

Gerry Sweeney

Okay. Got it. And then, on the stevia front, obviously making headway, you had that agreement with a consumer products company etcetera. What should we be looking for sort of next steps to see how that develops and creates additional value, whether it be just moving down the commercialization chain to some type of revenue...?

Mark Grewal

Gerry, we have two more patent pendings, in addition to that, you're going to see more deals that we are going to be working on with some of those patents. So, hopefully, we'll be disclosing that information.

Gerry Sweeney

Okay. Got it. That's it from my end. I appreciate it.

Matthew Szot

Thank you, Gerry.

Mark Grewal

Thanks Gerry.

Operator

The next question will be from Ben Klieve of Noble Capital Markets. Please go ahead.

Ben Klieve

Thank you. Hi Mark. Hi Matt. Thanks for taking my questions here. Just two quick ones, one on Saudi and one on stevia here. Regarding Saudi Arabia, I'm curious about kind of the broader regulatory risk in the North African and Middle Eastern region. I'm guessing, in Sudan, given the public investment in the alfalfa production that you're seeing, that there is probably significantly less regulatory risk in Sudan relative to Saudi Arabia. And I guess, I'm wondering first of all, is that accurate? And second of all, do you feel that way about other Middle Eastern and North African markets?

Mark Grewal

I don't know a lot of the markets personally other than Saudi Arabia and Sudan and Egypt. We are on Meritus, there is definitely a pro-farming, water use going on off the Nile River for the Sudan operations. So it's very pro, it's very Pro Ag, it's very pro development. So, from that standpoint, yes, it doesn't have the regulation pressures that Saudi Arabia is imposing on it. So, I think you're seeing some major...that's why you're seeing all the money going there.

I think it will all even out; it's going to take couple of years to get everything worked out. But, look, they have so many animal units even in Saudi, millions of sheep, camels. They are not just going to let these things die. 70,000 hectares, they've got to feed them. So, it's all about basically where they are going to bring the feed in from to these animal units. And dairy is too big a component and it's too big part of their culture to let anything happen to it. So, I think it's a short term blimp and it's something we've got to work through and get better at.

But, I can tell you that it's very exciting as an agronomist to see our breeders and their varieties perform in such an outstanding way on these farms from field after field after field, 9720, 9620A S&W 10, these varieties are renowned and they are wanted. So, it's exciting from that standpoint. Everywhere you go, yes, these are the varieties we want, our cows to have the high quality protein is there and we needed them to our feed rations. So, this is very good news. It shows that we are on the forefront. And we are better known there than we are in Texas.

So, it's pretty exciting from these last travels I just got back from to see how impressive our operations are and how impressive our breeders have done delivering fine quality products to the farmer.

Ben Klieve

Yes. But that was quite a trip. Okay. And one other question regarding stevia here is, and I'm sorry if I missed this on the call, or missed this on the press or anything. But I'm wondering if you could provide a little bit of kind of timing guidance. Are there...are you expecting to have meaningful news here in the next quarter or two, or is this still very much in the early stages and this more of a 2018 or beyond event.

Mark Grewal

I would say, basically it's still early, a lot of R&D going on; there is lot of upside potential. So, it's still early.

Ben Klieve

Okay. Fair enough. Well, thanks for taking my call gentlemen.

Mark Grewal

You're welcome.

Operator

And the next question will be from Ian Gilson of Zacks Investment Research. Please go ahead.

Ian Gilson

Hi, thank you. Thank you. Good afternoon gentlemen.

Matthew Szot

Hi, Ian.

Ian Gilson

Hi, the tax rate, what is the estimated GAAP tax rate for the year? Are you with me?

Matthew Szot

I'm still with you. Yes, it's just over 40%.

Ian Gilson

So, it's more below that at the current rate, correct?



Matthew Szot

Yes. Because we are...the closer we get to a breakeven number, the permanent items had a more dramatic impact on your tax rate. But for your model, you can assume 40% to 42% of the effective tax rate.

Ian Gilson

Okay. Inventory levels and letter of credit are not same, they need to balance. And inventory is down year-over-year but from the second quarter to third quarter, your letter of credit went up significantly. What's going on in that floating debt?

Matthew Szot

Well, there it is two very different things. Our lines of credit are going to vary based on when we pay our growers, and we've settled all of our US grower payments in the third quarter, which requires drawing under the lines. Our inventory balances in Q3 are most dependent on the timing of the Australia harvest. The Australia harvest is later this year than it was last year, so inventory management.

Ian Gilson

What were the US sales in the third quarter?

Matthew Szot

US sales for the third quarter were \$17 million...\$16.8 million, which is roughly flat with the same period last year, Ian.

Ian Gilson

Okay, okay. I had 17, so that's close enough. But, what was the big problem in Australia in the sense that 50% decline in your production, it's abnormal, unusual, whatever you want to call it.

Mark Grewal

Nothing, is abnormal or unusual on Australia. I had a tomato crop and one day we were ready to harvest it, and we had 7 inches of rain in one hour and it covered it and it was gone, nothing is unpredictable on Australia.

Ian Gilson

So, was this a rain problem, significant continued rain problem?

Mark Grewal

It was a cool summer and it was...there were definitely rain events that affected the harvest and the seed and it reduced the yields. And it reduced the amount and at some levels, even some of the fields probably won't even get harvested at all.

Matthew Szot

I think, this is a situation that was unique to the SGI grower basis, and anyone producing alfalfa seed in Australia experienced far below average yield this year, which that shortage supply should trigger an



increase in demand and pricing power in the month to come. But it hasn't translated to demand through the end of June yet, but we think that that will play out here in the coming months.

Ian Gilson

As we look at prices, are they generally moving up on average for S&W year-over-year or the trend line? What is the direction of pricing at the moment?

Matthew Szot

For the S&W variety, pricing is either stable or just seeing slight increases. So, I'd say it's overall strong. And the Australian pricing is more of a fluid situation at the moment.

Ian Gilson

Okay. If I remember correctly, a few years ago you purchased your Saudi distributorship or the Middle East distributorship I should say, are those guys still with you?

Matthew Szot

Yes, by far our largest...the customer list and relationships that we bought back in 2011, they are still our largest and most reliable distributors in the region.

Ian Gilson

And are they hurting for business or hurting for sales?

Mark Grewal

What I mentioned earlier on the call was our largest S&W distributor, his orders for Q4 are off about \$5 million year-over-year. So, that is partially due to going to the season with more carryover stock they historically have had, couple that with his higher base, his less reluctance to make commitments right now, because of the uncertainty that's out there in Saudi. People are not willing to load up the warehouses as much as they would at the same time that they typically would this time of the year.

Ian Gilson

But, isn't water available today and that the restrictions are in the future?

Mark Grewal

Correct. Water is still available today.

Ian Gilson

I would have thought the rational behavior would have been to plant every single acre, cross the roads, in the ditches, whatever, they are not doing that?

Mark Grewal

No. They are just doing their standard moves, they do every year. This is really not out of the ordinary right now. So, the key is how much seed is going to move in June and July to the main part of the season, when they first start planting in August and September.



Ian Gilson

Okay. So, we could in fact see a significant improvement from last year in 2018 in the first quarter?

Mark Grewal

It's possible. We don't know exactly when these products are going to ship. And the big international seed federation meeting in Hungary is occurring at the end of this month and that is our number one sales event to meet all the distributors, go through their markets, go through their geographies and pin down all the orders. That has not occurred yet; it will occur in a couple of weeks. All of our vice presidents and expert marketing guys will be at those meetings. So, what's going to go on in Europe? What's going to go on in parts of the Middle East? What's going to go on in Argentina, Mexico, whatever? So, all of those meetings still have to be completed and the guys are just totally tied up and they are going to be tied up and that will determine where we end up the year at June 30.

Ian Gilson

So, do you have any idea what the inventory level of the seed in Saudi are at the current time.

Mark Grewal

Yes, we do, we are low on S&W highly hence...and they have a pretty good supply currently from last year's Australian seed component, that's why there is the flux on how much of it you want to get, how much you want in the other. They are ordering. Those orders are coming in slowly, but we are starting to ship that.

Ian Gilson

Okay, great. Thank you very much.

Mark Grewal

Thank you very much Ian.

Operator

The next question will come from Frank Smith of Weirton Fund. Please go ahead.

Frank Smith

Hi, guys.

Mark Grewal

Hi Frank. How are you just doing buddy?

Frank Smith

Hi, pretty good. Congratulations on getting those stevia patents, nice to see that happen.

Mark Grewal

You're welcome Frank. Thank you.



Frank Smith

Question for you on the GMO, you mentioned about the estimated possible production in the, I guess in the fall of the non-dormant alfalfa?

Mark Grewal

Correct.

Frank Smith

Yes, so what does that equate to potential revenue wise?

Mark Grewal

Probably over 1.5 million to 2 million bucks.

Frank Smith

In 2017?

Mark Grewal

2018, yes, considering year ends June 30th, Frank. So, these sales were...

Frank Smith

So, its 2018, right. Okay.

Mark Grewal

This will come this fall. There will be in the next year's....they will be in the numbers a year from now.

Frank Smith

Right, okay. And how stable is...you've mentioned this before. But the shelf life, the saved inventory, how long can you sit on it for?

Mark Grewal

The American genetics, you can sit on it for quite a while. So, two to three years is very solid. But we very seldom have seed that long Frank. The Australian seed, you try to get it out a little quicker. It has a little bit there...it doesn't have the shelf life of say of a California variety. But it's still a clover and as long as it's stored properly. You see the problem you get into is when you go into the Middle East at 50 degrees centigrade, 110 plus degrees and sitting out on a dock for a month, it's not going to last compared to cold storage. So, how are they taking care of, how are they storing it, if it's done properly, it's going to last a long time. If it's not, it's not, so, we want to make sure you don't have seed hanging in there that hasn't been taken care of properly

Frank Smith

Got you. Okay, last question, I can't open this PDF, and it's just too small for me to read right now. But, how many warrants were retired and converted over in the quarter?



Matthew Szot

All 2.7 million warrants that were issued in December 14 are outstanding. The convertible debentures, the convertible debt is fully retired, the balance is zero.

Frank Smith

Zero. Thanks a lot. I appreciate it. Good job, you guys.

Matthew Szot

Thank you very much, thanks you very much.

Frank Smith

Thank you.

Operator

And ladies and gentlemen, this concludes our question-and-answer session. I would like to hand the conference back over to Mark Grewal for his closing remarks.

CONCLUSION**Mark Grewal**

Many thanks to everybody that participated on today's call. I want to let our investors know that S&W will be participating in the B. Riley Conference in LA on May 25th, 26th we'll be at the Craig-Hallum Conference in Minneapolis on May 31st, and we are also going to be heading into the LD Micro in early June. So, we are out, we are available for anybody's questions. We are here and we are very rock solid on our strategy and where we are heading. So, please feel free to call at any time. Have a great day.

Operator

Thank you, sir. Ladies and gentlemen, the conference has concluded. Thank you for attending today's presentation. You may now disconnect your lines.

