilson, PhD; MBA; CFA															

HISTORICAL ZACKS RECOMMENDATIONS



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