

# ANNUAL REPORT 2021



NASDAQ: SANW



OUR EVOLUTION TO A SEED  
TRAIT TECHNOLOGY COMPANY





# |S&W Seed Company|

Founded in 1980, S&W Seed Company is a global leader in proprietary alfalfa and sorghum seeds, with significant research and development, production and distribution capabilities. S&W's product portfolio also includes hybrid sunflower, wheat, and pasture seeds and we are utilizing our research and breeding expertise to develop and produce stevia, an all-natural, zero calorie sweetener for the food and beverage industry.

Our vision is to be the world's preferred proprietary seed company which supplies a range of forage, grain and specialty crop products that supports the growing global demand for animal proteins and healthier consumer diets.





# |Core Crop Portfolio|

A DIVERSIFIED MIDDLE MARKET AGRICULTURAL PLATFORM



Alfalfa / Lucerne



Sorghum



Sunflower



Pasture



Wheat



Stevia





We were extremely pleased by the positive response to Double Team™ by the growers across the Great Plains that were part of the 2021 limited launch. Their real-world validation of the benefits of Double Team™ to minimize grassy weeds reconfirms our convictions in the long-term benefits to sorghum farmers.

-Mark Wong, S&W Seed Company CEO





# |Dear Shareholders|

## OUR EVOLUTION TO A SEED TRAIT TECHNOLOGY COMPANY

We took a number of important steps forward in the execution of our strategic plan to evolve S&W into an integrated agricultural seed technology company during the past year.

Key to that progress was the commercial launch of our first ever company-developed trait technology product, a non-GMO herbicide tolerant sorghum solution we call Double Team™. Double Team™ is a collaboration between S&W Seed Company and ADAMA Ltd. allowing growers' over-the-top use of ADAMA's FirstAct™ herbicide. Historically, sorghum growers have been unable to control grassy weeds which rob water and nutrients from the crop. As a result, we believe Double Team™ has the potential to revolutionize the sorghum market in the same way other weed control technologies have enhanced yields for other crops such as corn, soybeans, and cotton. Further, we believe the introduction of the Double Team™ sorghum system has the potential to significantly expand the size of the overall sorghum market. We have a lot of work to do, but the real-world validation of the benefits of Double Team™ to minimize grassy weeds during the 2021 pilot launch with key growers reconfirms our convictions of the long-term benefits of using our Double Team™ sorghum solution.



Untreated Sorghum



Treated with Double Team™

Another key development this past year was our entry into an exclusive U.S. stevia pilot production supply agreement with Ingredion, the world's largest stevia producer. Currently, the vast majority of stevia is grown in Asia. In order to move production to the United States, we needed to demonstrate the ability to effectively produce large quantities of stevia in the United States at comparable prices. We believe we recently made a significant leap forward by validating efficacy of stevia production in the southeastern United States by leveraging our stevia germplasm as well as a unique seed-to-plant process and mechanical harvesting system which we expect to dramatically reduce overall production costs. We are excited to work with Ingredion under this pilot production supply agreement to further validate and expand upon our capabilities to date. If we are successful in the pilot production agreement, this could potentially provide us with a significant opportunity going forward.

Further, we made advancements in our Improved Quality Alfalfa (IQA™) program, a gene-edited product to down regulate lignin synthesis and improve forage digestibility in ruminants, as well as our Dhurrin Free Sorghum (DF™) program, which removes naturally toxic metabolite from stressed forage sorghum resulting in safer grazing and hay. Both programs allow us to bring proprietary traits to the market, helping to transition our operations from lower, commodity type margins, to high-value proprietary technology margins.



As with any agricultural company, we refrain from managing operations with a view on only a quarterly, or even annual basis. We look well into the future, as product development timelines are lengthy and sales seasons are typically just once a year in each hemisphere. However, we see an opportunity where there are significant barriers to entry, as high value proprietary products have long commercial lifespans and customers typically remain loyal. For this reason, we released a Technology Deck this fiscal year which included our 3-, 5-, and 10-year financial visions. We have included key aspects of that presentation in this annual report for your review. At the core of our vision is the transition of a company with minimal trait technology integration and low gross margins, to one with non-GMO seed traits integrated throughout our portfolio that can generate gross margins in line with other seed trait technology companies. This expansion into high margin technology products, coupled with growth in our core crops, has the ability to transform S&W in the coming years with significant earnings capabilities.

That said, we still need to operate the business on a day-to-day basis and 2021 presented numerous challenges to us as the COVID-19 pandemic had a significant negative impact on logistics and supply chain, as experienced in several industries across the globe. These challenges contributed to delayed shipments to our customers and increased our costs of goods sold. Fortunately, we were able to meet customer planting windows, but did have revenue that was originally expected to be recognized in fiscal 2021 transition into fiscal 2022. We have taken a number of steps to mitigate some of these logistical challenges, but generally expect these challenges to persist throughout fiscal 2022 as well. We have also undertaken

We believe Double Team™ has the potential to revolutionize the sorghum market in the same way other weed control technologies have enhanced yields for crops such as corn, soybeans, and cotton.

-Mark Wong, S&W Seed Company CEO

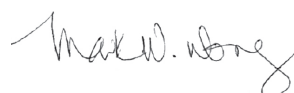
several strategic initiatives designed to drive improved operating results going forward, including the implementation of price increases on the majority of our products to address overall rising costs and to more properly reflect the value of our proprietary products. Fortunately, the demand for our products is strong and we expect the macro agricultural tailwinds should remain in our favor as agricultural commodity prices remain near multi-year highs.

We believe we have the right products, for the right markets and the right team in place to generate shareholder value. The launch of our trait technology products has the potential to transform S&W into a high growth, high margin business with multiple licensing and technology trait capabilities. Our initial customer and market surveys indicate grower demand/adoption is expected to be strong for our lead products and we believe we have one of the industry's most accomplished management teams and board of directors in bringing to market high value trait technologies.

We thank you all for your continued support of S&W and are dedicated to the realization of our vision in the years to come.



**Mark Harvey**  
Chairman of the Board



**Mark Wong**  
Chief Executive Officer



# |Our Vision|

- **THE LAUNCH OF OUR PROPRIETARY NON-GMO TRAIT** technology in FY21 is expected to transform the operating profile of S&W into a high growth, high margin business.
- **MORE THAN HALF OF OUR GROSS PROFIT CONTRIBUTION** over next decade is expected to come from new technology products.
- **THE DEVELOPMENT OF THREE NEW TECHNOLOGIES,** Double Team™, Improved Quality Alfalfa, and Dhurrin-Free Sorghum, should provide crop and geographic diversification.
- **OUR 40 YEAR OPERATING HISTORY CREATES A UNIQUE** opportunity to leverage our large and existing customer base and business operations where we have long standing relationships across many product lines in which we can introduce new trait technology products.
- **WE BELIEVE OUR FOCUS ON CROPS IN WHICH THE INDUSTRY** has had minimal technological investment over the years provides us with the opportunity to become a market-share leader with new product introductions and innovations.
- **WE BELIEVE MIDDLE MARKET CROPS WILL BE KEY GROWTH** driver in years to come.
- **WE BELIEVE OUR STEVIA PILOT PRODUCTION PROGRAM** with Ingredion (Nasdaq: INGR) should help to drive revenue growth in the future.





# Novel Trait Product Development Timeline

## CREATING INNOVATION IN CROPS THAT HAVE HISTORICALLY BEEN UNDER INVESTED

At S&W, we are utilizing our R&D engine to create new value through advanced technology and partnerships with leading biotech companies and universities with the goal of helping customers deploy new technology in crop portfolio and increase value on the farm. Pathways include in-house development, licensing from third party technology developers, and licensing from land grant universities.

Phase		Description	Time (Years)
0	Product Concept	Identify new trait that could create value Define minimum trait expression profile for success	
1	Technical Proof of Concept	Create the trait in a model plant or target crop Evaluate expression of the trait vs. profile for success	1-3
2	Commercial Proof of Concept	(Simultaneous activities)	1-3
	Product	Breed trait into elite germplasm and perform agronomic field trials for high yielding seed products	
	System	Determine how technical trait performance translates into real-world value for potential customers	
	Regulatory	Build and submit any necessary regulatory dossiers (where required)	
3	Scale Up	Produce seed of new products carrying trait Execute education, promotion and other pre-sales activities	1-2
4	Commercialization	Demonstration plots for key customers Work with distribution partners to market new seed traits	

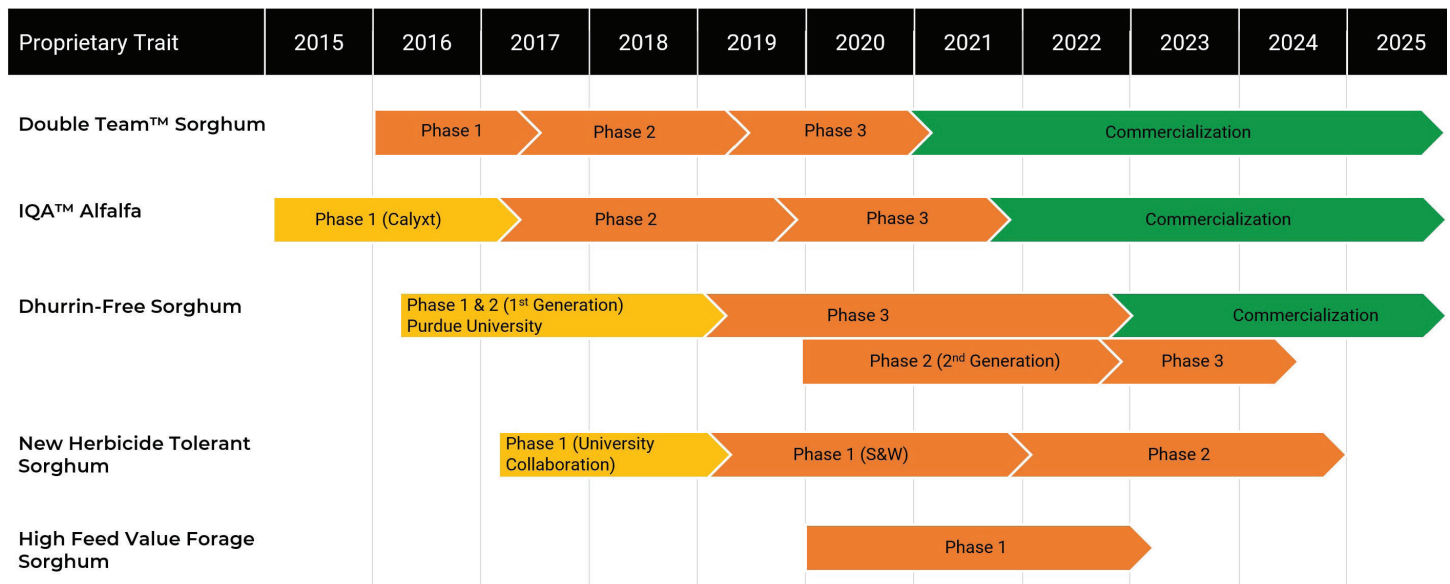




# Proprietary Traits Development and Anticipated Launch Timing

## S&W'S ONGOING EVOLUTION TO A NON-GMO SEED TRAIT TECHNOLOGY COMPANY

Over the past few years, S&W has made significant progress toward its evolution into a completely integrated agricultural seed company. Key to that transformation has been the development and commercialization of our proprietary seed trait technology products. With a highly accomplished management team that has successfully developed, marketed, licensed, and sold similar trait technologies over the years, we believe the Company is entering a new era. Below is our current pipeline of trait technology products and anticipated launch timing.





# Lead Novel Commercial Trait Technologies

THE LAUNCH OF OUR THREE NEW TRAIT TECHNOLOGY PRODUCTS IS EXPECTED TO PROVIDE S&W WITH AN OPPORTUNITY FOR SIGNIFICANT EARNINGS.



Double Team™ Sorghum (DT™)

## LAUNCHED SPRING 2021

Double Team™ Sorghum (DT™) has non-GMO tolerance to broad spectrum grass herbicide. There is currently no other effective post-emergence control for tough grassy weeds in sorghum that is commercially available.

DT™ is designed to improve yields in sorghum fields and expand acres of drought-tolerant sorghum, replacing herbicide-tolerant but water-hungry corn.



Improved Quality Alfalfa (IQA™)

## ANTICIPATED LAUNCH SPRING 2022

Developed in partnership with leading biotech company, Calyxt, Inc., Improved Quality Alfalfa (IQA™) is gene-edited to down-regulate lignin synthesis and improve forage digestibility in ruminants.

Alfalfa is a critical component in dairy rations. Improved digestibility increases efficiency of dairy operations, resulting in more milk per ton of feed, higher income for alfalfa producers, and reduced dietary wastage.



Dhurrin Free Sorghum (DF™)

## ANTICIPATED LAUNCH 2023

Dhurrin Free Sorghum (DF™) removes naturally toxic metabolite from stressed forage sorghum resulting in safe, worry-free grazing and hay.

Dhurrin is a natural toxin that sorghum produces to protect itself from grazing animals when the plant is under stress from drought, temperature fluctuation or other conditions. In some circumstances, the biproducts of dhurrin metabolism, prussic acid, can kill livestock. Genetically removing dhurrin eliminates the risk of grazing or producing hay from stressed sorghum fields.



# |Trait Technology Goals|

**1** Our primary goal is to solve customer crop production problems for which there is no current solution through novel seed-based technology such as:

- Eliminating grassy weeds in sorghum
- Reducing lignin to improve digestibility in alfalfa
- Removing dhurrin to effectively remove toxicity in grazed sorghum therefore increasing productivity of farmer fields

**2** Continue to share value creation among our partners and stakeholders, including:

- S&W Seed Company employees and shareholders
- Technology partners
- End customer and farmers
- Distribution channel

**3** Continue to drive towards profitability through:

- Deploying new technologies across multiple crop and product lines
- Expanding private label relationships with key distribution partners
- Licensing traits to industry partners

**DOUBLE TEAM**  
SORGHUM CROPPING SOLUTION







# Total Company Revenue and EBITDA Vision

## FINANCIAL VISION

We have conducted substantial market research to assess the combined potential opportunity for our three lead trait technology products and core non-tech business. This included surveys with growers, distributors, potential licensees and industry experts, among others. Based on this market research and management's estimates and assumptions of market share, technology prices and anticipated continued growth of the existing core business, we provided the following mid- and long-term financial vision. The following is intended to provide a guide as to the potential financial opportunity for S&W. While subject to risk and uncertainty, and our company's performance as compared to various estimates and assumptions, we believe the following provides useful insight into management's view regarding the potential growth opportunities for the business, and how management intends to measure the success of its planned commercial launch of our three lead trait technology products.

	3 Year Vision (FY24)	5 Year Vision (FY26)	10 Year Vision (FY31)
<b>Revenue Excluding Acquisitions</b>	<b>\$130M</b>	<b>\$176M</b>	<b>\$234M</b>
Revenue from Tech Products (Seed + Tech + License)	\$12M	\$35M	\$70M
Revenue excluding Tech Products	\$118M	\$141M	\$164M
Combined Gross Profit Margins	35%	41%	48%
<b>Adjusted EBITDA</b>	<b>\$13M</b>	<b>\$34M</b>	<b>\$69M</b>
Adjusted EBITDA Margins	10%	19%	30%

For additional detail regarding our assumptions, refer to our Seed Trait Technology Development and Commercialization Update presentation issued in December 2020.

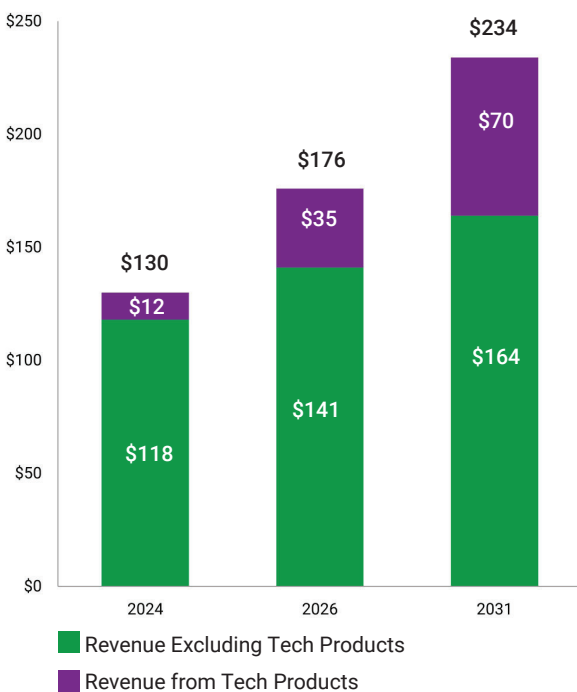




# Significant Earnings Power Through Tech Products

## REVENUE VISION

Fiscal Year Ends June  
(\$ in millions)



## ADJUSTED EBIDTA VISION

Fiscal Year Ends June  
(\$ in millions)



2020 revenue excluding product revenue attributable to Pioneer, which the company defines as Core Revenue. Numbers may not equate due to rounding.



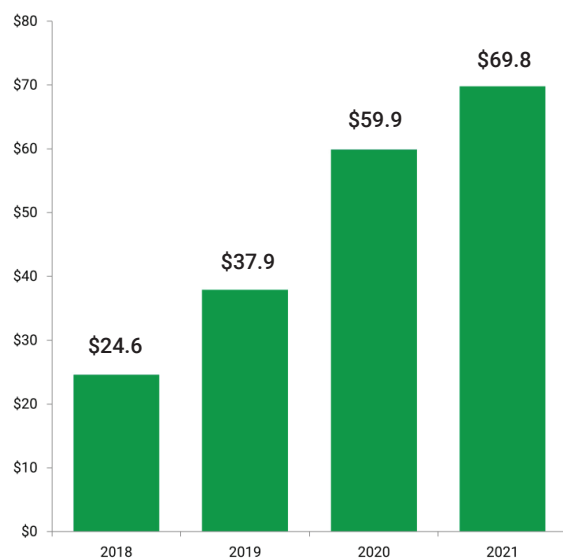
# [Company Financials]

## S&W SEED COMPANY: CONSOLIDATED STATEMENT OF OPERATIONS

	2020		2021	
Years ended June 30				
<b>Revenue</b>		\$ 79,582,198		\$ 84,049,036
Cost of Revenue		64,647,936		70,372,139
Gross Profit		14,934,262		13,676,897
<b>Operating Expenses</b>				
Selling, general and administrative expenses		21,348,092		21,867,529
Research and development expenses		7,336,754		8,515,786
Depreciation and amortization		5,036,464		5,469,581
Gain on disposal of property, plant and equipment		(23,299)		(1,906,738)
Total Operating Expenses		33,698,011		33,946,158
<b>Loss From Operations</b>		(18,763,749)		(20,269,261)
<b>Other Expenses</b>				
Foreign currency (gain) loss		98,620		(94,214)
Change in estimated value of assets held for sale		92,931		--
Change in contingent consideration obligation		(302,139)		(4,016,904)
Government grant income		(1,958,600)		--
Loss on extinguishment of debt		140,638		--
Interest expense - amortization of debt discount		555,049		689,514
Interest expense		1,970,882		2,283,215
<b>Loss Before Income Taxes</b>		(19,361,130)		(19,130,872)
Provision for income tax		385,968		(24,358)
<b>Net Loss</b>		\$ (19,747,098)		\$ (19,106,514)
Net income (loss) attributed to noncontrolling interests		(72,774)		64,453
<b>Net Loss Attributable to S&amp;W Seed Company</b>		\$ (19,674,324)		\$ (19,170,967)
<b>Net Loss Per Common Share:</b>				
Basic and Diluted		(0.59)		(0.55)
<b>Weighted Average Number of Common Shares Outstanding:</b>				
Basic and Diluted		33,348,263		34,590,883

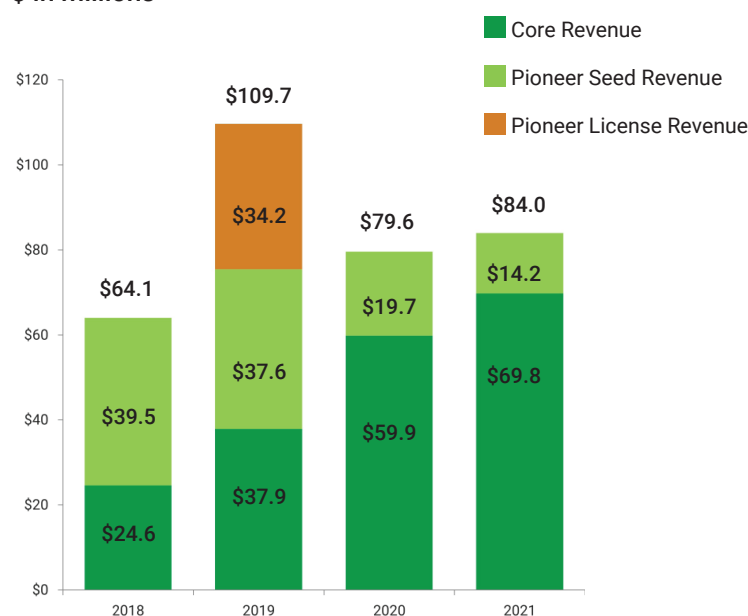
## CORE REVENUE

\$ in millions



## TOTAL REVENUE

\$ in millions



Core Revenue is defined as total revenue, excluding product revenue attributable to Pioneer. Numbers may not equate due to rounding.



# |Disclaimers|

## FORWARD LOOKING STATEMENTS

This report contains "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, and such forward-looking statements are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. "Forward-looking statements" describe future expectations, plans, results, or strategies and are generally preceded by words such as "may," "future," "plan" or "planned," "will" or "should," "expected," "anticipates," "draft," "eventually" or "projected." Forward-looking statements in this release include, but are not limited to: contributions of current and future technology products to our financial performance, including the related underlying projections and assumptions; financial projections, including core revenue and revenue from tech products; commercialization plans and our ability to leverage our industry experience and customer base to achieve our commercialization plans; pipeline product development and launch timing; potential benefits of our Double Team™ Sorghum, Improved Quality Alfalfa and Dhurrin-Free Sorghum products and key growth assumptions related to such products; and the execution of our strategy and commercial plans. You are cautioned that such statements are subject to a multitude of risks and uncertainties that could cause future circumstances, events, or results to differ materially from those projected in the forward-looking statements, including the risks that our research and development efforts may not yield the anticipated benefits; sales of our tech products may be lower than anticipated; our strategy may not achieve the expected results; global pandemics and other health crises, such as COVID-19, may continue to negatively impact our operations and financial results; and the risks associated with our ability to successfully optimize and commercialize our business. These and other risks are identified in our filings with the Securities and Exchange Commission, including, without limitation, our Annual Report on Form 10-K for the year ended June 30, 2021 and in other filings subsequently made by the Company with the Securities and Exchange Commission. All forward-looking statements contained in this press release speak only as of the date on which they were made and are based on management's assumptions and estimates as of such date. We do not undertake any obligation to publicly update any forward-looking statements, whether as a result of the receipt of new information, the occurrence of future events or otherwise.

## NON-GAAP FINANCIAL MEASURES

In addition to financial measures included in this report that are calculated in accordance with accounting principles generally accepted in the United States of America ("GAAP"), the Company has provided the following non-GAAP financial measures in this presentation: adjusted EBITDA; and adjusted EBITDA margins. S&W uses these non-GAAP financial measures internally to facilitate period-to-period comparisons and analysis of its operating performance and liquidity, and believes they are useful to investors as a supplement to GAAP measures in analyzing, trending and benchmarking the performance and value of the Company's business.

However, these measures are not intended to be a substitute for those reported in accordance with GAAP. These measures may be different from non-GAAP financial measures used by other companies, even when similar terms are used to identify such measures. Adjusted EBITDA is a non-GAAP financial measure that we define as GAAP net income (loss), adjusted to exclude non-recurring transaction costs, depreciation and amortization, non-cash stock-based compensation, foreign currency (gain) loss, change in contingent consideration liability, reduction of anticipated loss on sub-leased land, interest expense – amortization of debt discount, interest expense, and provision (benefit) for income taxes.

We believe that the use of adjusted EBITDA is useful to investors and other users of the Company's financial statements in evaluating our operating performance because it provides them with an additional tool to compare business performance across companies and across periods. We use these non-GAAP measures in conjunction with traditional GAAP operating performance measures as part of our overall assessment of our performance, for planning purposes, including the preparation of our annual operating budget, to evaluate the effectiveness of our business strategies and to communicate with our board of directors concerning our financial performance.

Management does not place undue reliance on adjusted EBITDA as its only measure of operating performance. Adjusted EBITDA should not be considered as a substitute for other measures of financial performance reported in accordance with GAAP. The Company has not reconciled adjusted EBITDA to net income (loss) because the Company has not provided assumptions for the other line items that are reconciling items, including depreciation, amortization, interest expense and stock-based compensation, among others. As these items are out of the Company's control and cannot be reasonably predicted, the Company is unable to provide such an outlook. Accordingly, reconciliation of these non-GAAP measures to their most directly comparable GAAP measures is not available without unreasonable effort.



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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549**

**FORM 10-K**

(Mark One)

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

For the fiscal year ended June 30, 2021

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 No.)*

**2101 Ken Pratt Blvd., Suite 201, Longmont, CO**  
*(Address of Principal Executive Offices)*

**80501**  
*(Zip Code)*

**(720) 506-9191**

*(Registrant's Telephone Number, Including Area Code)*

**Securities Registered Pursuant to Section 12(b) of the Act:**

<b>Title of Each Class</b>	<b>Trading Symbol(s)</b>	<b>Name of Each Exchange on Which Registered</b>
Common Stock, par value \$0.001 per share	SANW	The Nasdaq Capital Market

**Securities Registered Pursuant to Section 12(g) of the Act:**

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

Yes  No

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 such shorter period that the registrant was required to file such 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 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 such files).

Yes  No

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

Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input checked="" type="checkbox"/>	Smaller reporting company	<input checked="" type="checkbox"/>
Emerging growth company	<input type="checkbox"/>		

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report.

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

The aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold, or the average bid and asked price of such common equity, as of the last business day of the registrant's most recently completed second fiscal quarter was \$38,015,909.

The number of shares outstanding of common stock of the registrant as of September 27, 2021 was 36,777,094.

**DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the registrant's Proxy Statement for its next Annual Meeting of Stockholders are incorporated herein by reference in Part III of this Annual Report on Form 10-K to the extent stated herein. Such proxy statement is to be filed with the Securities and Exchange Commission within 120 days of the registrant's fiscal year ended June 30, 2021.



**S&W SEED COMPANY**  
**FORM 10-K**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2021**

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## FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, or the Securities Act, and Section 21E of the Securities Exchange Act of 1934, as amended, or the Exchange Act. All statements other than statements of historical fact could be deemed forward-looking statements, including, but not limited to: statements concerning the potential effects of the COVID-19 pandemic on our business; 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,” “designed,” “estimate,” “expect,” “intend,” “may,” “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, including certain assumptions, that, if they never materialize or prove incorrect, could cause our actual results and the timing of certain events to differ materially from those expressed or implied by such forward-looking statements. Risks, uncertainties and assumptions include the following:

- The duration of the COVID-19 pandemic and the extent to which it continues to disrupt the local and global economies, as well as our business and the businesses of our customers, distributors and suppliers;
- changes in demand for our seed products and stevia development program;
- our plans for expansion of our business (including by expanding crop offerings and market share of existing offerings through acquisitions) and our ability to successfully integrate acquisitions into our operations;
- whether we continue to invest in research and development and whether such investment results in trait improvement across our crop categories;
- the continued ability of our distributors and suppliers to have access to sufficient liquidity to fund their operations;
- market trends and other factors affecting our financial condition or results of operations from period to period;
- the impact of crop disease, severe weather conditions, such as flooding, or natural disasters, such as earthquakes, on crop quality and yields and on our ability to grow, procure or export our products;
- the impact of pricing of other crops that may be influence what crops our growers elect to plant;
- whether we are successful in aligning expense levels to revenue changes;
- whether we are successful in monetizing our stevia business;
- the cost and other implications of pending or future legislation or court decisions and pending or future accounting pronouncements; and
- other risks that are described herein including but not limited to the items discussed in Part I, Item 1A. “Risk Factors” of this Annual Report on Form 10-K, or the Annual Report, and that are otherwise described or updated from time to time in our filings with the Securities Exchange Commission.

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 described above.



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 Annual Report on Form 10-K, some of which are beyond our control, will be important in determining our future performance. Consequently, these statements are inherently uncertain and actual results may differ materially from those that might be anticipated from the forward-looking statements. In light of these and other uncertainties, you should not regard the inclusion of a forward-looking statement in this Annual Report on Form 10-K as a representation by us that our plans and objectives will be achieved, and you should not place undue reliance on such forward-looking statements. All forward-looking statements included herein are expressly qualified in their entirety by the cautionary statements contained or referred to in this section. Furthermore, such forward-looking statements represent our views as of, and speak only as of, the date of this Annual Report on Form 10-K, and such statements should not be read to indicate that we have conducted an exhaustive inquiry into, or review of, all potentially available relevant information. We undertake no obligation to publicly update any forward-looking statements, or to update the reasons why actual results could differ materially from those anticipated in any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law.

When used in this Annual Report on Form 10-K, 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 2021,” “fiscal 2020,” and “fiscal 2019” in this Annual Report on Form 10-K refer to the respective fiscal year ended June 30, 2021, 2020 and 2019, 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

### Item 1. Business

#### Overview

We are a global multi-crop, middle-market agricultural company. We are market leaders in the breeding, production and sale of alfalfa seed and sorghum seed. We also have a growing commercial market presence in sunflower, wheat and pasture seed and maintain an active stevia development program.

Our seed platform develops and supplies high quality germplasm designed to produce higher yields for farmers worldwide. We sell over 500 seed products in more than 40 countries. We maintain an active product pipeline and expect to introduce more than 20 new products during the 2022-2023 fiscal years.

Founded in 1980, we began our operations as a limited producer of non-dormant alfalfa seed varieties bred for warm climates and high-yields, including varieties that can thrive in poor, saline soils. Over the years we have built a diversified, global agricultural platform through a combination of organic growth and strategic acquisitions and collaborations, including:

- Our 2012 acquisition of Imperial Valley Seeds, Inc., which enabled us to expand production of non-GMO alfalfa seed into California's Imperial Valley, thereby ensuring a non-GMO uncontaminated source of alfalfa seed due to the prohibition on growing GMO crops in the Imperial Valley, as well as enabling us to diversify our production areas and distribution channels;
- Our 2012 acquisition of a portfolio of dormant alfalfa germplasm, which launched our entry into the dormant alfalfa market;
- Our 2013 acquisition of Seed Genetics International Pty Ltd (now S&W Seed Company Australia Pty Ltd, or S&W Australia), the leading producer of non-dormant alfalfa seed in South Australia, which made us the largest non-dormant alfalfa seed company in the world, with production capabilities in both hemispheres;
- Our 2014 acquisition of alfalfa production and research facility assets and conventional (non-GMO) alfalfa germplasm from Pioneer Hi-Bred International, Inc., or Pioneer (now a subsidiary of Corteva Agriscience, Inc., or Corteva), which substantially broadened and improved our dormant alfalfa germplasm portfolio and deepened our production, research and product development capabilities;
- Our 2016 acquisition of the business and assets of SV Genetics Pty Ltd, a developer of proprietary hybrid sorghum and sunflower seed germplasm, which expanded our crop focus into two areas which we believe have global growth potential;
- Our 2018 acquisition of the assets of Chromatin, Inc. and related companies, which positioned us to become a global leader in the hybrid sorghum seed market and enhanced our distribution channels both internationally and within a U.S.-based farmer-dealer network;
- Our 2018 joint venture with AGT Foods Africa Proprietary Limited and 2019 joint venture with Zaad Holdings Limited, both based in South Africa, each of which were formed to produce our hybrid sunflower, grain sorghum and forage sorghum seed in Africa for sale in Africa, the Middle East and Europe;
- Our 2019 license of commercialized and developmental wheat germplasm from Corteva, through which we entered the largest grain crop market in Australia;
- Our 2020 acquisition of Pasture Genetics Pty Ltd., or Pasture Genetics, the third largest pasture seed company in Australia, which further diversified our product offerings in Australia and strengthened our Australian sales team and distribution relationships;
- Our 2020 collaboration with ADAMA Ltd., or ADAMA, a subsidiary of China National Chemical Engineering Co Ltd., or ChemChina, to bring to the U.S. sorghum market the DoubleTeam™ grassy weed management system, consisting of ADAMA's proprietary herbicides and our non-GMO, herbicide tolerant sorghum hybrids; and
- Our 2020 licensing agreement with The Agricultural Alumni Seed Improvement Association, Inc., an affiliate of Purdue University in West Lafayette, IN, to develop and commercialize worldwide a non-GMO, dhurrin-



free trait in sorghum species, which essentially eliminates potential livestock death from hydrogen cyanide poisoning when grazing sorghum.

## **Our Strategy**

The global agriculture market is experiencing rapid change driven by population growth, increasing consumer demand and emerging markets, environmental challenges, limited availability of arable land and diverse regulatory requirements. As a result, farmers and other industry participants are facing continuous pressure to cost-effectively increase productivity and output. These and certain other factors have led to strategic realignments and significant consolidation in the seed industry, leaving a small number of large players.

We believe this environment presents an opportunity to build a global agricultural company focused on crop and market opportunities that large seed companies may overlook, underserve or ineffectively address.

We believe our core strengths listed below position us to capitalize on this market opportunity:

- *Strong Germplasm Asset Base and Development Capabilities.* We believe we have the largest and most diversified alfalfa and sorghum germplasm pool in the world. Our germplasm pool offers traits sought by farmers who grow forage hay, forage sorghum and grain sorghum, including high yield, drought tolerance and disease tolerance. We continue to invest in research and development programs in the United States, Australia and South America with an emphasis on driving trait improvement across all of our crop categories.
- *Cost-Efficient Global Supply Chain.* We produce seed in the Western United States, Canada, Australia and South Africa under contract with select third-party growers. We currently maintain approximately 200 grower relationships, many of which are longstanding. Our global, but localized, production capabilities allow us to produce seed close to the customer to ensure the seed product is developed specifically for the conditions and requirements of that customer's region and produced at low cost. We condition and package seed primarily in our own facilities located in Idaho, Texas and Australia. We believe that direct ownership of our production facility assets gives us more flexibility to react to demand changes unique to each geography, greater control over product quality and a lower cost structure.
- *Global Distribution Capabilities and Relationships.* We sell our seed through one of the industry's largest networks of distributors and dealers, reaching more than 40 countries. In the United States, we believe that our farmer-dealer network, unique among middle-market seed companies, provides a platform to support sales growth across crop categories. In Australia, we recently enhanced our sales and distribution capabilities through our acquisition of Pasture Genetics.
- *Deep Industry Expertise.* We believe that our management team has deep industry experience and a demonstrated record of success that is unmatched for a seed industry company of our size. Our leadership team includes both proven industry executives recruited to our company and top talent acquired through our various acquisitions. Mark Wong, our Chief Executive Officer, has over 40 years of senior executive experience in the agriculture industry and has successfully built, operated, and sold multiple seed companies to industry leaders across multiple crops, including sorghum, corn, soybeans, and vegetables.

Our goal is to be a leading multi-crop, middle-market agricultural company; delivering value to our customers and strong financial returns to our shareholders. To reach our goal, we have prioritized the following strategic initiatives:

- *Develop and Launch New Products that Address Unmet Market Needs.* We expect to introduce more than 20 new products during the 2022-2023 fiscal years across our current crop offerings. We also plan to continue development activities aimed to generate high-value, improved traits in our crops and to begin commercialization of seed products carrying those traits. We completed a Spring 2021 pilot launch of sorghum hybrids incorporating our proprietary, patent-pending herbicide tolerant trait as part of our DoubleTeam™ collaboration with ADAMA. We are also evaluating commercialization options for alfalfa seed products developed through our collaboration with Calyxt, Inc., which applied apply next generation gene-editing technology to our elite alfalfa seed genetics.



- *Build Our Multi-Channel Distribution Network and Execute on International Cross-Selling Opportunities.* Our organization is aligned across geographic lines, as opposed to product lines. We believe that this structure allows us to make the best use of distribution assets like our United States farmer-dealer network and our Australian sales force (recently expanded by our acquisition of Pasture Genetics) and to unlock potential sales synergies through international cross-selling of products. We believe that a robust, diverse distribution network will allow us to continue to evolve beyond our historical dependence on certain geographical markets which carry higher political, regulatory and economic risks.
- *Exploit International Production Capability for Best-In Class Cost Structure.* Our streamlined international supply chain provides us with flexibility in sourcing product to meet customer needs. We are focused on exploiting this ability to shift production to low-cost areas to both support our competitive position and improve our margins.
- *Commercialize Stevia.* We believe that an opportunity exists to bring to market new stevia varieties that can both meet consumer taste requirements and have yield quality that would enable farmers to profitably grow stevia in North and South America. We plan to leverage our proprietary stevia germplasm to form collaborations and commercial agreements with supply chain partners to create a U.S.-based stevia production industry for high-quality stevia sweetener with superior taste profiles that would supply major customers in the U.S. market.
- *Expand Crop Offerings and Market Share of Existing Offerings Through Strategic Acquisitions.* We expect that ongoing consolidation and realignment in the seed industry will present opportunities for us to acquire assets that are no longer a strategic fit in the product portfolios of larger industry players or that smaller industry players are unable to effectively exploit. We believe that our production and distribution platforms position us to more fully realize the potential of these types of assets. Moreover, we have a proven track record of successfully acquiring and integrating diverse operations into our seed platform and rebalancing our product portfolio. We intend to emphasize disciplined capital and resource allocation, with a strong focus on return on invested capital and evaluating opportunities to expand our crop offerings or increase our share of existing crop markets.

## **Our Current Crops**

### ***Alfalfa***

*The Alfalfa Market.* Alfalfa seed is primarily used for growing alfalfa hay, which is grown throughout the world as “forage” for livestock, including dairy and beef cattle, horses and sheep. The alfalfa industry (and therefore the alfalfa seed industry) is highly dependent on the dairy industry, which is the largest consumer of alfalfa hay. As the global middle class expands and emerging markets adopt a diet with higher protein consumption, we expect the demand for alfalfa production around the world to increase.

We estimate that current global alfalfa hay crop production is 200 million metric tons per year and that global annual alfalfa seed sales are approximately \$500 million.

*S&W's Alfalfa Seed Portfolio.* Our current portfolio of over 200 commercialized alfalfa seed products spans both non-dormant varieties, which grow year-round, and dormant varieties, which have adapted to cold climates by going dormant during periods when frost or snow conditions would otherwise kill them. Our specialty is high-yield alfalfa varieties with a wide range of adaptation across many growing environments. Our alfalfa seed products include varieties that, depending upon the particular variety, exhibit the traits that forage hay farmers most value, such as high yield, root rot resistance, lodging resistance, salt tolerance, drought tolerance, leafhopper resistance and stem nematode resistance.

We historically have not used genetic engineering in our alfalfa breeding program, so that our products can be sold in Europe, the Middle East, Australia and other parts of the world that currently prohibit the sale of genetically modified organism (GMO) alfalfa. More recently, we have expanded our research and development efforts beyond our classically-bred proprietary alfalfa seed breeding program. One result of these efforts was our commercial release of a Roundup Ready® alfalfa variety incorporating a herbicide resistance trait (under license from Forage Genetics International) into our proprietary germplasm. We also are evaluating commercialization options for alfalfa

seed products developed through our collaboration with Calyxt. These potential commercial products consist of our seed varieties carrying a novel trait that is currently classified as non-GMO. While we believe these products have commercial potential, we do not anticipate a commercial launch or a meaningful contribution to our revenue before fiscal year 2023, if at all.

## **Sorghum**

*The Sorghum Market.* Sorghum comes in two types, forage and grain. While it has been traditionally used for livestock feed and in ethanol production, sorghum is gaining popularity as a substitute for wheat and other grains in food products due to its gluten-free characteristics, as well as its antioxidant, high protein, low fat, high fiber and non-GMO properties. Additionally, the pet food industry has been increasing its use of grain sorghum due to its nutritional benefits and enhanced digestibility. Sorghum requires less water to grow than many other crops and is generally used as a replacement for corn and other grains in areas where water is scarce. In Africa, sorghum is a common food staple for human consumption. The majority of the world's sorghum is grown in developing countries, primarily in Africa and Asia.

We estimate global sorghum crop production to be 60 million metric tons per year. We estimate that global annual sorghum seed sales are approximately \$500 million.

*S&W's Sorghum Portfolio.* Our current portfolio of approximately 40 commercialized sorghum seed products includes both forage and grain sorghum. We believe that many of our sorghum hybrids are unmatched and consistently out-yield competitor products in select markets.

We plan to commercially launch approximately twenty new sorghum products during the fiscal years 2022-2023. We recently completed a Spring 2021 pilot launch of sorghum hybrids incorporating our proprietary, patent-pending herbicide tolerant trait as part of our DoubleTeam™ collaboration with ADAMA.

## **Sunflower**

*The Sunflower Market.* Sunflowers have multiple uses including oil, birdseed and human consumption. Our current sunflower seed focus is on hybrids best suited for the oil market. Sunflower oil is light in taste and appearance and supplies more Vitamin E than any other vegetable oil. It is a combination of monounsaturated and polyunsaturated fats with low saturated fat levels. The versatility of this healthy oil is recognized by cooks internationally, valued for its frying performance and health benefits. With multiple types of sunflower oils available, it meets the needs of consumer and food manufacturers alike for a healthy and high performance non-transgenic vegetable oil. Additionally, sunflower is being sought after as a source of non-GMO oils.

The USDA projects global sunflower seed production for 2020/2021 at 55 million metric tons per year. We estimate that global annual sunflower seed sales are approximately \$750 million to \$1 billion.

*S&W's Sunflower Portfolio.* We currently have approximately six high-yield sunflower hybrids in the market. Our research and development programs in Australia and Europe has focused on developing new elite sunflower seed hybrids that are disease resistant, have herbicide resistant characteristics, meet specific oil profiles, both polyunsaturated and linoleic, and maximize yield potential for different growing conditions around the world.

## **Australian Wheat**

*The Wheat Market in Australia.* Wheat is Australia's largest grain crop. Australia produces around 24.3 million tons of wheat annually, with approximately 70% exported to Southeast Asian countries and the Middle East and North Africa region.

The wheat market in Australia operates under an end point royalty, or EPR, system in which the wheat variety owner earns a fixed royalty on every ton of grain produced. The applicable EPR varies by variety, but typically ranges from \$2 to \$4 per metric ton. Under EPR systems, variety owners such as us do not produce or hold commercial seed inventories or sell seed. Industry partners increase commercial quantities of planting seed and distribute to growers.



Varieties are tracked along the supply chain and, when grain is ultimately delivered to the grain buyer or end user, the EPR is collected and delivered to the variety owner.

We estimate that total end point royalties paid to wheat variety owners in Australia are approximately \$70 million per year.

*S&W's Wheat Portfolio.* In 2019, under an exclusive, prepaid license from Corteva Agriscience, S&W acquired rights to a group of commercialized and development wheat varieties which are the result of an estimated \$17 million development program investment. We currently have six wheat varieties commercially available in the Australian market. Our breeding program is focused on new dual purpose varieties which we believe have the potential to offer a number of benefits to Australian wheat growers as compared to existing commercial varieties, including forage potential, superior disease resistance, superior yields and grain quality to suit the diverse Australian conditions.

### **Pasture Seeds**

*The Pasture Seed Market in Australia.* In addition to alfalfa, the pasture seed market in Australia includes medic, clovers, vetch, forage cereals, and certain grasses. Key customers include beef cattle, sheep and dairy farmers, silage, hay and chaff producers. We estimate that annual pasture seed sales in Australia are approximately \$100 million.

*S&W's Pasture Seed Portfolio.* After our February 2020 acquisition of Pasture Genetics, we currently offer over 300 pasture seed products in the Australian market.

### **Stevia**

*Stevia and the Sweetener Industry.* Stevia leaf and its refined products are a natural, non-caloric high intensity sweetener. The incorporation of stevia-derived extracts into foods and beverages in the U.S. has seen a rapid increase since the beginning of 2009, when stevia was first introduced as a sweetener alternative to sugar and approved by the FDA as generally recognized as safe. In the U.S., approximately 70% of all new products formulated with stevia are beverages, with the remainder split between diverse categories, including dairy products and baked goods. Currently, the majority of global commercial stevia production occurs in Asia (particularly, in China), as current varieties lack adaptive characteristics that would permit farmers to profitably grow them in other global agricultural regions.

We estimate the annual market value of stevia as an additive to foods and beverages to be \$565 million.

*S&W's Stevia Program.* Since 2009, our stevia research and development program has focused on developing stevia into a U.S.-grown crop. Our program has generated four patented varieties, and we are working closely with potential supply chain collaborators and customers to develop more advanced varieties that can both meet taste requirements of consumers and have field performance that would enable farmers to profitably grow stevia in the United States. In early 2019, we opened a dedicated stevia field breeding station in Tifton, GA to further support the breeding effort and select new varieties adapted to the Southeast growing regions targeted for initial cultivation of stevia in the United States.

### **Product Development**

We conduct our breeding and development programs in the United States, Australia, Europe and South America.

Our breeding programs are designed to make steady genetic improvements in our germplasm base, which we use to create better-performing varieties and hybrids for our customers. Development of a typical new variety or hybrid can take as little as five years or as long as 18 years, depending on methodology and the desired agronomic traits. Because of the many years required to develop a new variety or hybrid, we believe our successful breeding program allows us to offer seed varieties or hybrids incorporating a combination of characteristics desired by farmers that are not available from any other source, thereby providing us with a competitive advantage.

We also plan to continue development activities aimed at generating high-value improved traits in our crops. With this objective in mind, we are collaborating, and continue to look for opportunities to collaborate, with other companies that have technologies that we believe complement our proprietary products and/or our research and development breeding expertise to develop currently unavailable specialized seed products.

## **Sales, Marketing and Distribution**

We currently sell over 500 seed products in more than 40 countries. Our principal markets for alfalfa sales are the United States, Canada, Mexico, South America, the Middle East, North Africa, and Australia. Our sorghum sales are focused in the United States, Mexico, Australia, Europe and South Africa. Our sunflower sales are primarily in Europe, Asia and Australia. Our wheat and pasture seed sales are focused in Australia.

Our organization is structured across geographic lines, as opposed to product lines, which we believe allows us to make the best use of distribution assets (like our U.S. farmer-dealer network and our Australian sales force) and unlock potential sales synergies through international cross-selling of products.

We primarily sell our seed products under the S&W brand or other brands we own, such as Alfalfa Partners™ and Sorghum Partners®. To a limited extent, we also sell some seed under private-label arrangements with distributors.

Our customers are primarily distributors and dealers. Our distributors and dealers, in turn, sell to farmers. We believe that selling through dealers and distributors enables our products to reach growers in areas where there are geographic or other constraints on direct sales efforts. We select dealers and distributors based on shared vision, technical expertise, local market knowledge and financial stability. Over the years, we have built dealer/distributor loyalty through an emphasis on service, access to breeders, ongoing training and promotional material support. We limit the number of dealers and distributors with whom we have relationships in any particular area in order to provide adequate support and opportunity to those with whom we choose to do business.

Both farmers and dealers use pest-control advisors who recommend the varieties or hybrids that will produce the best results in a particular location. Therefore, a key part of our marketing strategy is to educate the consultants, as well as the farmers, as to benefits of our seed varieties and hybrids.

We believe that our best marketing tool is the dissemination of information regarding the quality and characteristics of our propriety seed products to those persons who make the growing decisions. We continue to place advertisements in trade journals, agriculture publications, social media and participate in seed industry conferences and trade shows and engage in various other educational and outreach programs as we deem appropriate.

Our sales efforts have historically involved significant in-person interaction with potential customers and distributors. In March 2020, at the beginning of what is typically our most active selling period, many national, state and local governments in our target markets implemented various stay-at-home, shelter-in-place and other quarantine measures in response to the COVID-19 pandemic. As a result, we immediately attempted to shift our sales activities to video conferencing and similar customer interaction models but have found these alternative approaches to generally be less effective than in-person sales efforts, and this could result in decreased sales revenue and a negative impact on our business and financial results.

## **Seed Production**

We produce seed in the United States, Canada, Australia and South Africa under contract with select third-party contract growers. We currently maintain over 100 grower relationships. Our network of growers has the expertise needed to successfully grow high quality seed products. We have worked with many of the same growers on a long-term basis, and we believe that we have strong relationships with them. We allocate our seed production among our growers so that we can purchase the proper mix of seed each year. Our contracts with growers have terms ranging from one to seven years, depending on the crop and the production area. Our global, but localized, production capabilities allow us to produce close to the customer to ensure the seed product is developed specifically for the conditions and requirements of that region and is produced at the lowest cost.

We condition and package seed primarily in our own facilities located in Idaho, Texas and Australia; although in some markets (for example, California) we use third-party processing services. We believe that direct ownership of production facility assets gives us more flexibility to respond to demand changes unique to each geography, greater control over product quality and a lower cost structure.



## Seasonality

We contract with growers based upon our anticipated market demand. We mill, clean and stock the seed during the harvest season and ship from inventory throughout the year. However, our seed business is seasonal. In the Northern hemisphere, production and harvest occurs from March through September and processing and shipping finished goods primarily occurs from October through May. In the Southern hemisphere, production and harvest occurs from October through March and processing and shipping primarily occurs from March through August.

## Proprietary Rights

Ownership of and access to intellectual property rights are important to us. We sell proprietary seed varieties and hybrids that have been specially selected to manifest the traits we deem best suited to particular regions in which our seed is planted. Our ability to compete effectively is dependent upon the proprietary nature of the seeds, seedlings, processes, technologies and materials owned by or used by us or our growers. Our competitive position would be adversely affected if any competitors independently were to develop any technologies that substantially equal or surpass our own.

In some cases, we obtain patent protection or plant breeder rights registrations for certain of our seed products. However, our principal method of guarding our proprietary varieties and hybrids is exercising a high degree of control over the supply chain. As part of this control process, we require our growers to deliver back to us all seed derived from our proprietary varieties and, in the case, of hybrids, limit supply of parent seed that enables hybrid production. Historically, we have found that these control mechanisms have been an effective means to protect our proprietary seed. However, because we often do not have more formal proprietary rights protections, it would be possible for persons with access to our seed or plants grown from our seed to reproduce proprietary seed, which could significantly harm our business and our reputation.

## Competition

Competition in the seed industry both domestically and internationally is intense, and we believe it is intensifying with industry consolidation. We believe that the key competitive drivers in the industry are proven performance, customer support in the field and value, which takes into account not simply the price of the seed but also performance in the field.

We face direct competition by other seed companies, including multinational agriculture companies, regional seed companies and small family-owned businesses, as well as subsidiaries or other affiliates of chemical, pharmaceutical and biotechnology companies. Our principal competitors include:

- *Alfalfa.* In the U.S. market, our principal competitors in our alfalfa seed business are Forage Genetics International (a subsidiary of Land O' Lakes, Inc.), Pioneer and Alforex Seeds (subsidiaries of Corteva), and Pacific International Seed Company, Inc. In the Australian market, competitors in the proprietary alfalfa seed market include the Barenbrug Group and PGG Wrightson Seeds Ltd. In Australia, we also face competition from smaller companies offering non-proprietary seed.
- *Sorghum.* Our principal competitors in sorghum are Pioneer, DeKalb (a subsidiary of Bayer), Advanta, and Nuseed.
- *Sunflower.* Our principal competitors in sunflower are Pioneer, Nuseed, Dyna-Gro Seed (a subsidiary of Nutrien Ag Solutions), Syngenta AG, Advanta and Limagrain.
- *Australian Wheat.* Our principal competitors in the Australian wheat market are AGT, LongReach Plant Breeders Pty Ltd., and InterGrain.
- *Pasture Seed.* Our principal competitors in the Australian pasture seed market are the Barenbrug Group, PGG Wrightson Seeds Ltd. And Seedforce, a subsidiary of RAGT.

Many of our existing and potential competitors have substantially greater research and product development capabilities and financial, marketing and human resources than we do. As a result, these competitors may:

- succeed in developing products that are equal to or superior to our products or potential products or that achieve greater market acceptance than our products or potential products;

- devote greater resources to developing, marketing or selling their products;
- respond more quickly to new or emerging technologies or scientific advances and changes in customer requirements, which could render our products or potential products obsolete or less preferable;
- obtain patents that block or otherwise inhibit our ability to develop and commercialize potential products we might otherwise develop;
- withstand price competition more successfully than we can;
- establish cooperative relationships among themselves or with third parties that enhance their ability to address the needs of our customers or prospective customers; and
- take advantage of acquisition or other opportunities more readily than we can.

### **Environmental and Regulatory Matters**

Our agricultural operations are subject to a broad range of evolving environmental laws and regulations applicable to the markets in which we operate. These environmental laws and regulations are intended to address concerns related to air quality, storm water discharge and management and disposal of agricultural chemicals relating to seed treatment.

Compliance with these laws and related regulations is an ongoing process that does not, and is not expected to, have a material effect on our capital expenditures, earnings or competitive position. Environmental concerns are, however, inherent in most major agricultural operations, including those conducted by us, and there can be no assurance that the cost of compliance with environmental laws and regulations will not be material. Moreover, it is possible that future developments, such as increasingly strict environmental laws and enforcement policies thereunder, and further restrictions on the use of agricultural chemicals, could result in increased compliance costs.

We also are subject to various laws and regulations relating to the transport, export/import and sale of seed applicable in the markets in which operate.

Internationally, we are subject to various government laws and regulations (including the U.S. Foreign Corrupt Practices Act and similar non-U.S. laws and regulations) and local government regulations. To help ensure compliance with these laws and regulations, we have adopted specific risk management and compliance practices and policies, including a specific policy addressing the U.S. Foreign Corrupt Practices Act.

### **Research and Development**

Research & Development expenses for the year ended June 30, 2021 totaled \$8.5 million compared to \$7.3 million in the year ended June 30, 2020.

### **Employees**

As of September 27, 2021, we had 195 total employees, of which 171 were full-time employees. We also retain consultants for specific purposes when the need arises. None of our employees are represented by a labor union.

### **Corporate History**

From 1980 until 2009, our business was operated as a general partnership. In October 2009 we incorporated in Delaware, and in December 2011 we reincorporated in Nevada.

### **Contact Information**

Our principal business office is located at 2101 Ken Pratt Blvd., Suite 201, Longmont, CO 80501, and our telephone number is (720) 506-9191. Our website address is [www.swseedco.com](http://www.swseedco.com). Information contained on our website or any



other website does not constitute part of this Annual Report on Form 10-K, and the inclusion of our website address in this report is an inactive textual reference only.

## **Item 1A. Risk Factors**

### **Risks Relating to Our Business and Industry**

***The effects of health crises, including the COVID-19 pandemic, have had and may continue to have an adverse impact on our business, operations and the markets and communities in which we, our partners and customers operate.***

As a result of the COVID-19 pandemic, we have and may in the future experience disruptions that have adversely impacted our business, including:

- We rely on third-party dealers, distributors and sales agents as our primary customers and distribution channels. These dealers, distributors and sales agents are often small businesses or sole proprietorships. Any restriction of, or disruption in, their ability to operate would adversely impact our business.
- Approximately 30% of our sales revenue depends on cross-border export of seed products from our primary production areas in the United States and Australia. We have experienced significant disruption in cross-border shipments resulting, from reduced capacity of the global shipping network and quarantine measures.
- Approximately 70% of our sales revenue is from dealers and distributors in the United States and Australia. Disruption in shipments resulting from reduced capacity of the trucking and logistics network and quarantine measures have adversely impacted our business.
- Our product revenue is predicated on our ability to timely fulfill customer orders, which depends in large part upon the consistent availability and operation of shipping and distribution networks operated by third parties. Farmers typically have a limited window during which they can plant seed, and their buying decisions can be shaped by actual or perceived disruptions in our distribution and supply channels. Any actual or perceived disruption in the distribution channel could alter customer buying decisions, prompting customers to delay or decrease their orders, which would negatively impact our sales revenue and could harm our reputation.
- A significant portion of our sales are made in markets in which sales are otherwise sensitive to changes in local currency to US Dollar exchange rates. During the COVID-19 pandemic, we have experienced increased foreign exchange rate volatility and currency devaluation in some of our markets outside the United States. Such volatility and disruption have impacted our customers and their ability to make timely payment on previously fulfilled orders. Any such effects on our customers' ability to pay would negatively impact our business and financial results.
- Our sales cycle is highly seasonal, and the majority of our sales season activities for the United States and Australia are typically concentrated between March and June of each calendar year. Our sales efforts have historically involved significant in-person interaction with potential customers and distributors. Throughout the COVID-19 pandemic, in part in response to the many stay-at-home, shelter-in-place and other quarantine measures implemented by national, state and local governments in our target markets, we shifted our sales activities to video conferencing and similar customer interaction models. We have found these alternative approaches to generally be less effective than in-person sales efforts, and this had contributed in certain instances to a decrease in sales revenue and a negative impact on our business and financial results.
- We clean, process and package our seed products in multiple facilities in the United States and Australia. Any outbreak of COVID-19 at one of our facilities could require us to close the facility until the outbreak is resolved. Any such closure could have a negative impact on our ability to meet customer orders.
- We offer our customers payment terms generally less than one year from invoicing in alignment with the growing season. As a result of the current economic downturn associated with the COVID-19 pandemic, our customers may be unable to repay their obligations to us when due, which could adversely affect our results and financial condition.

- We have historically relied upon occasional sales of our debt and equity securities and borrowing under credit facilities from financial institutions, both in the United States and South Australia, to fund our operations. The adverse effects on our business and financial condition due to the COVID-19 pandemic have negatively impacted our financing terms and our stock price. This, in turn, has negatively affected our ability to raise capital on terms acceptable to us, and therefore our liquidity.
- We are subject to various affirmative and negative covenants in our loan agreements with our lenders. The effects of COVID-19 on our business and financial condition have, in part, caused us to fall out of compliance with our fixed charge coverage ratio covenant under our CIBC facility as of June 30, 2021. On September 27, 2021, the CIBC loan agreement was amended, and, among other things, CIBC waived the fixed charge coverage ratio covenant as of June 30, 2021 and suspended its applicability prospectively until the quarter ending March 31, 2022. In the future, we may fall out of compliance with one or more other covenants. If we are unable to secure a future waiver or negotiate an amendment to such loan agreements on reasonable terms, or at all, an event of default could occur, which would allow our lenders to accelerate our repayment obligations or enforce their other rights under our agreements with them. Any such default may also require us to seek additional or alternative financing, which may not be available on commercially reasonable terms or at all. If we are unable to access funds to repay our lenders, our lenders could take control of our pledged assets. Any of the foregoing events would negatively impact our financial condition and liquidity. We cannot guarantee that we will be able to comply with all of the covenants contained in the CIBC loan agreement in the future, or secure additional waivers if or when required.
- Since early March 2020, we have taken temporary precautionary measures intended to help minimize the risk of COVID-19 to our employees and their families, including temporarily allowing office and sales employees to work remotely. We have suspended non-essential travel worldwide for our employees and minimized employee attendance at in-person gatherings. Further measures may be taken as the COVID-19 outbreak continues. The measures taken now or in the future to contain the COVID-19 pandemic could negatively affect our ability to recruit and engage new employees and contractors necessary to the successful operation of our business.

The COVID-19 pandemic continues to rapidly evolve. The extent to which COVID-19 may impact our business will depend on future developments, which are highly uncertain and cannot be predicted with confidence, such as the ultimate geographic spread of the disease, the duration of the outbreak, travel restrictions, stay-at-home or other similar orders and social distancing in the United States, Australia and other countries, business closures or business disruptions and the effectiveness of actions taken in the United States, Australia and other countries to contain and treat the virus.

***We need to raise additional capital in the future. If we are unsuccessful in attracting new capital, we may not be able to continue operations or may be forced to sell assets to do so. Alternatively, capital may not be available to us on favorable terms, or if at all. If available, financing terms may lead to significant dilution of our stockholders' equity.***

We are not profitable and have had negative cash flow from operations for the last several years. To help fund our operations, we have in part relied on equity and debt financings. We currently anticipate that our cash and cash equivalents may be sufficient to enable us to fund our operations for at least the next 12 months. However, we will need to obtain additional funds to finance our operations in the future, and we could spend our available financial resources much faster than we currently expect. Our loan and security agreement with CIBC Bank USA, or CIBC, and our secured promissory notes with Conterra Agriculture Capital, LLC contain various operating and financial covenants, and the COVID-19 pandemic has increased the risk of our inability to comply with these covenants, which could result in acceleration of our repayment obligations and foreclosure on our pledged assets. For example, we were not in compliance with certain of these covenants as of June 30, 2021 and we were required to obtain waivers and/or amendments from CIBC and Conterra. We believe it is uncertain if we will be able to generate sufficient cash flow from operations or maintain sufficient liquidity to meet these covenants. These factors raise substantial doubt regarding our ability to continue as a going concern. If we are unable to meet these covenants, we will need to raise additional capital in the future to enhance our working capital. This may include, for example, the need to finance our cash needs through a combination of equity and debt financings, as well as potentially entering into collaborations, strategic alliances and licensing arrangements. There can be no assurance that we will be successful in raising additional capital or securing future amendments from CIBC or our other lenders. If we are



unable to raise sufficient additional capital or secure future amendments, we may need to reduce the scope of our operations, repay amounts owing to our lenders or sell certain assets. If we are required or desire to raise additional capital in the future, such additional financing may not be available on favorable terms, or available at all. To the extent that we raise additional capital through the sale of equity or convertible debt securities, your ownership interest could be diluted and the terms of these securities may include liquidation or other preferences that adversely affect your rights as a common stockholder. Debt financing may involve agreements that include covenants limiting or restricting our ability to take specific actions, such as incurring additional debt, making capital expenditures or declaring dividends and may be secured by all or a portion of our assets. If we fail to obtain additional capital as and when required, such failure could have a material impact on our business, results of operations and financial condition.

***Our earnings can be negatively impacted by declining demand brought on by varying factors, many of which are out of our control.***

Demand for our seed depends upon a variety of factors, including end demand for the crops grown from the seed. For example, a severe downturn in the dairy industry could have a negative effect on sales of alfalfa hay, and as a result, the demand for our alfalfa seed in the U.S. market. In addition, demand for our products could decline because of other supply and quality issues or for any other reason, including products of competitors that might be considered superior by end users. A decline in demand for our products could have a material adverse effect on our business, results of operations and financial condition.

***Our earnings may also be sensitive to fluctuations in market prices for seed.***

Market prices for our seed can be impacted by factors such as the quality of the seed and the available supply, including whether lower-quality, lower-priced seed is available. Growing conditions, particularly weather conditions such as windstorms, floods, droughts and freezes, as well as diseases and pests and the adventitious presence of GMO, are primary factors influencing the quality and quantity of the seed and, therefore, the market price at which we can sell our seed to our customers. A decrease in the prices received for our products could have a material adverse effect on our business, results of operations and financial condition.

***Our earnings are vulnerable to cost increases.***

Future increase in costs, such as the costs of growing seed, could cause our margins and earnings to decline unless we are able to pass along the increased price of production to our customers. We may not be able to increase the price of our seed sufficiently to maintain our margins and earnings in the future.

***Our inventory of seed can be adversely affected by the market price being paid for other crops.***

Our seed production relies entirely on unaffiliated growers to grow our proprietary seed and to sell it to us at negotiated prices each year. Growers have a choice of what crops to plant. If a particular crop is paying a materially higher price than has been paid in the past, growers may decide to not grow our seed crops in favor of receiving a higher return from an alternative crop planted on the same acreage. If our growers decline to a significant degree to plant the acreage on which we rely, and if we cannot find other growers to plant the lost acreage, our inventory of seed could be insufficient to satisfy the needs of our customers unless we are able to procure the necessary additional seed in the market at prices we cannot control. If these circumstances occur, our business, results of operations and financial condition could materially decline. In addition, our customers could look to other suppliers for their seed if we cannot satisfy their requirements, and we may not be able to regain them as customers once our inventory levels have returned to normal.

***Adverse weather conditions, natural disasters, crop disease, pests and other natural conditions can impose significant costs and losses on our business.***

Our seed crops are vulnerable to adverse weather conditions, including windstorms, floods, drought and temperature extremes, which are common but difficult to predict. In addition, seed crops are 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. Although we no longer grow any of our seed directly, these factors can still impact us by potentially decreasing the quality and yields of our seed and reducing our available inventory. These factors can increase costs, decrease revenue and lead to additional charges to earnings, which may have a material adverse effect on our business, results of operations and financial condition.

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

Our seed business is seasonal. The seasonal nature of our operations results in significant fluctuations in our working capital during the growing and selling cycles. We have experienced, and expect to continue to experience, significant variability in net sales, operating cash flows and net income (loss) on a quarterly basis.

***We have had a material concentration of revenue from a small group of customers that fluctuates, and the loss of any of these customers in any quarter could have a material adverse effect on our revenue.***

On a historical basis, we have experienced a material concentration of revenue from a small group of customers. This concentration fluctuates from quarter to quarter, depending on our customer's specific requirements, which are themselves cyclical. However, in any particular quarter, we generally have a small group of customers that accounts for a substantial portion of that quarter's revenue. Most of these customers are not contractually obligated to purchase seed from us. The loss of one or more of these customers on a quarterly basis, when taken year over year, could have a material adverse impact on our business, financial position, results of operations and operating cash flows. We could also suffer a material adverse effect from any losses arising from a major customer's disputes regarding shipments, product quality or related matters, or from our inability to collect accounts receivable from any major customer. There are no assurances that we will be able to maintain our current customer relationships or that they will continue to purchase our seed in the current projected quantities. Any failure to do so may materially adversely impact our business.

***Because we depend on a core group of significant customers, our sales, cash flows from operations and results of operations may be negatively affected if our key customers reduce the amount of products they purchase from us.***

Although our customer concentration should decline as our product mix becomes more diverse, there is no assurance that we will be able to maintain the relationships with our major customers or that they will continue to purchase our seed in the quantities that we expect and rely upon. If we cannot do so, our results of operations could suffer.

***Because we do not grow the seed that we sell, we are completely dependent on our network of contract growers, and our sales, cash flows from operations and results of operations may be negatively affected if we are unable to maintain an adequate network of contract growers to supply our seed requirements.***

We do not directly grow any of the seed that we sell, and therefore, we are entirely dependent upon our network of growers. While we have some supply contracts with our growers of up to seven years in duration, many of our grower contracts cover only one year, which makes us particularly vulnerable to factors beyond our control. Events such as a shift in pricing caused by an increase in the value of commodity crops other than seed crops, increase in land prices, unexpected competition or reduced water availability could disrupt our supply chain. Any of these disruptions could limit the supply of seed that we obtain in any given year, adversely affecting supply and thereby lowering revenue. Such disruption could also damage our customer relationships and loyalty to us if we cannot supply the quantity of seed expected by them.

***Our ability to contract for sufficient acreage presents challenges.***

In order to increase revenue and earnings, we continue to need more production acreage. As we continue to increase the number of acres under contract and/or to move production into new geographical locations, we face challenges that can impede our ability to produce as much seed inventory as we have budgeted. For example, when we move production into new geographical locations, we may find it difficult to identify growers with the expertise to grow

our seed crops, and we may not have sufficient company personnel available in such new locations to provide production advice on a timely basis. We also face increased competition for conventional seed acreage as the need for technology acres grows, which is further complicated by the field isolation issue relating to GMO crops that can reduce the amount of acreage available for conventional alfalfa seed crops. If we are unable to secure the acreage we need to meet our planned production for the crop year and are unable to purchase seed in the market, our results of operations could suffer, as would our reputation.

***A lack of availability of water in any of our production areas could impact our business.***

Adequate quantities and correct timing of the application of water are vital for most agriculture to thrive. Whether particular farms are experiencing water shortages depends, in large part, on their location. However, continuing drought conditions can threaten all farmland other than those properties with their own water sources. Foreign or domestic regulations regarding water usage and rights may also limit the availability of water. Although our current seed products are not water-intensive crops, the availability or the cost of water is a factor in the planting of the crops grown from our seed. Moreover, if the farmers and others who purchase our seed to grow crops cannot get an adequate supply of water, or if the cost of water makes it uneconomical for the farmers to grow the crops, we may not be able to sell our seed, which could have an adverse impact on our results of operations.

***We face intense competition, and our inability to compete effectively for any reason could adversely affect our business.***

Competition in the seed industry both domestically and internationally is intense, and we believe it is intensifying with industry consolidation. We face direct competition from other seed companies, including multinational agriculture companies, regional seed companies and small family-owned businesses, as well as subsidiaries or other affiliates of chemical, pharmaceutical and biotechnology companies, many of which have substantially greater resources than we do.

These resources give our competitors greater operating flexibility that, in certain cases, may permit them to respond better or more quickly to changes in the industry or to introduce new products more quickly and with greater marketing support. Increased competition could result in lower profit margins, substantial pricing pressure, reduced market share and lower operating cash flows. Price competition, together with other forms of competition, could have a material adverse effect on our business, financial position, results of operations and operating cash flows.

***If we are unable to estimate our customers' future needs accurately and to match our production to the demand of our customers, our business, financial condition and results of operations may be adversely affected.***

We sell our seed primarily to dealers and distributors who, in turn, sell primarily to farmers who grow crops from the seed. Due to the nature of the seed industry, we normally produce seed according to our production plan before we sell and deliver seed to distributors and dealers. Our dealers and distributors generally make purchasing decisions for our products based on market prices, economic and weather conditions and other factors that we and our dealers and distributors may not be able to anticipate accurately in advance. If we fail to accurately estimate the volume and types of products sought by the end users and otherwise adequately manage production amounts, we may produce more seed than our dealers and distributors want, resulting in excess inventory levels. It may be difficult for us to dispose of all of our inventory on commercially reasonable terms, or at all, and we may need to record an impairment charge for a portion of this inventory in subsequent fiscal periods. Any such impairment charge or any failure to sell inventory on commercially reasonable terms could have a material adverse effect on our business, financial position, results of operations and operating cash flows.

On the other hand, if we underestimate demand, we may not be able to satisfy our dealers and distributors' demand for seed, and thus damage our customer relations and end-user loyalty. Our failure to estimate end users' future needs and to match our production to the demand of our customers may adversely affect our business, financial condition and results of operations.

***Our third-party distributors may not effectively distribute our products.***

We depend in part on third-party distributors and strategic relationships for the marketing and selling of our products. We depend on these distributors' efforts to market our products, yet we are unable to control their efforts



completely. In addition, we are unable to ensure that our distributors comply with all applicable laws regarding the sale of our products, including the United States Foreign Corrupt Practices Act of 1977, as amended. If our distributors fail to effectively market and sell our products, and in full compliance with applicable laws, our operating results and business may suffer.

***We extend credit to our largest international customer and to certain of our other international customers, which exposes us to the difficulties of collecting our receivables in foreign jurisdictions if those customers fail to pay us.***

Although payment terms for our export seed sales range from prepayment to 90 to 120 days, we extend credit to our largest international customer, Sorouh, and to other international customers up to 180 days. Sales of our seed to Sorouh and to other international customers represented a material portion of our revenue in historical periods and we expect that we will continue to extend credit in connection with future sales. Because these customers are located in foreign countries, collection efforts, were they to become necessary, could be much more difficult and expensive than pursuing similar claims in the United States. Moreover, future political and/or economic factors, as well as future unanticipated trade regulations, could negatively impact our ability to timely collect outstanding receivables from these important customers. The extension of credit to our international customers exposes us to the risk that our seed will be delivered but that we may not receive all or a portion of the payment therefor. If these customers are unable or unwilling to fully pay for the seed they purchase on credit, our results of operations and financial condition could be materially negatively impacted. Moreover, our internal forecasts on which we make business decisions throughout the year could be severely compromised, which could, in turn, mean that we spend capital for operations, investment or otherwise that we would not have spent had we been aware that the customer would not honor its credit extension obligation.

***Our current reliance on the seed development and production business does not permit us to spread our business risks among different business segments, and thus a disruption in our seed production or the industry would harm us more immediately and directly than if we were more diversified.***

We currently operate primarily in the agricultural seed business, and we do not expect this to change materially in the foreseeable future. Without business line diversity, we will not be able to spread the risk of our operations. Therefore, our business opportunities, revenue and income could be more immediately and directly affected by disruptions from such things as drought and disease or widespread problems affecting the alfalfa, sorghum, sunflower and pasture seed markets, payment disruptions and customer rejection of our seed. If there is a disruption as described above, our revenue and earnings could be reduced, and our business operations might have to be scaled back.

***If we fail to introduce and commercialize new seed products, we may not be able to maintain market share, and our future sales may be harmed.***

The performance of our new seed products may not meet our customers' expectations, or we may not be able to introduce and commercialize specific seed varieties and hybrids. Reorder rates are uncertain due to several factors, many of which are beyond our control. These include changing customer preferences, which could be further complicated by competitive price pressures, our failure to develop new products to meet the evolving demands of the end users, the development of higher-demand products by our competitors and general economic conditions. The process for new products to gain market recognition and acceptance is long and has uncertainties. If we fail to introduce and commercialize a new seed product that meets the demand of the end user, if our competitors develop products that are favored by the end users, or if we are unable to produce our existing products in sufficient quantities, our growth prospects may be materially and adversely affected, and our revenue may decline. In addition, sales of our new products could replace sales of some of our current similar products, offsetting the benefit of a successful product introduction.

***The presence of GMO alfalfa in Australia or California could impact our sales.***

GMO crops currently are prohibited in most of the international markets in which our proprietary seed is currently sold. There are regions in the United States, including the Pacific Northwest, where even small quantities of GMO material inadvertently interspersed with conventional (non-GMO) alfalfa seed make the seed undesirable, which causes customers to look elsewhere for their alfalfa seed requirements. The greater the use of GMO seed in California and other alfalfa seed growing regions, the greater the risk that the adventitious presence of GMO

material in our seed production will occur due to pollination from hay fields or other seed fields. We regularly test for the adventitious presence of GMO in our conventional alfalfa seed, and we have seen a slight increase in the percentage of GMO presence in conventional alfalfa seed over the past several years. Our seed containing GMO material can only be sold domestically or in other jurisdictions that permit the importation of GMO alfalfa. If we are unable to isolate our conventional alfalfa seed from inadvertently being contaminated by GMO seed, we may find it more difficult to sell that seed in our key markets and we may have insufficient quantities of seed to sell internationally, either of which could materially adversely impact our revenue over time.

***The stevia market may not develop as we anticipate, and therefore our continued research and development activities with respect to stevia may never become profitable to us.***

There are a number of challenges to market acceptance of stevia as a natural, non-caloric sweetener. Stevia has its own unique flavor, which can affect the taste of some foods and beverages. A common complaint about stevia is that some of its extracts and derivatives have a bitter aftertaste, and its taste does not uniformly correspond to all regional taste preferences or combine well with some food flavors. Other factors that could impact market acceptance include the price structure compared to other sugar substitutes and availability. If the high-intensity, non-caloric sweetener market declines or if stevia fails to achieve substantially greater market acceptance than it currently enjoys, we might never be able to profit from our continued research and development activities relating to stevia or any commercial applications that we derive therefrom. Even if products conform to applicable safety and quality standards, sales could be adversely affected if consumers in target markets lose confidence in the safety, efficacy and quality of stevia. Adverse publicity about stevia or stevia-based products may discourage consumers from buying products that contain stevia. Any of these developments could adversely impact the future amount of dry leaf stevia, processed stevia leaves or extract we are able to sell, which could adversely impact our results of operations.

***The loss of key employees or the failure to attract qualified personnel could have a material adverse effect on our ability to run our business.***

The loss of any of our current executives, key employees or key advisors, or the failure to attract, integrate, motivate and retain additional key employees, could have a material adverse effect on our business. Although we have employment agreements with our executive officers, as well as certain other employees, all of our employees are employed “at-will” and could leave our employ at any time. We do not carry “key person” insurance on the lives of any of our management team. As we develop additional capabilities, we may require more skilled personnel who must be highly skilled and have a sound understanding of our industry, business or processing requirements. Recruiting skilled personnel is highly competitive. Although to date we have been successful in recruiting and retaining qualified personnel, there can be no assurance that we will continue to attract and retain the personnel needed for our business. The failure to attract or retain qualified personnel could have a material adverse effect on our business.

***We may not be able to manage expansion of our operations effectively.***

We expect our operations to continue to grow in the future, both as we expand our historical alfalfa seed business both domestically and internationally through internal growth and synergistic acquisitions and increase our growers’ production. These efforts will require the addition of employees, expansion of facilities and greater oversight, perhaps in diverse locations. If we are unable to manage our growth effectively, we may not be able to take advantage of market opportunities, execute on our business strategies or respond to competitive pressures, and we may have difficulties maintaining and updating the internal procedures and the controls necessary to meet the planned expansion of our overall business.

Our management will also be required to maintain and expand our relationships with customers, suppliers and other third parties as well as attract new customers and suppliers. We expect that our sales and marketing costs will increase as we grow our product lines and as we increase our sales efforts in new and existing markets. Our current and planned operations, personnel, systems and internal procedures and controls may not be adequate to support our future growth.

***We may be unable to successfully integrate the businesses we have recently acquired and may acquire in the future with our current management and structure.***

As part of our growth strategy, we have acquired and may continue to acquire additional businesses, product lines or other assets. We may not be able to locate or make suitable acquisitions on acceptable terms, and future acquisitions may not be effectively and profitably integrated into our business. Our failure to successfully complete the integration of the businesses we acquire could have an adverse effect on our prospects, business activities, cash flow, financial condition, results of operations and stock price. Integration challenges may include the following:

- assimilating the acquired operations, products and personnel with our existing operations, products and personnel;
- estimating the capital, personnel and equipment required for the acquired businesses based on the historical experience of management with the businesses with which they are familiar;
- minimizing potential adverse effects on existing business relationships with other suppliers and customers;
- developing and marketing the new products and services;
- entering markets in which we have limited or no prior experience; and
- coordinating our efforts throughout various distant localities and time zones.

In connection with any such transactions, we may also issue equity securities, incur additional debt, assume contractual obligations or liabilities or expend significant cash. Such transactions could harm our operating results and cash position and negatively affect the price of our stock.

For example, on February 24, 2020, we completed the acquisition of all of the issued and outstanding shares of Pasture Genetics. We cannot guarantee that the Pasture Genetics acquisition will yield the results we have anticipated. In addition, there can be no assurance that we will achieve the revenues, growth prospects and synergies expected from this acquisition, our prior acquisitions or any future acquisitions, or that we will achieve such revenue, growth prospects and synergies in a manner consistent with our expectations. Our failure to do so could adversely affect our business, operating results and financial condition.

***The diversion of management's attention and costs associated with acquisitions may have a negative impact on our business.***

If management's attention is diverted from the management of our existing businesses as a result of its efforts in evaluating and negotiating new acquisitions and strategic transactions, the prospects, business activities, cash flow, financial condition and results of operations of our existing businesses may suffer. We also may incur unanticipated costs in connection with pursuing acquisitions and strategic transactions, whether they ultimately are consummated or not.

***S&W Australia's alfalfa seed grower pool is dependent on a limited number of milling facilities to process its seed, with particular dependence on a dominant operator whose commercial interests may be adverse to S&W Australia.***

Only five milling facilities are regularly used by S&W Australia's grower pool to clean and process S&W Australia alfalfa seed. Should one or more of these facilities become unusable, there could be a significant effect on S&W Australia's ability to get its Australian alfalfa seed to market in a timely manner or at all. S&W Australia's growers



use Tatiara to process approximately 70% of the seed grown for S&W Australia. The owner of Tatiara has begun to sell his own common seed and is now both a supplier and competitor of S&W Australia. This competing seed business creates a potential conflict of interest for Tatiara in the care and handling of S&W Australia's product and could impact S&W Australia's ability to have seed available to sell on the time schedule required by our customers.

***S&W Australia is thinly capitalized and may become dependent upon us for financing.***

Because S&W Australia has relatively little net working capital, it is substantially dependent upon its credit arrangement with National Australia Bank Ltd, or NAB, to purchase its seed inventory. If S&W Australia breaches its credit arrangement in the future or other reasons cause this credit arrangement to become unavailable to S&W Australia, S&W Australia may become reliant on us to finance its operations or for financial guarantees. We currently are a guarantor on S&W Australia's NAB credit facility, and anticipate that we will need to make a capital infusion into S&W Australia in the near future. S&W Australia's financial dependency upon us could have a negative adverse effect upon our financial condition.

***S&W Australia is dependent on a group of seed growers and a favorable pricing model for alfalfa seed production.***

S&W Australia relies on a group of approximately 50 Australian contract growers to produce its proprietary alfalfa seeds. In this system, growers' contract with S&W Australia to grow S&W Australia's seed for terms of seven to ten years in the case of alfalfa and two to three years for white clover. S&W Australia uses a staggered payment system with the growers of its alfalfa and white clover; the payment amounts are based upon a Production Fee for compliant seed. The Production Fee is advised each year at the time of crop harvest but no later than May 31 and is based on carryover stock, estimated size of harvest and prevailing and estimated market values. Following the grower's delivery of uncleaned seed to a milling facility, S&W Australia typically pays 40% of the Production Fee to the grower based on pre-cleaning weight. Following this initial payment, S&W Australia makes two equal progress payments to the total of the Production Fee in September and December and, if applicable, a bonus payment for "first grade" alfalfa seed. The final amount payable to each grower is also subject to adjustment based upon the clean weight of the seed grown. Once the Production Fee has been advised each year S&W Australia is committed to payment amounts and timing exposing it to adverse changes in market values due to price and currency fluctuations.

***Changes in government policies and laws could adversely affect international sales and therefore our financial results.***

Historically, sales to our distributors who sell our proprietary alfalfa seed varieties outside the United States have constituted a meaningful portion of our annual revenue. We anticipate that sales into international markets will continue to represent a meaningful portion of our total sales and that continued growth and profitability will require further international expansion, particularly in the Middle East and Africa. Our financial results could be affected by changes in trade, monetary and fiscal policies, laws and regulations, or other activities of U.S. and non-U.S. governments, agencies and similar organizations. These conditions include but are not limited to changes in a country's or region's economic or political conditions, trade regulations affecting production, pricing and marketing of products, local labor conditions and regulations, reduced protection of intellectual property rights in some countries, changes in the regulatory or legal environment, burdensome taxes and tariffs and other trade barriers. International risks and uncertainties, including changing social and economic conditions as well as terrorism, political hostilities and war, could lead to reduced distribution of our products into international markets and reduced profitability associated with such sales.

***We are subject to risks associated with doing business globally.***

Our operations, both inside and outside the United States, are subject to risks inherent in conducting business globally and under the laws, regulations and customs of various jurisdictions and geographies. Although we sell seed to various regions of the world, a significant percentage of our sales outside the United States in fiscal year 2021 were principally to customers in the Middle East, Australia, North Africa and Mexico. Accordingly, developments in those parts of the world generally have a more significant effect on our operations than developments in other places. Our operations outside the United States are subject to special risks and restrictions, including, without limitation: fluctuations in currency values and foreign-currency exchange rates; exchange control regulations; changes in local political or economic conditions; governmental pricing directives; import and trade restrictions; import or export licensing requirements and trade policy; restrictions on the ability to repatriate funds; and other potentially detrimental domestic and foreign governmental practices or policies affecting U.S. companies doing business abroad, including the U.S. Foreign Corrupt Practices Act and the trade sanctions laws and regulations administered by the U.S. Department of the Treasury's Office of Foreign Assets Control. Acts of terror or war may impair our ability to operate in particular countries or regions and may impede the flow of goods and services between countries. Customers in weakened economies may be unable to purchase our products, or it could become more expensive for them to purchase imported products in their local currency, or sell their commodity at prevailing international prices, and we may be unable to collect receivables from such customers. Further, changes in exchange rates may affect our net earnings, the book value of our assets outside the United States and our stockholders' equity. Failure to comply with the laws and regulations that affect our global operations could have an adverse effect on our business, financial condition or results of operations.

***Failure to comply with the United States Foreign Corrupt Practices Act or similar laws could subject us to penalties and other adverse consequences.***

We are subject to the United States Foreign Corrupt Practices Act, which generally prohibits United States companies, including their suppliers, distributors and other commercial partners, from engaging in bribery or other prohibited payments to foreign officials for the purpose of obtaining or retaining business. Corruption, extortion, bribery, pay-offs, theft and other fraudulent practices occur from time-to-time in the countries in which we distribute products. We have adopted formal policies and procedures designed to facilitate compliance with these laws. If our employees or other agents, including our distributors or suppliers, are found to have engaged in such practices, we could suffer severe penalties and other consequences that may have a material adverse effect on our business, financial condition and results of operations.

***Environmental regulation affecting our seed products could negatively impact our business.***

Our agricultural operations are subject to a broad range of evolving environmental laws and regulations applicable to the markets in which we operate. These environmental laws and regulations are intended to address concerns related to, among other things, air quality, storm water discharge and management and disposal of agricultural chemicals relating to seed treatment.

In the U.S., we are subject to evolving environmental laws and regulations by federal and state governments. Federal laws and regulations include the Clean Air Act, the Clean Water Act, the Resource Conservation and Recovery Act, the Federal Insecticide, Fungicide and Rodenticide Act, the Comprehensive Environmental Response, Compensation and Liability Act, the Federal Seed Act, and potentially regulations of the FDA and/or other State regulatory agencies.

Our Australian operations are also subject to a number of environmental laws, regulations and policies, including in particular the Environment Protection Act 1993 (SA), the Agricultural and Veterinary Products (Control of Use) Act 2002 (SA), the Genetically Modified Crops Management Act 2004 (SA), the Dangerous Substances Act 1979 (SA), the Controlled Substances Act 1984 (SA) and related regulations and policies.

Our failure to comply with these laws and related regulations could have an adverse effect on our business, financial condition or results of operations. Moreover, it is possible that future developments, such as increasingly strict environmental laws and enforcement policies thereunder, and further restrictions on the use of agricultural chemicals, could result in increased compliance costs which, in turn, could have a material adverse effect on our business, financial condition or results of operations.

***If we are unable to obtain government approvals for certain of our products, we may be unable to commercialize those products in certain markets.***

Our ability to launch and commercialize certain new products is subject to regulatory approval, which can be lengthy, costly, complex and in some markets unpredictable. Seed products incorporating biotechnology derived traits and crop protection products must be extensively tested for safety, efficacy, and environmental impact before they can be registered for production, use, sale or commercialization in a given market. Obtaining and maintaining regulatory approvals requires submitting a significant amount of information and data, which may require participation from technology providers. If we are unable to receive the necessary approvals, we will be unable to produce and sell certain of our current and future products, which may have a material adverse effect on our business, financial condition and results of operations.

***Unauthorized access to our information technology systems, infrastructure and data could have a material adverse effect on our business, financial condition or results of operations.***

We are dependent upon our own and third-party information technology systems, infrastructure and data, including mobile technologies, to operate our business. The multitude and complexity of our computer systems may make them vulnerable to service interruption or destruction, disruption of data integrity, malicious intrusion, or random attacks. Likewise, data privacy or security incidents or breaches by employees or others may pose a risk that sensitive data, including our intellectual property, trade secrets or personal information of our employees, customers or other business partners may be exposed to unauthorized persons or to the public. Our business partners face similar risks, and any security breach of their systems could adversely affect our security posture.

In addition, cyber-attacks are increasing in their frequency, sophistication and intensity. Cyber-attacks could include the deployment of harmful malware, denial-of-service, social engineering and other means to affect service reliability and threaten data confidentiality, integrity and availability. Moreover, the prevalent use of mobile devices that access confidential information increases the risk of data security breaches, which could lead to the loss of confidential information, trade secrets or other intellectual property.

A security breach, including, for example, a misappropriation of customer, distributor or employee confidential information, trade secrets or intellectual property, could disrupt our business and result in increased costs or loss of revenue, which may include potential costs of investigations, legal, forensic and consulting fees and expenses, costs and diversion of management's attention required for investigation, remediation and litigation, substantial repair or replacement costs. In addition, any disruption in our information technology systems, loss of data or other disruptions could impair our ability to manage inventories, process transactions and communicate with our customers, which could prevent us from being able to fulfill orders, result in cancellations and loss of customers, cause us reputational harm and generally disrupt our ability to conduct our business, any of which could have a material adverse effect on our business, financial condition or results of operations.

While we have implemented measures for the protection of our data and information technology infrastructure, there can be no assurance that our efforts will prevent service interruptions, or identify breaches in our systems, that could adversely affect our business and operations and/or result in the loss of critical or sensitive information, which could result in financial, legal, business or reputational harm to us. In addition, our liability insurance may not be sufficient in type or amount to cover us against claims related to security breaches, cyber-attacks and other related breaches.



***Insurance covering defective seed claims may become unavailable or be inadequate.***

Defective seed could result in insurance claims and negative publicity. Although we carry general liability insurance to cover defective seed claims, such coverage may become unavailable or be inadequate. Even if coverage is offered, it may be at a price and on terms not acceptable to us. If claims exceed coverage limits, or if insurance is not available to us, the occurrence of significant claims could have a material adverse effect on our business, results of operations and financial condition.

***We may be exposed to product quality claims, which may cause us to incur substantial legal expenses and, if determined adversely against us, may cause us to pay significant damage awards.***

We may be subject to legal proceedings and claims from time to time relating to our seed or stevia quality. The defense of these proceedings and claims can be both costly and time consuming and may significantly divert efforts and resources of our management personnel. An adverse determination in any such proceeding could subject us to significant liability and damage our market reputation and prevent us from achieving increased sales and market share. Protracted litigation could also result in our customers or potential customers deferring or limiting their purchase of our products.

***Capital and credit market issues could negatively affect our liquidity, increase our costs of borrowing and disrupt the operations of our growers and customers.***

The capital and credit markets have experienced increased volatility and disruption over the past several years, making it more difficult for companies to access those markets. Continued or increased volatility and disruption in the capital and credit markets may impair our liquidity or increase our costs of borrowing, if we need to access the credit market. Our business could also be negatively impacted if our growers or customers experience disruptions resulting from tighter capital and credit markets or a slowdown in the general economy.

***If we are unable to protect our intellectual property rights, our business and prospects may be harmed.***

Our ability to compete effectively is dependent upon the proprietary nature of the seeds, seedlings, processes, technologies and materials owned by or used by us or our growers. If any competitors independently develop new traits, seeds, seedlings, processes or technologies that customers or end users determine are better than our existing products, such developments could adversely affect our competitive position.

In some cases, we obtain patent protection or plant breeder rights registrations for certain of our seed products. However, our principal method of guarding our proprietary varieties and hybrids is exercising a high degree of control over the supply chain. We also rely on trade secret protection and confidentiality agreements to protect proprietary know-how that is not patentable, processes for which patents are difficult to enforce and any other elements of our discovery and development processes that involve proprietary know-how, information or technology that is not covered by patents. Although we require our employees, consultants, advisors and any third parties who have access to our proprietary know-how, information, or technology to enter into confidentiality agreements, we cannot be certain that our trade secrets and other confidential proprietary information will not be disclosed or that competitors will not otherwise gain access to our trade secrets or independently develop substantially equivalent information and techniques.

Even with these measures in place, it would be possible for persons with access to our seed or plants grown from our seed to reproduce and market products substantially similar to our proprietary seed varieties, which could significantly harm our business and our reputation. Third parties may challenge the validity, enforceability and scope of our intellectual property rights. Furthermore, we sell our products in more than 40 countries and the laws of some countries do not protect proprietary rights to the same extent or in the same manner as the laws of the United States. As a result, we may encounter significant problems in protecting and defending our intellectual property both in the United States and abroad. Litigation may be necessary to protect our proprietary property and determine the validity and scope of the proprietary rights of competitors. Intellectual property litigation could result in substantial costs and diversion of our management and other resources. If we are unable to successfully protect our intellectual property rights, our competitors could market products that compete with our proprietary products without obtaining a license from us.

## Risks Related to our Financial Position and Investment in Our Securities

***The terms of our loan and security agreement with CIBC place restrictions on our operating and financial flexibility, and failure to comply with covenants or to satisfy certain conditions may result in acceleration of our repayment obligations and foreclosure on our pledged assets, which could significantly harm our liquidity, financial condition, operating results, business and prospects and cause the price of our securities to decline.***

Our \$25.0 million revolving credit facility with CIBC Bank USA, or CIBC, is secured by a first priority perfected security interest in substantially all of our assets, subject to certain exceptions.

Our loan agreement with CIBC requires us to comply with certain financial covenants, including a specified fixed charge coverage ratio. The loan agreement also requires us to comply with a number of other covenants (affirmative and negative), including restrictive covenants that limit our ability to, among other things, incur additional indebtedness; merge or consolidate with or into any other organization or otherwise suffer a change in control; acquire, own or make investments; repurchase or redeem any class of stock or other equity interest; declare or pay any cash dividend or make a cash distribution on any class of stock or other equity interest; and transfer a material portion of our assets, in each case subject to exceptions.

In addition to other specified events of default, and subject to limited exceptions, CIBC could declare an event of default upon our non-compliance with certain covenants or the occurrence of certain events that it may determine, in its sole discretion, to have a material adverse effect, including: a material adverse change in, or a material adverse effect on our business, property, assets or operations, taken as a whole; a material impairment of our ability to perform any of our obligations under the loan agreement; a material adverse effect upon the collateral for the loan or its value; or a material impairment of the enforceability or priority of the liens upon the collateral for the loan or the legality, validity, binding effect or enforceability of the loan agreement or related agreements.

If we default under the credit facility, CIBC may accelerate all of our repayment obligations, which may require us to seek additional or alternate financing and/or modify our operational plans. For the quarter ended June 30, 2021, we were not in compliance with the fixed charge coverage ratio under our loan agreement with CIBC. On September 27, 2021, we entered into an amendment with CIBC which, among other things, waived this non-compliance and suspended our quarterly fixed charge coverage ratio covenant until the quarter ending March 31, 2022. This amendment also established a minimum EBITDA covenant for the quarters ending September 30, 2021 and December 31, 2021, and on ongoing minimum liquidity covenant requiring us to maintain minimum liquidity of not less than \$3,000,000 as of the last day of each quarter beginning September 30, 2021. We cannot guarantee that we will be able to comply with all of the covenants contained in the CIBC loan agreement in the future, or secure additional waivers if or when required. If we are unable to comply with or obtain a waiver of any noncompliance under the loan agreement, CIBC could declare an event of default or require us to further renegotiate the loan agreement on terms that may be significantly less favorable to us, or we may be required to seek additional or alternative financing. If we were to seek additional or alternative financing, any such financing may not be available to us on commercially reasonable terms or at all. If we are unable to access funds to meet those obligations or to renegotiate our agreement, CIBC could foreclose on our pledged assets and we would have to immediately cease operations. In addition, during the continuance of an event of default, the then-applicable interest rate on the then-outstanding principal balance is subject to increase. Upon an event of default, CIBC could also require us to repay the loan immediately, together with a prepayment penalty, and other fees. If we were to renegotiate the agreement under such circumstances, the terms may be significantly less favorable to us. If we were liquidated, CIBC's right to repayment would be senior to the rights of our stockholders to receive any proceeds from the liquidation. Any declaration by CIBC of an event of default could significantly harm our liquidity, financial condition, operating results, business, and prospects and cause the price of our securities to decline.

We may incur additional indebtedness in the future. The debt instruments governing such indebtedness may contain provisions that are as, or more, restrictive than the provisions governing our existing indebtedness. If we are unable to repay, refinance or restructure our indebtedness when payment is due, CIBC could proceed against the collateral or force us into bankruptcy or liquidation.

***We received a loan under the Paycheck Protection Program of the CARES Act and our receipt of this loan may result in adverse publicity, damage to our reputation or potential penalties.***

We have received loan proceeds pursuant to the Paycheck Protection Program under the Coronavirus Aid, Relief, and Economic Security Act, or the CARES Act. The lack of clarity regarding loan eligibility under the Paycheck Protection Program has resulted in significant media coverage and controversy with respect to public companies applying for and receiving loans. If, despite our good-faith belief that we satisfied all eligible requirements for the loan, we are later determined to be in violation of any of the laws or governmental regulations that apply to us in connection with the loan, such as the False Claims Act, or it is otherwise determined that we were ineligible to receive the loan, we may be subject to penalties, including significant civil, criminal and administrative penalties and could be required to repay the loan in its entirety. In addition, we could become subject to adverse publicity, review or audit by the SBA or other government entity or claims under the False Claims Act and could consume significant financial and management resources. Any of these events could have a material adverse effect on our business, results of operations and financial condition.

***The value of our common stock can be volatile.***

Our common stock is listed on the Nasdaq Capital Market. The overall market and the price of our common stock can fluctuate greatly. The trading price of our common stock may be significantly affected by various factors, including but not limited to:

- economic status and trends in the dairy industry, which underlies demand for our alfalfa seed;
- market conditions for alfalfa seed in the Middle East and North Africa, where a substantial amount of our seed historically has been purchased by end users;
- quarterly fluctuations in our operating results;
- our ability to meet the earnings estimates and other performance expectations of investors or financial analysts;
- fluctuations in the stock prices of our peer companies or in stock markets in general; and
- general economic or political conditions.

***Our quarter-to-quarter performance may vary substantially, and this variance, as well as general market conditions, may cause the price of our securities to fluctuate greatly and potentially expose us to litigation.***

Our seed business is highly seasonal because it is tied to the growing and harvesting seasons. If sales in particular quarters are lower than expected, our operating results for these quarters could cause our share price to decline.

Our future expense estimates are based, in large part, on estimates of future revenue, which is difficult to predict. We expect to continue to make significant expenditures in order to expand production, sales, marketing and processes. We may be unable to, or may elect not to, adjust spending quickly enough to offset any unexpected revenue shortfall. If our increased expenses are not accompanied by increased revenue in the same quarter, our quarterly operating results would be harmed.

In one or more future quarters, our results of operations may fall below the expectations of investors or analysts, and the trading price of our securities may decline as a consequence. We believe that quarter-to-quarter comparisons of our operating results will not be a good indication of our future performance and should not be relied upon to predict the future performance of our stock price.

In the past, companies that have experienced volatility in the market price of their stock have often been subject to securities class action litigation. We may be the target of this type of litigation in the future. Securities litigation against us could result in substantial costs and divert our management's attention from other business concerns, which could seriously harm our business.



***If we issue shares of preferred stock, the holdings of those owning our common stock could be diluted or subordinated to the rights of the holders of preferred stock.***

Our board of directors is authorized by our articles of incorporation to establish classes or series of preferred stock and fix the designation, powers, preferences and rights of the shares of each such class or series without any further vote or action by our stockholders. Any shares of preferred stock so issued could have priority over our common stock with respect to dividend or liquidation rights.

***Our actual operating results may differ significantly from our guidance.***

We routinely release annual guidance in our quarterly earnings releases, our quarterly earnings conference calls and in other forums we consider appropriate. Such guidance regarding our future performance represents our management's estimates as of the date of release or other communication. This guidance, which includes forward-looking statements, is based on projections prepared by our management. These projections are not prepared with a view toward compliance with published guidelines of the American Institute of Certified Public Accountants, and neither our independent registered public accountants nor any other independent expert or outside party compiles or examines the projections, and accordingly, no such person expresses any opinion or any other form of assurance with respect thereto.

Projections are based upon a number of assumptions and estimates that, while presented with numerical specificity, are inherently subject to significant business, economic and competitive uncertainties and contingencies, many of which are beyond our control and are based upon specific assumptions with respect to future business decisions, some of which will change. If we issue guidance, we will generally state possible outcomes as high and low ranges or approximations that are intended to provide a sensitivity analysis as variables are changed but are not intended to represent that actual results could not fall outside of the suggested ranges or approximations. The principal reason that we would release guidance would be to provide a basis for our management to discuss our business outlook with analysts and investors. We do not accept any responsibility for any projections or reports published by any such persons.

Guidance is necessarily speculative in nature, and it can be expected that some or all of the assumptions of the guidance furnished by us will not materialize or will vary significantly from actual results. Accordingly, our guidance, when given, is only an estimate of what management believes is realizable as of the date of release or other communication. Actual results will vary from our guidance, and the variations may be material. In light of the foregoing, investors are urged not to rely upon, or otherwise consider, our guidance in making an investment decision about our securities.

***We do not anticipate declaring any cash dividends on our common stock.***

We have never declared or paid cash dividends on our common stock and do not plan to pay any cash dividends in the near future. Our current policy is to retain all funds and any earnings for use in the operation and expansion of our business. If we do not pay cash dividends, our stock may be less valuable to investors because a return on their investment will only occur if our stock price appreciates.

***Anti-takeover provisions and our right to issue preferred stock could make a third-party acquisition of us difficult.***

Our articles of incorporation and bylaws contain provisions that would make it more difficult for a third party to acquire control of us, including a provision that our board of directors may issue preferred stock without stockholder approval. In addition, certain anti-takeover provisions of Nevada law, if and when applicable, could make it more difficult for a third party to acquire control of us, even if such change in control would be beneficial to our stockholders.

**Item 1B. Unresolved Staff Comments**

None.

## Item 2. Properties

The following is a description of our material properties:

Location	Size	Primary Use	Leased or Owned
Dumas (Moore County), Texas	9,021 sq. ft.	Warehouse storage	Owned by S&W
Kern County, California	584 acres	Farmland suitable for farming alfalfa seed and alfalfa hay	Leased by S&W
Keith, South Australia	8.2 acres	Processing facility	Owned by S&W Australia
Keith, South Australia	58 acres	Research farm	Leased by S&W Australia
Longmont (Boulder County), Colorado	8,948 sq. ft.	Corporate Headquarters for S&W	Leased by S&W
Lubbock (Lubbock County), Texas	41,380 sq. ft.	Research facilities and warehouse storage	Leased by S&W
Lubbock (Lubbock County), Texas	1,972 sq. ft.	Laboratory and general office	Leased by S&W
Nampa (Canyon County), Idaho	80 acres (approx.)	Alfalfa research and development facilities	Owned by S&W
Nampa (Canyon County), Idaho	16 acres	Milling facilities	Owned by S&W
Nampa (Canyon County), Idaho	8,000 sq. ft.	Production warehouse storage	Leased by S&W
Nampa (Canyon County), Idaho	7,500 sq. ft.	Production warehouse storage	Leased by S&W
New Deal (Lubbock County), Texas	111,062 sq. ft.	Processing facility and production warehouse storage	Owned by S&W
Penfield, South Australia	43,000 sq. ft.	Warehousing and production storage and research and development	Leased by S&W Australia
Stirling, South Australia	1,690 sq. ft.	Corporate headquarters for S&W Australia	Leased by S&W Australia
Szeged, Hungary	4,191 sq. ft.	Corporate headquarters for S&W Hungary	Leased by S&W Hungary
Szeged, Hungary	13 acres	Research farm	Leased by S&W Hungary
Tamworth, New South Wales	15,392 sq. ft.	Research and development and warehousing and production storage	Leased by S&W Australia
Tifton (Tift County), Georgia	3,000 sq. ft.	Research facilities	Leased by S&W
Toowoomba, Queensland	12,110 sq. ft.	Research and development and warehousing and production storage	Leased by S&W Australia
Tulia (Swisher County), Texas	12,000 sq. ft.	Warehouse storage	Leased by S&W
Victoria (Victoria County), Texas	2,400 sq. ft.	Research facilities and warehouse storage	Leased by S&W
Wingfield, South Australia	17,200 sq. ft.	Warehousing and production storage	Leased by S&W Australia

We believe that our current facilities are adequate for our needs for the immediate future and that, should it be needed, suitable additional space will be available to accommodate expansion of our operations on commercially reasonable terms.

**Item 3. Legal Proceedings**

From time to time, we are involved in lawsuits, claims, investigations and proceedings, including pending opposition proceedings involving patents that arise in the ordinary course of business. There are no matters pending that we expect to have a material adverse impact on our business, results of operations, financial condition or cash flows.

**Item 4. Mine Safety Disclosures**

Not applicable.



## PART II

### Item 5. Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

#### Market Information Regarding Our Common Stock

Our common stock is traded on the Nasdaq Capital Market under the symbol “SANW.” The following table sets forth the range of high and low sales prices per share of common stock as reported on Nasdaq for the periods indicated. The closing price of our common stock on September 24, 2021 was \$3.03.

	High	Low
<b>Year Ended June 30, 2020</b>		
First Quarter	\$ 3.13	\$ 2.21
Second Quarter	2.57	1.92
Third Quarter	3.00	1.75
Fourth Quarter	2.50	1.67
<b>Year Ended June 30, 2021</b>		
First Quarter	\$ 3.98	\$ 2.21
Second Quarter	3.54	2.15
Third Quarter	4.36	2.85
Fourth Quarter	4.12	3.33

#### Holder

As of September 27, 2021, we had 36,777,094 shares of common stock outstanding held by 32 stockholders of record. Because many of our shares of common stock are held by brokers and other institutions on behalf of stockholders, we are unable to estimate the total number of beneficial stockholders represented by these record holders.

#### Dividend Policy

We have never declared or paid any cash dividends on our common stock. For the foreseeable future, we intend to retain any earnings to finance the development and expansion of our business, and we do not anticipate paying any cash dividends on our common stock. Any future determination to pay dividends will be at the discretion of the Board of Directors and will be dependent upon then existing conditions, including our financial condition and results of operations, capital requirements, contractual restrictions, business prospects and other factors that the Board of Directors considers relevant. In addition, our loan agreement with CIBC contains restrictions on our ability to pay dividends.

#### Securities Authorized for Issuance Under Equity Compensation Plans

There were no unregistered sales of equity securities in 2021 fiscal year that have not been previously reported on a Current Report on Form 8-K.

#### Recent Sales of Unregistered Securities; Use of Proceeds from Registered Securities

There were no unregistered sales of equity securities in 2021 fiscal year that have not been previously reported on a Current Report on Form 8-K.

#### Purchases of Equity Securities by the Issuer and Affiliate Purchasers

None.

**Item 6. Selected Financial Data**

As a smaller reporting company, we are not required to provide information typically disclosed under this item.

## **Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations**

You should read the following discussion of our financial condition and results of operations in conjunction with our consolidated financial statements and the related notes included in Part II, Item 8, “Financial Statements” of this Annual Report on Form 10-K. In addition to our historical consolidated financial information, the following discussion contains forward-looking statements that reflect our plans, estimates, and beliefs. Our actual results could differ materially from those discussed in the forward-looking statements as referred to on page 2 of this Annual Report on Form 10-K. Factors that could cause or contribute to these differences include those discussed below and elsewhere in this Annual Report on Form 10-K, particularly in Part I, Item 1A, “Risk Factors.”

### **Executive Overview**

We are a global multi-crop, middle-market agricultural company. We are market leaders in the breeding, production and sale of alfalfa seed and sorghum seed. We also have a growing commercial market presence in sunflower, wheat and pasture seed and maintain an active stevia development program.

Our seed platform develops and supplies high quality germplasm designed to produce higher yields for farmers worldwide. We sell over 500 seed products in more than 40 countries. We maintain an active product pipeline and expect to introduce more than 25 new products during the 2021-2022 fiscal years.

Founded in 1980, we began our operations as a limited producer of non-dormant alfalfa seed varieties bred for warm climates and high-yields, including varieties that can thrive in poor, saline soils. Over the years we have built a diversified, global agricultural platform through a combination of organic growth and strategic acquisitions and collaborations, including:

- Our 2012 acquisition of Imperial Valley Seeds, Inc., which enabled us to expand production of non-GMO alfalfa seed into California's Imperial Valley, thereby ensuring a non-GMO uncontaminated source of alfalfa seed due to the prohibition on growing GMO crops in the Imperial Valley, as well as enabling us to diversify our production areas and distribution channels;
- Our 2012 acquisition of a portfolio of dormant alfalfa germplasm, which launched our entry into the dormant alfalfa market;
- Our 2013 acquisition of Seed Genetics International Pty Ltd (now S&W Seed Company Australia Pty Ltd, or S&W Australia), the leading producer of non-dormant alfalfa seed in South Australia, which made us the largest non-dormant alfalfa seed company in the world, with production capabilities in both hemispheres;
- Our 2014 acquisition of alfalfa production and research facility assets and conventional (non-GMO) alfalfa germplasm from Pioneer Hi-Bred International, Inc., or Pioneer, now a subsidiary of Corteva Agriscience, Inc., which we jointly refer to as Corteva, which substantially broadened and improved our dormant alfalfa germplasm portfolio and deepened our production, research and product development capabilities;
- Our 2016 acquisition of the business and assets of SV Genetics Pty Ltd, a developer of proprietary hybrid sorghum and sunflower seed germplasm, which expanded our crop focus into two areas which we believe have global growth potential;
- Our 2018 acquisition of the assets of Chromatin, Inc. and related companies, which positioned us to become a global leader in the hybrid sorghum seed market and enhanced our distribution channels both internationally and within a U.S.-based farmer-dealer network;
- Our 2018 joint venture with AGT Foods Africa Proprietary Limited and 2019 joint venture with Zaad Holdings Limited, both based in South Africa, each of which were formed to produce our hybrid sunflower, grain sorghum and forage sorghum seed in Africa for sale in Africa, the Middle East and Europe;

- Our 2019 license of commercialized and developmental wheat germplasm from Corteva, through which we entered the largest grain crop market in Australia;
- Our 2020 acquisition of Pasture Genetics Ltd., or Pasture Genetics, the third largest pasture seed company in Australia, which further diversified our product offerings in Australia and strengthened our Australian sales team and distribution relationships;
- Our 2020 collaboration with ADAMA Ltd., or ADAMA, a subsidiary of China National Chemical Engineering Co Ltd., or ChemChina, to bring to the U.S. sorghum market the DoubleTeam™ grassy weed management system, consisting of ADAMA's proprietary herbicides and our non-GMO, herbicide tolerant sorghum hybrids; and
- Our 2020 licensing agreement with The Agricultural Alumni Seed Improvement Association, Inc., an affiliate of Purdue University in West Lafayette, IN, to develop and commercialize worldwide a non-GMO, dhurrin-free trait in sorghum species, which essentially eliminates potential livestock death from hydrogen cyanide poisoning when grazing sorghum

In 2019, we restructured our relationship with Corteva (parent company of Pioneer), under which, among other things:

- We received \$45.0 million in fiscal 2019, approximately \$16.7 million in fiscal 2020 and approximately \$8.3 million in fiscal 2021.
- Corteva received a fully pre-paid, exclusive license to produce and distribute certain of our alfalfa varieties world-wide (except South America). The licensed varieties include certain of our existing commercial conventional (non-GMO) alfalfa varieties and six pre-commercial dormant alfalfa varieties. Corteva received no license to our other commercial alfalfa varieties or pre-commercial alfalfa pipeline products and no rights to any future products developed by us.
- We assigned to Corteva grower production contract rights, and Corteva assumed grower production contract obligations, related to the licensed and certain other alfalfa varieties.
- Our prior Distribution Agreement, related to conventional (non-GMO) alfalfa varieties, and Contract Alfalfa Production Services Agreement, related to GMO-traited alfalfa varieties, with Corteva both terminated. Under the Distribution Agreement, Corteva was obligated to make minimum annual purchases from us.

As a result of the 2018 Chromatin acquisition, the 2019 restructuring of our relationship with Corteva and our February 2020 acquisition of Pasture Genetics, we expect that our results of operations for fiscal 2022 and future periods will differ significantly from prior periods as the mix of our product portfolio rebalances away from a reliance on alfalfa sales (sales of alfalfa seed to Corteva totaled \$14.2 million and \$19.7 million during the years ended June 30, 2021 and 2020, respectively) to a more diverse product mix. We do not expect any other significant revenue from sales to Corteva in the future.

### **COVID-19 Update**

We are closely monitoring the impact of the COVID-19 global pandemic on our business and have implemented measures designed to protect the health and safety of our workforce, including a voluntary work-from-home policy for employees who can perform their jobs offsite. We are continuing our activities and are taking precautionary measures to protect our employees working in our facilities.

As the COVID-19 pandemic continues to affect the areas in which we operate, we believe the outbreak has and will continue to have a negative impact on our sales, operating results and financial condition. The extent of the impact of the COVID-19 pandemic on our sales, operating results and financial condition will depend on certain developments, including the duration and spread of the outbreak, impact on our customers, employees and vendors, all of which are uncertain and cannot be predicted.

Our sales efforts historically involved significant in-person interaction with potential customers and distributors. Throughout the COVID-19 pandemic, many national, state and local governments in our target markets implemented



various stay-at-home, shelter-in-place and other quarantine measures in response to the COVID-19 pandemic. As a result, we have shifted our sales activities to video conferencing and similar customer interaction models. We continue to evaluate our sales approach, but we have found these alternative approaches to generally be less effective than in-person sales efforts. In particular, our sales cycle is highly seasonal, and the majority of our sales season activities for the United States and Australia are typically concentrated between March and June each year. If ongoing measures designed to protect against COVID-19 remain in effect throughout the 2022 sales season, we may experience similar negative impacts that we experienced during the 2020 and 2021 sales seasons.

In addition, our product revenue is predicated on our ability to timely fulfill customer orders, which depends in large part upon the consistent availability and operation of shipping and distribution networks operated by third parties. Farmers typically have a limited window during which they can plant seed, and their buying decisions can be shaped by actual or perceived disruptions in our distribution and supply channels. If our customers delay or decrease their orders due to potential disruptions in our distribution and supply channels, this will adversely affect our product revenue. During the twelve months ended June 30, 2021, we experienced numerous logistical challenges due to limited availability of trucks for product deliveries, congestion at the ports, and overall rising costs of shipping and transportation costs. We expect these logistical challenges to persist throughout fiscal 2022.

Given these uncertainties, at this time we cannot reasonably estimate the overall impact of the COVID-19 pandemic on our business, operating results and financial condition.

## **Components of Our Statements of Operations Data**

### **Revenue and Cost of Revenue**

#### *Product and Other Revenue*

We derive most of our revenue from the sale of our proprietary seed varieties and hybrids. We expect that over the next several years, a substantial majority of our revenue will be generated from the sale of alfalfa, sorghum and pasture seed, although we are continually assessing other possible product offerings or means to increase revenue, including expanding into other, higher margin crops.

The mix of our product offerings will continue to change over time with the introduction of new seed varieties and hybrids resulting from our robust research and development efforts, including our potential expansion into gene-edited products in future periods, and our strategic acquisitions.

Our revenue will fluctuate depending on the timing of orders from our customers and distributors. Because some of our large customers and distributors order in bulk only one or two times per year, our product revenue may fluctuate significantly from period to period. However, some of this fluctuation is offset by having operations in both the northern and southern hemispheres.

Our stevia breeding program has yet to generate any meaningful revenue. However, management continues to evaluate this portion of our business and assess various means to monetize the results of our effort to breed new, better tasting stevia varieties. Such potential opportunities include possible licensing agreements and royalty-based agreements.

#### *Cost of Revenue*

Cost of revenue relates to sale of our seed products and consists of the cost of procuring seed, plant conditioning and packaging costs, direct labor and raw materials and overhead costs.

## Operating Expenses

### *Research and Development Expenses*

Research and development expenses consist of costs incurred in the discovery, development, breeding and testing of new products incorporating the traits we have specifically selected. These expenses consist primarily of employee salaries and benefits, consultant services, land leased for field trials, chemicals and supplies and other external expenses.

Overall, we have been focused on controlling research and development expenses, while balancing that objective against the recognition that continued advancement in product development is an important part of our strategic planning. We intend to focus our resources on high value activities. For alfalfa seed, we plan to invest in further development of differentiating forage quality traits. For sorghum, we plan to invest in higher value grain products, proprietary herbicide tolerance traits and improved safety and palatability in forage products. We expect our research and development expenses will fluctuate from period to period as a result of the timing of various research and development projects.

Our internal research and development costs are expensed as incurred, while third-party research and development costs are expensed when the contracted work has been performed or as milestone results have been achieved. The costs associated with equipment or facilities acquired or construed for research and development activities that have alternative future uses are capitalized and depreciated on a straight-line basis over the estimated useful life of the asset.

### *Selling, General and Administrative Expenses*

Selling, general, and administrative expenses consist primarily of employee costs, including salaries, employee benefits and share-based compensation, as well as professional service fees, insurance, marketing, travel and entertainment expense, public company expense and other overhead costs. We proactively take steps on an ongoing basis to control selling, general and administrative expense as much as is reasonably possible.

### *Depreciation and Amortization*

We amortize intangible assets, including those acquired from Pasture Genetics in 2020, Chromatin in 2018 and from SV Genetics in May 2016, using the straight-line method over the estimated useful life of the asset, consisting of periods of 3-30 years for technology/IP/germplasm, 5-20 years for customer relationships and trade names and 3-20 years for other intangible assets. Property, plant and equipment is depreciated using the straight-line method over the estimated useful life of the asset, consisting of periods of 5-35 years for buildings, 2-20 years for machinery and equipment and 2-5 years for vehicles.

### *Other (Income) Expense*

Other expense consists primarily of foreign currency gains and losses, change in contingent consideration obligation, government grant income, changes in the estimated fair value of assets held for sale and interest expense in connection with amortization of debt discount. Interest expense primarily consists of interest costs related to outstanding borrowings on our working capital credit facilities and our financing with Conterra Agricultural Capital, LLC, or Conterra.

### *Provision (Benefit) for Income Taxes*

Our effective tax rate is based on income, statutory tax rates, differences in the deductibility of certain expenses and inclusion of certain income items between financial statement and tax return purposes, and tax planning opportunities available to us in the various jurisdictions in which we operate. Under U.S. GAAP, if we determine that a tax position is more likely than not of being sustained upon audit, based solely on the technical merits of the position, we recognize the benefit. Tax regulations require certain items to be included in the tax return at different times than when those items are required to be recorded in the consolidated financial statements. As a result, our

effective tax rate reflected in our consolidated financial statements is different from that reported in our tax returns. Some of these differences are permanent, such as meals and entertainment expenses that are not fully deductible on our tax return, and some are temporary differences, such as depreciation expense. Temporary differences create deferred tax assets and liabilities. Deferred tax assets generally represent items that can be used as a tax deduction or credit in our tax return in future years for which we have already recorded the tax benefit in our consolidated statements of operations. In the fourth quarter of fiscal year 2017, we recorded a valuation allowance against all of our deferred tax assets. The full valuation allowance was recorded during the fiscal year 2017 as a result of changes to our operating results and future projections, resulting from a decline in export sales to Saudi Arabia. As a result, we don't believe that it is more likely than not that our deferred tax assets will be realized.

## Results of Operations

### *Fiscal Year Ended June 30, 2021 Compared to the Fiscal Year Ended June 30, 2020*

#### *Revenue and Cost of Revenue*

Revenue for the year ended June 30, 2021 was \$84.0 million compared to \$79.6 million for the year ended June 30, 2020. The \$4.4 million increase in revenue for the year ended June 30, 2021 was primarily due to a \$9.9 million increase in core product revenue offset by a \$5.5 million decrease in product revenue received from Pioneer (subsidiary of Corteva). In May 2019, we terminated the production and distribution agreements with Pioneer, and entered into a new license agreement with Corteva. As of June 30, 2021, we have fully recorded all revenue from Pioneer under its agreement announced in May 2019.

Core Revenue (which we define as total revenue, excluding product revenue attributable to Pioneer) for the year ended June 30, 2021 was \$69.8 million compared to Core Revenue for the year ended June 30, 2020 of \$59.9 million, representing an increase of \$9.9 million or 16.6%. Due to the revised agreements with Pioneer in May 2019, we plan to provide Core Revenue as a metric to track performance of our business until product revenue attributable to our revised agreements with Pioneer is no longer reflected in comparisons between fiscal periods. The increase in Core Revenue for the year ended June 30, 2021 can be primarily attributed to our Pasture Genetics operation, which was acquired in February 2020. Excluding contributions from Pasture Genetics, Core Revenue was flat year over year.

Sales into international markets represented 56% and 54% of our total revenue during the year ended June 30, 2021 and 2020, respectively. Domestic revenue accounted for 44% and 46% of our total revenue for the year ended June 30, 2021 and 2020, respectively. The decrease in domestic revenue as a percentage of total revenue was primarily attributable to the termination of the Pioneer and Corteva agreement mentioned above and our Pasture Genetics acquisition in February 2020.

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

	Years Ended June 30,			
	2021		2020	
United States	\$37,124,047	44%	\$36,724,591	46%
Australia	21,470,810	26%	15,079,996	19%
Saudi Arabia	5,911,498	7%	9,189,291	12%
South Africa	2,456,216	3%	2,182,553	3%
China	2,042,585	2%	817,867	1%
Pakistan	2,041,548	2%	2,124,038	3%
Mexico	1,928,856	2%	2,454,504	3%
Argentina	1,838,648	2%	681,183	1%
Libya	1,249,554	1%	1,142,920	1%
Sudan	1,218,168	1%	1,308,874	1%
Other	6,767,106	8%	7,876,381	10%
Total	\$84,049,036	100%	\$79,582,198	100%

Cost of revenue of \$70.4 million for the year ended June 30, 2021 was equal to 83.7% of total revenue for the year ended June 30, 2021, while the cost of revenue of \$64.6 million for the year ended June 30, 2020 was equal to 81.2% of total revenue for the year ended June 30, 2020. Cost of revenue for the years ended June 30, 2021 and 2020 included inventory write-downs of \$1.4 million and \$2.3 million, respectively. The write-down of inventory during the years ended June 30, 2021 and 2020 related to certain inventory lots that deteriorated in quality and germination rates during the year.

Gross profit margin for the year ended June 30, 2021 was 16.3% compared to 18.8% in the prior year. The decrease in gross profit margin was primarily driven by compressed gross margins in Australia due to sales mix as we had a higher concentration of lower margin forage cereal products. During the year ended June 30, 2021, the Company experienced numerous logistical challenges due to limited availability of trucks for product deliveries, congestion at the ports, and overall rising costs increases of shipping and transportation costs. The Company expects these logistical challenges to persist throughout fiscal 2022.

Excluding the \$1.4 million of inventory write-downs, gross margin would have been 18.0% for the year ended June 30, 2021. Excluding the \$2.3 million of inventory write-downs in the prior year, gross margin would have been 21.7% for the year ended June 30, 2020. We believe it's useful to exclude inventory write-downs in calculating adjusted gross margins in order to provide investors with a method to compare our operating results to prior periods and to peer companies.

#### *Selling, General and Administrative Expenses*

Selling, General and Administrative, or SG&A expense for the year ended June 30, 2021 totaled \$21.9 million compared to \$21.3 million for the year ended June 30, 2020. The \$0.6 million increase in SG&A expense versus the prior year was primarily due to \$2.4 million from our Pasture Genetics operations acquired in February 2020 partially offset by various other cost reductions. As a percentage of revenue, SG&A expenses were 26.0% for the year ended June 30, 2021, compared to 26.8% for the year ended June 30, 2020.

#### *Research and Development Expenses*

Research and development expenses for the year ended June 30, 2021 totaled \$8.5 million compared to \$7.3 million for the year ended June 30, 2020. The \$1.2 million increase in research and development expense versus the prior year is driven by additional investment in wheat, hybrid sunflower and our hybrid sorghum programs.

#### *Depreciation and Amortization*

Depreciation and amortization expense for the year ended June 30, 2021 was \$5.5 million compared to \$5.0 million for the year ended June 30, 2020. Included in the amount was amortization expense for intangible assets, which totaled \$2.4 million for the year ended June 30, 2021 and \$2.1 million for the year ended June 30, 2020. The \$0.5 million increase in depreciation and amortization expense over the comparable period of the prior year was primarily driven by \$0.5 million of expense associated with our February 2020 acquisition of Pasture Genetics and \$0.2 million of additional expense following our August 2019 acquisition of a wheat breeding program in Australia from Dow AgroScience, or the Dow Wheat Acquisition, partially offset by the decrease of \$0.1 million in depreciation due to sale of Five Points in January 2021.



### *Gain on disposal of property, plant and equipment*

We recorded a gain on disposal of property, plant and equipment during the year ended June 30, 2021. This gain is primarily related to the sale of our Five Points facility and other assets located in California.

### *Change in contingent consideration obligation*

The contingent consideration obligation is considered a level 3 fair value financial instrument and will be measured at each reporting period. The \$4.0 million benefit to non-cash change in contingent consideration for the year ended June 30, 2021 represents the decrease in the estimated fair value of the contingent consideration obligation associated with the February 2020 Pasture Genetics acquisition.

### *Interest Expense - Amortization of Debt Discount*

Non-cash amortization of debt discount expense for the year ended June 30, 2021 was \$0.7 million compared to \$0.6 million for the year ended June 30, 2020. The expense in both years represents the amortization of the debt issuance costs associated with our working capital facilities, our secured property note and our equipment finance leases.

### *Interest Expense*

Interest expense for the year ended June 30, 2021 totaled \$2.3 million compared to \$2.0 million for the year ended June 30, 2020. Interest expense for the year ended June 30, 2021 primarily consisted of interest incurred on the working capital credit facilities, the secured property loan entered into in November 2017, and equipment finance leases. Interest expense for the year ended June 30, 2020 primarily consisted of interest incurred on the working capital credit facilities, the secured property loan entered into in November 2017, and equipment finance leases. The \$0.3 million increase in interest expense for the year ended June 30, 2021 was primarily driven by higher interest resulting from increased levels of borrowing on the working capital credit facilities.

### *Provision for Income Taxes*

Our income tax benefit totaled \$(24,358) for the year ended June 30, 2021 compared to an income tax expense of \$0.4 million for the year ended June 30, 2020. Our effective tax rate was 0.1% for the year ended June 30, 2021 compared to (2.0%) for the year ended June 30, 2020. Our effective tax rate was relatively consistent year over year. The slight increase in our effective tax rate for the year ended June 30, 2021 was primarily attributable to a decrease in our non-US income tax expense for the year ended June 30, 2021 compared to the year ended June 30, 2020. Our tax expense is substantially driven by our full valuation allowance. Due to the valuation allowance, we do not record the income tax expense or benefit related to substantially all of our current year operating results, as such results are generally incorporated in our net operating loss deferred tax asset position, which has a full valuation allowance against it. However, we do record certain tax expenses and benefits related to some of our activity in our non-US locations. For example, we recorded income tax benefit related to the current year activity and prior year tax return filings of our subsidiary located in Australia. We also recorded minor tax expense related to current year activity and prior tax return filings of our subsidiaries in South Africa and Hungary, as well as related to our state tax return liabilities.

## **Liquidity and Capital Resources**

Our working capital and working capital requirements fluctuate from quarter to quarter depending on the phase of the growing and sales cycle that falls during a particular quarter. Our need for cash has historically been highest in the second and third fiscal quarters (October through March) because we historically have paid our North American contracted growers progressively, starting in the second fiscal quarter. In fiscal year 2021, we paid our North American growers approximately 50% of amounts due in the fall of 2020 and the balance was paid in the spring of 2021. This payment cycle to our growers was similar in fiscal year 2020, and we expect it to be similar for fiscal

year 2022. S&W Australia and Pasture Genetics, our Australian-based subsidiaries, have production cycles that are counter-cyclical to North America; however, this also puts a greater demand on our working capital and working capital requirements during the second, third and fourth fiscal quarters based on timing of payments to growers in the second through fourth quarters.

Historically, due to the concentration of sales to certain distributors, our month-to-month and quarter-to-quarter sales and associated cash receipts are highly dependent upon the timing of deliveries to and payments from these distributors, which varies significantly from year to year.

We continuously monitor and evaluate our credit policies with all of our customers based on historical collection experience, current economic and market conditions and a review of the current status of the respective trade accounts receivable balance. Our principal working capital components include cash and cash equivalents, accounts receivable, inventory, prepaid expense and other current assets, accounts payable and our working capital lines of credit.

On February 24, 2020, S&W Australia acquired all of the issued and outstanding shares of Pasture Genetics, the PG Acquisition, for an initial consideration that consisted of an upfront cash payment at closing of USD \$7.5 million (AUD \$11.4 million). A potential earn-out payment of up to USD \$5.3 million (AUD \$8.0 million), or the Earn-Out, is payable on September 30, 2022, or the Earn-Out Date. The amount of any Earn-Out will be equal to the excess, if any, of (a) 7.5, multiplied by the average of an agreed-upon calculation of Pasture Genetics' earnings over fiscal years 2021 and 2022, above (b) USD \$7.5 million (AUD \$11.4 million). At S&W Australia's election, up to 50% of the Earn-Out may be paid in shares of our common stock at a per share purchase price equal to the volume-weighted average purchase price of our common stock during the 10-day period ending immediately prior to the Earn-Out Date.

In addition to funding our business with cash from operations, we have historically relied upon sales of our debt and equity securities and credit facilities from financial institutions, both in the United States and Australia.

### ***Capital Resources and Funding Requirements***

We are not profitable and have had negative cash flow from operations for the last several years. To help fund our operations, we have in part relied on equity and debt financings. We currently anticipate that our cash and cash equivalents may be sufficient to enable us to fund our operations for at least the next 12 months. However, we will need to obtain additional funds to finance our operations in the future, and we could spend our available financial resources much faster than we currently expect. Our loan and security agreement with CIBC Bank USA, or CIBC, and our secured promissory notes with Conterra Agriculture Capital, LLC contain various operating and financial covenants, and the COVID-19 pandemic has increased the risk of our inability to comply with these covenants, which could result in acceleration of our repayment obligations and foreclosure on our pledged assets. For example, we were not in compliance with certain of these covenants as of June 30, 2021 and we were required to obtain waivers and/or amendments from CIBC and Conterra. We believe it is uncertain the Company will be able to generate sufficient cash flow from operations or maintain sufficient liquidity to meet these covenants. These factors raise substantial doubt regarding our ability to continue as a going concern. If we are unable to meet these covenants, we will need to raise additional capital in the future to enhance our working capital. This may include, for example, the need to finance our cash needs through a combination of equity and debt financings, as well as potentially entering into collaborations, strategic alliances and licensing arrangements.

Our future liquidity and capital requirements will be influenced by numerous factors, including:

- the extent and duration of future operating income;
- the level and timing of future sales and expenditures;
- working capital required to support our growth;
- investment capital for plant and equipment;
- our sales and marketing programs;
- investment capital for potential acquisitions;
- our ability to renew and/or refinance our debt on acceptable terms;
- competition;
- market developments; and
- developments related to the COVID-19 pandemic.

There can be no assurance that we will be successful in raising additional capital or securing future waivers and/or amendments from CIBC or our other lenders. If we are unable to raise sufficient additional capital or secure future waivers and/or amendments, we may need to reduce the scope of our operations, repay amounts owing to our lenders or sell certain assets. If we are required or desire to raise additional capital in the future, such additional financing may not be available on favorable terms, or available at all. To the extent that we raise additional capital through the sale of equity or convertible debt securities, your ownership interest could be diluted and the terms of these securities may include liquidation or other preferences that adversely affect your rights as a common stockholder. Debt financing may involve agreements that include covenants limiting or restricting our ability to take specific actions, such as incurring additional debt, making capital expenditures or declaring dividends and may be secured by all or a portion of our assets. If we fail to obtain additional capital as and when required, such failure could have a material impact on our business, results of operations and financial condition.

Below is a summary of our material sources of capital in recent periods:

#### *Debt Financings*

##### Loan and Security Agreement with CIBC

On December 26, 2019, we entered into a Loan and Security Agreement with CIBC, or the Loan Agreement, which we amended on September 22, 2020, December 30, 2020, May 12, 2021 and September 27, 2021. As amended, the Loan Agreement provides for a \$25.0 million credit facility, or the CIBC Credit Facility. The key terms of the amended Loan Agreement include the following:

- Advances under the CIBC Credit Facility are to be used: (i) to finance our ongoing working capital requirements; and (ii) for general corporate purposes. We may also use a portion of the CIBC Credit Facility to finance permitted acquisitions and related costs.
- All amounts due and owing, including, but not limited to, accrued and unpaid principal and interest due under the CIBC Credit Facility, will be payable in full on December 23, 2022.
- The Credit Facility generally establishes a borrowing base of up to 85% of eligible domestic accounts receivable (90% of eligible foreign accounts receivable) plus up to the lesser of (i) 65% of eligible inventory, (ii) 85% of the appraised net orderly liquidation value of eligible inventory, and (iii) an eligible inventory sublimit as more fully set forth in the Loan Agreement, in each case, subject to lender reserves.
- Loans may be based on (i) a Base Rate plus 1.0% per annum or (ii) LIBOR Rate plus 3.0% per annum (both as defined in the Loan Agreement), generally at our option. Pursuant to the September 27, 2021 amendment, the Loans will now be based on Prime plus 2.0% per annum. In the event of a default, at the

option of CIBC, the interest rate on all obligations owing will increase by 2% per annum over the rate otherwise applicable.

- The CIBC Credit Facility is secured by a first priority perfected security interest in substantially all of our assets (subject to certain exceptions), including intellectual property.
- The Loan Agreement contains customary representations and warranties, affirmative and negative covenants and customary events of default that permit CIBC to accelerate our outstanding obligations under the Credit Facility, all as set forth in the Loan Agreement and related documents. The CIBC Credit Facility also contains customary and usual financial covenants imposed by CIBC.

Pursuant to the September 2021 amendment to the Loan Agreement, CIBC waived noncompliance with our fixed charge coverage ratio as of June 30, 2021, and suspended our fixed charge coverage ratio financial covenants for the fiscal quarters ended September 30, 2021 and December 31, 2021 and replaced that financial covenant with the minimum EBITDA threshold tested quarterly for the quarters ending September 30, 2021 and December 31, 2021. Pursuant to the September 2021 amendment, we revert back to our previous financial covenant to require that we maintain a fixed charge coverage ratio equal to or greater than (i) 1.00 to 1.00, beginning with the fiscal quarters ending March 31, 2022 and (ii) 1.15 to 1.00 for each fiscal quarter thereafter. In addition, pursuant to the September 2021 amendment, we are required to maintain liquidity of no less than \$3,000,000 at all times for the remainder of the term of the Loan Agreement. After giving effect to the September 2021 amendment, we were in compliance with the Loan Agreement for the year ended June 30, 2021.

We cannot guarantee that we will be able to comply with our covenants in the Loan Agreement in the future, or secure additional waivers if or when required. If we are unable to comply with or obtain a waiver of any noncompliance under the Loan Agreement, CIBC could declare an event of default or require us to further renegotiate the Loan Agreement on terms that may be significantly less favorable to us, or we may be required to seek additional or alternative financing. If we were to seek additional or alternative financing, any such financing may not be available to us on commercially reasonable terms or at all. Any declaration by CIBC of an event of default could significantly harm our liquidity, financial condition, operating results, business, and prospects and cause the price of our securities to decline.

#### Australian Facilities

At June 30, 2021, S&W Australia has debt facilities with NAB, all of which are guaranteed by S&W Seed Company up to a maximum of AUD \$15,000,000 (USD \$11,247,000 at June 30, 2021) and cross-guaranteed by S&W Australia.

In June 2020, S&W Australia executed documentation to consolidate the Pasture Genetics debt facility with NAB into its debt facilities with NAB. The documentation became effective in July 2020. The consolidated debt facilities with NAB provide up to an aggregate of AUD \$35,500,000 (USD \$26,617,900) of credit as of June 30, 2021, and include the following:

- S&W Australia finances the purchase of most of its seed inventory from growers pursuant to a seasonal credit facility comprised of two facility lines: (i) an overdraft line having a credit limit of AUD \$3,000,000 (USD \$2,249,400 at June 30, 2021) and (ii) a borrowing base line having a credit limit of AUD \$26,000,000 (USD \$19,494,800 at June 30, 2021). In March 2021, S&W Australia entered into an amendment with NAB which temporarily increased the Overdraft Facility to AUD \$3,000,000 (USD 2,249,400) for a three-month period and extended the maturity date of the seasonal credit facility to June 30, 2022. As of June 30, 2021, the Borrowing Base Line accrued interest on Australian dollar drawings at approximately 3.5% per annum calculated daily. The Overdraft Facility permits S&W Australia to borrow funds on a revolving line of credit up to the credit limit. Interest accrues daily and is calculated by applying the daily interest rate to the balance owing at the end of the day and is payable monthly in arrears. As of June 30, 2021, the Overdraft Facility accrued interest at approximately 5.47% per annum calculated daily. As of June 30, 2021, AUD \$26,823,515 (USD \$20,112,272) was outstanding under S&W Australia's seasonal credit facility with NAB. The seasonal credit facility is secured by a fixed and floating lien over all the present and future rights, property and undertakings of S&W Australia.



- S&W Australia has a flexible rate loan, or the Term Loan, in the amount of AUD \$4,500,000 (USD \$3,374,100) at June 30, 2021. Required annual principal payments of AUD \$500,000 on the Term Loan commenced on November 30, 2020, with the remainder of any unpaid balance becoming due on March 31, 2025. Monthly interest amounts outstanding under the Term Loan will be payable in arrears at a floating rate quoted by NAB for the applicable pricing period, plus 2.6%. The Term Loan is secured by a lien on all the present and future rights, property and undertakings of S&W Australia.
- S&W Australia finances certain equipment purchases under a master asset finance facility with NAB. The master asset finance facility has various maturity dates through June 2026 and have interest rates ranging from 2.86% to 5.31%. The credit limit under the facility is AUD \$2,000,000 (USD \$1,499,600) at June 30, 2021. As of June 30, 2021, AUD \$892,602 (USD \$669,273) was outstanding under S&W Australia's master asset finance facility.

S&W Australia was in compliance with all debt covenants under its debt facilities with NAB at June 30, 2021.

#### Paycheck Protection Program

On April 14, 2020, we received loan proceeds of \$1,958,600, or the Loan, pursuant to the Paycheck Protection Program under the recently enacted Coronavirus Aid, Relief, and Economic Security Act, or the CARES Act, administered by the U.S. Small Business Administration, or the SBA. If the loan proceeds are fully utilized to pay qualified expenses, the full principal amount of the Paycheck Protection Program, or PPP, loan, along with any accrued interest, may qualify for loan forgiveness, subject to potential reduction based on the level of full-time employees maintained by the organization.

When we applied for the loan, we believed we would qualify to have the loan forgiven under the terms of PPP, and therefore considered the loan to be substantively a conditional government grant.

In March 2021, the PPP loan was forgiven in full.

#### *Equity Issuances*

On September 23, 2020, we entered into an At Market Issuance Sales Agreement, or the ATM Agreement, with B. Riley Securities, Inc., or B Riley, under which we may offer and sell from time to time, at our sole discretion, shares of our common stock having an aggregate offering price of up to \$14.0 million through B. Riley as our sales agent.

For the year ended June 30, 2021, we received gross proceeds of approximately \$10.9 million from the sale of 3,008,015 shares of its common stock pursuant to the ATM Agreement.

As of September 27, 2021, we have \$3.1 million remaining available for sale under the ATM Agreement.

### Summary of Cash Flows

The following table shows a summary of our cash flows for the years ended June 30, 2021 and 2020:

	<b>Years Ended June 30,</b>	
	<b>2021</b>	<b>2020</b>
Cash flows from operating activities	\$(14,221,042)	\$ (5,763,627)
Cash flows from investing activities	2,465,746	(10,286,370)
Cash flows from financing activities	10,892,685	17,049,699
Effect of exchange rate changes on cash	267,454	(308,410)
Net increase (decrease) in cash and cash equivalents	(595,157)	691,292
Cash and cash equivalents, beginning of period	4,123,094	3,431,802
Cash and cash equivalents, end of period	\$ 3,527,937	\$ 4,123,094

#### *Operating Activities*

For the year ended June 30, 2021, operating activities used \$14.2 million in cash. Net loss plus and minus the adjustments for non-cash items as detailed on the statement of cash flows used \$15.8 million in cash, and changes in operating assets and liabilities as detailed on the statement of cash flows provided \$1.6 million in cash. The decrease in cash from changes in operating assets and liabilities was primarily driven by an increase in accounts payable of \$7.3 million, partially offset by a decrease in deferred revenue of \$5.8 million and a decrease in accrued expenses and other current liabilities of \$1.0 million.

For the year ended June 30, 2020, operating activities used \$5.8 million in cash. Net loss plus and minus the adjustments for non-cash items as detailed on the statement of cash flows used \$11.0 million in cash, and changes in operating assets and liabilities as detailed on the statement of cash flows provided \$5.2 million in cash. The decrease in cash from changes in operating assets and liabilities was primarily driven by a decrease in inventory of \$11.1 million, partially offset by a decrease in accounts payable of \$2.9 million, a decrease in deferred revenue of \$2.9 million, and an increase in accounts receivable of \$1.8 million.

#### *Investing Activities*

Investing activities during the year ended June 30, 2021 provided \$2.5 million in cash. Proceeds from the disposal of property, plant and equipment of \$0.8 million and net proceeds from the sale of properties in California provided \$2.8 million. Net proceeds were partially offset by additions to property, plant and equipment of \$1.1 million consisting primarily of equipment purchases for our distribution facility in Keith, Australia, and research and development facilities in Tamworth, Australia.

Investing activities during the year ended June 30, 2020 used \$10.3 million in cash. The Dow Wheat acquisition accounted for \$2.6 million of the cash used in investing activities and the Pasture Genetics acquisition accounted for \$7.5 million. We also had additions to property, plant and equipment of \$2.0 million consisting primarily of equipment purchases for our distribution facility in Keith, Australia, research and development facilities in Tamworth, Australia and leasehold improvements to our new corporate headquarters in Longmont, Colorado; partially offset by \$1.8 million of net proceeds from the sale of properties in Arlington Wisconsin and Plainview Texas.

### *Financing Activities*

Financing activities during the year ended June 30, 2021 provided \$10.9 million in cash. During the year ended June 30, 2021, we had net proceeds from the sale of our common stock of \$10.2 million, net borrowings on the working capital lines of credit of \$5.0 million, borrowings of long-term debt of \$0.4 million and repayments of long-term debt of \$4.4 million and debt issuance costs of \$0.2 million.

Financing activities during the year ended June 30, 2020 provided \$17.0 million in cash. During the year ended June 30, 2020, we had net borrowings on the working capital lines of credit of \$16.8 million, borrowings of long-term debt of \$3.9 million and repayments of long-term debt of \$2.6 million and debt issuance costs of \$0.9 million.

### ***Inflation Risk***

We do not believe that inflation has had a material effect on our business, financial condition or results of operations, including our revenue and income from continuing operations. However, if our costs were to become subject to significant inflationary pressures, we may not be able to fully offset such higher costs through price increases. Our inability or failure to do so could harm our business, financial condition and results of operations.

### ***Off Balance Sheet Arrangements***

We did not have any off-balance sheet arrangements during the year ended June 30, 2021.

### ***Critical Accounting Policies***

The accounting policies and the use of accounting estimates are set forth in the footnotes to our consolidated financial statements.

In preparing our financial statements, we must select and apply various accounting policies. Our most significant policies are described in Note 2 – Summary of Significant Accounting Policies of the footnotes to the consolidated financial statements. In order to apply our accounting policies, we often need to make estimates based on judgments about future events. In making such estimates, we rely on historical experience, market and other conditions, and on assumptions that we believe to be reasonable. However, the estimation process is by its nature uncertain given that estimates depend on events over which we may not have control. If market and other conditions change from those that we anticipate, our results of operations, financial condition and changes in financial condition may be materially affected. In addition, if our assumptions change, we may need to revise our estimates, or to take other corrective actions, either of which may also have a material effect on our results of operations, financial condition or changes in financial condition. Members of our senior management have discussed the development and selection of our critical accounting estimates, and our disclosure regarding them, with the audit committee of our board of directors, and do so on a regular basis.

We believe that the following estimates have a higher degree of inherent uncertainty and require our most significant judgments. In addition, had we used estimates different from any of these, our results of operations, financial condition or changes in financial condition for the current period could have been materially different from those presented.

### *Goodwill*

Goodwill is assessed annually for impairment or more frequently if an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit. We adopted Accounting Standards Update No. 2017-04, Simplifying the Test for Goodwill Impairment, or ASU 2017-04, effective July 1, 2018. This standard eliminates Step 2 from the goodwill impairment test. Instead, we perform our annual or interim goodwill impairment test by comparing the fair value of our one reporting unit with its carrying amount and recognizes an impairment charge for the amount by which the carrying amount exceeds the fair value, not to exceed the total amount of goodwill allocated to the reporting unit.

The goodwill balance at June 30, 2021 and 2020 relates to our February 2020 acquisition of Pasture Genetics. Upon completing the impairment test on our one reporting unit, there was no impairment for the year ended June 30, 2021.

### *Intangible Assets*

All amortizable intangible assets are assessed for impairment whenever events indicate a possible loss. Such an assessment involves estimating undiscounted cash flows over the remaining useful life of the intangible. If the review indicates that undiscounted cash flows are less than the recorded value of the intangible asset, the carrying amount of the intangible is compared to its fair value, with an impairment loss recognized if the fair value is below carrying value. Fair values are typically estimated using discounted cash flow techniques. Significant changes in key assumptions about the business, market conditions and prospects for which the intangible asset is currently utilized or expected to be utilized could result in an impairment charge.

### *Stock-Based Compensation*

We account for stock-based compensation in accordance with FASB Accounting Standards Codification Topic 718 Stock Compensation, which establishes accounting for equity instruments exchanged for employee services. Under such provisions, stock-based compensation cost is measured at the grant date, based on the calculated fair value of the award, and is recognized as an expense, under the straight-line method, over the employee's requisite service period (generally the vesting period of the equity grant).

We account for equity instruments, including stock options issued to non-employees, in accordance with authoritative guidance for equity-based payments to non-employees (FASB ASC 505-50). Stock options issued to non-employees are accounted for at their estimated fair value. The fair value of options granted to non-employees is re-measured as they vest.

We utilize the Black-Scholes-Merton option pricing model to estimate the fair value of options granted under share-based compensation plans. The Black-Scholes-Merton model requires us to estimate a variety of factors including, but not limited to, the expected term of the award, stock price volatility, dividend rate, risk-free interest rate. The input factors to use in the valuation model are based on subjective future expectations combined with management judgment. The expected term used represents the weighted-average period that the stock options are expected to be outstanding. We have used the historical volatility for our stock for the expected volatility assumption required in the model, as it is more representative of future stock price trends. We use a risk-free interest rate that is based on the implied yield available on U.S. Treasury issued with an equivalent remaining term at the time of grant. We have not paid dividends in the past and currently do not plan to pay any dividends in the foreseeable future, and as such, dividend yield is assumed to be zero for the purposes of valuing the stock options granted. We evaluate the assumptions used to value stock awards on a quarterly basis. If factors change, and we employ different assumptions, share-based compensation expense may differ significantly from what we have recorded in the past. When there are any modifications or cancellations of the underlying unvested securities, we may be required to accelerate, increase or cancel any remaining unearned share-based compensation expense. To the extent that we grant additional equity securities to employees, our share-based compensation expense will be increased by the additional unearned compensation resulting from those additional grants.

### *Income Taxes*

We regularly assess the likelihood that deferred tax assets will be recovered from future taxable income. To the extent management believes that it is more likely than not that a deferred tax asset will not be realized, a valuation allowance is established. When a valuation allowance is established or increased, an income tax charge is included in the consolidated financial statements and net deferred tax assets are adjusted accordingly. Changes in tax laws, statutory tax rates and estimates of our future taxable income levels could result in actual realization of the deferred tax assets being materially different from the amounts provided for in the consolidated financial statements. If the actual recovery amount of the deferred tax asset is less than anticipated, we would be required to write-off the remaining deferred tax asset and increase the tax provision, resulting in a reduction of earnings and stockholders' equity.



### *Inventories*

All inventories are accounted for on a lower of cost or net realizable value. Inventories consist of raw materials and finished goods. Depending on market conditions, the actual amount received on sale could differ from our estimated value of inventory. In order to determine the value of inventory at the balance sheet date, we evaluate a number of factors to determine the adequacy of provisions for inventory. The factors include the age of inventory, the amount of inventory held by type, future demand for products and the expected future selling price we expect to realize by selling the inventory. Our estimates are judgmental in nature and are made at a point in time, using available information, expected business plans and expected market conditions. We perform a review of our inventory by product line on a quarterly basis.

During the year ended June 30, 2021, we recognized a write-down of inventory in the amount of \$1.4 million which is included in Cost of Revenue in the Consolidated Statement of Operations. The write-down of inventory during the year ended June 30, 2021 was primarily related to certain inventory lots that deteriorated in quality and germination rates during the year.

### *Allowance for Doubtful Accounts*

We regularly assess the collectability of receivables and provide an allowance for doubtful trade receivables equal to the estimated uncollectible amounts. That estimate is based on historical collection experience, current economic and market conditions and a review of the current status of each customer's trade accounts receivable. Our estimates are judgmental in nature and are made at a point in time. Management believes the allowance for doubtful accounts is appropriate to cover anticipated losses in our accounts receivable under current conditions; however, unexpected, significant deterioration in any of the factors mentioned above or in general economic conditions could materially change these expectations.

### **Item 7A. Qualitative and Quantitative Disclosures about Market Risk**

We are a smaller reporting company; we are not required to provide information typically disclosed under this item.

**Item 8. Financial Statements and Supplementary Data**

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## Report of Independent Registered Public Accounting Firm

Stockholders and the Board of Directors of S&W Seed Company  
Longmont, Colorado

### Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of S&W Seed Company (the "Company") as of June 30, 2021 and 2020, the related consolidated statements of operations, comprehensive income (loss), stockholders' equity, and cash flows for each of the two years in the period ended June 30, 2021, and the related notes (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of June 30, 2021 and 2020, and the results of its operations and its cash flows for each of the two years in the period ended June 30, 2021, in conformity with accounting principles generally accepted in the United States of America.

### *Explanatory Paragraph – Going Concern*

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 2 to the consolidated financial statements, the Company believes it is uncertain it will be able to generate sufficient cash flow from operations or maintain sufficient liquidity to meet future covenants associated with its credit agreements that raise substantial doubt about its ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 2. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

### Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

### Critical Audit Matters

Critical audit matters are matters arising from the current period audit of the financial statements that were communicated or required to be communicated to the audit committee and that: (1) relate to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective, or complex judgments. We determined that there are no critical audit matters.

/s/ Crowe LLP

We have served as the Company's auditor since 2015.

Sacramento, California

September 27, 2021

**S&W SEED COMPANY  
CONSOLIDATED BALANCE SHEETS**

<b>ASSETS</b>	<b>June 30, 2021</b>	<b>June 30, 2020</b>
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 3,527,937	\$ 4,123,094
Accounts receivable, net	19,389,213	19,023,098
Inventories, net	63,395,256	63,882,938
Prepaid expenses and other current assets	1,555,530	1,374,677
TOTAL CURRENT ASSETS	87,867,936	88,403,807
Property, plant and equipment, net	17,740,974	20,494,312
Intangibles, net	37,130,942	38,784,058
Goodwill	1,651,634	1,508,675
Other assets	7,079,490	6,764,781
TOTAL ASSETS	<u>\$ 151,470,976</u>	<u>\$ 155,955,633</u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 15,947,918	\$ 8,045,694
Deferred revenue	385,328	6,171,904
Accrued expenses and other current liabilities	9,134,869	9,618,892
Lines of credit, net	33,946,565	26,983,264
Current portion of long-term debt, net	1,681,166	1,780,522
TOTAL CURRENT LIABILITIES	61,095,846	52,600,276
Long-term debt, net, less current portion	11,590,500	14,328,823
Contingent consideration obligation	741,552	4,263,503
Other non-current liabilities	3,649,885	3,427,054
TOTAL LIABILITIES	77,077,783	74,619,656
<b>STOCKHOLDERS' EQUITY</b>		
Preferred stock, \$0.001 par value; 5,000,000 shares authorized; no shares issued and outstanding	—	—
Common stock, \$0.001 par value; 50,000,000 shares authorized; 36,772,983 issued and 36,747,983 outstanding at June 30, 2021; 33,457,861 issued and 33,432,861 outstanding at June 30, 2020;	36,773	33,458
Treasury stock, at cost, 25,000 shares	(134,196)	(134,196)
Additional paid-in capital	149,684,357	137,809,540
Accumulated deficit	(69,311,909)	(50,140,942)
Accumulated other comprehensive loss	(5,850,826)	(6,111,424)
Noncontrolling interests	(31,006)	(120,459)
TOTAL STOCKHOLDERS' EQUITY	74,393,193	81,335,977
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	<u>\$ 151,470,976</u>	<u>\$ 155,955,633</u>

See notes to consolidated financial statements.



**S&W SEED COMPANY**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**

	<b>Years Ended June 30,</b>	
	<b>2021</b>	<b>2020</b>
Revenue	\$ 84,049,036	\$ 79,582,198
Cost of revenue	70,372,139	64,647,936
Gross profit	13,676,897	14,934,262
Operating expenses		
Selling, general and administrative expenses	21,867,529	21,348,092
Research and development expenses	8,515,786	7,336,754
Depreciation and amortization	5,469,581	5,036,464
Gain on disposal of property, plant and equipment	(1,906,738)	(23,299)
Total operating expenses	<u>33,946,158</u>	<u>33,698,011</u>
Loss from operations	(20,269,261)	(18,763,749)
Other (income) expense		
Foreign currency (gain) loss	(94,214)	98,620
Change in estimated value of assets held for sale	—	92,931
Change in contingent consideration obligation	(4,016,904)	(302,139)
Government grant income	—	(1,958,600)
Loss on extinguishment of debt	—	140,638
Interest expense - amortization of debt discount	689,514	555,049
Interest expense	2,283,215	1,970,882
Loss before income taxes	(19,130,872)	(19,361,130)
Provision for income taxes	(24,358)	385,968
Net loss	<u>\$ (19,106,514)</u>	<u>\$ (19,747,098)</u>
Net income (loss) attributed to noncontrolling interests	64,453	(72,774)
Net loss attributable to S&W Seed Company	<u>\$ (19,170,967)</u>	<u>\$ (19,674,324)</u>
Net loss attributable to S&W Seed Company per common share:		
Basic	<u>\$ (0.55)</u>	<u>\$ (0.59)</u>
Diluted	<u>\$ (0.55)</u>	<u>\$ (0.59)</u>
Weighted average number of common shares outstanding:		
Basic	<u>34,590,883</u>	<u>33,348,263</u>
Diluted	<u>34,590,883</u>	<u>33,348,263</u>

See notes to consolidated financial statements.

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

	Years Ended June 30,	
	2021	2020
Net loss	\$ (19,106,514)	\$ (19,747,098)
Foreign currency translation adjustment, net of income taxes	260,598	27,043
Comprehensive loss	\$ (18,845,916)	\$ (19,720,055)
Comprehensive income (loss) attributable to noncontrolling interests	64,453	(72,774)
Comprehensive loss attributable to S&W Seed Company	\$ (18,910,369)	\$ (19,647,281)

See notes to consolidated financial statements.

**S&W SEED COMPANY**  
**CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY**

	Preferred Stock	Common Stock	Treasury Stock	Additional	Accumulated	Noncontrolling	Accumulated	Other	Total
	Shares	Shares	Shares	Paid-In	Deficit	Interests	Deficit	Comprehensive	Stockholders'
	Amount	Amount	Amount	Capital				Loss	Equity
<b>Balance, June 30, 2019</b>	—	\$ 33,303,218	\$ 33,303	(25,000)	\$(134,196)	\$136,751,875	\$ (30,466,618)	\$ (47,685)	\$ 99,998,212
Stock-based compensation - options, restricted stock, and Restricted Stock Units, or RSUs	—	—	—	—	—	1,167,951	—	—	1,167,951
Net issuance to settle RSUs	—	154,643	155	—	—	(110,286)	—	—	(110,131)
Other comprehensive loss	—	—	—	—	—	—	—	27,043	27,043
Net loss	—	—	—	—	—	—	(19,674,324)	(72,774)	(19,747,098)
<b>Balance, June 30, 2020</b>	—	\$ 33,457,861	\$ 33,458	(25,000)	\$(134,196)	\$137,809,540	\$ (50,140,942)	\$ (120,459)	\$ 81,335,977
Stock-based compensation - options, restricted stock, and RSUs	—	—	—	—	—	1,766,353	—	—	1,766,353
Net issuance to settle RSUs	—	307,107	307	—	—	(111,839)	—	—	(111,532)
Proceeds from sale of common stock, net of fees and expenses	—	3,008,015	3,008	—	—	10,220,303	—	—	10,223,311
Capital contribution from minority shareholder of subsidiary	—	—	—	—	—	—	—	25,000	25,000
Other comprehensive income	—	—	—	—	—	—	(19,170,967)	260,598	260,598
Net loss	—	—	—	—	—	—	—	64,453	(19,106,514)
<b>Balance, June 30, 2021</b>	—	\$ 36,772,983	\$ 36,773	(25,000)	\$(134,196)	\$149,684,357	\$ (69,311,909)	\$ (31,006)	\$ 74,393,193

See notes to consolidated financial statements.

**S&W SEED COMPANY**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

	Years Ended June 30,	
	2021	2020
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net loss	\$ (19,106,514)	\$ (19,747,098)
Adjustments to reconcile net loss from operating activities to net cash used in operating activities		
Stock-based compensation	1,766,353	1,167,951
Change in allowance for doubtful accounts	(235,201)	(255,000)
Inventory write-down	1,416,029	2,344,800
Depreciation and amortization	5,469,581	5,036,464
Gain on disposal of property, plant and equipment	(1,906,738)	(23,299)
Change in foreign exchange contracts	79,403	(7,615)
Change in contingent consideration obligation	(4,016,904)	(302,139)
Change in estimated value of assets held for sale	—	92,931
Amortization of debt discount	689,514	555,049
Loss on debt extinguishment	—	140,638
Changes in:		
Accounts receivable	504,021	(1,819,625)
Inventories	648,448	11,083,296
Prepaid expenses and other current assets	(120,030)	412,526
Other non-current asset	54,259	(96,398)
Accounts payable	7,265,195	(2,879,541)
Deferred revenue	(5,786,697)	(2,882,359)
Accrued expenses and other current liabilities	(964,282)	2,125,503
Other non-current liabilities	22,521	(709,711)
Net cash used in operating activities	(14,221,042)	(5,763,627)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Additions to property, plant and equipment	(1,079,880)	(1,972,231)
Proceeds from disposal of property, plant and equipment	782,645	34,410
Proceeds from sale of assets held for sale	2,771,480	1,757,069
Acquisition of germplasm	(8,499)	—
Acquisition of business, net of cash acquired	—	(7,472,618)
Acquisition of wheat assets	—	(2,633,000)
Net cash provided by (used in) investing activities	2,465,746	(10,286,370)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Net proceeds from sale of common stock	10,223,311	—
Taxes paid related to net share settlements of stock-based compensation awards	(111,532)	(110,132)
Borrowings and repayments on lines of credit, net	4,954,687	16,819,564
Borrowings of long-term debt	385,636	3,865,780
Capital contribution from minority shareholder of subsidiary	25,000	—
Debt issuance costs	(196,952)	(907,392)
Repayments of long-term debt	(4,387,465)	(2,618,121)
Net cash provided by financing activities	10,892,685	17,049,699
EFFECT OF EXCHANGE RATE CHANGES ON CASH	267,454	(308,410)
NET INCREASE (DECREASE) IN CASH & CASH EQUIVALENTS	(595,157)	691,292
CASH AND CASH EQUIVALENTS, beginning of the period	\$ 4,123,094	\$ 3,431,802
CASH AND CASH EQUIVALENTS, end of period	\$ 3,527,937	\$ 4,123,094
<b>SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION</b>		
Cash paid (received) during the period for:		
Interest	\$ 2,244,478	\$ 1,984,703
Income taxes	366,502	272,027

See notes to consolidated financial statements.

**S&W SEED COMPANY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 1 - BACKGROUND AND ORGANIZATION**

***Organization***

The Company began as S&W Seed Company, a general partnership, in 1980 and was originally in the business of breeding, growing, processing and selling alfalfa seed. We then incorporated a corporation with the same name in Delaware in October 2009, which is the successor entity to Seed Holding, LLC, having purchased a majority interest in the general partnership between June 2008 and December 2009. Following the Company's initial public offering in May 2010, the Company purchased the remaining general partnership interests and became the sole owner of the general partnership's original business. Seed Holding, LLC remains a consolidated subsidiary of the Company.

In December 2011, the Company reincorporated in Nevada as a result of a statutory short-form merger of the Delaware corporation into its wholly-owned subsidiary, S&W Seed Company, a Nevada corporation.

On April 1, 2013, the Company, together with its wholly-owned subsidiary, S&W Holdings Australia Pty Ltd, an Australia corporation (f/k/a S&W Seed Australia Pty Ltd), or S&W Holdings, consummated an acquisition of all of the issued and outstanding shares of Seed Genetics International Pty Ltd, an Australia corporation, or SGI, from SGI's shareholders. In April 2018, SGI changed its name to S&W Seed Company Australia Pty Ltd, or S&W Australia.

In September 2018, the Company and AGT Foods Africa Proprietary Limited, or AGT, formed a venture based in South Africa named SeedVision Proprietary Limited, or SeedVision. SeedVision will leverage AGT's African-based production and processing facilities to produce S&W's hybrid sunflower, grain sorghum, and forage sorghum to be sold by SeedVision in the African continent, Middle East countries, and Europe.

As part of the Company's 2018 acquisition of all assets of Chromatin, Inc., the Company acquired 51.0% of Sorghum Solutions South Africa.

In February 2020, S&W Australia acquired all of the issued and outstanding shares of Pasture Genetics Ltd., or Pasture Genetics, from Pasture Genetics' sole shareholder.

***Business Overview***

Since its establishment, the Company, including its predecessor entities, has been principally engaged in breeding, growing, processing and selling agricultural seeds. The Company owns seed cleaning and processing facilities, which are located in Nampa, Idaho, Dumas, Texas, New Deal, Texas Keith, South Australia and Penfield, South Australia. The Company's seed products are primarily grown under contract by farmers. The Company began its stevia initiative in fiscal year 2010 and is currently focused on breeding improved varieties of stevia and developing marketing and distribution programs for its stevia products.

The Company has also been actively engaged in expansion initiatives through a combination of organic growth and strategic initiatives.

The Company had a long-term distribution agreement with Pioneer Hi-Bred International, Inc., or Pioneer, now a subsidiary of Corteva Agriscience, Inc., which is jointly referred to as Corteva, regarding conventional (non-GMO) varieties, and a production agreement with Pioneer (relating to GMO-traited varieties). These agreements were terminated on May 20, 2019. See Note 4 for further discussion.

In May 2016, the Company acquired the assets and business of SV Genetics, a private Australian company specializing in the breeding and licensing of proprietary hybrid sorghum and sunflower seed germplasm, which represented the Company's initial effort to diversify its product portfolio beyond alfalfa seed and stevia.

In October 2018, the Company acquired substantially all of the assets of Chromatin, Inc., a U.S.-based sorghum genetics and seed company, as part of the Company's efforts to expand its penetration into the hybrid sorghum market.



In August 2019, S&W Australia, a wholly owned subsidiary of S&W Seed Company, licensed certain wheat germplasm varieties and acquired certain equipment from affiliates of Corteva. In the transaction, S&W Australia paid a one-time license fee of \$2.3 million and an equipment purchase price of \$0.3 million. The license has an initial term of 15 years.

In February 2020, S&W Australia acquired Pasture Genetics, the third largest pasture seed company in Australia, as part of the Company's efforts to diversify its product offerings and expand its distribution channels.

## **NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

### ***Basis of Presentation and Principles of Consolidation***

The consolidated financial statements include the accounts of S&W Seed Company and its subsidiaries. All intercompany accounts and transactions have been eliminated in consolidation. The consolidated financial statements were prepared in accordance with U.S. GAAP and include the assets, liabilities, revenue and expenses of all wholly-owned subsidiaries and majority-owned subsidiaries over which the Company's exercises control. Outside stockholders' interests in subsidiaries are shown on the consolidated financial statements as Noncontrolling interests.

The Company owns 50.1% of SeedVision, which is a variable interest entity as defined in ASC 810-10, *Consolidation*, because no substantive equity contributions have been made to it, and SeedVision is being funded through advances, as needed, from its investors. The Company has concluded that it is the primary beneficiary of SeedVision because it has the power, through a tie-breaking vote on the board of directors, to direct the sales and marketing activities of SeedVision, which are considered to be the activities that have the greatest impact on the future economic performance of SeedVision.

The Company owns 51.0% of Sorghum Solutions South Africa, which is a variable interest entity as defined in ASC 810-10, *Consolidation*, because no substantive equity contributions have been made to it, and Sorghum Solutions South Africa is being funded through advances, as needed, from its investors. The Company has concluded that it is the primary beneficiary of Sorghum Solutions South Africa because it has the power, through a tie-breaking vote on the board of directors, to direct the sales and marketing activities of Sorghum Solutions South Africa, which are considered to be the activities that have the greatest impact on the future economic performance of Sorghum Solutions South Africa.

Because the Company is its primary beneficiary, SeedVision's and Sorghum Solutions South Africa's financial results are included in these financial statements. We have recorded a combined \$0.6 million of current assets (restricted) and \$0.1 million of current liabilities (nonrecourse) for these entities in our consolidated balance sheet as of June 30, 2021.

We have recorded a combined \$1.3 million of current assets (restricted) and \$0.2 million of current liabilities (nonrecourse) for these entities in our consolidated balance sheet as of June 30, 2020.

### ***Use of Estimates***

The preparation of financial statements in conformity with GAAP requires management to make certain estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Estimates are adjusted to reflect actual experience when necessary. Significant estimates and assumptions affect many items in the financial statements. These include allowance for doubtful trade receivables, inventory valuation, asset impairments, provisions for income taxes, grower accruals (an estimate of amounts payable to farmers who grow seed for the Company), contingent consideration obligations, contingencies and litigation. Significant estimates and assumptions are also used to establish the fair value and useful lives of depreciable tangible and certain intangible assets, goodwill as well as valuing stock-based compensation. Actual results may differ from those estimates and assumptions, and such results may affect income, financial position or cash flows.

The COVID-19 pandemic and the efforts to contain it have, among other things, negatively impacted the global economy and created significant volatility and disruption of financial markets. In addition, the COVID-19 pandemic

has significantly increased economic and demand uncertainty. The Company believes the estimates and assumptions underlying the accompanying consolidated financial statements are reasonable and supportable based on the information available at the time the financial statements were prepared.

However, uncertainty over the impact COVID-19 will have on the global economy and the Company's business in particular makes many of the estimates and assumptions reflected in these consolidated financial statements inherently less certain. Therefore, actual results may ultimately differ from those estimates to a greater degree than historically.

### ***Certain Risks and Concentrations***

The Company's revenue is principally derived from the sale of seed, the market for which is highly competitive. The Company depends on a core group of significant customers. One customer accounted for 19% of its revenue for the year ended June 30, 2021. One customer accounted for 26% of its revenue for the year ended June 30, 2020.

One customer accounted for 11% of the Company's accounts receivable at June 30, 2021. One customer accounted for 21% of the Company's accounts receivable at June 30, 2020.

The Company sells a substantial portion of its products to international customers. Sales to international markets represented 56% and 54% of revenue during the years ended June 30, 2021 and 2020, respectively. The net book value of fixed assets located outside the United States was 19% and 17% of total fixed assets at June 30, 2021 and June 30, 2020, respectively. Cash balances located outside of the United States may not be insured and totaled \$204,813 and \$1,690,748 at June 30, 2021 and June 30, 2020, respectively.

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

	<b>Years Ended June 30,</b>			
	<b>2021</b>		<b>2020</b>	
United States	\$37,124,047	44%	\$36,724,591	46%
Australia	21,470,810	26%	15,079,996	19%
Saudi Arabia	5,911,498	7%	9,189,291	12%
South Africa	2,456,216	3%	2,182,553	3%
China	2,042,585	2%	817,867	1%
Pakistan	2,041,548	2%	2,124,038	3%
Mexico	1,928,856	2%	2,454,504	3%
Argentina	1,838,648	2%	681,183	1%
Libya	1,249,554	1%	1,142,920	1%
Sudan	1,218,168	1%	1,308,874	1%
Other	6,767,106	8%	7,876,381	10%
<b>Total</b>	<b>\$84,049,036</b>	<b>100%</b>	<b>\$79,582,198</b>	<b>100%</b>

### ***Liquidity and Covid-19 Pandemic***

The Company is monitoring the impact of the COVID-19 pandemic on its business, including its results of operations and financial condition, and has implemented measures designed to protect the health and safety of its employees while continuing its operations.

The Company's sales efforts historically involved significant in-person interaction with potential customers and distributors. Throughout the COVID-19 pandemic, many national, state and local governments in its target markets implemented various stay-at-home, shelter-in-place and other quarantine measures. As a result, the Company shifted its sales activities to video conferencing and similar customer interaction models and continues to evaluate its sales approach, but the Company has found these alternative approaches to generally be less effective than in-person sales efforts. In particular, the Company's sales cycle is highly seasonal, and the majority of its sales season activities for the United States and Australia are typically concentrated between March and June of each year. If ongoing measures

to protect against COVID-19 remain in effect throughout the 2022 sales season, the Company may experience similar negative impacts that it experienced during the 2020 and 2021 sales seasons.

In addition, the Company's product revenue is predicated on its ability to timely fulfill customer orders, which depends in large part upon the consistent availability and operation of shipping and distribution networks operated by third parties. Farmers typically have a limited window during which they can plant seed, and their buying decisions can be shaped by actual or perceived disruptions in the Company's distribution and supply channels. If the Company's customers delay or decrease their orders due to potential disruptions in its distribution and supply channels, this would adversely affect the Company's product revenue.

During the year ended June 30, 2021, the Company experienced numerous logistical challenges due to limited availability of trucks for product deliveries, congestion at the ports, and overall increases in shipping and transportation costs. The Company expects these logistical challenges to persist well into fiscal 2022.

Given the level of uncertainty regarding the duration and broader impact of the COVID-19 pandemic, the Company is unable to fully assess the extent of its impact on the Company's operations.

The Company's loan and security agreement with CIBC Bank USA, or CIBC, and the Company's secured promissory notes with Conterra Agriculture Capital, LLC contains various operating and financial covenants (See Note 9). The COVID-19 pandemic has increased the risk of the Company's inability to comply with these covenants, which could result in acceleration of its repayment obligations and foreclosure on its pledged assets. For example, the loan and security agreement with CIBC requires the Company to comply with a minimum EBITDA covenant for the fiscal quarters ending September 30, 2021 and December 31, 2021 and a fixed charge coverage ratio, tested on a trailing twelve-month basis beginning with the quarter ending March 31, 2022. It also requires the Company to maintain minimum liquidity of no less than \$3,000,000 at all times. The Company was not in compliance with certain covenants as of June 30, 2021 and has obtained waivers and/or amendments from CIBC and Conterra (Note 9). The Company believes it is uncertain it will be able to generate sufficient cash flow from operations or maintain sufficient liquidity to meet these covenants. These factors raise substantial doubt regarding the Company's ability to continue as a going concern. If the Company is unable to meet these covenants, the Company will need to raise additional capital or secure future waivers and/or amendments from its lenders. There can be no assurance the Company will be successful in raising additional capital or securing future waivers and/or amendments from its lenders. If the Company is unable to raise sufficient additional capital or secure future waivers and/or amendments, it may need to reduce the scope of its operations, repay amounts owing to its lenders or sell certain assets.

### ***International Operations***

The Company translates its foreign operations' assets and liabilities denominated in foreign currencies into U.S. dollars at the current rates of exchange as of the balance sheet date and income and expense items at the average exchange rate for the reporting period. Translation adjustments resulting from exchange rate fluctuations are recorded in the cumulative translation account, a component of accumulated other comprehensive income (loss). Gains or losses from foreign currency transactions are included in the consolidated statement of operations.

### ***Cost of Revenue***

The Company records purchasing and receiving costs, inspection costs and warehousing costs in cost of revenue. When the Company is required to pay for outward freight and/or the costs incurred to deliver products to its customers, the costs are included in cost of revenue.

### ***Cash and Cash Equivalents***

For financial statement presentation purposes, the Company considers time deposits, certificates of deposit and all highly liquid investments with original maturities of three months or less to be cash and cash equivalents. At times, cash and cash equivalents balances exceed amounts insured by the Federal Deposit Insurance Corporation.

### ***Accounts Receivable***

The Company provides an allowance for doubtful trade receivables equal to the estimated uncollectible amounts. That estimate is based on historical collection experience, current economic and market conditions and a review of the current status of each customer's trade accounts receivable. The allowance for doubtful trade receivables was \$57,582 and \$1,366,220 at June 30, 2021 and June 30, 2020, respectively.

### ***Inventories***

Inventories consist of seed and packaging materials.

Inventories are stated at the lower of cost or net realizable value, and an inventory reserve permanently reduces the cost basis of inventory. Inventories are valued as follows: Actual cost is used to value raw materials such as packaging materials, as well as goods in process. Costs for substantially all finished goods, which include the cost of carryover crops from the previous year, are valued at actual cost. Actual cost for finished goods includes plant conditioning and packaging costs, direct labor and raw materials and manufacturing overhead costs based on normal capacity. The Company records abnormal amounts of idle facility expense, freight, handling costs and wasted material (spoilage) as current period charges and allocates fixed production overhead to the costs of finished goods based on the normal capacity of the production facilities.

Inventory is periodically reviewed to determine if it is marketable, obsolete or impaired. Inventory that is determined to be obsolete or impaired is written off to expense at the time the impairment is identified. Inventory quality is a function of germination percentage. Our experience has shown that our alfalfa seed quality tends to be stable under proper storage conditions; therefore, we do not view inventory obsolescence for alfalfa seed as a material concern. Hybrid crops (sorghum and sunflower) seed quality may be affected by warehouse storage pests such as insects and rodents. The Company maintains a strict pest control program to mitigate risk and maximize hybrid seed quality.

Components of inventory are:

	<b>June 30, 2021</b>	<b>June 30, 2020</b>
Raw materials and supplies	\$ 2,722,832	\$ 1,227,185
Work in progress	6,662,006	4,395,503
Finished goods	54,010,418	58,260,250
	<u>\$63,395,256</u>	<u>\$63,882,938</u>

### ***Property, Plant and Equipment***

Property, plant and equipment is depreciated using the straight-line method over the estimated useful life of the asset - periods of 5-35 years for buildings, 2-20 years for machinery and equipment, and 2-5 years for vehicles.

### ***Intangible Assets***

Intangible assets acquired in business acquisitions are reported at their initial fair value less accumulated amortization. Intangible assets are amortized using the straight-line method over the estimated useful life of the asset. Periods of 3-30 years for technology/IP/germplasm, 5-20 years for customer relationships and trade names and 3-20 for other intangible assets. The weighted average estimated useful lives are 26 years for technology/IP/germplasm, 20 years for customer relationships, 15 years for trade names and 18 years for other intangible assets.

## ***Goodwill***

Goodwill is assessed at least annually, or when certain triggering events occur, for impairment using fair value measurement techniques. These events could include a significant change in the business climate, legal factors, a decline in operating performance, competition, sale or disposition of a significant portion of the business, or other factors. The Company first assesses qualitative factors to determine whether it is more likely than not that the fair value is less than its carrying amount, including goodwill. If management concludes that it is more likely than not that the fair value is less than its carrying amount, management conducts a quantitative goodwill impairment test. The goodwill impairment test is used to identify potential impairment by comparing the fair value with its carrying amount, including goodwill. The Company uses market capitalization and an estimate of a control premium to estimate the fair value. If the fair value exceeds its carrying amount, goodwill of the reporting unit is considered not impaired. If the carrying amount exceeds its fair value, an impairment loss is recognized in an amount equal to that excess, limited to the total amount of goodwill.

The Company acquired Pasture Genetics in February 2020, and recorded goodwill of \$1,452,436 as part of this transaction. The Company performed a quantitative assessment of goodwill at June 30, 2021 and June 30, 2020 on its one reporting unit and determined that goodwill was not impaired. See Note 7 for further information.

## ***Investment in Bioceres S.A.***

The Company owns less than 1% of Bioceres, S.A., a provider of crop productivity solutions headquartered in Argentina. The carrying value of the investment is \$1.3 million at June 30, 2021 and 2020, and the investment is included in Other Assets on the Consolidated Balance Sheet.

The Company adopted ASU 2016-01, *Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities* beginning July 1, 2018. As such, this investment is accounted for in accordance with ASC 321, *Investments – Equity Securities*. As the stock is not publicly traded, the Company has elected to account for its investment at cost, with adjustments to fair value when there are observable transactions that provide an indicator of fair value. In addition, if qualitative factors indicate a potential impairment, fair value must be estimated and the investment written down to that fair value if it is lower than the carrying value.

No adjustments for impairment or observable transactions were made in fiscal years 2021 or 2020.

## ***Research and Development Costs***

The Company is engaged in ongoing research and development, or R&D, of proprietary seed and stevia varieties. All R&D costs must be charged to expense as incurred. Accordingly, internal R&D costs are expensed as incurred. Third-party R&D costs are expensed when the contracted work has been performed or as milestone results have been achieved. The costs associated with equipment or facilities acquired or constructed for R&D activities that have alternative future uses are capitalized and depreciated on a straight-line basis over the estimated useful life of the asset.

## ***Income Taxes***

Deferred tax assets and liabilities are determined based on differences between the financial statement and tax basis of assets and liabilities, as well as a consideration of net operating loss and credit carry forwards, using enacted tax rates in effect for the period in which the differences are expected to impact taxable income. A valuation allowance is established, when necessary, to reduce deferred tax assets to the amount that is more likely than not to be realized. The Company's effective tax rate for the years ended June 30, 2021 and 2020 has been affected by the valuation allowance on the Company's deferred tax assets.

## ***Net Income (Loss) Per Common Share Data***

Basic net income (loss) per common share, or EPS, is calculated by dividing net income (loss) by the weighted average number of common shares outstanding during the period.



Diluted EPS is calculated by adjusting both the numerator (net income (loss)) and the denominator (weighted-average number of shares outstanding) for the dilutive effects of potentially dilutive securities, including options, restricted stock awards, convertible debt and common stock warrants.

The treasury stock method is used for common stock warrants, stock options, and restricted stock awards. Under this method, consideration that would be received upon exercise (as well as remaining compensation cost to be recognized for awards not yet vested) is assumed to be used to repurchase shares of stock in the market, with net number of shares assumed to be issued added to the denominator.

The calculation of Basic and Diluted EPS is shown in the table below.

	<b>Years Ended June 30,</b>	
	<b>2021</b>	<b>2020</b>
<b>Numerator:</b>		
Net loss attributable to S&W Seed Company	\$(19,170,967)	\$(19,674,324)
Numerator for basis EPS	(19,170,967)	(19,674,324)
Effect of dilutive securities:		
Warrants	—	—
Numerator for diluted EPS	\$(19,170,967)	\$(19,674,324)
<b>Denominator:</b>		
Denominator for basic EPS-weighted- average shares	34,590,883	33,348,263
Effect of dilutive securities:		
Employee stock options	—	—
Employee restricted stock units	—	—
Warrants	—	—
Dilutive potential common shares	—	—
Denominator for diluted EPS - adjusted weighted average shares and assumed conversions	34,590,883	33,348,263
Basic EPS	\$ (0.55)	\$ (0.59)
Diluted EPS	\$ (0.55)	\$ (0.59)

The effects of employee stock options and stock units, and warrants are excluded because they would be anti-dilutive due to the Company's net loss.

### ***Impairment of Long-Lived Assets***

The Company evaluates its long-lived assets for impairment annually or more often if events and circumstances warrant. Events relating to recoverability may include significant unfavorable changes in business conditions, recurring losses or a forecasted inability to achieve break-even operating results over an extended period. The Company evaluates the recoverability of long-lived assets based upon forecasted undiscounted cash flows. Should impairment in value be indicated, the carrying value of long-lived assets will be adjusted, based on estimates of future discounted cash flows resulting from the use and ultimate disposition of the asset. Refer to Note 4 and Note 7 for impairment discussion.

### ***Derivative Financial Instruments***

The Company's subsidiary, S&W Australia, is exposed to foreign currency exchange rate fluctuations in the normal course of its business, which the Company at times manages through the use of foreign currency forward contracts.

The Company has entered into certain derivative financial instruments (specifically foreign currency forward contracts), and accounts for these instruments in accordance with ASC Topic 815, "Derivatives and Hedging", which establishes accounting and reporting standards requiring that derivative instruments be recorded on the

balance sheet as either an asset or liability measured at fair value. The Company's foreign currency contracts are not designated as hedging instruments under ASC 815; accordingly, changes in the fair value are recorded in current period earnings.

***Fair Value of Financial Instruments***

The Company discloses assets and liabilities that are recognized and measured at fair value, presented in a three-tier fair value hierarchy, as follows:

- Level 1. Observable inputs such as quoted prices in active markets;
- Level 2. Inputs, other than the quoted prices in active markets, that are observable either directly or indirectly; and
- Level 3. Unobservable inputs in which there is little or no market data, which require the reporting entity to develop its own assumptions.

The assets acquired and liabilities assumed in the Dow Wheat acquisition (see Note 7) were valued at fair value on a non-recurring basis as of August 15, 2019.

The assets acquired and liabilities assumed in the Pasture Genetics acquisitions (see Note 6) were valued at fair value on a non-recurring basis as of February 24, 2020.

The carrying value of cash and cash equivalents, accounts payable, short-term and all long-term borrowings, as reflected in the consolidated balance sheets, approximate fair value because of the short-term maturity of these instruments or interest rates commensurate with market rates. There have been no changes in operations and/or credit characteristics since the date of issuance that could impact the relationship between interest rate and market rates.

Assets and liabilities that are recognized and measured at fair value on a recurring basis are categorized as follows:

	<b>Fair Value Measurements as of June 30, 2021 Using:</b>		
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
Foreign exchange contract liability	\$ —	\$ 96,466	\$ —
Contingent consideration obligations	\$ —	\$ —	\$ 741,552
Total	<u>\$ —</u>	<u>\$ 96,466</u>	<u>\$ 741,552</u>

	<b>Fair Value Measurements as of June 30, 2020 Using:</b>		
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
Foreign exchange contract liability	\$ —	\$ 35,218	\$ —
Contingent	\$ —	\$ —	\$ 4,263,503
Total	<u>\$ —</u>	<u>\$ 35,218</u>	<u>\$ 4,263,503</u>

### ***Recently Adopted Accounting Pronouncements***

The Company adopted Accounting Standards Update, or ASU 2018-15 effective July 1, 2020. The Financial Accounting Standards Board, or FASB, issued authoritative guidance intended to address a customer's accounting for implementation costs incurred in a cloud computing arrangement that is a service contract. The Company adopted the ASU prospectively for the annual period beginning July 1, 2020. The adoption of this ASU had no impact on the Company's consolidated statement of operations and consolidated statement of cash flows.

### ***Recently Issued, but Not Yet Adopted, Accounting Pronouncements***

In December 2019, the FASB issued ASU No. 2019-12, *Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes*. This ASU is intended to simplify various aspects to accounting for income taxes by removing certain exceptions to the general principles of Topic 740 and clarifying certain aspects of the current guidance to promote consistency among reporting entities. ASU 2019-12 is effective for annual periods beginning after December 15, 2020 and interim periods within those annual periods, with early adoption permitted. An entity that elects early adoption must adopt all the amendments in the same period. Most amendments within this ASU are required to be applied on a prospective basis, while certain amendments must be applied on a retrospective or modified retrospective basis. The Company has not yet adopted this ASU. The Company is currently evaluating the impact of the new standard on our consolidated financial statements and related disclosures.

### **NOTE 3 - LEASES**

S&W leases office and laboratory space, field research plots and equipment used in connection with its operations under various operating and finance leases.

Right-of-use, or ROU, assets represent the Company's right to use the underlying assets for the lease term and lease liabilities represent the net present value of the Company's obligation to make payments arising from these leases. The lease liabilities are based on the present value of fixed lease payments over the lease term using the implicit lease interest rate or, when unknown, the Company's incremental borrowing rate on the lease commencement date or July 1, 2019 for leases that commenced prior to that date. If the lease includes one or more options to extend the term of the lease, the renewal option is considered in the lease term if it is reasonably certain the Company will exercise the option(s). Operating lease expense is recognized on a straight-line basis over the term of the lease. As permitted by ASC 842, leases with an initial term of twelve months or less, or short-term leases, are not recorded on the accompanying consolidated balance sheet.

The Company has lease agreements with lease and non-lease components, which are accounted for as a single lease component under the practical expedient provisions of the standard. The Company has lease agreements with terms less than one year. For the qualifying short-term leases, the Company elected the short-term lease recognition exemption in which the Company will not recognize ROU assets or lease liabilities, including the ROU assets or lease liabilities for existing short-term leases of those assets in upon adoption.

Variable lease payments consist primarily of common area maintenance, utilities and taxes, which are not included in the recognition of ROU assets and related lease liabilities. Variable lease payments and short-term lease expenses were immaterial to the Company's financial statements for the year ended June 30, 2021. The Company's lease agreements do not contain material restrictive covenants.

The components of lease assets and liabilities are as follows:

Leases	Balance Sheet Classification	June 30, 2021
<b>Assets:</b>		
Right of use assets - operating leases	Other assets	\$ 4,314,802
Right of use assets - finance leases	Other assets	\$ 2,241,739
Accumulated amortization - finance leases	Other assets	(894,200)
Right of use assets - finance leases, net	Other assets	1,347,539
<b>Total lease assets</b>		<b>\$ 5,662,341</b>
<b>Liabilities:</b>		
Current portion of long-term debt, net	Current portion of long-term debt, net	\$ 909,413
Current lease liabilities	Accrued expenses and other current liabilities	1,204,944
Long-term debt, net	Long-term debt, net	1,108,709
Long-term lease liabilities	Other non-current liabilities	3,298,160
<b>Total lease liabilities</b>		<b>\$ 6,521,226</b>

The components of lease cost are as follows:

Lease cost:	Income Statement Classification:	Year Ended June 30, 2021
Operating lease cost	Cost of revenue	\$ 404,884
Operating lease cost	Selling, general and administrative expenses	677,862
Operating lease cost	Research and development expenses	260,621
Finance lease cost	Depreciation and amortization and Interest expense	656,981
<b>Total lease costs</b>		<b>\$ 2,000,348</b>

Maturities of lease liabilities as of June 30, 2021 are as follows:

	Operating Leases	Finance Leases
2022	\$ 1,387,530	\$ 975,090
2023	1,057,064	841,807
2024	964,599	269,876
2025	626,158	38,105
2026	547,674	7,960
After 2026	339,240	\$ —
<b>Total lease payments</b>	<b>4,922,265</b>	<b>2,132,838</b>
Less: Interest	\$ (419,161)	\$ (114,716)
<b>Present value of lease liabilities</b>	<b>\$ 4,503,104</b>	<b>\$ 2,018,122</b>

The following are the weighted average assumptions used for lease term and discount rate and supplemental cash flow information related to leases as of June 30, 2021:

Operating lease remaining lease term	4.6 years
Operating lease discount rate	4.21%
Finance lease remaining lease term	2.34 years
Finance lease discount rate	5.17%
Cash paid for operating leases	\$ 1,023,841
Cash paid for finance leases	\$ 1,403,749

## NOTE 4 – PIONEER RELATIONSHIP

### *Distribution and Production Agreements with Pioneer*

In 2014, the Company purchased from Pioneer certain assets related to alfalfa and entered into a long-term contract to sell alfalfa seed to Pioneer under a production agreement (GMO varieties) and a distribution agreement (conventional varieties). Under the production and distribution agreements with Pioneer, the Company grew, processed, and delivered alfalfa seed for and to Pioneer. See Note 5 for a discussion of the recognition of revenue under these agreements.

On May 22, 2019, the Company and Pioneer terminated the production and distribution agreements. As part of the termination, Pioneer's parent company, Corteva, agreed to purchase from the Company certain quantities of seed held by the Company as of that date that Pioneer was not previously obligated to purchase. Those quantities of seed were delivered to Corteva periodically through March 2021.

The Company does not expect to sell any other products to Pioneer or Corteva beyond those quantities of seed.

### *License Agreement with Corteva*

Contemporaneously with the termination, the Company entered into a license with Corteva, under which Corteva received a fully pre-paid, exclusive license to produce and distribute certain of the Company's alfalfa seed varieties world-wide (except South America). The licensed seed varieties include certain of the Company's existing commercial conventional (non-GMO) alfalfa varieties and six pre-commercial dormant alfalfa varieties. The Company also assigned to Corteva grower production contract rights, and Corteva assumed grower production contract obligations, related to the licensed and certain other alfalfa varieties. Corteva received no license to the Company's other commercial alfalfa varieties or pre-commercial alfalfa pipeline products and no rights to any future products developed by the Company.

### *Payments Due from Corteva and Pioneer*

The Company received a payment of \$45.0 million in fiscal 2019, \$16.7 million in fiscal 2020, \$8.3 million in fiscal 2021 from Pioneer/Corteva, which totaled \$70.0 million. Approximately \$34.2 million of these amounts referenced above has been allocated to the license to the Company's alfalfa varieties. The \$34.2 million is reported as licensing revenue in the consolidated statement of operations for the year ended June 30, 2019.

The remaining amounts were recognized as revenue as the seed was delivered to Corteva through March 2021. The amount allocated to the seed represents the estimated standalone selling price of those quantities of seed, determined based on the Company's normal profit margin on the quantities and varieties of seed that Corteva agreed to purchase. The Company allocated approximately \$1.8 million to an unbilled receivable related to revenue recognition at contract termination and the remainder of the payments was allocated to the license using a residual method approach. The unbilled receivable is \$0 as of June 30, 2021.

## NOTE 5 - REVENUE RECOGNITION

The Company derives its revenue from 1) the sale of seed, 2) milling and packaging services, 3) research and development services and 4) product licensing agreements.

The following table disaggregates the Company's revenue by type of contract:

	Years Ended June 30,	
	2021	2020
Pioneer product sales	\$ 14,198,857	\$ 19,681,450
Other product sales	67,234,359	57,896,346
Services	2,615,820	2,004,402
	<u>\$ 84,049,036</u>	<u>\$ 79,582,198</u>

### Pioneer Product Sales

For the years ended June 30, 2021 and 2020, Pioneer product sales consisted of product shipments to Pioneer under the termination agreement discussed in Note 4.

### Other Product Sales

Revenue from other product sales is recognized at the point in time at which control of the product is transferred to the customer. Generally, this occurs upon shipment of the product. Pricing for such transactions is negotiated and determined at the time the contracts are signed. We have elected the practical expedient that allows us to account for shipping and handling activities as a fulfillment cost, and we accrue those costs when the related revenue is recognized.

The Company has certain contracts with customers that offer a limited right of return on certain branded products. The products must be in an unopened and undamaged state and must be resalable in the sole opinion of the Company to qualify for refund. Returns are only accepted on product received by August 31<sup>st</sup> of the current sales year. The Company uses a historical returns percentage to estimate the refund liability and records a reduction of revenue in the period in which revenue is recognized.

### Services

Revenue from milling services, conditioning, treating and packaging services, which are performed on the customer's product, is recognized as services are completed and the milled product is delivered to the customer.

Revenue from research and development services is recognized over time as the services are performed.

### Payment Terms and Related Balance Sheet Accounts

Accounts receivable represent amounts that are payable to the Company by its customers subject only to the passage of time. Payment terms on invoices are generally 30 to 120 days for export customers and end of sales season (September 30<sup>th</sup>) for branded products sold within the United States. As the period between the transfer of goods and/or services to the customer and receipt of payment is less than one year, the Company does not separately account for a financing component in its contracts with customers.

Unbilled receivables represent contract assets that arise when the Company has partially performed under a contract but is not yet able to invoice the customer until the Company has made additional progress. Unbilled receivables arose from the distribution and production agreements with Pioneer for which the Company recognized revenue over time, as the Company bills for these arrangements upon product delivery, while revenue was recognized, as described above, as costs were incurred. Unbilled receivables may arise as much as three months before billing is expected to occur. Unbilled receivables are generally expected to be generated in the first and second fiscal quarters, and to be billed in the second, third and fourth fiscal quarters.

Losses on accounts receivable and unbilled receivables are recognized if and when it becomes probable that amounts will not be paid. These losses are reversed in subsequent periods if these amounts are paid. During the year ended June 30, 2021, the Company recognized a net gain from collections on amounts previously written off to bad debt expense of \$235,201. During the period ended June 30, 2020, the Company recognized bad debt expense of \$255,000 associated with impaired accounts receivable.

Deferred revenue represents payments received from customers in advance of completion of the Company's performance obligation. During the year ended June 30, 2021, the Company recognized \$6.2 million of revenue that was included in the deferred balance as of June 30, 2020. During the year ended June 30, 2020, the Company recognized \$9.1 million of revenue that was included in the deferred balance as of June 30, 2019.



## NOTE 6 - BUSINESS COMBINATIONS

### *Pasture Genetics Acquisition*

On February 24, 2020, S&W Australia acquired all of the issued and outstanding shares of Pasture Genetics, the PG Acquisition, for an initial consideration that consisted of an upfront cash payment at closing of USD \$7.5 million (AUD \$11.4 million). A potential earn-out payment of up to USD \$5.3 million (AUD \$8.0 million), or the Earn-Out, is payable on September 30, 2022, or the Earn-Out Date. The amount of any Earn-Out will be equal to the excess, if any, of (a) 7.5 multiplied by the average of an agreed-upon calculation of Pasture Genetics' earnings over fiscal years 2021 and 2022, above (b) USD \$7.5 million (AUD \$11.4 million). At S&W Australia's election, up to 50% of the Earn-Out may be paid in shares of our common stock at a per share purchase price equal to the volume-weighted average purchase price of the Company's common stock during the 10-day period ending immediately prior to the Earn-Out Date.

The PG acquisition expanded and diversified the Company's product offerings and provided access to new distribution channels within Australia.

The PG Acquisition has been accounted for as a business combination, and the Company valued and recorded all assets acquired and liabilities assumed at their estimated fair values on the date of the Acquisition.

The following table summarizes the estimated fair values of the assets acquired and liabilities assumed at the acquisition date of February 24, 2020:

	February 24, 2020 (as reported)	Measurement Period Adjustments	February 24, 2020 (as adjusted)
Cash and cash equivalents	\$ 25,027	\$ —	\$ 25,027
Accounts receivable	3,406,169	94,749	3,500,918
Inventories	6,145,876	(74,473)	6,071,403
Prepaid expenses and other current assets	191,536	13,625	205,161
Property, plant and equipment	993,525	—	993,525
Right of use assets	—	365,033	365,033
Trade names	428,590	(26,375)	402,215
Customer relationships	4,351,840	791,244	5,143,084
Goodwill	2,555,175	(1,102,739)	1,452,436
Accounts payable	(4,254,043)	219,932	(4,034,111)
Current liabilities	(1,452,984)	159,865	(1,293,119)
Vehicle loans	(544,608)	-	(544,608)
Finance leases assumed	-	(365,033)	(365,033)
Other noncurrent liabilities	(16,399)	-	(16,399)
Total acquisition cost allocated	<u>\$ 11,829,704</u>	<u>\$ 75,828</u>	<u>\$ 11,905,532</u>

The acquisition-date fair value of the consideration transferred consisted of the following:

	February 24, 2020 (as reported)	Measurement Period Adjustments	February 24, 2020 (as adjusted)
Cash paid at closing	\$ 7,497,645	\$ -	\$ 7,497,645
Contingent earn-out	4,332,059	75,828	4,407,887
Total purchase price	<u>\$ 11,829,704</u>	<u>\$ 75,828</u>	<u>\$ 11,905,532</u>

The estimated fair value of accounts receivable acquired was \$3,500,918, with the gross contractual amount totaling \$3,610,566, less \$109,648 expected to be uncollectible. The current liabilities assumed primarily relate to grower payables as well as employee-related obligations. The excess of the purchase price over the fair value of the net

assets acquired, amounting to \$1,452,436, was recorded as goodwill on the consolidated balance sheet. The primary item that generated goodwill was the premium paid by the Company for the ability to manage the acquired business, the trained workforce and access to new the distribution channels. Goodwill is not amortized for financial reporting purposes but is amortized for tax purposes.

Management assigned fair values to the identifiable intangible assets through a combination of the relief from royalty method and the multi-period excess earnings method. The contingent consideration requires the Company to pay up to an additional USD \$5.3 million (AUD \$8.0 million). The amount of any Earn-Out will be equal to the excess, if any, of (a) 7.5 multiplied by the average of an agreed-upon calculation of Pasture Genetics' earnings over fiscal years 2021 and 2022, above (b) USD \$7.5 million (AUD \$12.0 million). The fair value of the contingent consideration arrangement at the acquisition date was \$4,407,887. The fair value of the contingent consideration was estimated using a Monte Carlo simulation model. The fair value measurement is based on significant inputs not observable in the market and thus represents a Level 3 measurement. The key assumptions in applying the Monte Carlo simulation were as follows: 8% present value discount factor and an underlying net income volatility of 35%. As of June 30, 2020, the estimated fair value of the contingent consideration is \$4,095,702. The values and useful lives of the acquired intangibles are as follows:

	Estimated Useful Life (Years)	Estimated Fair Value
Trade names	5	\$ 402,215
Customer Relationships	20	5,143,084
Total identifiable intangible assets		<u>\$ 5,545,299</u>

The Company incurred acquisitions costs of \$476,454 during the year ended June 30, 2020 that have been recorded in selling, general and administrative expenses on the consolidated statement of operations. The results of the Pasture Genetics acquisition are included in our consolidated financial statements from the date of acquisition through June 30, 2021.

The following unaudited pro forma financial information presents results as if the Acquisition occurred on July 1, 2019.

	Year Ended	June 30, 2020
Revenue	\$	88,664,131
Net loss	\$	(20,299,845)

For purposes of the pro forma disclosures above, the primary adjustments for the year ended June 30, 2020 include the elimination of acquisition charges of \$476,454 and amortization of acquired intangibles of \$327,707.

#### NOTE 7 – GOODWILL AND INTANGIBLE ASSETS

The Company acquired Pasture Genetics in February 2020, and recorded goodwill of \$1,452,436 as part of this transaction. The Company performed a quantitative assessment of goodwill at June 30, 2021 on its one reporting unit and determined that goodwill was not impaired.

The following table summarizes the activity of goodwill for the years ended June 30, 2021 and 2020, respectively.

	Balance at July 1, 2020	Additions	Impairment	Currency Translation Adjustment	Balance at June 30, 2021
Goodwill	\$ 1,508,675	\$ —	\$ —	\$ 142,959	\$ 1,651,634

	Balance at July 1, 2019	Additions	Impairment	Currency Translation Adjustment	Balance at June 30, 2020
Goodwill	\$ —	\$ 1,452,436	\$ —	\$ 56,239	\$ 1,508,675

For the years ended June 30, 2021 and 2020, the Company determined there was no impairment on its intangible assets. Refer to Note 4 for further information.

Intangible assets consist of the following:

	Balance at July 1, 2020	Additions	Amortization	Currency Translation Adjustment	Balance at June 30, 2021
Trade name	\$ 1,479,278	\$ —	\$ (206,311)	\$ 37,522	\$ 1,310,489
Customer relationships	6,187,086	—	(376,431)	491,936	6,302,591
Non-compete	21,312	—	(16,254)	—	5,058
GI customer list	57,310	—	(7,164)	—	50,146
Supply agreement	926,507	—	(75,633)	—	850,874
Grower relationships	1,542,393	—	(105,405)	—	1,436,988
Intellectual property	25,415,665	388,499	(1,376,307)	—	24,427,857
In process research and development	380,000	(380,000)	—	—	—
License agreement	2,300,059	—	(176,646)	216,856	2,340,269
Internal use software	474,448	—	(67,778)	—	406,670
	<u>\$38,784,058</u>	<u>\$ 8,499</u>	<u>\$(2,407,929)</u>	<u>\$ 746,314</u>	<u>\$37,130,942</u>

	Balance at July 1, 2019	Additions	Amortization	Currency Translation Adjustment	Balance at June 30, 2020
Trade name	\$ 1,205,346	\$ 402,215	\$ (139,999)	\$ 11,716	\$ 1,479,278
Customer relationships	1,055,747	5,143,084	(202,197)	190,452	6,187,086
Non-compete	30,267	—	(8,955)	—	21,312
GI customer list	64,475	—	(7,165)	—	57,310
Supply agreement	1,002,154	—	(75,647)	—	926,507
Grower relationships	1,647,800	—	(105,407)	—	1,542,393
Intellectual property	26,786,468	—	(1,370,803)	—	25,415,665
In process research and development	380,000	—	—	—	380,000
License agreement	—	2,400,863	(135,295)	34,491	2,300,059
Internal use software	542,227	—	(67,779)	—	474,448
	<u>\$32,714,484</u>	<u>\$7,946,162</u>	<u>\$(2,113,247)</u>	<u>\$ 236,659</u>	<u>\$38,784,058</u>

Amortization expense totaled \$2,407,929 and \$2,113,247 for the years ended June 30, 2021 and 2020, respectively. Estimated aggregate remaining amortization is as follows:

	2022	2023	2024	2025	2026	Thereafter
Amortization expense	\$2,474,218	\$2,396,478	\$2,373,943	\$2,362,393	\$2,275,976	\$25,247,934

#### Acquisition of Wheat Assets

On August 15, 2019, the Company entered into several agreements to effectuate the purchase of a wheat breeding program in Australia, or the Wheat Acquisition from Dow AgroScience, or Dow. In the transaction, the Company acquired:

- A 15-year prepaid license of germplasm. The license includes commercial, pre-commercial and experimental proprietary wheat populations.
- The right, during the term of the license, to develop future varieties. The license does not transfer ownership of the existing varieties licensed, but the Company will own any future varieties developed.
- An option to renew the license for five additional years.
- Tangible fixed assets used in the wheat breeding program.

- A contract with a service provider to promote existing commercialized wheat varieties covered by the license.

The wheat market in Australia operates under an End Point Royalty, or EPR, System in which the wheat variety owner earns a fixed royalty on every metric ton of grain produced. With the Wheat Acquisition, the Company has the right to collect EPR on commercialized wheat varieties included in its license.

The purchase price was approximately \$2.6 million, which was paid in cash. The purchase price was allocated to the assets acquired based on the relative fair value of the license and fixed assets. \$2.4 million was allocated to the license, which will be amortized over 15 years in accordance with the term of the agreement. The fair value of the license was determined using a discounted cash flow analysis. \$0.2 million was allocated to the fixed assets, which have useful lives of 3-5 years.

The acquired assets did not meet the definition of a business in the Accounting Standards Codification.

#### **NOTE 8 - PROPERTY, PLANT AND EQUIPMENT**

Components of property, plant and equipment were as follows:

	June 30, 2021	June 30, 2020
Land and improvements	\$ 2,297,529	\$ 2,157,663
Buildings and improvements	8,196,593	10,014,879
Machinery and equipment	13,935,053	13,550,413
Vehicles	1,046,937	2,087,634
Leasehold Improvements	552,810	552,810
Construction in progress	48,480	71,316
Total property, plant and equipment	26,077,402	28,434,715
Less: accumulated depreciation	(8,336,428)	(7,940,403)
Property, plant and equipment, net	<u>\$17,740,974</u>	<u>\$20,494,312</u>

Depreciation expense totaled \$2,518,356 and \$2,580,234 for the years ended June 30, 2021 and 2020, respectively.

## NOTE 9 - DEBT

Total debt outstanding is presented on the consolidated balance sheet as follows:

	June 30, 2021	June 30, 2020
<b>Working capital lines of credit</b>		
CIBC	14,500,000	11,205,664
National Australia Bank Limited	19,494,800	16,437,600
National Australia Bank Limited Overdraft Facility	617,471	—
Debt issuance costs	(665,706)	(660,000)
Total working capital lines of credit, net	<u>\$33,946,565</u>	<u>\$26,983,264</u>
<b>Current portion of long-term debt</b>		
Finance leases	\$ 909,413	\$ 809,632
Debt issuance costs	(5,077)	(8,154)
Term Loan - National Australia Bank Limited	374,900	342,450
Machinery & equipment loans - National Australia Bank Limited	165,802	272,997
Vehicle loans - Toyota Finance	—	200,779
Secured real estate note - Conterra	275,684	202,374
Debt issuance costs	(39,556)	(39,556)
Total current portion, net	1,681,166	1,780,522
<b>Long-term debt, less current portion</b>		
Finance leases	1,108,709	1,642,975
Debt issuance costs	(1,847)	(6,923)
Term loan - National Australia Bank Limited	2,999,200	3,082,050
Machinery & equipment loans - National Australia Bank Limited	526,564	396,404
Vehicle loans - Toyota Finance	—	313,470
Secured real estate note - Conterra	6,974,356	8,956,885
Debt issuance costs	(16,482)	(56,038)
Total long-term portion, net	11,590,500	14,328,823
Total debt, net	<u>\$13,271,666</u>	<u>\$16,109,345</u>

On December 26, 2019, the Company entered into a Loan and Security Agreement, or the Loan Agreement, with CIBC, which originally provided for a \$35.0 million credit facility, or the CIBC Credit Facility. The Loan Agreement was subsequently amended on September 22, 2020, December 30, 2020, May 12, 2021 and September 27, 2021. As amended, the Loan Agreement provides for a \$25.0 million credit facility. The following is a summary of certain terms of the CIBC Credit Facility:

- Advances under the CIBC Credit Facility are to be used: (i) to finance the Company's ongoing working capital requirements; and (ii) for general corporate purposes.
- All amounts due and owing, including, but not limited to, accrued and unpaid principal and interest due under the CIBC Credit Facility, will be payable in full on December 23, 2022.
- The Credit Facility generally establishes a borrowing base of up to 85% of eligible domestic accounts receivable (90% of eligible foreign accounts receivable) plus up to the lesser of (i) 65% of eligible inventory, (ii) 85% of the appraised net orderly liquidation value of eligible inventory, and (iii) an eligible inventory sublimit as more fully set forth in the Loan Agreement, in each case, subject to lender reserves.
- Loans may be based on (i) a Base Rate plus 1.0% per annum or (ii) LIBOR Rate plus 3.0% per annum (both as defined in the Loan Agreement), generally at the Company's option. Pursuant to the September 27, 2021 amendment, the Loans will be based on Prime plus 2.0% per annum. In the event of a default, at the

option of CIBC, the interest rate on all obligations owing will increase by 2% per annum over the rate otherwise applicable.

- The CIBC Credit Facility is secured by a first priority perfected security interest in substantially all of the Borrowers' assets (subject to certain exceptions), including intellectual property.
- The Loan Agreement contains customary representations and warranties, affirmative and negative covenants and customary events of default that permit CIBC to accelerate the Company's outstanding obligations under the Credit Facility, all as set forth in the Loan Agreement and related documents. The CIBC Credit Facility also contains customary and usual financial covenants imposed by CIBC.

Pursuant to the September 2021 amendment to the Loan Agreement, CIBC waived noncompliance with the Company's fixed charge coverage ratio as of June 30, 2021 and suspended the Company's fixed charge coverage ratio financial covenants for the fiscal quarters ending September 30, 2021 and December 31, 2021 and replaced that financial covenant with a minimum EBITDA threshold tested quarterly for the quarters ending September 30, 2021 and December 31, 2021. Pursuant to the September 2021 amendment, the Company reverts back to its previous financial covenant to require that it maintain a fixed charge coverage ratio equal to or greater than (i) 1.00 to 1.00 for the fiscal quarters ended March 31, 2022 and (ii) 1.15 to 1.00 for each fiscal quarter thereafter. In addition, pursuant to the September 2021 amendment, the Company is required to maintain liquidity of no less than \$3,000,000 at all times for the remainder of the term of the Loan Agreement. After giving effect to the September 2021 amendment, the Company was in compliance with the Loan Agreement for the year ended June 30, 2021.

As of June 30, 2021, there was approximately \$6.7 million of unused availability on the CIBC Credit Facility

In November 2017, the Company entered into a secured note financing transaction, or the Loan Transaction, with Conterra Agricultural Capital, LLC, or Conterra, for \$12.5 million in gross proceeds. Pursuant to the Loan Transaction, the Company issued two secured promissory notes, or the Notes, to Conterra as follows:

The secured real estate note was issued in the principal amount of \$10.4 million, bears interest at 7.75% per annum and is secured by a first priority security interest in the property, plant and fixtures, or the Real Estate Collateral, located at the Company's Nampa, Idaho production facilities and its Nampa, Idaho research facilities. On December 24, 2019, the Company signed an amendment to extend the maturity date to November 30, 2022, and revise the amount payable under the note. Pursuant to the December 2019 amendment, the Company agreed to make (i) a principal and interest payment of approximately \$515,711 on January 1, 2020; (ii) five consecutive semi-annual principal and interest payments of approximately \$454,185, beginning on July 1, 2020; and (iii) a one-time final payment of approximately \$8,957,095 on November 30, 2022. The Company may prepay the Secured Real Estate Note, in whole or in part, at any time. In January 2021, the Company completed the sale of its Five Points facility which resulted in the Company making a one-time principal pay-down of \$1,706,845 on the secured real estate note. The Company will also make three consecutive semi-annual principal and interest payments of approximately \$388,045, beginning on July 1, 2021; and a one-time final payment of approximately \$7,184,109 on November 30, 2022. The Company was not in compliance with certain financial covenants as of June 30, 2021. The Company has obtained a waiver for the year ended June 30, 2021.

On August 15, 2018, the Company completed a sale and leaseback transaction with American AgCredit involving certain equipment located at the Company's Five Points, California and Nampa, Idaho production facilities. Due to its terms, the sale and leaseback transaction was required to be accounted for as a financing arrangement. Accordingly, the proceeds received from American AgCredit were accounted for as proceeds from a debt financing. Under the terms of the transaction:

- The Company sold the equipment to American AgCredit for \$2,106,395 million in proceeds. The proceeds were used to pay off in full a note (in the principal amount of \$2,081,527, plus accrued interest of \$24,868) held by Conterra Agricultural Capital, LLC, which had an interest rate of 9.5% per annum and was secured by, among other things, the equipment.
- The Company entered into a lease agreement with American AgCredit relating to the equipment. The lease agreement has a five-year term and provides for monthly lease payments of \$40,023 (representing an annual interest rate of 5.6%). At the end of the lease term, the Company will repurchase the equipment for \$1. During



January 2021, the Company completed the sale of its Five Points facility which triggered the Company making a one-time principal pay down of \$294,163 on the finance lease agreement.

#### Australian Facilities

At June 30, 2021, S&W Australia has debt facilities with National Australia Bank, or NAB, all of which are guaranteed by S&W Seed Company up to a maximum of AUD \$15,000,000 (USD \$11,247,000).

In June 2020, S&W Australia executed documentation to consolidate Pasture Genetics debt facility with NAB into its debt facilities with NAB. The documentation became effective in July 2020. The consolidated debt facilities with NAB provide for up to an aggregate of AUD \$35,500,000 (USD \$26,617,900) of credit as of June 30, 2021, and include the following:

- S&W Australia finances the purchase of most of its seed inventory from growers pursuant to a seasonal credit facility comprised of two facility lines: (i) an Overdraft Facility having a credit limit of AUD \$3,000,000 (USD \$2,249,400 at June 30, 2021) and (ii) a Borrowing Base Line having a credit limit of AUD \$26,000,000 (USD \$19,494,800 at June 30, 2021). In March 2021, S&W Australia entered into an amendment with NAB which temporarily increased the overdraft facility to AUD \$3,000,000 (USD 2,249,400) for a three-month period and extended the maturity date of the seasonal credit facility to June 30, 2022. As of June 30, 2021, the Borrowing Base Line accrued interest on Australian dollar drawings at approximately 3.5% per annum calculated daily. The Overdraft Facility permits S&W Australia to borrow funds on a revolving line of credit up to the credit limit. Interest accrues daily and is calculated by applying the daily interest rate to the balance owing at the end of the day and is payable monthly in arrears. As of June 30, 2021, the Overdraft Facility accrued interest at approximately 5.47% per annum calculated daily. As of June 30, 2021, AUD \$26,823,515 (USD \$20,112,272) was outstanding under S&W Australia's seasonal credit facility with NAB. The seasonal credit facility is secured by a fixed and floating lien over all the present and future rights, property, and undertakings of S&W Australia.
- S&W Australia has a flexible rate loan, or the Term Loan, in the amount of AUD \$4,500,000 (USD \$3,374,100 at June 30, 2021). Required annual principal payments of AUD \$500,000 on the Term Loan will commence on November 30, 2020, with the remainder of any unpaid balance becoming due on March 31, 2025. Monthly interest amounts outstanding under the Term Loan will be payable in arrears at a floating rate quoted by NAB for the applicable pricing period, plus 2.6%. The Term Loan is secured by a lien on all the present and future rights, property and undertakings of S&W Australia.
- S&W Australia finances certain equipment purchases under a master asset finance facility with NAB. The master asset finance facility has various maturity dates, beginning in August 2021 through June 2026 and have interest rates ranging from 2.86% to 5.31%. The credit limit under the facility is AUD \$2,000,000 (USD \$1,499,600) at June 30, 2021. As of June 30, 2021, AUD \$892,602 (USD \$669,273) was outstanding under S&W Australia's master asset finance facility.
- S&W Australia had a facility for the machinery and equipment used in the operations of the Keith building. The final repayment for this facility was made in February 2021. As of June 30, 2021, AUD \$0 (USD \$0) was outstanding under this facility.

S&W Australia was in compliance with all debt covenants under its debt facilities with NAB at June 30, 2021.

The annual maturities of short-term and long-term debt are as follows:

Fiscal Year	Amount
2022	\$ 1,709,832
2023	8,310,934
2024	785,979
2025	2,367,693
2026	160,190
Thereafter	—
<b>Total</b>	<b><u>\$13,334,628</u></b>

#### NOTE 10 - INCOME TAXES

Loss before income taxes consists of the following:

	Years Ended June 30,	
	2021	2020
United States	\$(22,519,842)	\$(18,778,030)
Foreign	3,388,970	(583,100)
<b>Loss before income taxes</b>	<b><u>\$(19,130,872)</u></b>	<b><u>\$(19,361,130)</u></b>

Significant components of the provision for income taxes from continuing operations are as follows:

	Years Ended June 30,	
	2021	2020
<b>Current:</b>		
Federal	\$ —	\$ —
State	(5,385)	15,972
Foreign	(197,163)	369,996
Total current provision	<u>(202,548)</u>	<u>385,968</u>
<b>Deferred:</b>		
Federal	—	—
State	—	—
Foreign	178,190	—
Total deferred provision (benefit)	<u>178,190</u>	<u>—</u>
<b>Provision (Benefit) for income taxes</b>	<b><u>\$ (24,358)</u></b>	<b><u>\$ 385,968</u></b>

The differences between the total calculated income tax provision and the expected income tax computed using the U.S. federal income tax rate are as follows:

	Years Ended June 30,	
	2021	2020
Tax benefit at statutory tax rate	\$(4,018,362)	\$(4,065,839)
State benefit, net of federal benefit	(417,868)	(387,398)
Estimated GILTIO Inclusion	5,428	—
Other permanent differences	(86,691)	134,141
Federal and state research credits - current year	(675,527)	(239,373)
Foreign rate differential	431,265	170,693
Shortfall on restricted stock vest	(29,156)	10,526
Change in unrecognized tax benefit	—	11,778
Valuation allowance	5,178,300	4,540,563
Tax law changes	(411,306)	
Other	(441)	210,877
	<u>\$ (24,358)</u>	<u>\$ 385,968</u>

Significant components of the Company's deferred tax assets are shown below.

	June 30,	
	2021	2020
<b>Deferred tax assets:</b>		
Net operating loss carry forwards	\$ 15,623,619	\$ 10,681,884
Compensation accruals	312,496	478,696
Allowance for bad debts	1,378,422	1,338,083
Stock compensation	550,471	444,725
Tax credit carry forwards	1,169,978	901,656
Intangible assets	660,103	1,628,858
Lease liability	1,209,560	1,126,905
163(j) limitation interest	723,740	349,003
Other, net	968,138	693,637
<b>Total deferred tax assets</b>	<u>22,596,527</u>	<u>17,643,447</u>
Valuation allowance for deferred tax assets	(19,892,644)	(14,656,843)
<b>Deferred tax assets, net of valuation allowance</b>	<u>2,703,883</u>	<u>2,986,604</u>
<b>Deferred tax liabilities</b>		
ROU lease asset	(1,293,365)	(1,253,577)
Fixed assets	(1,588,708)	(1,733,027)
<b>Total deferred tax liabilities</b>	<u>(2,882,073)</u>	<u>(2,986,604)</u>
<b>Net deferred tax asset / (liability)</b>	<u>\$ (178,190)</u>	<u>\$ —</u>

The Company recognizes federal and state current tax liabilities or assets based on its estimate of taxes payable to or refundable from tax authorities in the current fiscal year. The Company also recognizes federal and state deferred tax liabilities or assets based on the Company's estimate of future tax effects attributable to temporary differences and carryforwards. The Company records a valuation allowance to reduce any deferred tax assets by the amount of any tax benefits that, based on available evidence and judgment, are not expected to be realized.

The Company considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during periods in which those temporary differences become deductible. The Company considers projected future

taxable income and planning strategies in making this assessment. Based on projections of taxable income, the Company had previously determined that it is more likely than not that the deferred tax assets will not be realized. Accordingly, a full valuation allowance was recorded as of June 30, 2017. The Company's valuation allowance position has not changed for the years ended June 30, 2021 and June 30, 2020, respectively, as the Company does not believe that it is more likely than not that it will realize its deferred tax assets. The valuation allowance increased by approximately \$5.2 million for the year ended June 30, 2021, related primarily to net operating losses generated in the current year.

The U.S. Internal Revenue Code of 1986, as amended, generally imposes an annual limitation on a corporation's ability to utilize net operating loss carryovers, or NOLs, if it experiences an ownership change as defined in Section 382. In general terms, an ownership change may result from transactions increasing the ownership of certain stockholders in the stock of a corporation by more than 50% over a three-year period. In the event that an ownership change has occurred, or were to occur, utilization of the Company's NOLs would be subject to an annual limitation under Section 382 as determined by multiplying the value of the Company's stock at the time of the ownership change by the applicable long-term tax-exempt rate as defined in the Internal Revenue Code. Any unused annual limitation may be carried over to later years. The Company could experience an ownership change under Section 382 as a result of events in the past in combination with events in the future. If so, the use of the Company's NOLs, or a portion thereof, against future taxable income may be subject to an annual limitation under Section 382, which may result in expiration of a portion of the NOLs before utilization. To the extent our use of net operating loss carryforwards is significantly limited under the rules of Section 382, our income could be subject to U.S. corporate income tax earlier than it would if we were able to use net operating loss carryforwards, which could result in lower profits. Any carryforwards that expire prior to utilization as a result of such limitations will be removed, if applicable, from deferred tax assets with a corresponding reduction of the valuation allowance. As of June 30, 2021, the Company is not aware of any applicable Section 382 limitations that may exist on its net operating losses.

As of June 30, 2021, the Company had federal and state net operating loss carryovers of approximately \$66.2 million and \$23.5 million, respectively, which will begin to expire June 30, 2030, unless previously utilized. A portion of the federal net operating losses generated after June 30, 2018 can be carried forward indefinitely, which total \$41.7 million. The Company has federal research credits of \$1,115,804 which will expire June 30, 2031, unless previously utilized. The Company also has foreign tax credits of \$157,859 which will begin to expire June 30, 2023, unless previously utilized. The Company has state research credits of \$25,089 that do not expire. The Company also has \$0 Australian net operating loss carryover as of the year ended June 30, 2021. In addition, the Company has \$3.2 million of Section 163(j) interest limitation carryovers as of June 30, 2021 which do not expire.

As of June 30, 2021, the Company has not provided for foreign withholding taxes on approximately \$6.0 million of undistributed earnings of its foreign subsidiaries, as these earnings are considered indefinitely reinvested outside of the United States. The Company does not plan to repatriate any earnings that are currently located in its foreign subsidiaries as of June 30, 2021.

The Company recognizes liabilities for uncertain tax positions based on a two-step process. The first step is to evaluate the tax position for recognition by determining if the weight of available evidence indicates that it is more likely than not that the position will be sustained on audit, including resolution of related appeals or litigation processes, if any. The second step is to measure the tax benefit as the largest amount that is more than 50% likely of being realized upon settlement. The Company regularly assesses the potential outcome of examinations by tax authorities in determining the adequacy of its provision for income taxes.

The Company has approximately \$79,341 of unrecognized tax benefits related to current year tax positions as of June 30, 2021. Included in the unrecognized tax benefits was approximately \$62,679 of tax benefits that, if recognized, would reduce our annual effective tax rate, if the Company were not in a valuation allowance position. However, as the Company is in a full valuation allowance position, there would be no impact to the annual effective tax rate if the tax benefits were recognized.

The Company's policy is to recognize interest expense and penalties related to income tax matters as a component of income tax expense. The Company has not accrued interest and penalties associated with uncertain tax positions as

of June 30, 2021 and 2020. The Company does not expect its unrecognized tax benefits to change significantly over the next 12 months.

#### CARES Act

On March 27, 2020, the United States enacted the Coronavirus Aid, Relief and Economic Security Act, or the CARES Act. The CARES Act is an emergency economic stimulus package that includes spending and tax breaks to strengthen the United States economy and fund a nationwide effort to curtail the effect of COVID-19. Some of the more significant changes include the ability to carryback net operating losses, the acceleration of AMT credit receivables, and the ability to take 100% bonus on qualified improvement property, or QIP. Of these highlighted provisions, the Company has only recognized the provisional impact of the 100% bonus on QIP in fiscal 2020. With respect to the 163(j) limitation implemented as part of the Tax Cuts and Jobs Act, companies were previously limited to deducting interest to thirty percent of adjusted taxable income per year. However, with the passage of the CARES Act, companies may elect to use fifty percent of adjusted taxable income in order to calculate the allowable interest deduction for years 2019 and 2020. These CARES Act provisions did not impact the Company's tax expense calculations or related income tax account balances for the years ended June 30, 2021 or June 30, 2020.

#### Consolidated Appropriations Act

On December 27, 2020, the United States enacted the Consolidated Appropriations Act of 2021, or CAA. The CAA includes provisions extending certain CARES Act provisions and adds coronavirus relief tax and health extenders. The Company will continue to evaluate the impact of the CAA and its impact on our financial statements in fiscal 2021 and beyond. However, the Company does not anticipate that the provisions of the CAA will impact the Company's tax expense calculations or related income tax account balances for the year ended June 30, 2021.

#### **NOTE 11 - EQUITY**

On September 23, 2020, the Company entered into an At Market Issuance Sales Agreement, or the ATM Agreement, with B. Riley Securities, Inc., or B Riley, under which the Company may offer and sell from time to time, at its sole discretion, shares of its common stock having an aggregate offering price of up to \$14 million through B. Riley as its sales agent. The Company agreed to pay B. Riley a commission of 3.5% of the gross proceeds of the sales price per share of any common stock sold through B. Riley under the 2020 ATM Agreement. For the year ended June 30, 2021, the Company received gross proceeds of approximately \$10.9 million from the sale of 3,008,015 shares of its common stock pursuant to the ATM Agreement. As of June 30, 2021, the Company had \$3.1 million remaining under the ATM Agreement.

In December 2020, the Company's shareholders approved the amendment to the Company's Articles of Incorporation to increase the authorized number of shares of common stock from 50,000,000 shares to 75,000,000 shares.

#### **NOTE 12 - FOREIGN CURRENCY CONTRACTS**

The Company's subsidiary, S&W Australia, is exposed to foreign currency exchange rate fluctuations in the normal course of its business, which the Company manages through the use of foreign currency forward contracts. These foreign currency contracts are not designated as hedging instruments; accordingly, changes in the fair value are recorded in current period earnings. These foreign currency contracts had a notional value of \$9,114,857 at June 30, 2021 and their maturities range from July 2021 to April 2022.

The Company records an asset or liability on the consolidated balance sheet for the fair value of the foreign currency forward contracts. The foreign currency contract liabilities totaled \$96,466 at June 30, 2021 and foreign currency contract liabilities totaled \$35,218 at June 30, 2020. The Company recorded a loss on foreign exchange contracts of \$79,403 for the year ended June 30, 2021 and a gain on foreign exchange contracts of \$7,615 for the year ended June 30, 2020, which are reflected in cost of revenue for the years ended June 30, 2021 and 2020, respectively.

## **NOTE 13 - COMMITMENTS AND CONTINGENCIES**

### **Contingencies**

Based on information currently available, management is not aware of any other matters that would have a material adverse effect on the Company's financial condition, results of operations or cash flows.

### **Legal Matters**

The Company may be subject to various legal proceedings from time to time. The results of any future litigation cannot be predicted with certainty, and regardless of the outcome, litigation can have an adverse impact on the Company because of defense and settlement costs, diversion of management resources, and other factors. Any current litigation is considered immaterial and counter claims have been assessed as remote.

## **NOTE 14 - EQUITY-BASED COMPENSATION**

### ***Equity Incentive Plans***

In October 2009 and January 2010, the Company's Board of Directors and stockholders, respectively, approved the 2009 Equity Incentive Plan, or as amended and/or restated from time to time, the 2009 Plan. The plan authorized the grant and issuance of options, restricted shares and other equity compensation to the Company's directors, employees, officers and consultants, and those of the Company's subsidiaries and parent, if any. In October 2012 and December 2012, the Company's Board of Directors and stockholders, respectively, approved the amendment and restatement of the 2009 Plan, including an increase in the number of shares available for issuance as grants and awards under the Plan to 1,250,000 shares. In September 2013 and December 2013, the Company's Board of Directors and stockholders, respectively, approved the amendment and restatement of the 2009 Plan, including an increase in the number of shares available for issuance as grants and awards under the Plan to 1,700,000 shares. In September 2015 and December 2015, the Company's Board of Directors and stockholders, respectively, approved the amendment and restatement of the 2009 Plan, including an increase in the number of shares available for issuance as grants and awards under the Plan to 2,450,000 shares.

In December 2018 and January 2019, the Company's Board of Directors and stockholders, respectively, approved the 2019 Equity Incentive Plan, or the 2019 Plan, as a successor to and continuation of the 2009 Plan. In October 2020 and December 2020, the Company's Board of Directors and stockholders approved, respectively, the amendment to the 2019 Plan to increase the number of shares available for issues as grants and awards by 4,000,000 shares. Subject to adjustment for certain changes in the Company's capitalization, the aggregate number of shares of the Company's common stock that may be issued under the 2019 Plan, as amended, will not exceed 8,243,790 shares, which is the sum of (i) 4,000,000 new shares, (ii) 2,750,000 additional shares that were reserved as of the effective date of the 2019 Plan, (iii) 350,343 shares (the number of unallocated shares that were available for grant under the 2009 Plan as of January 16, 2019, the effective date of the 2019 Plan), plus (iv) 1,143,447 shares, which is the number of shares subject to outstanding stock awards granted under the 2009 Plan that on or after the effective date of the 2019 Plan may expire or terminate for any reason prior to exercise or settlement, are forfeited because of the failure to meet a contingency or condition required to vest such shares or otherwise return to us, or are reacquired, withheld or not issued to satisfy a tax withholding obligation in connection with an award or to satisfy the purchase price or exercise price of a stock award.

The term of incentive stock options granted under the Company's equity incentive plans may not exceed ten years, or five years for incentive stock options granted to an optionee owning more than 10% of the Company's voting stock. The exercise price of options granted under the Company's equity incentive plans must be equal to or greater than the fair market value of the shares of the common stock on the date the option is granted. An incentive stock option granted to an optionee owning more than 10% of voting stock must have an exercise price equal to or greater than 110% of the fair market value of the common stock on the date the option is granted.



The Company measures the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award. Stock options issued to non-employees are accounted for at their estimated fair value. The fair value of options granted to non-employees is re-measured as they vest. The Company amortizes stock-based compensation expense on a straight-line basis over the requisite service period.

The Company utilizes a Black-Scholes-Merton option pricing model, which includes assumptions regarding the risk-free interest rate, dividend yield, life of the award, and the volatility of the Company's common stock to estimate the fair value of employee options grants.

Weighted average assumptions used in the Black-Scholes-Merton model are set forth below:

	June 30,	
	2021	2020
Risk free rate	0.24%-0.33%	0.3%-1.66%
Dividend yield	0%	0%
Volatility	52.1%-53.0%	39.4%-48.9%
Average forfeiture assumptions	2.3%	1.1%

During the year ended June 30, 2021, the Company granted 976,924 options to its directors, certain members of the executive management team and other employees at exercise prices ranging from \$2.41 - \$2.48. These options vest in either quarterly or annual periods over one to three years, and expire ten years from the date of grant.

A summary of stock option activity for the years ended June 30, 2021 and 2020 is presented below:

	Number Outstanding	Weighted - Average Exercise Price Per Share	Weighted- Average Remaining Contractual Life (Years)	Aggregate Intrinsic Value
Outstanding at June 30, 2019	1,122,752	\$ 3.55	8.0	\$ 34,135
Granted	1,899,934	2.36	—	—
Exercised	—	—	—	—
Canceled/forfeited/expired	(146,792)	4.12	—	—
Outstanding at June 30, 2020	2,875,894	2.74	8.6	22,409
Granted	976,924	2.41	—	—
Exercised	(65,990)	2.48	—	—
Canceled/forfeited/expired	(10,260)	2.94	—	—
Outstanding at June 30, 2021	3,776,568	2.65	8.0	3,962,766
Options vested and exercisable at June 30, 2021	1,965,712	2.87	7.4	1,728,490
Options vested and expected to vest as of June 30, 2021	<u>3,770,648</u>	<u>\$ 2.65</u>	<u>8.0</u>	<u>\$3,955,427</u>

The weighted average grant date fair value of options granted and outstanding at June 30, 2021 was \$1.00. At June 30, 2021, the Company had \$1,381,775 of unrecognized stock compensation expense, net of estimated forfeitures, related to the options under the 2009 Plan, which will be recognized over the weighted average remaining service period of 1.77 years. The Company settles employee stock option exercises with newly issued shares of common stock.

During the years ended June 30, 2021 and 2020, the Company issued 291,206 and 417,933 restricted stock units to its directors, certain members of the executive management team, and other employees. The restricted stock units have varying vesting periods ranging from immediate vesting to quarterly or annual installments over one to three-years. The fair value of the awards during the years ended June 30, 2021 and 2020 totaled \$1,965,712 and \$940,700, respectively, and was based on the closing stock price on the date of grants.

The Company recorded \$866,017 and \$700,724 of stock-based compensation expense associated with grants of restricted stock units during the years ended June 30, 2021 and 2020, respectively. A summary of activity related to non-vested restricted stock units is presented below:

	Number of Nonvested Restricted Stock Units	Weighted-Average Grant Date Fair Value	Weighted-Average Remaining Contractual Life (Years)
Nonvested restricted units outstanding at June 30, 2019	157,204	\$ 2.69	1.4
Granted	417,933	2.25	2.8
Vested	(177,010)	2.45	—
Forfeited	(1,324)	2.83	—
Nonvested restricted units outstanding at June 30, 2020	396,803	2.33	1.6
Granted	291,206	2.59	1.9
Vested	(326,439)	2.36	—
Forfeited	—	—	—
Nonvested restricted units outstanding at June 30, 2021	361,570	\$ 2.51	1.3

At June 30, 2021, the Company had \$585,081 of unrecognized stock compensation expense related to the restricted stock units, which will be recognized over the weighted average remaining service period of 1.29 years.

At June 30, 2021, there were 3,651,594 shares available under the 2019 Plan for future grants and awards.

Stock-based compensation expense recorded for stock options, restricted stock grants and restricted stock units for the years ended June 30, 2021 and 2020, totaled \$1,766,353 and \$1,167,951, respectively.

#### NOTE 15 - NON-CASH ACTIVITIES FOR STATEMENTS OF CASH FLOWS

The below table represents supplemental information to the Company's consolidated statements of cash flows for non-cash activities during the years ended June 30, 2021 and 2020, respectively.

	Years Ended June 30,	
	2021	2020
Purchases of equipment classified as finance lease	(696,303)	(468,390)
Contingent consideration issued	—	(4,407,887)

#### NOTE 16 – PAYCHECK PROTECTION PROGRAM

In response to the COVID-19 pandemic, the Payment Protection Program, or PPP, was established under the Coronavirus Aid, Relief and Economic Security Act, or the CARES Act and administered by the U.S. Small Business Administration, or SBA. Companies who met the eligibility requirements set forth by the PPP could qualify for PPP loans. If the loan proceeds are fully utilized to pay qualified expenses, the full principal amount of the PPP loan, along with any accrued interest, may qualify for loan forgiveness, subject to potential reduction based on the level of full-time employees maintained by the organization.

In April 2020, the Company received a loan of \$1,958,600 under the PPP provided by CIBC. The loan bears interest at 1.0%, with principal and interest payments deferred for the first six months of the loan. After that, the loan and interest would be paid back over a period of 18 months, if the loan is not forgiven under the terms of the PPP.

When it applied for the loan, the Company believed it would qualify to have the loan forgiven under the terms of PPP, and therefore considered the loan to be substantively a conditional government grant. The Company has performed initial calculations for PPP loan forgiveness and expects that the PPP loan will be forgiven in full because 1) the Company has, prior to June 30, 2020, utilized all of the proceeds for payroll and other qualified expenses and 2) the Company believes it will continue to comply with other terms and conditions necessary for forgiveness.

As such, the Company has decided that the PPP loan should be accounted for as a government grant. As US GAAP does not contain guidance on the accounting for government grants, the Company is following the guidance in International Accounting Standards, or IAS, 20, Accounting for Government Grants and Disclosure of Government Assistance. Under the provisions of IAS 20, “a forgivable loan from government is treated as a government grant when there is reasonable assurance that the entity will meet the terms for forgiveness of the loan.” As discussed above, the Company believes there is reasonable assurance it will meet the terms of forgiveness. Under IAS 20, government grants are recognized in income as required activities are undertaken. As the Company believes that it completed the required activities by utilizing PPP proceeds for payroll and other qualified expenditures prior to June 30, 2020, it has recognized PPP grant income for the full amount of the PPP loan, \$1,958,600, and no liability for the PPP loan is reflected in the consolidated balance sheet as of June 30, 2021 or 2020.

In December 2020 the Company submitted an application to have the PPP loan forgiven. In March 2021, the PPP loan was forgiven in full.

#### **NOTE 17 - SUBSEQUENT EVENTS**

S&W Australia is currently in the process of modifying its seasonal credit facility with NAB. This agreement is expected to increase the credit limit of the Company’s seasonal credit facility by \$6,000,000 AUD (\$4,498,800 USD), reduce the overdraft facility by \$1,000,000 AUD (\$749,800 USD) and extend the maturity date of the existing facilities until September 30, 2023.

During the month of September 2021, NAB provided a temporary increase in the seasonal credit facility of \$3,700,000 AUD (\$2,774,260 USD) while the Company works to complete its new long-term credit agreement with NAB. The Company expects this new credit agreement to be completed by mid-October 2021.

On September 27, 2021, the Company entered into a Fourth Amendment to the Loan and Security Agreement with CIBC, which amended the Loan Agreement. Pursuant to the amendment, among other things (i) CIBC waived noncompliance with the Company’s fixed charge coverage ratio as of June 30, 2021, (ii) CIBC suspended the Company’s fixed charge coverage ratio financial covenants under the Loan Agreement for the fiscal quarters ending September 30, 2021 and December 30, 2021 and replaced that financial covenant with a minimum EBITDA threshold tested quarterly for the quarters ending September 30, 2021 and December 31, 2021; (iii) the Company is required to maintain liquidity no less than \$3,000,000 for the remainder of the term of the Loan Agreement; and (iv) CIBC modified the interest rate on the Loan to Prime plus 2.0% per annum. Pursuant to the September 2021 amendment, the Company reverts back to its previous financial covenant to require that it maintain a fixed charge coverage ratio equal to or greater than (i) 1.00 to 1.00, beginning with the fiscal quarter ending March 31, 2022 and (ii) 1.15 to 1.00 for each fiscal quarter thereafter. Except as modified by the foregoing amendment, all terms and conditions of the loan agreement with CIBC remain in full force and effect.

**Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure**

None.

**Item 9A. Controls and Procedures****Disclosure Controls and Procedures**

Our management, with the participation of our Principal Executive Officer and our Principal Financial Officer, evaluated the effectiveness of our disclosure controls and procedures as of June 30, 2021, or the Evaluation Date. The term “disclosure controls and procedures,” as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, means controls and other procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC’s rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the company’s management, including its principal executive and principal financial officers, as appropriate, to allow timely decisions regarding required disclosure. Management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives and management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Based on the evaluation of our disclosure controls and procedures as of June 30, 2021, our Principal Executive Officer and Principal Financial Officer concluded that, as of such date, our disclosure controls and procedures were effective at the reasonable assurance level.

**Management’s Annual Report on Internal Control Over Financial Reporting**

Management is responsible for establishing and maintaining adequate internal control over financial reporting, as defined in Rules 13a-15(f) and 15d-15(f) of the Exchange Act. Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with GAAP. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management has conducted, with the participation of our Principal Executive Officer and our Principal Financial Officer, an assessment, including testing of the effectiveness, of our internal control over financial reporting as of the Evaluation Date. Management’s assessment of internal control over financial reporting was conducted using the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission, or COSO, in Internal Control—Integrated Framework, or 2013 Framework. A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of our annual or interim financial statements will not be prevented or detected on a timely basis. In connection with our management’s assessment of our internal control over financial reporting as required under Section 404 of the Sarbanes-Oxley Act of 2002, we have not identified any material weaknesses in our internal control over financial reporting as of the Evaluation Date. We have thus concluded that our internal control over financial reporting was effective as of the Evaluation Date.

This annual report does not include an attestation report of our registered public accounting firm regarding internal control over financial reporting. Management’s report was not subject to attestation by our registered public accounting firm pursuant to an exemption for smaller reporting companies under Section 989G of the Dodd-Frank Wall Street Reform and Consumer Protection Act.

**Changes in Internal Control over Financial Reporting**

There have been no significant changes in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) or in other factors that occurred during the period of our evaluation that have significantly affected, or are reasonably likely to significantly affect, our internal control over financial reporting.

## **Item 9B. Other Information**

On September 27, 2021, the Company entered into a Fourth Amendment to the Loan and Security Agreement with CIBC, which amended the Loan Agreement. Pursuant to the amendment, among other things (i) CIBC waived noncompliance with the Company's fixed charge coverage ratio as of June 30, 2021, (ii) CIBC suspended the Company's fixed charge coverage ratio financial covenants under the Loan Agreement for the fiscal quarters ending September 30, 2021 and December 30, 2021 and replaced that financial covenant with a minimum EBITDA threshold tested quarterly for the quarters ending September 30, 2021 and December 31, 2021; (iii) the Company is required to maintain liquidity no less than \$3,000,000 for the remainder of the term of the Loan Agreement; and (iv) modified the interest rate on the Loan to Prime plus 2.0% per annum. Pursuant to the September 2021 amendment, the Company reverts back to its previous financial covenant to require that it maintain a fixed charge coverage ratio equal to or greater than (i) 1.00 to 1.00, beginning with the fiscal quarter ending March 31, 2022 and (ii) 1.15 to 1.00 for each fiscal quarter thereafter. Except as modified by the foregoing amendment, all terms and conditions of the loan agreement with CIBC remain in full force and effect.

On September 27, 2021, the Company entered into revised employment agreements with each of Mark W. Wong, President and Chief Executive Officer, Matthew K. Szot, the Company's Executive Vice President of Finance and Administration and Chief Financial Officer, and Donald M. Panter, Executive Vice President, Americas.

### **CEO Employment Agreement**

Pursuant to Mr. Wong's employment agreement, Mr. Wong is entitled to continue to receive an annual base salary of \$525,000, and he continues to be eligible to receive an annual performance bonus, comprised of three parts: (i) a cash bonus with an initial target amount of \$393,750 (up to a maximum of \$525,000); (ii) an RSU award with an initial target value of \$210,000 (up to a maximum of \$315,000); and (iii) a stock option award with an initial target value of \$600,000 (up to a maximum of \$1,000,000).

Mr. Wong is also entitled to reimbursement of certain business and travel expenses, and is eligible to participate in all our employee benefit plans, policies and arrangements that are applicable to our other executive or key management employees.

The employment agreement also provides for certain severance benefits, each subject to a requirement that Mr. Wong provide the Company with a general release of claims in a termination agreement acceptable to the Company:

- In the event Mr. Wong's employment is terminated without cause or he resigns for good reason (each as defined in the employment agreement), he will be entitled to receive (i) continuation of his base salary for twelve (12) months, (ii) a lump sum payment equal to 100% of his target cash bonus, (iii) full acceleration of the vesting of all of his outstanding equity grants and awards, and any outstanding stock option will remain exercisable for the remainder of the full term of the option, and (iv) payment or reimbursement of COBRA premiums for twelve (12) months.
- If Mr. Wong's employment is terminated without cause or he resigns for good reason during the three (3) months before or twelve (12) months after the effective date of a change of control (as defined in the employment agreement), he will be eligible to receive full acceleration of the vesting of all of his outstanding equity grants and awards, and any outstanding stock option will remain exercisable for the remainder of the full term of the option, and payment or reimbursement of COBRA premiums for twenty-four (24) months (or thirty-six (36) months in the event the Transaction Price (as defined below) is at least \$10). In addition, Mr. Wong will be eligible to receive a lump sum cash payment equal to: (i) twenty-four (24) months of his base salary, plus (ii) 200% of his target cash bonus, plus (iii) contingent and depending upon the value of the per share consideration payable in connection with

the change of control (the “Transaction Price”), a percentage of the combined target dollar value of the RSU award and stock option award included in Mr. Wong’s annual performance bonus, as follows:

<b>Transaction Price</b>	<b>% of Combined Target Value</b>
\$6.00 to \$9.00	200%
\$9.01 to \$12.00	250%
>\$12.00	300%

### **CFO Employment Agreement**

Pursuant to Mr. Szot's employment agreement, Mr. Szot is entitled to continue to receive an annual base salary of \$325,000, and he continues to be eligible to receive an annual performance bonus, comprised of three parts: (i) a cash bonus with an initial target amount of \$243,750 (up to a maximum of \$325,000); (ii) an RSU award with an initial target value of \$65,000 (up to a maximum of \$130,000); and (iii) a stock option award with an initial target value of \$200,000 (up to a maximum of \$300,000).

Mr. Szot is also entitled to reimbursement of certain business and travel expenses, and is eligible to participate in all our employee benefit plans, policies and arrangements that are applicable to our other executive officers. In addition, the Company is obligated to maintain a term life insurance policy for the benefit of Mr. Szot's beneficiaries.

The employment agreement also provides for certain severance benefits, each subject to a requirement that Mr. Szot provide the Company with a general release of claims in a termination agreement acceptable to the Company:

- In the event Mr. Szot’s employment is terminated without cause or he resigns for good reason (each as defined in the employment agreement), he will be entitled to receive (i) continuation of his base salary for twelve (12) months, (ii) a lump sum payment equal to 100% of his target cash bonus, (iii) full acceleration of the vesting of all of his outstanding equity grants and awards, and any outstanding stock options will remain exercisable for up to twelve (12) months following termination, and (iv) payment or reimbursement of COBRA premiums for twelve (12) months.
- If Mr. Szot’s employment is terminated without cause or he resigns for good reason during the three (3) months before or twelve (12) months after the effective date of a change of control (as defined in the employment agreement), he will be eligible to receive full acceleration of the vesting of all of his outstanding equity grants and awards, and any outstanding stock options will remain exercisable for up to twelve (12) months following termination, and payment or reimbursement of COBRA premiums for eighteen (18) months (or twenty-four (24) months in the event the Transaction Price is at least \$10). In addition, Mr. Szot will be eligible to receive a lump sum cash payment equal to: (i) eighteen (18) months of his base salary, plus (ii) 150% of his target cash bonus, plus (iii) contingent and depending upon the Transaction Price, a percentage of the combined target dollar value of the RSU award and stock option award included in Mr. Szot’s annual performance bonus, as follows:

<b>Transaction Price</b>	<b>% of Combined Target Value</b>
\$6.00 to \$9.00	125%
\$9.01 to \$12.00	150%
>\$12.00	200%



## **EVP, Americas Employment Agreement**

Pursuant to Mr. Panter's employment agreement, Mr. Panter is entitled to continue to receive an annual base salary of \$300,000, and he continues to be eligible to receive an annual performance bonus, comprised of three parts: (i) a cash bonus with an initial target amount of \$150,000 (up to a maximum of \$225,000); (ii) an RSU award with an initial target value of \$60,000 (up to a maximum of \$120,000); and (iii) a stock option award with an initial target value of \$125,000 (up to a maximum of \$250,000).

Mr. Panter is also entitled to reimbursement of certain business and travel expenses, and is eligible to participate in all our employee benefit plans, policies and arrangements that are applicable to our other executive officers.

The employment agreement also provides for certain severance benefits, each subject to a requirement that Mr. Panter provide the Company with a general release of claims in a termination agreement acceptable to the Company:

- In the event Mr. Panter's employment is terminated without cause or he resigns for good reason (each as defined in the employment agreement), he will be entitled to receive (i) continuation of his base salary for twelve (12) months, (ii) a lump sum payment equal to 100% of his target cash bonus, (iii) acceleration of vesting of 1/3 of the then-unvested portion of his equity grants and awards, and any outstanding stock options will remain exercisable for up to twelve (12) months following termination, and (iv) payment or reimbursement of COBRA premiums for twelve (12) months.
- If Mr. Panter's employment is terminated without cause or he resigns for good reason during the three (3) months before or twelve (12) months after the effective date of a change of control (as defined in the employment agreement), he will be eligible to receive full acceleration of the vesting of all of his outstanding equity grants and awards, and any outstanding stock options will remain exercisable for up to twelve (12) months following termination, and payment or reimbursement of COBRA premiums for eighteen (18) months. In addition, Mr. Panter will be eligible to receive a lump sum cash payment equal to: (i) eighteen (18) months of his base salary, plus (ii) 150% of his target cash bonus.

## **Item 9C. Disclosure Regarding Foreign Jurisdictions that Prevent Inspections**

Not applicable.

## PART III

### **Item 10. Directors, Executive Officers and Corporate Governance**

The information required by Item 10 regarding directors, executive officers, promoters and control persons is incorporated by reference to the information appearing under the caption "Directors and Executive Officers" in our definitive Proxy Statement relating to our next Annual Meeting of Stockholders to be filed with the Securities and Exchange Commission within 120 days after the close of our fiscal year.

Our written Code of Ethics applies to all of our directors and employees, including our executive officers, including without limitation our principal executive officer, principal financial officer, principal accounting officer or controller or persons performing similar functions. The Code of Ethics is available on our website at <http://www.swseedco.com> in the Investors section under "Corporate Governance." Changes to or waivers of the Code of Ethics will be disclosed on the same website. We intend to satisfy the disclosure requirement under Item 5.05 of Form 8-K regarding any amendment to, or waiver of, any provision of the Code of Ethics by disclosing such information on the same website.

### **Item 11. Executive Compensation**

The information required by Item 11 is incorporated by reference to the information appearing under the caption "Executive Compensation" in our definitive Proxy Statement relating to our next Annual Meeting of Stockholders to be filed with the Securities and Exchange Commission within 120 days after the close of our fiscal year.

### **Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters**

The information required by Item 12 is incorporated by reference to the information appearing under the caption "Security Ownership" in our definitive Proxy Statement relating to our next Annual Meeting of Stockholders to be filed with the Securities and Exchange Commission within 120 days after the close of our fiscal year.

### **Item 13. Certain Relationships and Related Transactions, and Director Independence**

The information required by Item 13 is incorporated by reference to the information appearing under the caption "Certain Relationships and Related Transactions" in our definitive Proxy Statement relating to our next Annual Meeting of Stockholders to be filed with the Securities and Exchange Commission within 120 days after the close of our fiscal year.

### **Item 14. Principal Accountant Fees and Services**

The information required by Item 14 is incorporated by reference to the information appearing under the caption "Principal Accounting Fees and Services" in our definitive Proxy Statement relating to our next Annual Meeting of Stockholders to be filed with the Securities and Exchange Commission within 120 days after the close of our fiscal year.

## PART IV

### Item 15. Exhibits and Financial Statement Schedules

**(a) The following documents are filed as part of this Annual Report on Form 10-K:**

- (1) Financial Statements:

Reference is made to the Index to Consolidated Financial Statements of S&W Seed Company under Item 8 in Part II of this Form 10-K.

- (2) Financial Statement Schedules:

As a smaller reporting company, no financial statement schedules are required.

- (3) Exhibits:

The information required by this Section (a)(3) of Item 15 is incorporated by reference or filed with this report as set forth on the exhibit index that follows below.

**(b) Exhibits****INDEX TO EXHIBITS**

<b>Exhibit Number</b>	<b>Exhibit Description</b>	<b>Incorporated by Reference</b>				<b>Filed Herewith</b>
		<b>Form</b>	<b>SEC File Number</b>	<b>Exhibit Number</b>	<b>Filing Date</b>	
2.1	Asset Acquisition Agreement among the Registrant, Imperial Valley Seeds, Inc. (“IVS”), Glen D. Bornt, Fred Fabre and the Bornt Family Trust, dated September 28, 2012	8-K	001-34719	2.1	10/2/12	
2.2 <sup>†</sup>	Asset Purchase and Sale Agreement between the Registrant and Pioneer Hi-Bred International, Inc. (“Pioneer”), dated December 19, 2014	8-K	001-34719	2.1	12/29/14	
2.3 <sup>†</sup>	First Amendment to Asset Purchase and Sale Agreement between the Registrant and Pioneer, dated December 31, 2014	8-K	001-34719	2.1	1/7/15	
2.4	Second Amendment to the Asset Purchase and Sale Agreement between the Registrant and Pioneer, dated April 23, 2015	10-K	001-34719	2.6	9/28/15	
2.5	Third Amendment to Asset Purchase and Sale Agreement between the Registrant and Pioneer, dated July 23, 2015	10-K	001-34719	2.7	9/28/15	
2.6	Fourth Amendment to Asset Purchase and Sale Agreement between the Registrant and Pioneer, dated December 4, 2017	10-Q	001-34719	2.1	2/8/18	
2.7	Asset Acquisition Agreement between the Registrant, SV Genetics Pty Ltd, Seed Genetics International Pty Ltd, David John Holman, Alan Irvine Scott, Trevor Bailie, Bottrell Precision Ventures, LLC and James R. Bennett, dated May 27, 2016	8-K	001-34719	2.1	5/31/16	
2.8	Asset Purchase Agreement by and between Novo Advisors, solely in its capacity as the receiver for, and on behalf of, Chromatin, Inc., dated September 5, 2018	10-K	001-34719	2.8	9/20/18	
2.9	Asset Purchase Agreement by and between Novo Advisors, solely in its capacity as the receiver for, and on behalf of, Chromatin, Inc., dated September 14, 2018	10-K	001-34719	2.9	9/20/18	
2.10	Share Sale Agreement by and among S&W Seed Company Australia Pty Ltd, a wholly owned subsidiary of the Registrant, Ann Elizabeth Damin and Robert Damin, dated February 18, 2020	10-Q	001-34719	10.1	5/14/20	
3.1	Registrant’s Articles of Incorporation	8-K	001-34719	3.1	12/19/11	

3.2	Certificate of Designation of Preferences, Rights and Limitations of Series A Convertible Preferred Stock	8-K	001-34719	3.1	10/25/18
3.3	Registrant's Second Amended and Restated Bylaws, together with Amendment One thereto	10-Q	001-34719	3.3	5/14/20
4.1	Reference is made to Exhibits 3.1, 3.2 and 3.3				
4.2	Form of Common Stock Certificate	S-3	333-219726	4.3	8/4/17
4.3	Description of Common Stock	10-K	001-34719	4.3	9/23/20
10.1 <sup>†</sup>	Non-Exclusive Alfalfa Licensing and Assignment Agreement between the Registrant and Pioneer, dated December 31, 2014	8-K	001-34719	10.4	1/7/15
10.2 <sup>†</sup>	Information Technology Transition Services Agreement between the Registrant and Pioneer, dated December 31, 2014	8-K	001-34719	10.6	1/7/15
10.3	Patent License Agreement between the Registrant and Pioneer, dated December 31, 2014	8-K	001-34719	10.11	1/7/15
10.4	Patent Assignment Agreement between the Registrant and Pioneer, dated December 31, 2014	8-K	001-34719	10.12	1/7/15
10.5	Know-How Transfer Agreement between the Registrant and Pioneer, dated December 31, 2014	8-K	001-34719	10.13	1/7/15
10.6	Data Transfer Agreement between the Registrant and Pioneer, dated December 31, 2014	8-K	001-34719	10.14	1/7/15
10.7	Assignment Agreement of Plant Variety Certificates, Plant Breeders' Rights, Maintenance Rights and Registration Rights between the Registrant, Pioneer Overseas Corporation and Pioneer, dated December 31, 2014	8-K	001-34719	10.15	1/7/15
10.8	First Amendment to the Assignment Agreement of Plant Variety Certificates, Plant Breeders' Rights, Maintenance Rights and Registration Rights between the Registrant, Pioneer Overseas Corporation and Pioneer, dated April 23, 2015	10-K	001-34719	10.25	9/28/15

10.9	Assignment and Assumption Agreement between the Registrant and Pioneer, dated December 31, 2014	8-K	001-34719	10.16	1/7/15	
10.10	Form of Indemnification Agreement with Officers, Directors and Employees of the Registrant and Subsidiaries	8-K	001-34719	10.1	7/24/14	
10.11*	Amended and Restated 2009 Equity Incentive Plan as amended through Amendment No. 2, forms of Stock Option Grant and Agreement, Restricted Stock Unit Grant and Restricted Stock Award	10-K	001-34719	10.34	9/28/15	
10.12*	S&W Seed Company 2019 Equity Incentive Plan, as amended (the "Plan")	8-K	001-34719	10.1	12/18/20	
10.13*	Form of Stock Option Grant Notice, Option Agreement and Notice of Exercise under the Plan.	S-8	333-229625	99.2	2/12/19	
10.14*	Form of Restricted Stock Unit Grant Notice and Restricted Stock Unit Agreement under the Plan.	S-8	333-229625	99.3	2/12/19	
10.15*	Employment Agreement between the Registrant and Matthew K. Szot, dated September 27, 2021					X
10.16*	Employment Agreement between the Registrant and Mark W. Wong, dated September 27, 2021					X
10.17*	Employment Agreement between the Company and Donald Panter, dated September 27, 2021					X
10.18*	Employment Agreement between the Company and David Callachor, dated September 27, 2021					X
10.19†	Collaboration Agreement between the Registrant and Calyxt, Inc., dated May 28, 2015 and entered into by the Registrant on June 3, 2015	10-K	001-34719	10.39	9/28/15	

10.20	Registration Rights Agreement between the Registrant and the investors named therein, dated July 19, 2017	8-K	001-34719	99.2	7/20/17
10.21	Registration Rights Agreement by and between the Registrant and Mark W. Wong, dated October 11, 2017	8-K	001-34719	99.2	10/12/17
10.22	Secured Promissory Notes issued by the Registrant in favor of Conterra Agricultural Capital, LLC, dated November 30, 2017 and related documents	10-Q	001-34719	10.5	2/8/18
10.23	Registration Rights Agreement by and between the Registrant and MFP Partners, L.P., dated December 22, 2017	S-3	333-222916	4.17	2/7/18
10.24	Sale and Lease Agreement by and between the Registrant and American AgCredit, dated August 9, 2018	10-K	001-34719	10.73	9/20/18
10.25	Registration Rights Agreement dated September 5, 2018, by and among the Registrant and MFP Partners, L.P.	8-K	001-34719	10.3	9/6/18
10.26 <sup>††</sup>	Loan and Security Agreement by and among the Registrant, Seed Holding, LLC, Stevia California, LLC, and CIBC Bank USA, dated December 26, 2019	10-Q	001-34719	10.1	2/12/20
10.27	First Amendment to Loan and Security Agreement by and among the Registrant, Seed Holding, LLC, Stevia California, LLC, and CIBC Bank USA, dated September 22, 2020	10-K	001-34719	10.27	9/23/20
10.28	Amendment to Note between the Registrant and Rooster Capital LLC, dated December 24, 2019	10-Q	001-34719	10.2	2/12/20
10.29	Business Letter of Offer between National Australia Bank Limited and S&W Seed Company Australia Pty Ltd, dated February 17, 2020	10-K	001-34719	10.29	9/23/20
10.30	Business Letter of Offer between National Australia Bank Limited and Pasture Genetics Ptd Ltd, dated February 17, 2020	10-K	001-34719	10.30	9/23/20
10.31 <sup>††</sup>	Termination Agreement by and between the Registrant and Pioneer Hi-Bred International, Inc., effective as of May 20, 2019	10-K	001-34719	10.31	9/23/20
10.32 <sup>††</sup>	Alfalfa License Agreement by and between the Registrant and Pioneer Hi-Bred International, Inc., effective as of May 20, 2019	10-K	001-34719	10.32	9/23/20



10.33	Business Letter of Offer between National Australia Bank Limited and S&W Seed Company Australia Pty Ltd, dated May 28, 2020	10-Q	001-34719	10.2	11/12/20	
10.34	Second Amendment to Loan and Security Agreement, dated December 30, 2020, by and among the Registrant, Seed Holding, LLC, Stevia California, LLC and CIBC Bank USA.	10-Q	001-34719	10.2	2/11/21	
10.35	Business Letter of Variation between National Australia Bank Limited and S&W Seed Company Australia Pty Ltd, dated March 8, 2021.	10-Q	001-34719	10.1	5/13/21	
10.36	Third Amendment to Loan and Security Agreement, dated May 12, 2021, by and among the Registrant, Seed Holding, LLC, Stevia California, LLC and CIBC Bank USA.	10-Q	001-34719	10.2	5/13/21	
10.37	Fourth Amendment to Loan and Security Agreement, dated September 27, 2021, by and among the Registrant, Seed Holdings, LLC, Stevia California, LLC and CIBC Bank USA					X
21.1	Subsidiaries of the Registrant					X
23.1	Consent of Independent Registered Public Accounting Firm					X
24.1	Power of Attorney (see signature page)					X
31.1	Chief Executive Officer Certification pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act of 1934, as amended					X
31.2	Chief Financial Officer Certification pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act of 1934, as amended					X
32.1**	Chief Executive Officer Certification pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002					X
32.2**	Chief Financial Officer Certification pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002					X
101.INS	XBRL Instance Document					X
101.SCH	XBRL Shema Document					X
101.CAL	XBRL Calculation Linkbase Document					X

101.DEF	XBRL Definition Linkbase Document	X
101.LAB	XBRL Label Linkbase Document	X
101.PRE	XBRL Presentation Linkbase Document	X

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† Portions of this exhibit have been omitted pursuant to an Order Granting Confidential Treatment under the Securities Exchange Act of 1934, as amended.

†† Certain portions of this exhibit (indicated by “[\*\*\*]”) have been omitted as the Registrant as determined (i) the omitted information is not material and (ii) the omitted information would likely cause harm to the Registrant if publicly disclosed

\* Management contract or compensatory plan or arrangement.

\*\* This certification accompanies the Form 10-K to which it relates, is not deemed filed with the Securities and Exchange Commission and is not to be incorporated by reference into any filing of Registrant under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended (whether made before or after the date of the Form 10-K), irrespective of any general incorporation language contained in such filing.

**Item 16. Form 10-K Summary**

None.

## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: September 28, 2021

### S&W SEED COMPANY

By: /s/ Mark W. Wong  
Mark W. Wong  
*President and Chief Executive Officer*

### POWER OF ATTORNEY

KNOW ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints Mark W. Wong and Matthew K. Szot, or any of them, his attorneys-in-fact, for such person in any and all capacities, to sign any amendments to this report and to file the same, with exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission, hereby ratifying and confirming all that either of said attorneys-in-fact, or substitute or substitutes, may do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u>/s/ Mark W. Wong</u> Mark W. Wong	President, Chief Executive Officer and Director (Principal Executive Officer)	September 28, 2021
<u>/s/ Matthew K. Szot</u> Matthew K. Szot	Executive Vice President, Finance and Administration and Chief Financial Officer (Principal Financial and Accounting Officer)	September 28, 2021
<u>/s/ Mark J. Harvey</u> Mark J. Harvey	Chairman of the Board	September 28, 2021
<u>/s/ David A. Fischhoff</u> David A. Fischhoff	Director	September 28, 2021
<u>/s/ Consuelo E. Madere</u> Consuelo E. Madere	Director	September 28, 2021
<u>/s/ Alexander C. Matina</u> Alexander C. Matina	Director	September 28, 2021
<u>/s/ Charles B. Seidler</u> Charles B. Seidler	Director	September 28, 2021
<u>/s/ Robert D. Straus</u> Robert D. Straus	Director	September 28, 2021
<u>/s/ Alan D. Willits</u> Alan Willits	Director	September 28, 2021





# |Officers & Directors|

## OFFICERS & EXECUTIVE MANAGEMENT

**Mark M. Wong**  
Chief Executive Officer

**Matthew K. Szot**  
Chief Financial Officer,  
Executive Vice President of Finance & Administration

**David Callachor**  
Executive Vice President, International

**Don Panter**  
Executive Vice President, Americas

## MANAGEMENT

**Dennis Jury**  
SVP, International Production & Supply Chain

**Kirk Rolfs**  
SVP, Production and Supply Chain for the Americas

**Steve Calhoun**  
Vice President of Research & Development

**Mike Eade**  
Vice President of Sales & Marketing, Americas

**Andrea McFarlane**  
Global Director of Human Resources

**Jacob Kurzawa**  
Vice President of Finance & Accounting

**Cameron Henley**  
Commercial General Manager, International

## BOARD MEMBERS

**Mark J. Harvey, Chairman**  
Chairman of the Board, S&W Seed Company

**Mark M. Wong**  
Chief Executive Officer, S&W Seed Company

**David A. Fischhoff**  
Former Senior Executive R&D, Monsanto Company, retired

**Consuelo Madere**  
Former Executive Officer, Global Commercial/Operations,  
Monsanto Company, retired

**Alexander C. Matina**  
Vice President, Investments at MFP Investors LLC

**Charles B. Seidler**  
Portfolio Manager, City Financial Hedge Fund Group

**Robert D. Straus**  
Portfolio Manager, Wynnefield Capital

**Alan Willits**  
Former Chairman of Cargill Asia Pacific and Lead Cargill's  
Agriculture Supply Chain, retired

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## CORPORATE HEADQUARTERS

S&W Seed Company  
2101 Ken Pratt Blvd., Suite 201  
Longmont, CO 80501 United States  
[www.swseedco.com](http://www.swseedco.com)

## INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Crowe LLP, San Francisco, CA

## STOCK EXCHANGE LISTING

S&W Seed Company's common stock is traded on the  
NASDAQ Capital Market under the symbol SANW.

## TRANSFER AGENT & REGISTRAR

Transfer Online, Inc.  
512 SE Salmon Street  
Portland, OR 97214  
[www.transferonline.com](http://www.transferonline.com)

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## FORM 10-K

The Company's complete filings with the Securities and Exchange Commission, including the Form 10-K included in the report and all exhibits, are available without charge through the Company's website at [www.swseedco.com](http://www.swseedco.com) under "Investor Relations" as well as on the SEC's website at [www.sec.gov](http://www.sec.gov).

## TRADEMARKS

Double Team is a registered Trademark of ADAMA.  
DT is a registered Trademark of S&W Seed Company.  
DF is a registered Trademark of S&W Seed Company.  
First Act is a registered Trademark of ADAMA.  
IQA is a registered Trademark of S&W Seed Company.



NASDAQ: SANW



**Alfalfa Partners**  
A BRAND OF S&W SEED COMPANY



**SORGHUM PARTNERS**  
A BRAND OF S&W SEED COMPANY



**Sunflower Partners**  
A BRAND OF S&W SEED COMPANY

**S&W Seed Company**  
**Corporate Headquarters**  
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United States

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[www.sunflower-partners.com](http://www.sunflower-partners.com)

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