S&W Seed Co
Form 10-K
September 30, 2013

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

**WASHINGTON, D.C.**

# FORM 10-K

(Mark One)

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

For the fiscal year ended June 30, 2013

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 | 27-1275784 |
|---|---|
| (*State or Other Jurisdiction of Incorporation or Organization*) | (*I.R.S. Employer Identification No.*) |

25552 South Butte Avenue
Five Points, CA

93624

(*Address of Principal Executive Offices*) (*Zip Code*)

(559) 884-2535

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

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

Title of Each Class

Name of Each Exchange on Which Registered

Common Stock, $0.001 Par Value

The NASDAQ Stock Market LLC

Class B Warrants to purchase one share of Common Stock

The NASDAQ Stock Market LLC

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 x 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 x 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.

x Yes ¨ No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 229.405 of this Chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

x Yes ¨ No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

x

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

(Check one):

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act).

¨ Yes x 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 $45,212,412.

The number of shares outstanding of common stock of the Registrant as of September 26, 2013 was 11,605,907.

DOCUMENTS INCORPORATED BY REFERENCE

:

Portions of the Registrant's Proxy Statement related to its 2013 Annual Meeting of Stockholders be filed pursuant to Regulation 14A within 120 days after Registrant's fiscal year end of June 30, 2013 are incorporated by reference in Part III of this Annual Report on Form 10-K.

S&W SEED COMPANY
FORM 10-K
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

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## FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K, including, but not limited to, "Management's Discussion and Analysis of Financial Condition and Results of Operations" in Item 7, contains forward-looking statements that involve risks and uncertainties, as well as assumptions that, if they never materialize or prove incorrect, could cause our results to differ materially from those expressed or implied by such forward-looking statements. The statements contained in this Report that are not purely historical are 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 (the "Exchange Act"). These could include but are not limited to any projections of revenue, margins, expenses, tax provisions, earnings, cash flows and other financial items; any statements of the plans, strategies and objectives of management for future operations; any statements regarding our ability to raise capital in the future; any statements concerning expected development, performance or market acceptance relating to our products or services or our ability to expand our grower or customer bases; any statements regarding future economic conditions or performance; any statements of expectation or belief; any statements regarding our ability to retain key employees or increase our farming acreage; and any statements of assumptions underlying any of the foregoing. These forward-looking statements are often identified by the use of words such as, but not limited to, "anticipate," "believe," "can," "continue," "could," "estimate," "expect," "intend," "may," "will," "plan," "project," "seek," "should," "target," "will," "would," and similar expressions or variations intended to identify forward-looking statements. We have based these forward-looking statements on our current expectations about future events. Our actual plans and performance may differ materially from those in the forward-looking statements as a result of various factors, including whether we are successful in securing sufficient acreage to support the growth of our alfalfa seed business, the continued ability of our distributors and suppliers to have access to sufficient liquidity to fund their operations; trends and other factors affecting our financial condition or results of operations from period to period; the impact of crop disease, severe weather conditions, such as flooding, or natural disasters, such as earthquakes, on crop quality and yields and on our ability to grow, procure or export our products; the availability of sufficient labor during peak growing and harvesting seasons; the impact of pricing and other actions by our competitors, the impact of pricing of other crops that may be influence what crops our growers elect to plant; our plans for expansion of our business (including through acquisitions) and our ability to successfully integrate acquisitions into our operations; 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 "Risk Factors" in Item 1A of this Report, and that are otherwise described or updated from time to time in our Securities and Exchange Commission reports.

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

Our reporting currency is the U.S. dollar. We translate our foreign operations' asset and liabilities denominated in foreign currencies into U.S. dollars at the current rates of exchange as of the balance sheet date and income and expense items at the average exchange rate for the reporting period. Translation adjustments resulting from exchange rate fluctuations are recorded in the cumulative translation account, a component of accumulated other comprehensive income. Gains or losses from foreign currency transactions are included in the consolidated statement of operations.

Unless the context otherwise requires, the terms "we," "our," "us," and "S&W" as used in this Report refer to S&W Seed Company and its subsidiaries and do not refer to Seed Genetics International Pty Ltd ("SGI"). As we acquired SGI in late fiscal 2013, we do not include SGI as part of the historical discussion of our business or operations except as specifically noted.

PART I

Item 1. Business

Overview

Founded in 1980 and headquartered in the Central Valley of California, we are the leading producer of warm climate, high-yield alfalfa seed varieties, including varieties that can thrive in poor, saline soils. We also offer seed cleaning and processing for other seed manufacturers. Until we incorporated in 2009, our business was operated for almost 30 years as a general partnership and was owned by five general partners. We incorporated in October 2009 in Delaware, having bought out the former partners between June 2008 and May 2010, and reincorporated as a Nevada corporation in December 2011. Following our initial public offering in fiscal 2010, we expanded certain pre-existing business initiatives and added new ones, including:

- increasing our farming acreage dedicated to alfalfa seed production by both acquisition of leased and purchased farmland and by increasing the number of acres under contract with growers in the Central and Imperial Valleys of California;
- teaming with Forage Genetics International, LLC ("Forage Genetics") and Monsanto Corporation ("Monsanto") to develop genetically modified organism (GMO) alfalfa seeds, using our germplasm and Monsanto's genetically modified traits;
- developing stevia varieties in response to growing demand for the all-natural, zero calorie sweetener;
- acquiring the customer list of our primary international distributor of alfalfa seed;
- entering into the dormant market via the acquisition of dormant germplasm in August 2012;
- entering into production of non-GMO seed in the Imperial Valley, California by purchasing farmland and by acquisition of Imperial Valley Seeds, Inc. ("IVS") in October 2012; and
- entering into production of non-GMO seed in Australia by acquisition in April 2013 of the dominant local producer, Seed Genetics International Pty Ltd ("SGI").

Our combination with SGI creates the world's largest non-dormant alfalfa seed company, and our combined company will have the competitive advantages of year-round production, which extends to all areas of the alfalfa seed business, including sales, inventory management and cash collection cycles. SGI was incorporated as a limited proprietary corporation in South Australia in 1993, as Harkness Group, it changed its name to Seed Genetics Australia Pty Ltd in 2002, and in 2011 changed its name to Seed Genetics International Pty Ltd. SGI's principal office space is located in Unley, South Australia.

We also own a seed-cleaning and processing facility in Five Points, California that was modernized and rebuilt in the late 1980's. The property encompasses a total of 40 acres, including 35 acres that are in reserve for future development and five acres with permanent structures and three seed-processing lines. In recent years, the facility has operated at less than 25% of capacity, providing ample opportunity for growth, both in terms of cleaning the alfalfa seed we grow or purchase from our growers and providing cleaning services for San Joaquin Valley growers of small grains such as wheat, barley and triticale.

World Agriculture

One of the biggest challenges of the 21st century will be to expand agricultural production so that it can meet the food and nutritional demands of the world's growing population. According to *World Population Prospects, The 2011 Revision, Executive Summary*, published by the United Nations in 2009, the world population is estimated to surpass 9.0 billion by 2050.

Improvements in farm productivity have allowed agriculture to keep pace with growing food demand. Yield-enhancing technologies such as mechanization, hybrid seed and crop protection chemicals have enabled farmers to meet the ever-growing demand for food. Because of decreases in the amount of arable land and shrinking worldwide fresh water resources, further increases in agricultural production must come from improvements in agricultural productivity. We address this need by breeding high-yielding alfalfa seed that is tolerant to inferior, saline soils, thereby allowing farmers to make marginal soils with inferior water quality as productive as superior soils.

Alfalfa Seed Industry

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. It is most often harvested as hay, but can also be made into silage, grazed, or fed as greenchop. The alfalfa industry (and therefore the alfalfa seed industry) is highly dependent on the dairy industry, which is the largest consumer of alfalfa hay.

Alfalfa is indigenous to the Middle East where it is considered a "non-dormant" plant, meaning it grows year round. "Dormant" varieties of alfalfa have adapted to cold climates by going dormant during periods when frost or snow conditions would otherwise kill them. Dormancy is rated using a numerical system under which "dormant" varieties are rated toward the lower end of a 1 through 10 scale, such as 2 through 4, while "non-dormant" varieties are rated toward the upper end of the scale, such as 8 through 10. The number typically identifies the number of cuttings that a farmer might be able to obtain each year. For the past 30 years, we have focused our efforts on the "non-dormant" market, which is best suited to hot, dry climates, where the growing season lasts for most of the year, resulting in larger yields per acre.

While exact production estimates worldwide are difficult to obtain, approximately 150 million pounds of alfalfa seed are produced worldwide each year. Alfalfa seed for the "non-dormant" marketplace is primarily grown in just a few key regions of the world, including the San Joaquin Valley of California, the Imperial Valley of California, and Southern Australia. However, the growing regions for "non-dormant" alfalfa hay include the Southwestern U.S., the Middle East, North Africa, Latin America and other hot, arid regions of the world.

Alfalfa seed production is demanding for even the most experienced farmers. Farming practices must be tailored to the climatic conditions of each area. Irrigation must be carefully controlled and timed to stress the plants to cause maximum flowering and seed production. Weed control is essential in order to pass inspections for purity needed for certification. Insect pests, especially lygus bugs, must be managed throughout the season, using strategies that protect pollinators, such as honey bees, leafcutter bees and alkali bees. Fields are desiccated using chemicals that remove moisture and then are harvested as quickly thereafter as possible to limit or avoid rain damage.

Stevia and the Sweetener Industry

Stevia is a newcomer in the estimated over $50 billion global sweetener market. Although this market is still dominated by sugar, sugar substitutes now account for more than $5 billion of the global sweetener market (according to data derived from *Artificial Sweeteners-Global Strategic Business Report*, Global Industry Analysts, Inc., July 2007; United States Department of Agriculture, Economic Research Service, and World Sugar Reports). Stevia leaf and its refined products constitute a natural, non-caloric high intensity sweetener, estimated to be 200 to 300 times sweeter than sugar. Its taste has a slower onset and longer duration than that of sugar.

The stevia plant is indigenous to the rain forests of Paraguay and has been used as a sweetener in its raw, unprocessed form for hundreds of years. In recent years, it has been grown commercially in Brazil, Paraguay, Uruguay, parts of Central America, Thailand, China and the U.S. Currently, the majority of global commercial stevia production occurs in China.

The incorporation of stevia-derived extracts into foods and beverages in the U.S. has seen a rapid increase since the beginning of 2009. Stevia has the advantage of not breaking down with heat, making it more stable for cooking than other sugar alternatives. 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. According to published industry data, stevia brands PureVia®, Truvia® and Stevia in the Raw® have seen sales increases and increased market share since 2009, while the artificial sweetener brands have experienced declining sales and market share.

We believe that widespread acceptance of stevia and its derivatives will justify commercial production in the U.S. and that the climate in the California's San Joaquin Valley is well-suited for stevia cultivation. Moreover, we also believe that the stringent regulation of agricultural production in California by state and federal government agencies inspires consumer confidence in products grown and processed in California, and therefore, California is poised to be a major grower and processor of stevia as the commercial market for food, drink and healthcare products incorporating stevia grows.

Business Strategy

We strive to enhance our growth potential and improve gross margins by increasing our alfalfa seed business and by leveraging our expertise in plant development.

Our goal is to grow our alfalfa seed business by:

- increasing our farming acreage dedicated to alfalfa seed production by both acquisition of leased and purchased farmland and by increasing the number of acres under contract with growers in the Central and Imperial Valleys of California, and in Australia;
- increasing distribution into foreign markets through sales in the Middle East, Africa, Mexico and Latin America ;
- expanding and improving our domestic distribution channels;
- promoting worldwide the economic advantages of our high-yielding alfalfa seed varieties and our salt-tolerant alfalfa seed varieties;
- continuing our breeding program in order to develop new varieties with those characteristics most desired by farmers; and
- expanding our assortment of available varieties to include lower dormancy varieties that are suited to geographic regions we currently do not service.

We also plan to exploit the emerging market of stevia breeding, cultivation and sales by continuing our breeding program that is designed to identify the most favorable varieties for producing the best flavor and other desired characteristics suited to our local growing conditions and developing best practices for growing, harvesting and processing of stevia in order to both reduce labor costs and increase the quality and quantity of harvested stevia.

We also recognize that our milling facilities offer revenue growth potential by expanding mill utilization during those portions of the year when the mill is not in use for cleaning and conditioning alfalfa seed. We do not anticipate that providing cleaning and conditioning services for third parties will ever represent a significant portion of our revenue, it does represent our highest margin business. Accordingly, we have the opportunity to increase revenue and profits by more aggressively pursuing milling services and co-packing arrangements with farmers in the San Joaquin Valley.

Alfalfa Seed Product Development

Our alfalfa plant breeding and development program has historically been focused on certified alfalfa seed varieties that are optimized for Mediterranean climates. Alfalfa plants that contribute genetics to our alfalfa varieties are selected from old alfalfa plantings by visual and analytical means for preferred characteristics of both above ground shoot growth and for healthy roots under multiple adverse growing conditions.

The selection process and seed production process is outdoors under normal field growing environmental conditions. Our competitors' varieties are mostly developed in greenhouses with fabricated soils and controlled atmospheric conditions.

We differentiate ourselves by planting in an outdoor nursery with highly saline soils and caged in 30 feet by 30 feet plots for cross-pollination of flowers using both honey bees and leafcutter bees to produce what is known as synthetic generation No. 1 seed. ("Syn 1 seed"). Syn 1 seed is then planted in another block within the outdoor nursery to determine if plant growth is uniform for desired visual traits. If plant growth is acceptable, then second generation seed ("Syn 2 seed") is produced. Syn 2 seed is tested for forage yield in third-party university yield trials in the expected areas of environmental use. Syn 2 seed is also tested for resistance to several insects, diseases and nematodes by a contracting laboratory. Although we use a particular laboratory for this purpose, this work can be handled by a number of different independent laboratories.

If the yield trial data and resistance data meet our quality standards, we may then pursue salt tolerance selection of plants, which is conducted by an unaffiliated university. This process may take two to four generations of plant selection and seed production in our nursery to produce the final breeder seed for a salt-tolerant variety. All testing of our alfalfa varieties for yield and resistance characteristics is done by professional third-party contractors to protect against potentially biased results. All of our alfalfa varieties are certified by the National Alfalfa Variety Review Board of the Association of Official Seed Certifying Agencies ("AOSCA") prior to marketing.

Once an alfalfa seed variety has been bred to the point where we determine that it can be commercialized, we produce increasingly larger quantities through the seed development process. Seed development is divided into three stages: The breeder generation of seed is planted to produce the foundation generation of seed. Foundation seed is planted to produce certified seed for marketing. Foundation seed is the seed that we produce from the original seed of a particular variety (breeder seed) and maintain to generate larger crops of what then will become certified seed. The point at which breeder seed becomes foundation seed is entirely up to us in cooperation with the Crop Improvement Association (of California, other States or Canada) and if sufficient breeder seed is available, we may go directly to certified seed, skipping the foundation seed stage completely. However, the foundation seed cycle is usually needed to produce sufficient seed to increase the acreage planted to yield the certified seed.

In Australia, SGI follows a similar certification process. All testing of SGI's alfalfa varieties for yield and resistance characteristics is done by professional third-party government or government-authorized contractors to protect against potentially biased results. These entities that test and certify seed operate under the rules and regulations of the AOSCA, The Organisation for Economic Co-operation and Development (OECD) and the International Seed Testing Association (ISTA).

Our Current Alfalfa Seed Products

We have a history of innovation in alfalfa breeding, dating back to the early 1980s when S&W's first varieties were introduced to the market. Starting in 2001, our Australian subsidiary, SGI, began a breeding program targeted to creating varieties that maximize seed yields, thereby reducing the cost of seed production. We believe we differentiate our products by optimizing our varieties for geographical regions that have hot climates and, in the case of S&W varieties, high-salt soil or water conditions. While non-dormant varieties will remain the mainstay of our product line, we have recently acquired a selection of dormant alfalfa seed varieties that are suited for higher elevation and cooler climate conditions. We commenced production of these newly acquired varieties in the summer of 2013, with seed expected to be available for sale in the fall of 2014.

Our leading competitive advantage is that we offer select varieties that enable farmers to achieve excellent alfalfa hay production with all of our seed varieties, notwithstanding highly challenging soil and growing conditions. We operate research projects in North America and Australia and participate in yield trials in many of the major alfalfa production areas of the world that have Mediterranean to arid climates. Historically, a significant portion of our seed has been exported to the Middle East and sub-Saharan Africa where these conditions exist. Through our distributors, we also export seed to Mexico, as well as portions of the western U.S. Because of its high-protein content and highly digestible fiber, alfalfa is grown for feed supplement including dairy feed which, in turn, produces dairy products that serve as an economical protein source.

Many years are needed to create, test and build a market for seed products. We enjoy barriers to entry because of the long length of time required to develop competitive alfalfa seed varieties. We have been continually developing our current proprietary, non-dormancy varieties in California since 1980 and in Australia since 2001. Our alfalfa-breeding program has focused on improved yield, salt tolerance, forage quality, pest resistance and persistence (stand life). Our high-yielding seed varieties enable farmers to harvest more alfalfa hay from their acreage, as compared to our competitors' lower yielding varieties. Our accomplishments include:

- industry leadership in breeding for high seed yields, thereby making our varieties more profitable to our growers;
- our salt tolerant varieties which are bred to produce excellent hay in highly adverse and saline growing conditions;
- our new GMO varieties which we are developing to be both salt tolerant and "Roundup Ready®";
- recognition as the leader in developing and marketing new non-dormant level 10 varieties that have superior winter activity and forage production compared with competing products;
- consistent top-10 ranking of our S&W varieties in a field of more than 300 alfalfa varieties tested in UC Davis yield trials;
- our SGI varieties which produce excellent hay while also maximizing the amount of seed that our alfalfa seed growers can produce per acre; and
- excellent stand persistence, meaning stand is resilient against tractor and bailing traffic, allowing fast recovery and high yields for strong multi-year strands.

S&W Varieties

S&W varieties are all bred and developed to meet the guidelines for certification by the CCIA. Our primary S&W products are our high fall dormancy ("FD") alfalfa seed varieties. Varieties with higher FD ratings begin to grow earlier in the spring and continue to grow later into the fall, thereby extending the growing season and providing the potential of increased yield. Our leading high dormancy varieties include SW 10, SW 9720, SW 9215, SW 9628 and SW 8421S and SW 8718. Of these varieties, SW 9720, SW 9215 and SW 8421S are bred to perform very well in highly saline conditions that would stunt or kill ordinary alfalfa. In addition to FD 10, 9 and 8 varieties, we also have developed other varieties, including FD 7, 6 and 4 varieties. In February 2012, we announced the certification of our first proprietary dormant alfalfa seed variety, which was specifically bred to thrive in high altitude and cooler climates. In August 2012, we purchased the rights to a portfolio of alfalfa varieties suited for higher elevations and colder climate conditions, marking our commitment to expand more aggressively into the dormant variety market. The colder climate or higher elevation varieties that we acquired are in the range of FD 3, 4 and 5.

Our highest dormancy varieties (FD 10 and 9) are by far the largest part of our business and are best suited to hot, arid climates. Our salt tolerant high-FD varieties do well in salty irrigation waters and salty soils. By contrast, our FD 4 variety is adapted to the winter-hardy intermountain west and to irrigated areas of the Sacramento Valley and Northern San Joaquin Valley of California. Our breeding and genetics experts continue the multi-year process of developing improved varieties over much of the dormancy spectrum, but concentrating primarily on high salt- and heat-tolerant, non-dormant alfalfa seed, where we have established ourselves as a leading provider. We also plan to create blends of seed varieties.

We grow no alfalfa seed intended for human consumption, which alleviates the need to comply with the more rigorous regulatory requirements applicable to products intended for human consumption.

IVS Varieties

IVS markets both common and certified alfalfa seeds, sourced from growers located in the Imperial Valley of Southeast California. Approximately half of alfalfa seed sold by IVS in fiscal 2013 was common variety (*i.e.*, uncertified seed) while the other half consisted of certified CUF (a public variety) and proprietary varieties. The primary proprietary varieties sold by IVS and acquired by us are LaJolla, Catalina and Saltana

SGI Varieties

SGI has developed well-known proprietary varieties of alfalfa, such as SuperSonic, SuperNova, SuperStar, SuperCharge, SuperAurora, SuperSequal and SuperSiriver. Since 2002, the varieties developed by SGI have attracted an expanding grower base, and in 2012, SGI exceeded 60% of the total Australian certified proprietary alfalfa seed production. SGI's alfalfa seed varieties are bred to resist disease, create persistence in the field, and produce higher yields of both the alfalfa hay forage and alfalfa seed production for our seed growers. SGI's proprietary varieties exhibit superior seed yield capability compared to traditional non-proprietary alfalfa varieties in Australia with the most recent varieties showing the highest seed yields. Forage yields of the older SGI proprietary varieties are at least equivalent to traditional non-proprietary varieties and the forage yields of the more recent SGI varieties are even better. All of SGI's proprietary alfalfa varieties, excluding SuperAurora, have FD ratings of 8-9 and therefore achieve optimum growth and forage production in Mediterranean to desert climates.

SGI has a number of developments within its breeding program pertaining to semi-dormant and highly non-dormant alfalfa varieties and tropical alfalfa seed varieties.

Additionally, SGI has a breeding and production platform of proprietary white clover varieties, including SuperHuia, SuperLadino and Super Haifa. Similar to SGI's alfalfa varieties, SGI's clover varieties produce comparatively higher seed yields. In fiscal 2013, clover sales represented 10% of SGI's total seed sales. SGI's white clover varieties are used

for forage and ornamentation.

Genetically Modified Organism Alfalfa

Currently, Europe, the Middle East and certain other parts of the world prohibit the sale of genetically modified organism (GMO) alfalfa. Therefore, historically, we have not employed genetic engineering in the breeding of our seed varieties, which permits our products to be sold throughout the world. As a result of the January 2011 deregulation by the U.S. Department of Agriculture (the "USDA") of Roundup Ready® alfalfa, a GMO product, Roundup Ready® alfalfa is currently being grown in the United States without any federal or state regulations governing field isolation and other protections.

Collaborative stewardship programs have been developed to facilitate the coexistence of GMO and non-GMO seed. For example, in 2010, the AOSCA launched its Alfalfa Seed Stewardship Program (the "ASSP"). The ASSP is a voluntary, fee-based certification program for the production of alfalfa seed to be sold into markets that prohibit the sale of GMO alfalfa. ASSP certification of seed fields includes testing for GMO material and observance of a minimum stated isolation distance of five miles from any GMO alfalfa seed production field. Also in 2010, the California Crop Improvement Association (the "CCIA") developed a web-based alfalfa seed field isolation "pinning" map for alfalfa seed production in the Western U.S. This map is intended to pin both GMO and non-GMO seed fields. Although beneficial to growers and customers alike these stewardship programs do not afford legal protection to non-GMO growers. We believe that our farming practices currently meet the ASSP and CCIA requirements, including the field isolation requirements.

A large majority of our customers are located within regions, including Saudi Arabia, that substantially restrict or prohibit the importation of GMO seed varieties. We actively test for the presence of GMO in our seed stock in the San Joaquin Valley. The presence of GMO alfalfa in significant amounts of our seed production could limit the amount of seed that we have available to sell into Saudi Arabia and other locations that prohibit GMO seed varieties. Furthermore, due to widespread negative perception of GMO material, even if we were able to successfully remediate an accidental occurrence of GMO in our seed production, there are no assurances that we would be able to achieve export sales to Saudi Arabia and other non-GMO locations at the same levels as we achieved before the accidental occurrence of GMO.

We continue to evaluate our options with respect to incorporating biotechnology into our alfalfa seed traits and the resulting impact on our business strategy and operations. In April 2013, we entered into a license agreement with Forage Genetics to develop and commercialize seed varieties that incorporate proprietary traits, including the Roundup Ready® trait. This agreement further documented and formalized our previously announced collaboration with Forage Genetics and Monsanto to develop genetically modified versions of certain of our proprietary alfalfa varieties. This development of biotech seed varieties consists of several phases including lab work and field trials to confirm agronomic performance and trait efficiency of each developed variety. Upon completion of the field trials for any developed variety, we may elect to commercialize the variety and enter into a variety-specific license agreement with Forage Genetics pursuant to which we would pay certain royalties and access fees.

As a result of the increasing use of Roundup Ready® alfalfa by traditional hay farmers and the lack of federal or state rules requiring adequate isolation of Roundup Ready® alfalfa fields from conventional fields to prevent cross-pollination of GMO plants with non-GMO plants, we have experienced an increase in the number of seeds in recent harvests that have tested positive for the adventitious presence of GMO. To date, the low percentage of seeds that have tested positive has not undermined our ability to meet international demand, and we expect to be able to sell these seeds domestically and in other juisdictions that permit the importation of GMO alfalfa at our customary prices for certified seed. Nevertheless, we are taking proactive steps to protect our seed crops to ensure we have sufficient seed to meet the demand for our varieties in international markets. These steps include seeking collaborative agreements, regulations, or other measures to ensure neighboring farms that raise GMO alfalfa in the San Joaquin Valley limit the extent to which they allow the flowering and cross-pollination of their GMO-based crops with our conventional non-GMO crops to occur; and acquiring land and expanding our contracted grower base in the Imperial Valley of California, where to our knowledge GMO alfalfa is not yet being grown. In addition, we may increase the

use of leafcutter bees to pollinate our crops, because these bees do not form colonies and fly more limited ranges than honey bees, which makes the leafcutter bees less likely to bring GMO-bearing pollen into our fields. Finally, we plan to grow a portion of our S&W varieties in South Australia.

Alfalfa Seed Cleaning and Processing

Processing is similar in our three growing regions of Australia, San Joaquin Valley (California), and Imperial Valley (California). Upon harvesting, our growers (or our employees, on those acres that we directly farm) collect raw seed in large truck-pulled containers loaded from combines on the fields. Each container is weighed as it arrives at a milling facility. Each lot is tagged with grower-specific lot numbers and its weight, then stored. Seed is sent to seed-cleaning lines, where it is cleaned and foreign matter, such as weeds, is removed. The seed is then stored in bulk. Upon the receipt of purchase orders, the seed is then weighed, bagged, palletized until ready for shipment and then shipped. Although the process is the same for each lot, we can treat specific seed pursuant to the customer's specifications, including chemical applications. Some export and domestic orders also require the seed to be coated, which we outsource to IVM in the Imperial Valley or to an independent seed-coating company.

We take samples to assure that all noxious weed seed and inert material has been removed. As and when the samples are cleared by an official seed analysis report, we send the reports to the appropriate agency for its certification.

S&W Processing

During fiscal 2013, we cleaned and processed approximately 2.8 million pounds of seed on our three cleaning lines, which is substantially below the capacity of these facilities. In future growing seasons, we could increase utilization of our processing facilities both by adding shifts and, where advisable, implementing further plant improvements that we believe would increase plant efficiency or provide additional services such as seed coating.

We bag with the S&W logo, clearly identify each variety and label with a California certified label, known as the "blue tag." We also offer custom bags for customers with logos incorporated into the bag print. If seed is treated with a chemical of any kind, a treatment tag must also be placed on the bagged, finished product. Most of our seed sold into the domestic market is not chemically treated. If seed is used to satisfy an export order, we usually treat it with a widely used seed fungicide, and then bag for the order immediately prior to shipment.

All of our proprietary California seed is certified by the CCIA, and we bag it in sacks for our domestic sales. For specific foreign markets, additional pre-shipment testing may be required. Seed samples are sent to the Federal Seed Laboratory (U.S. Department of Agriculture) for shipments to Saudi Arabia and the majority of all other international shipments. Seed samples are sent to the California Department of Food & Agriculture Seed Laboratory for each lot of seed we market in Mexico in order to qualify for a Phytosanitary Certificate issued by the USDA, a requirement for all seed shipments to Mexico.

Unlike many seed varieties, particularly many kinds of vegetable seed, alfalfa seed improves with some aging. If we do have unsold seed at the end of the planting season, it can be stored and sold in the future years.

*SGI Processing*

SGI's growers contract directly with independent mills in the southeast region of Southern Australia for the cleaning and preparation of SGI's varieties. Four milling facilities are used by SGI's grower to clean and process the majority of SGI alfalfa seed, and one company, Tatiara Seeds Pty Ltd, which owns two of the four milling facilities, processes approximately 70% of seed grown for SGI. One other milling facility cleans the majority of SGI's white clover. The SGI growers are required to deliver seed that meets SGI's processing specifications, based on international and domestic certification standards. In a typical year, approximately 90-95% of product received from the growers meets SGI's specifications.

Sales, Marketing and Distribution

We primarily sell high quality proprietary "non-dormant" seed varieties to those parts of the world with hot, arid climates. Our primary geographical focus is the Middle East and North Africa, although we currently sell to customers in a broad range of areas, including the Western U.S., Mexico, South America, Middle East and Africa, as well as other countries with Mediterranean climates. Unlike in cooler climates, the geographic areas on which we concentrate are able to sustain long growing seasons and therefore alfalfa growers can benefit from our high-yielding, non-dormant varieties. We expect to expand geographically into colder climates where our newly acquired dormant varieties should be expected to thrive. Revenues for fiscal 2012 and fiscal 2013 were $14,147,617 and $37,338,258, respectively. Our customers are primarily our distributors, dealers and, to a lesser extent, the end user, namely, a corporate or individual farmer. Our distributors and dealers, in turn, sell to farmers, consisting primarily of dairy farmers, livestock producers and merchant hay growers.

Although we have a sales team of five people (including two with SGI in Australia), we primarily sell our seed through our network of distributors and dealers, as well as through the services of seed brokers. We do not have formal distribution agreements with most of our distributors, but instead operate on the basis of purchase orders and invoices. We believe that selling through dealers and distributors enables our products to reach hay 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. We build 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.

Historically, all of our international sales were made to U.S. distributors who then, in turn, sold our seed into foreign markets. However, our approach to international sales has shifted, and most of our sales are now made to non-U.S. customers. Through our distributors, our primary export market has been Saudi Arabia and, to a lesser extent, other Middle Eastern countries and African countries, including Sudan and Morocco. We also market in Mexico and, to a very small degree, other Latin American countries, which we view as an important area for potential expansion.

We continue to be substantially dependent upon a small group of customers for a large percentage of our net sales, including Sorouh Agricultural Company ("Sorouh"), which serves the Saudi Arabian market. In fiscal 2012 and in fiscal 2013, Sorouh accounted for 67% and 24% of our net sales, respectively. The loss of this customer would have a material adverse effect on our business unless we were able to offset the lost alfalfa seed revenue with sales from other alfalfa seed customers or other sources. We do not have a written contract with this customer requiring it to purchase any specific quantity of seed; however, we believe our relationship with this customer is strong. We expect that a small number of customers will continue to account for a substantial portion of our net sales for the foreseeable future.

At the end of fiscal 2011, our longstanding distributor in the Middle East and North Africa closed its business, and we purchased the customer list from the owner in July 2011. With the cooperation of our former distributor and the consulting services of its owner, we began selling directly to that former distributor's customers. In fiscal 2012, we expanded our presence in the Middle East and Africa by reaching additional customers in Sudan and Morocco, none of whom represented ten percent or more of our annual revenue in fiscal 2012 or 2013, but all of whom, collectively, represent what we believe to be an important growth opportunity for the future. International sales represented 70% of our total revenue for the 2012 fiscal year and 73% of our total revenue for the 2013 fiscal year.

Most of our international marketing efforts are accomplished through face-to-face meetings with our existing and potential customers, and their end users. In addition, we participate in international trade shows to boost our international presence and sales efforts.

Domestically, we market our alfalfa seed in California, Arizona, New Mexico, Texas and Nevada. We anticipate broadening our domestic geographic reach in the future as we add more lower dormancy certified varieties to our

current offerings. Domestic seed marketing is based primarily upon the dormancy attributes of our varietals as suited to climates in target markets. Since our marketing efforts in California have been somewhat limited in recent years, we believe there are opportunities to expand our sales volume in

California by implementing a marketing program that will reach beyond the network of customers and end users with whom we typically transact business. We launched this new marketing effort in late June 2010, with our first ever radio advertising campaign in order to educate local alfalfa hay growers in California's Central Valley as to the benefits of our high yield, non-dormant, salt-tolerant certified alfalfa seed varieties.

The price, terms of sale, trade credit and payment terms are negotiated on a customer-by-customer basis. Our arrangements with our distributors do not include a right of return. Typical terms for domestic customers require payment in full within 60 days of the date of shipment. Sales to our international customers are either paid in advance of shipment or typically within 90 days of shipment. Our credit policies are determined based upon the long-term nature of the relationship with our customers. Credit limits are established for individual customers based on historical collection experience, current economic and market conditions and a review of the current status of each customer's trade accounts receivable.

Both farmers (dairy farmers and hay growers) and dealers use pest-control advisors who recommend the varieties of alfalfa 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.

We believe that our best marketing tool is the dissemination of information regarding the quality and characteristics of our propriety seed varieties of those persons who make the hay growing decisions. Accordingly, we plan to continue to expand our sales and marketing activities, a process that began shortly after our initial public offering. We intend to continue to place advertisements in trade journals, participate in seed industry conferences and trade shows and engage in various other educational and outreach programs as we deem appropriate.

SGI Sales, Distribution and Marketing

SGI sells a majority of its proprietary alfalfa seed (approximately 70-90% of its total sales per year) into Saudi Arabia, the United States and Argentina. SGI sells the bulk of it proprietary clover seed to China and the U.S. Similar to S&W Seed, SGI has historically relied upon a network of distributors to market and sell its products.

In marketing its products, SGI's initial impetus was to gain market penetration through the sale of improved versions of proven varieties (*e.g.*, SuperSiriver and SuperAurora) in the market place at competitive pricing. Subsequently, SGI used its established market presence to launch additional superior varieties such as SuperSonic. SGI utilizes a variety of distribution strategies. Through distribution arrangements SGI's proprietary varieties are marketed directly as SGI brands or under customer brand labels, and strategic allocations of full and partial exclusivity rights are made in specific countries and geographical regions to incentivize distributors to establish markets for SGI products.

Seed Production

S&W and IVS Production

Historically, we fulfilled all of our alfalfa seed requirements under contracts with farmers primarily located in the San Joaquin Valley of California. Although for the foreseeable future, we expect to contract out the majority of our seed production, we have increasingly expanded our internal S&W farming operation. In fiscal 2011, we began direct farming approximately 800 leased acres located in Kern County. In fiscal 2012, we entered into a one year lease of additional farmland in Madera County and contracted with a farming corporation in Merced County to grow seed on our account. In early fiscal 2013, we both purchased and leased farmland in California's Imperial Valley on which we planted additional acreage devoted to alfalfa seed. We believe that by controlling a portion of our acreage, either by lease or purchase, we will be better able to source our proprietary varieties at competitive prices. However, with this strategy comes the potential risks and rewards of farming and, like our growers, this subjects us to factors such as weather, insect pressure and other farming risks.

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Except for our Imperial Valley production, most of our California growers are located no more than an hour's drive from our processing facility in the San Joaquin Valley. Although the loss of any of these growers could impact our ability to have sufficient inventory available to satisfy the needs of our customers, we believe that our successful efforts to secure additional acreage for seed production by lease or purchase in fiscal 2012 and 2013 have significantly offset the potential risk that we might not have sufficient seed were we to lose the services of one of our currently major growers. Generally, we enter into contracts to purchase seed, and we intend to continue that practice as it is the typical in the industry.

These contracts range from one to three years, include a price for the seed that we fix annually, and that generally does not vary from grower to grower or variety to variety. Under these contracts, we pay our growers based on the weight of cleaned and processed seed. We have multi-year contracts with one large grower under the terms of which we have agreed to a fixed price per acre, and we assume the farming risk.

Alfalfa seed is an extremely demanding crop to grow, and many farmers do not have the skill or experience needed to consistently obtain satisfactory results. Our network of growers has that expertise. We have worked with many of the same growers for much of the past 25 years, 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 varieties each year. The growers and our internal farming operation incur the greatest cost in the first year of production, when they plant seed, eradicate weeds and pests and manage the pollination process; they then may be able to harvest seed from the same stands for several additional years, with the average alfalfa seed field producing for three years. We believe we have the ability to expand our production with our existing growers, although we also believe that we could contract with additional growers if our current network of growers and our own acreage could not fulfill our needs as we expand our business or otherwise.

SGI Production

As of June 30, 2013, SGI had contracts with approximately 150 individual growers in Western Victoria and South Australia to grow its alfalfa seed varieties on a total of approximately 22,000 irrigated and 12,000 non-irrigated acres. In the Southern Hemisphere, alfalfa seed is grown counter seasonally to the Northern Hemisphere, and is harvested annually, in March through early May. Seed yields for the past three fiscal years have averaged 400 pounds per acre from the irrigated fields and 50 to 100 pounds per acre from the non-irrigated fields. As of June 30, 2013, SGI had contracts with approximately 20 individual growers in Tasmania and South Australia to grow its white clover varieties on a total of approximately 1,000 acres. White clover is harvested annually, in January through February. Seed yields for the past three fiscal years have averaged 500 pounds per acre.

Under its current form of seed production agreement, SGI provides foundation seed to each grower and grants each grower a license to use its seed for the purposes of production of seed for sale to SGI. Each grower is responsible for all costs of the crop production. Title in the produced seed passes to SGI upon it being certified compliant; and, if the seed is not compliant, title will only pass to SGI upon SGI's further agreement to purchase the non-compliant seed. SGI uses a staggered payment system with the growers of its alfalfa and white clover and the payment amounts are based upon an estimated budget price ("EBP") for compliant seed. EBP is a forecast of the final price that SGI believes will be achieved taking into account prevailing and predicted market conditions at the time the estimate is made. Following the grower's delivery of uncleaned seed to a milling facility, SGI typically pays 40% of the EBP to the grower based on a percentage of the pre-cleaning weight. Following this initial payment and prior to the final payment, SGI will make a series of scheduled progress payments and, if applicable, a bonus payment for "first grade" (high quality) alfalfa seed. The final price payable to each grower (and therefore the total price) is dependent upon and subject to adjustment based upon the clean weight of the seed grown, on the average price at which SGI sells the pooled seed and other costs incurred by SGI. Accordingly, the total price paid by SGI to its grower may be more or less than the EBP. SGI's seed production agreements for alfalfa provide for an initial term of seven years and an optional renewal term of three years. SGI's seed production agreements for white clover provide for an initial term of two years and an optional renewal term of one year. Historically, SGI has not required its growers to harvest seed in

every year under the seed production agreement. Some growers have elected to have non-harvest years, and their alfalfa is cut for hay or used for grazing instead of being harvested for seed production.

SGI finances the purchase of most of its seed inventory from growers pursuant to a seasonal credit facility with National Australia Bank Limited ("NAB"). The current facility expires on January 31, 2014 (the "NAB Facility Agreement") and, as of June 30, 2013, $6,755,998 was outstanding under this facility and $2,377,002 was available for future borrowings.

The NAB Facility Agreement comprises several facility lines, including a market rate facility (AUD $8,500,000 limit which translated to USD $7,763,050 at June 30, 2013), an overseas bills purchased facility (AUD $500,000 limit which translated to USD $456,650 at June 30, 2013), and an overdraft facility (AUD $1,000,000 limit which translated to USD $913,300 at June 30, 2013). The market rate facility and overseas bills purchased facility are interchangeable and have a combined limit of AUD $9,000,000 (which translated to USD $8,219,700 at June 30, 2013). The market rate facility is to be reduced in stages according to the following schedule: AUD $7,000,000 by October 31, 2013; AUD $6,000,000 by November 30, 2013; and AUD $5,500,000 by December 31, 2013.

SGI may access the facilities in combination; however, each facility bears interest at a unique interest rate calculated per pricing period--an interval (ranging from 7 to 180 days) between interest rate adjustments. Each facility's interest rate is calculated as the sum of an applicable indicator rate plus customer margin. The indicator rate for the market rate facility is equal to the "bid rate" quoted on the Bank Bill Swap Bid (BBSY) page of the Reuters Monitor System at or about 10:15 am Sydney Time on the banking date immediately preceding the commencement of the applicable pricing period. Under the market rate facility the customer margin is equal to 2.6% per annum. Currently, SGI's facilities accrue interest at approximately the following effective rates: market rate facility, 6.8% calculated daily; overseas bills purchased facility, 3.6% to 3.9% calculated daily; and overdraft facility, 8.1% calculated daily.

For all NAB facilities, interest is payable each month in arrears. In the event of a default, as defined in the NAB Facility Agreement, the principal balance due under the facilities will thereafter bear interest at an increased rate per annum above the interest rate that would otherwise have been in effect from time to time under the terms of each facility (*e.g.*, the interest rate increases by 4.5% per annum under the market rate and overdraft facilities upon the occurrence of an event of default). Under the NAB Facility Agreement, the NAB facility is secured by a fixed and floating lien over all the present and future rights, property and undertakings of SGI. The NAB facility contains customary representations and warranties, affirmative and negative covenants and customary events of default that permit NAB to accelerate SGI's outstanding obligations, all as set forth in the NAB Facility Agreement. Each of SGI's directors has also provided a direct guarantee to support the facilities. The covenants imposed by NAB include a capital adequacy ratio and a times interest earned cover ratio.

Milling Services

In addition to processing seed for our alfalfa seed business, we also provide milling services, including cleaning, conditioning and bagging, for other growers' alfalfa seed, as well as small grains, such as barley, wheat and triticale. We believe cleaning and conditioning small grains is a valuable service that we can make available to neighboring growers, and in the future we will try to expand this portion of our business as a means of increasing our revenue and increasing the utilization of our mill.

Stevia Breeding, Research and Development

We believe that the U.S. Food and Drug Administration's (the "FDA") GRAS no objections letters issued in December 2008 with respect to the stevia extract, Reb-A, opened a previously largely untapped market for high quality stevia leaf production in the U.S. The dramatic rise in sales of processed stevia and products that incorporate stevia as a sugar substitute since the beginning of 2009 supports this belief.

Therefore, in fiscal 2010, we laid the groundwork for the commercial production of stevia in California's Central Valley by conducting trials on sample stevia material sourced from stevia plant breeders in India, China and Paraguay. We planted our first small-scale commercial crop of stevia in May and June 2011 and completed the first harvest and

its first small-scale shipment of dried stevia leaf under a previously signed supply agreement during the second quarter of fiscal 2012. In May 2013, as the result of substantial herbicide damage to our then-existing stevia crop, we determined to shift the focus of our stevia program away from commercial

production and towards the breeding of improved varieties of stevia. As a further result of these damaged crops, we recorded a crop loss on stevia totaling $2,333,123 for the year ended June 30, 2013.

In our breeding program, we have identified stevia plant lines that we believe grow to heights and plant mass that compare favorably to the results for stevia plants grown in China and Paraguay, which have historically been the primary regions for growing stevia. Our lines contain high overall steviol glycosides, including Reb A, Reb B and Reb C. We anticipate breeding these new lines with their higher overall steviol glycosides. We have been recently conducting extensive HPLC sample testing of stevia plants under development and will be making further selections and crosses of these plants this season based upon test results. The goal is to develop a stevia plant with an inherently pleasant taste profile, a large and hardy plant mass, and high Reb A content. We are focused on developing our proprietary stevia germplasm into commercial varieties.

At this time, we are evaluating several strategies with respect to future commercial applications for our proprietary stevia, including commercial production of "dry leaf" stevia. We are also investigating the potential for a simple, water-based, extraction method which would lead to the production of a stevia based sweetener containing the full spectrum of the sweeteners found in the plant. We believe that a California-sourced product such as this will have wide appeal among those consumers seeking a natural, non-caloric, sugar substitute. Presently, there are no commercial scale stevia extraction facilities located in the U.S.

Seasonality

Our alfalfa seed business is seasonal, and historical sales have been concentrated in the first six months of our fiscal year (July through December) when customers are planting their fields. This coincides with the period during which seed growers harvest and deliver seed to us. 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. The acquisition of Australian-based SGI on April 1, 2013 provides us with a geographically diversified and year-round production cycle. This will likely mitigate the seasonality of our business as the fourth quarter is typically a significant sales quarter for our newly acquired Australian operation. Tests show that seed that has been held in inventory for over one year improves in quality. Therefore, provided that we have sufficient capital to carry additional inventory, we may increase our seed purchases and planned season end inventory if, in our judgment, we can generate increased margins and revenue with the aged seed. This will also reduce the potential for inventory shortages in the event that we have higher than anticipated demand or other factors, such as growers electing to plant alternative, higher priced crops, reducing our available seed supply in a particular year.

We experience seasonality in capacity utilization at our Five Points, California facility associated with the alfalfa seed harvest (typically September and October) and, to a lesser extent, the wheat harvest (typically June, July and August).

Proprietary Rights

Ownership of and access to intellectual property rights are important to us and our competitors. We sell only our proprietary alfalfa seed varieties that have been specially selected to manifest the traits we deem best suited to particular regions in which our seed is planted for alfalfa hay. 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 any technologies that substantially equal or surpass our process technology, it will adversely affect our competitive position. We do not rely upon patent protection, but guard our proprietary property by 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. Historically, we have found that this control mechanism has been an effective means to protect our proprietary seed. However, because we do not have more formal proprietary rights protections in place, it would be possible for persons with access to our seed or plants grown from our seed to potentially reproduce proprietary seed varieties, which could significantly harm our business and our reputation. In the future, we may deem it appropriate to implement more formal proprietary rights

protections.

We are also developing proprietary stevia lines, although to date, we do not claim that we have any special proprietary rights regarding our stevia plants or operations. We will continue to evaluate the means and methods of protecting our rights as our stevia operations grow.

SGI registers its varieties under the Plant Breeder's Rights Act 1994 (Cth) (the "PBR Act"). Currently the varieties SuperSequel, SuperSiriver, SuperAurora, SuperLadino, SuperHuia and SuperHaifa are protected under the PBR Act and the SuperSonic, SuperStar, SuperSiriver II and SuperNova varieties are provisionally protected under the PBR Act. Seed from varieties with plant breeder's rights ("PBR") protection can only be bought from the PBR registrant, commercial partner, licensee or an agent authorized by the registrant. Exceptions exist for use of a PBR variety, including for private and non-commercial purposes, for experimental purposes, and for breeding other plant varieties. PBR protections last for 20 years in Australia in respect of registered plant varieties, and generally for 20 years in other member countries of the International Union for the Protection of New Varieties of Plants ("UPOV"), an international convention concerning plant breeder's rights. There are currently more than 70 countries that are members of the UPOV.

SGI has licensed production and marketing rights of several of its varieties in exchange for royalties.

In addition to PBR and licensing arrangements, SGI controls dissemination of its proprietary lines by including a demand right in its form of seed production agreement for the return of unused foundation seed if a grower fails to propagate the seed within 60 days after the grower's acquires it.

Competition

Competition in the alfalfa seed industry in California and internationally is intense. We face direct competition by other seed companies, including 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.

Our principal competitors in our alfalfa seed business are Forage Genetics International (a subsidiary of Land O' Lakes, Inc.), Dairyland Seed Co., Inc. (owned by Dow AgroSciences LLC, a wholly owned subsidiary of The Dow Chemical Company), Seed Services, Inc., Pioneer Seed Company (a Dupont business) and Pacific International Seed Company, Inc. 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 yield in the field. In addition, we believe that our strong personal relationships with growers in the San Joaquin Valley and our reputation for breeding and producing high-quality varieties of alfalfa seed that manifest the traits the farmers need combine to give us a competitive advantage in the niche market for high salt- and heat-tolerant, non-dormant alfalfa seed.

In addition to our competitors, SGI's principal regional competitors in the proprietary alfalfa seed market are PGG Wrightson Seeds Limited and Heritage Seeds Pty. Ltd. Blue Ribbon Seeds Pty. Ltd., PGG Wrightson, Heritage Seeds, Naracoorte Seeds Pty. Ltd., Seed Distributors Pty. Ltd. and various other minor companies compete with SGI through sales of Siriver, a common alfalfa variety. SGI also faces competition from lower value alfalfa seed produced in the European Union and, to a lesser extent, Argentina. With the exception of Blue Ribbon Seeds, SGI faces similar competitors in its proprietary white clover business. These companies compete with SGI for acres and in sales by selling Haifa, a common white clover variety. Competitively priced white clover is also produced and sold from the European Union and New Zealand.

Despite the advantages we perceive we, including SGI, have over many of our competitors, 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;
- take advantage of acquisition or other opportunities more readily than we can; and
- control acreage and growers located in zones where GMO seed production is forbidden, thereby lessening the risks of GMO traits contaminating seed produced for overseas markets.

We are not aware of any significant domestic competitors in the "dry leaf" production or stevia extraction markets. Currently, there are no commercial scale stevia extraction facilities located in the U.S. PureCircle Sdn Bhd operates extraction facilities in China and if we enter into the commercial extraction business it would be a global competitor of ours.

Environmental and Regulatory Matters

Our agricultural operations are subject to a broad range of evolving environmental laws and regulations. These 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 and the Comprehensive Environmental Response, Compensation and Liability Act.

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 both for domestic and overseas varieties. We maintain particulate matter air emissions from our milling activities below annual tonnage limits through cyclone air handling systems. We maintain storm water onsite, which eliminates the risk of waterway or tributary contamination. Pesticide and agricultural chemicals are managed by trained individuals, certified and licensed through the California Department of Pesticide Regulation. County agricultural commissioners monitor all seed-treating activity for compliance.

Compliance with these laws and related regulations is an ongoing process that 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 the Federal Seed Act (the "FSA"), which regulates the interstate shipment of agricultural and vegetable seed. The FSA requires that seed shipped in interstate commerce be labeled with information that allows seed buyers to make informed choices and mandates that seed labeling information and advertisements pertaining to seed must be truthful. The FSA also helps promote uniformity among state laws and fair competition within the seed industry.

Because, under our existing business plan, we will only be acting as a breeder and supplier of stevia leaf and will not be extracting Reb-A or other derivatives from the leaves or adding such derivatives to any food or beverages, we believe that we do not need to apply to the FDA for a GRAS no-objections determination or any other FDA approval. However, should our plans with respect to stevia cultivation and processing expand in future years, we will then reexamine the advisability of seeking a GRAS determination or other FDA approval. We do not believe that our current stevia operations are subject to any special regulatory oversight.

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.

We are also subject to numerous other laws and regulations applicable to businesses operating in California, including, without limitation, health and safety regulations.

Our Australian operations are subject to a number of laws that regulate the conduct of business in Australia, and more specifically, SGI's agricultural activities. Laws regulating the operation of companies in Australia, including in particular the Corporations Act 2001 (Cth) are central to SGI's corporate actions and corporate governance issues in Australia. Competition laws and laws relating to employment and occupational health and safety matters are also of fundamental importance in the Australian regulatory environment. These include the Competition and Consumer Act 2010 (Cth), the Fair Work Act 2009 (Cth), the Work Health and Safety Act 2012 (SA) and related regulations. Notably Australian employment laws are much more favorable to the employee than U.S. employment laws.

SGI's intellectual property rights in Australia are protected and governed by laws relating to plant breeder's rights, copyright, trademarks, the protection of confidential information, trade secrets and know-how. These include the PBR Act, the Copyright Act 1968 (Cth), the Trade Marks Act 1995 (Cth) and related regulations.

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. These laws regulate matters including air quality, water quality and the use and disposal of agricultural chemicals.

Employees

As of June 30, 2013, S&W had 21 full-time employees and 8 part-time, seasonal employees. Of the 21 full-time employees, 7 of which were employed by SGI. Our labor requirements typically peak during the first fiscal quarter, when we generally use temporary labor to supplement our full-time work force. We also retain consultants for specific purposes when the need arises. None of our employees is represented by a labor union. We consider our relations with our employees to be good.

Our Contact Information

Our principal business office is located at 25552 South Butte Avenue, Five Points, CA 93624, and our telephone number is (559) 884-2535. Our website address is www.swseedco.com. Information contained on our website or any

other website does not constitute part of this Form 10-K.

Item 1A. Risk Factors

## Risks Relating to Our Business and Industry

Our earnings may be sensitive to fluctuations in demand for our products.

Our earnings can be negatively impacted by declining demand brought on by varying factors, many of which are out of our control. By way of example, the severe downturn in the California dairy industry in recent years that resulted from over-supply of dairy had a negative effect on sales of alfalfa hay, and as a result, the demand for our alfalfa seed in the domestic market declined. At times, the demand for our certified seed has also declined in the Middle East as the result of common, uncertified seed flooding the market at lower prices than those at which we were willing to sell our certified seed. In fiscal 2012 and continuing into fiscal 2013, many of these factors corrected themselves, but these circumstances could continue or reoccur, and our earnings could again be negatively impacted. 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.

Market prices for our alfalfa seed can be impacted by factors such as the quality of the seed and the available supply, including whether lower quality, uncertified 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 cost of seed production is increasing, which could impact our profitability and margins.

We have seen our costs of growing seed continue to increase because our growers, particularly those in California, can elect to grow more profitable crops on their farmland. In order to ensure that we have adequate inventory to satisfy our customers' requirements, we have had to increase the amount we pay our growers or make different contractual arrangements from our historical standard terms. In addition, we have begun to grow some of our seed ourselves, thereby incurring the farming-related costs of production that we avoid when we contract with external growers for the entirety of our seed production. These factors, both separately and together, could cause our margins and profitability 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 profitability in the future.

We could encounter farming-related problems unrelated to natural disasters, crop disease and other normal agricultural risks.

In fiscal 2012, we began growing a portion of our own alfalfa seed while still continuing to contract for the majority of our planted acreage with third-party farmers. A portion of our direct farming operations is carried out by our own employees on land we lease, and the remainder is performed by third-party farmers on their land but under our direction. Some of these arrangements span multiple years, and both direct farming methods carry large financial risks that we do not face when we pay growers for their seed on a per-pound basis. When we carry the farming risk, we can expect to incur costs of between $1,300 and $2,300 per acre, regardless of yields. We can and will make decisions that could adversely impact yields or quality, resulting in a smaller supply of seed to sell to our customers and increasing our cost of production to unprofitable levels. As we obtain additional farmland, by lease or purchase, both our farming costs and risks could continue to climb, and as our direct farming operations account for a significant portion of our seed requirements, the farming decisions we make could have a negative impact on our results of operations.

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

Our seed production, both in California and Australia, substantially relies 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 alfalfa seed 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, and 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.

Alfalfa seed, our primary product, is vulnerable to adverse weather conditions, including windstorms, floods, drought and temperature extremes, which are common but difficult to predict. In addition, alfalfa seed is vulnerable to crop disease and to pests, which may vary in severity and effect, depending on the stage of production at the time of infection or infestation, the type of treatment applied and climatic conditions. Unfavorable growing conditions can reduce both crop size and quality. While historically we have not grown the alfalfa seed we sell, these factors can nevertheless directly impact us by decreasing the quality and yields of our seed and reducing our inventory and the supply of seed we sell to our customers. Moreover, in fiscal 2012, we began growing a portion of our alfalfa seed directly as well as farming alfalfa hay, and therefore, we have a direct vulnerability to the same adverse effects of weather, pests, natural disasters and other natural conditions that concern our third-party growers. 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 alfalfa seed business is highly seasonal, our revenue, cash flows from operations and operating results may fluctuate on a seasonal and quarterly basis.

We expect that the majority of our revenues will continue to be generated from our alfalfa seed business. Our alfalfa seed business is highly 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 on a quarterly basis.

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.

We rely upon a small group of customers for a large percentage of our net revenue, including Sorouh Agricultural Company, which serves the Saudi Arabian market. In fiscal 2012 and in fiscal 2013, Sorouh accounted for 67% and 24% of our consolidated net revenue, respectively. We expect that a small number of customers will continue to account for a substantial portion of our net revenue for the foreseeable future. Similarly, SGI relies upon a small group of customers for a large percentage of its net revenue, including House of Agriculture Spirou, A.E.B.E., which also serves the Saudi Arabian market, which accounted for 15% and 14% of SGI's net revenue in fiscal 2012 and in fiscal 2013, respectively.

The loss of, or a significant adverse change in, our or SGI's relationship with these customers, or any other major customer, could have a material adverse effect on our business, financial position, results of operations and operating cash flows. The loss of, or a reduction in orders from, any significant customers, losses arising from customers' disputes regarding shipments, product quality, or related matters, or our inability to collect accounts receivable from any major customer could have a material adverse effect on us. 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 most of the alfalfa seed that we sell, we are substantially dependent on our network of growers, and our sales, cash flows from operations and results of operations may be negatively affected if our largest growers were to stop supplying seed to us.

Historically, we have relied on a relatively small network of growers of alfalfa seed that together has provided all of the seed we sell to our customers. Although in fiscal 2012, we began growing and producing a portion of our own seed, most of our seed will continue to be grown under contracts with farmers, most of which are one-year contracts. Many of our growers have had long-term grower relationships with us. However, we do not have long-term supply contracts with any of these growers, 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 revenues. Such disruption could also damage our customer relationships and loyalty to us if we cannot supply the quantity of seed expected by them. We encountered a meaningful shift in our grower network in fiscal 2011, with some of our growers who had grown for us for many years opting to cut back their alfalfa seed acreage or to not grow alfalfa seed at all. This situation could reoccur and could negatively impact our revenues if we do not otherwise have sufficient seed inventory available for sale.

SGI relies on a pool of approximately 150 Australian growers to produce its proprietary seeds. Each grower arrangement is typically made for a term of seven to ten harvests. Although SGI's grower pool is substantially more diversified than our grower pool, it is not without risks. Adverse agronomic or climatic factors could lead to grower exodus and negatively impact SGI's revenues if SGI does not otherwise have sufficient seed inventory available for sale.

A large majority of our customers are located within regions, including Saudi Arabia, that substantially restrict or prohibit the importation of GMO seed varieties. We actively test for the presence of GMO in our seed stock in the San Joaquin Valley. The presence of GMO alfalfa in significant amounts of our contracted seed production could severely limit the amount of seed that we have available to sell into Saudi Arabia and other locations that prohibit GMO seed varieties. Furthermore, due to widespread negative perception of GMO material, even if we were able to successfully remediate the accidental occurrence of GMO in our contracted seed production, there are no assurances that we would be able to achieve export sales to Saudi Arabia and other non-GMO locations at the same levels as we achieved before the accidental occurrence of GMO.

A lack of availability of water in California or Australia 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. Although alfalfa seed is not a water-intensive crop, the availability or the cost of water is a factor in the planting of the alfalfa hay grown from our seed. If the dairy farmers and others who purchase our alfalfa seed to grow hay cannot get an adequate supply of water, or if the cost of water makes it uneconomical for the farmers to grow alfalfa, we may not be able to sell our seed, which could have an adverse impact on our results of operations. We cannot predict if water shortages will impact our business in the future, but if alfalfa hay growers are impacted by water shortages, our business could also materially decline.

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

The alfalfa seed market is highly competitive, and our products face competition from a number of small seed companies, as well as large agricultural and biotechnology companies. We also now face new competition with the availability of Roundup Ready® alfalfa beginning to be a viable alternative. We compete primarily on the basis of

consistency of product quality and traits, product availability, customer service and price. Many of our competitors are, or are affiliated with, large diversified companies that have substantially greater marketing and financial resources than we have. 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 hay and dairy farmers who grow hay for dairy cattle and other livestock. Due to the nature of the alfalfa 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. On the other hand, if we underestimate demand, which has happened in the past, we may not be able to satisfy our dealers and distributors' demand for alfalfa 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. 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 customers who currently represent or are expected to represent the largest percentage of our sales.

Although payment terms for our seed sales generally are 90 days, we regularly extend credit to our largest customer, Sorouh Agricultural Company, and to other international customers. We expect that sales of our alfalfa seed varieties to Sorouh and to other international customers will represent a material portion of our revenue in fiscal 2014 and that we will continue to extend credit in connection with those sales. Because these customers are located in foreign countries, collection efforts, were they to become necessary, could be much more difficult and expensive. 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 major 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 diversified.

We currently operate mainly in the alfalfa 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 industry, payment disruptions and

customer rejection of our varieties of alfalfa seed. If there is a disruption as described above, our revenue and income could be reduced, and our business operations might have to be scaled back.

Moreover, because our stevia operations are also agriculture-based and centered in California's Central Valley where the majority of our United States-based alfalfa seed operations is located, it is possible that the same problems that might negatively impact our alfalfa seed business could, at the same time, negatively impact our stevia business. Accordingly, we do not consider our stevia business a hedge against the risks of our alfalfa seed business.

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

The performance of our new alfalfa seed varieties may not meet our customers' expectations, or we may not be able to introduce and commercialize specific seed varieties. 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 the new availability of Roundup Ready® alfalfa, 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 variety 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 even a successful product introduction.

Deregulation of Roundup Ready® alfalfa could negatively impact our sales and production of alfalfa seed.

In December 2010, the USDA published the final environmental impact statement on Roundup Ready® alfalfa. Following that publication, in late January 2011, the USDA announced the deregulation of Roundup Ready® alfalfa, without imposing any federal regulations, providing any guidance pertaining to field separation or mandating any other conditions. The availability of Roundup Ready® alfalfa could adversely impact our sales. Domestically, hay farmers may choose the GMO alfalfa seed over our seed in order to control weeds with Roundup®, Monsanto's powerful herbicide.

GMO crops currently are prohibited in most of the international markets in which our proprietary seed is currently sold. The greater the use of GMO seed in California, 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 feeds. In fiscal 2013, the number of lots of our seed that tested positive for the adventitious presence of GMO was greater than in fiscal 2012. The preliminary testing results for our most recent harvest suggest that approximately 5% of our estimated annual global production and sourced seed for fiscal 2014 will contain GMO material. Our testing is limited to detecting the presence of GMO material. The extent to which an affected batch of seed contains GMO material must be determined by a third party laboratory and we will undertake testing of this kind on an as-needed basis. Our seed containing GMO material can only be sold domestically or in other jurisdictions that permit the importation of GMO alfalfa. We are taking steps to reduce the risk of the adventitious presence of GMO material in our seed crops. These steps include seeking collaborative agreements, regulations, or other measures to ensure neighboring farms that raise GMO alfalfa in the San Joaquin Valley limit the extent to which they allow the flowering and cross-pollination of their GMO-based crops with our conventional non-GMO crops to occur; and acquiring land and expanding our contracted grower base in the Imperial Valley of California, where to our knowledge GMO alfalfa is not yet being grown. In addition, we may increase the use of leafcutter bees to pollinate our crops, because these bees do not form colonies and fly more limited ranges than honey bees, which makes the cutter bees less likely to bring GMO-bearing pollen into our fields. Finally, we plan to grow a portion of our S&W varieties in South Australia.

We believe that our testing program is superior to those of our competitors in the non-GMO alfalfa seed market. However, due to inherent weaknesses in the testing process, including limited sample sizes, we can make no assurances that our testing program, without more, will continually satisfy our customers and end users that our seed is GMO free or that our farming operations are adequately isolated from GMO pollination.

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In April 2013, we entered into a license agreement with Forage Genetics to develop and commercialize seed varieties that incorporate proprietary traits, including the Roundup Ready® trait. This agreement further documented and formalized our previously announced collaboration with Forage Genetics and Monsanto to develop genetically modified versions of certain of our proprietary alfalfa varieties. This agreement contemplates lab work and field trials and may never result in the development of commercially viable seeds. Unless and until we actually begin selling Roundup Ready® alfalfa, our domestic sales could be negatively impacted, although the actual impact of Roundup Ready® alfalfa on the alfalfa seed market in general and on sales of our proprietary seed in particular is currently unknown.

The adoption of GOZ zones in our primary alfalfa seed growing region in California could impact the international sales of our S&W varieties.

A substantial portion of our S&W varieties is grown in Fresno County, California for both domestic and international sales. In January 2012, the National Alfalfa & Forage Alliance held a vote of growers in Fresno County to determine if they should form a Genetically Enhanced, or GE, Grower Opportunity Zone, or GOZ, in part of Fresno County. A GOZ is a seed grower-defined region within which a super-majority of growers (by number of growers or acreage) elects to focus on the production of either Adventitious Presence Sensitive or GE alfalfa seed, including Roundup Ready® alfalfa. The January 2012 vote to organize the proposed GOZ in Fresno County failed to obtain the required super-majority, and therefore the motion failed. However, there is no assurance that another vote will not be taken and that, at a future meeting, the proposal will not succeed in obtaining the required vote to form a GOZ for GMO alfalfa. If a GOZ were formed in Fresno County or in any other county where we currently produce seed or might produce seed in the future, our efforts to grow conventional alfalfa seed for international sale in that county could be threatened because of the isolation and contamination issues about which we remain concerned. In such circumstance, we might be forced to find alternative locations to grow our proprietary S&W alfalfa seed varieties for sale into Saudi Arabia and other locations that prohibit GMO seed, and there is no assurance that we would be able to do so successfully.

The presence of GMO alfalfa in Australia could impact the international sales of SGI's varieties.

GMO alfalfa varieties have not been approved by Australia's Office of th