

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

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended December 31, 2016

OR

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

For the transition period from _____ to _____

Commission file number 001-34719

S&W SEED COMPANY

(Exact name of Registrant as Specified in its Charter)

Nevada

(State or Other Jurisdiction of Incorporation or Organization)

27-1275784

(I.R.S. Employer Identification Number)

802 N. Douty Street
Hanford, California 93230

Edgar Filing: S&W Seed Co - Form 10-Q

(Address of Principal Executive Offices, including Zip Code)

(559) 884-2535

(Registrant's Telephone Number, including Area Code)

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

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

NO

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

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company
(Do not check if a smaller reporting company)

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

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

S&W SEED COMPANY
Table of Contents

PART I. FINANCIAL INFORMATION	<u>Page No.</u>
Item 1. Financial Statements (Unaudited):	
<u>Consolidated Balance Sheets at December 31, 2016 and June 30, 2016</u>	4
<u>Consolidated Statements of Operations for the Three and Six Months Ended December 31, 2016 and 2015</u>	5
<u>Consolidated Statements of Comprehensive Income (Loss) for the Three and Six Months Ended December 31, 2016 and 2015</u>	6
<u>Consolidated Statements of Stockholders' Equity for the Six Months Ended December 31, 2016 and 2015</u>	7
<u>Consolidated Statements of Cash Flows for the Six Months Ended December 31, 2016 and 2015</u>	8
<u>Notes to Consolidated Financial Statements</u>	9
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	35
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	55
<u>Item 4. Controls and Procedures</u>	56
PART II. OTHER INFORMATION	
<u>Item 1. Legal Proceedings</u>	56
<u>Item 1A. Risk Factors</u>	56
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	57
<u>Item 3. Defaults Upon Senior Securities</u>	57
<u>Item 4. Mine Safety Disclosures</u>	57
<u>Item 5. Other Information</u>	57
<u>Item 6. Exhibits</u>	57

FORWARD-LOOKING STATEMENTS

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

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

- the cost and other implications of pending or future legislation or court decisions and pending or future accounting pronouncements; and
- other risks that are described herein or updated from time to time in our filings with the SEC.

You are urged to carefully review the disclosures made concerning risks and uncertainties that may affect our business or operating results, which include, among others, those listed in Part I, Item 1A. "Risk Factors" of our Annual Report on Form 10-K for the fiscal year ended June 30, 2016.

Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, level of activity, performance or achievements. Many factors discussed in this Report, some of which are beyond our control, will be important in determining our future performance. Consequently, actual results may differ materially from those that might be anticipated from the forward-looking statements. In light of these and other uncertainties, you should not regard the inclusion of a forward-looking statement in this Report as a representation by us that our plans and objectives will be achieved, and you should not place undue reliance on such forward-looking statements. All forward-looking statements included herein are expressly qualified in their entirety by the cautionary statements contained or referred to in this section. Furthermore, such forward-looking statements speak only as of the date of this Report. We undertake no obligation to publicly update any forward-looking statements, or to update the reasons why actual results could differ materially from those anticipated in any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law.

When used in this Quarterly Report on Form 10-Q, the terms "we," "us," "our," "the Company," "S&W" and "S&W Seed" refer to S&W Seed Company and its subsidiaries or, as the context may require, S&W Seed Company only. Our fiscal year ends on June 30, and accordingly, the terms "fiscal 2017," "fiscal 2016" and "fiscal 2015" in this Quarterly Report on Form 10-Q refer to the fiscal years ended June 30, 2017, 2016 and 2015, respectively, with corresponding meanings to any fiscal year reference beyond such dates. Trademarks, service marks and trade names of other companies appearing in this report are the property of their respective holders.

Part I

FINANCIAL INFORMATION

Item 1. Financial Statements

S&W SEED COMPANY
CONSOLIDATED BALANCE SHEETS
(UNAUDITED)

	December 31, 2016	June 30, 2016
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 2,108,295	\$ 6,904,500
Accounts receivable, net	25,631,555	27,619,599
Inventories, net	42,550,711	21,846,130
Prepaid expenses and other current assets	1,054,665	1,218,280
TOTAL CURRENT ASSETS	71,345,226	57,588,509
Property, plant and equipment, net	13,223,114	12,600,106
Intangibles, net	36,013,237	37,006,802
Goodwill	10,292,265	10,292,265
Deferred tax assets	8,314,362	7,279,923
Other assets	2,154,332	2,237,380
TOTAL ASSETS	\$ 141,342,536	\$ 127,004,985
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable	\$ 24,349,997	\$ 14,303,877
Accounts payable - related parties	3,858,676	396,027
Deferred revenue	357,239	509,857
Accrued expenses and other current liabilities	1,189,545	2,385,160
Foreign exchange contract liabilities	179,203	-
Lines of credit	22,218,516	16,687,473
Current portion of contingent consideration obligation	2,290,850	-
Current portion of long-term debt	10,250,100	275,094
Current portion of convertible debt, net	1,193,618	6,840,608
TOTAL CURRENT LIABILITIES	65,887,744	41,398,096
Contingent consideration obligation	141,929	2,268,416
Long-term debt, less current portion	1,018,361	11,114,333
Derivative warrant liabilities	4,522,600	4,354,100
Other non-current liabilities	45,345	108,596
TOTAL LIABILITIES	71,615,979	59,243,541
STOCKHOLDERS' EQUITY		
Preferred stock, \$0.001 par value; 5,000,000 shares authorized; no shares issued and outstanding	-	-
Common stock, \$0.001 par value; 50,000,000 shares authorized; 17,973,483 issued and 17,948,483 outstanding at December 31, 2016; 17,086,111 issued and 17,061,111 outstanding at June 30, 2016;	17,973	17,086
Treasury stock, at cost, 25,000 shares	(134,196)	(134,196)
Additional paid-in capital	82,548,506	78,282,461
Accumulated deficit	(6,672,442)	(4,614,244)
Accumulated other comprehensive loss	(6,033,284)	(5,789,663)
TOTAL STOCKHOLDERS' EQUITY	69,726,557	67,761,444
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 141,342,536	\$ 127,004,985

See notes to consolidated financial statements.

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

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

See notes to consolidated financial statements.

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

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

See notes to consolidated financial statements.

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

	Common Stock		Treasury Stock		Additional Paid-In Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	Total Stockholders' Equity
	Shares	Amount	Shares	Amount				
Balance, June 30, 2015	13,479,101	\$ 13,479						