J.G. Boswell Company

Consolidated Financial Statements
and Supplementary Information©

Years Ended June 30, 2021 and 2020
With Report of Independent Certified Public Accountants

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and Supplementary Information

Years Ended June 30, 2021 and 2020

Contents

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Board of Directors and Shareholders
J.G. Boswell Company

We have audited the accompanying consolidated financial statements of J.G. Boswell Company and subsidiaries, which comprise the consolidated balance sheets as of June 30, 2021, and 2020, and the related consolidated statements of income, comprehensive income, changes in stockholders' equity, and cash flows for the years then ended, and the related notes to the financial statements.

Management's responsibility for the financial statements
Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility
Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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Opinion
In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of J.G. Boswell Company and subsidiaries as of June 30, 2021 and 2020, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Supplementary information
Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying Consolidated Schedules – Non-US GAAP Presentation for the years ended June 30, 2021 and 2020 is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures. These additional procedures included comparing and reconciling the information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

Grant Thornton LLP

Los Angeles, California
October 8, 2021

J.G. Boswell Company

Consolidated Balance Sheets

	June 30	
	2021	**2020**
	(In Thousands, Except Share Information)	
Assets		
Current assets:		
Cash and cash equivalents	**$ 137,941**	$ 1,360
Trade receivables, net	**39,925**	27,254
Inventories	**141,972**	154,005
Growing crops	**109,073**	112,733
Deposits, prepaid expenses and other	**10,751**	22,198
Assets held for sale – discontinued operations	**–**	33,392
Total current assets	**439,662**	350,942
Other assets and investments:		
Investment in unconsolidated entities	**660**	660
Right-of-use assets – operating leases	**2,244**	3,117
Other assets	**3,029**	2,111
Noncurrent assets held for sale – discontinued operations	**–**	5,604
Total other assets and investments	**5,933**	11,492
Property, plant and equipment, at cost:		
Buildings and improvements	**219,277**	223,031
Machinery and equipment	**457,864**	469,242
Orchards	**176,722**	151,785
Less accumulated depreciation and amortization	**(519,082)**	(512,913)
	334,781	331,145
Land and related water investments	**106,049**	106,049
Net property, plant and equipment from continuing operations	**440,830**	437,194
Net property, plant and equipment held for sale	**–**	151,239
Net property, plant and equipment	**440,830**	588,433
Total assets	**$ 886,425**	$ 950,867

	June 30	
	2021	**2020**
	(In Thousands, Except Share Information)	
Liabilities and stockholders' equity		
Current liabilities:		
Notes payable	**$ –**	$ 130,757
Accounts payable trade	**47,600**	36,529
Accrued liabilities	**104,057**	71,105
Current liabilities held for sale	**–**	61,303
Total current liabilities	**151,657**	299,694
Noncurrent liabilities:		
Accrued employee benefits and other noncurrent liabilities	**49,700**	74,810
Lease liabilities – operating leases	**1,516**	2,107
Deferred tax liability – net	**12,654**	375
Noncurrent liabilities held for sale	**–**	12,545
Total noncurrent liabilities	**63,870**	89,837
Commitments and contingencies		
Stockholders' equity:		
Common stock, without par value:		
Authorized shares – 2,500,000		
Issued and outstanding – 979,091		
(991,696 issued and 979,935 outstanding in 2020)	**52,454**	59,634
Retained earnings	**641,775**	562,588
Accumulated other comprehensive loss	**(23,331)**	(54,182)
Treasury stock shares – 0 in 2021 (11,761 in 2020)	**–**	(6,704)
Total stockholders' equity	**670,898**	561,336
Total liabilities and stockholders' equity	**$ 886,425**	$ 950,867

See accompanying notes.

J.G. Boswell Company

Consolidated Statements of Income

	Year Ended June 30	
	2021	**2020**
	(In Thousands, Except Share Information)	
Sales	**$ 353,539**	$ 288,984
Cost of sales	**347,040**	285,740
General and administrative	**34,278**	54,835
Operating loss	**(27,779)**	(51,591)
Other income (expense):		
Equity earnings in unconsolidated entities	**–**	4,842
Net interest expense	**(1,588)**	(5,383)
Net loss on interest rate swap derivative instrument	**–**	(2,416)
Net gain on sale of assets	**2,009**	1,521
Gain on sale of Phytogen	**–**	50,127
Other	**227**	72
Loss from continuing operations before taxes	**(27,131)**	(2,828)
Income tax benefit from continuing operations	**5,294**	3,423
Net (loss) income from continuing operations	**(21,837)**	595
Discontinued operations:		
Loss from discontinued operations, net of tax	**(2,613)**	(13,536)
Gain on sale of Auscott, net of tax	**122,114**	–
Gain on sale of Midkin, Auscott, net of tax	**–**	78,171
Discontinued operations, net of tax	**119,501**	64,635
Net income	**$ 97,664**	$ 65,230
Basic (loss) earnings per share from continuing operations	**$ (22.00)**	$ 0.60
Basic earnings per share from discontinued operations	**120.41**	64.99
Basic earnings per share	**$ 98.41**	$ 65.59
Diluted (loss) earnings per share from continuing operations	**$ (22.00)**	$ 0.59
Diluted earnings per share from discontinued operations	**119.09**	64.54
Diluted earnings per share	**$ 97.09**	$ 65.13
Weighted-average shares outstanding – basic	**992,481**	994,474
Weighted-average shares outstanding – diluted	**1,003,475**	1,001,499

See accompanying notes.

J.G. Boswell Company

Consolidated Statements of Comprehensive Income

	Year Ended June 30	
	2021	**2020**
	(In Thousands)	
Net income	**$ 97,664**	$ 65,230
Other comprehensive income (loss), net of tax:		
Foreign currency translation gain (loss)	**14,380**	(1,825)
Foreign currency translation loss realized upon divestiture	**2,500**	–
Minimum pension and postretirement health care liability adjustment, net of $3,456 tax expense ($3,620 tax benefit in 2020)	**13,971**	(11,190)
Other comprehensive income (loss), net of tax	**30,851**	(13,015)
Comprehensive income	**$ 128,515**	$ 52,215

See accompanying notes.

J.G. Boswell Company

Consolidated Statements of Stockholders' Equity

	Common Stock	Retained Earnings	Accumulated Other Comprehensive Income (Loss) Pension and Other Postretirement Benefits	Accumulated Other Comprehensive Income (Loss) Foreign Currency Translation Adjustment	Treasury Stock	Total
	(In Thousands, Except Share Information)					
Stockholders' equity at June 30, 2019	$ 59,898	$ 512,790	$ (26,112)	$ (15,055)	$ (6,704)	$ 524,817
Net income	–	65,230	–	–	–	65,230
Other comprehensive loss	–	–	(11,190)	(1,825)	–	(13,015)
Dividends paid ($13.25 per share)	–	(12,759)	–	–	–	(12,759)
Retirement of 4,220 shares of common stock	(264)	(2,673)	–	–	–	(2,937)
Stockholders' equity at June 30, 2020	59,634	562,588	(37,302)	(16,880)	(6,704)	561,336
Net income	**–**	**97,664**	**–**	**–**	**–**	**97,664**
Other comprehensive income	**–**	**–**	**13,971**	**16,880**	**–**	**30,851**
Dividends paid ($14.00 per share)	**–**	**(13,769)**	**–**	**–**	**–**	**(13,769)**
Retirement of 7,625 shares of common stock	**(476)**	**(4,708)**	**–**	**–**	**–**	**(5,184)**
Retirement of 11,761 shares of treasury stock	**(6,704)**	**–**	**–**	**–**	**6,704**	**–**
Stockholders' equity at June 30, 2021	**$ 52,454**	**$ 641,775**	**$ (23,331)**	**$ –**	**$ –**	**$ 670,898**

See accompanying notes.

J.G. Boswell Company

Consolidated Statements of Cash Flows

	Year Ended June 30	
	2021	**2020**
	(In Thousands)	
Operating activities		
Net (loss) income from continuing operations	**$ (21,837)**	$ 595
Income from discontinued operations	**119,501**	64,635
Net income	**97,664**	65,230
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Net realizable value adjustment	**5,658**	3,868
Depreciation expense	**33,639**	31,217
Deferred income taxes	**8,823**	10,919
Stock-based compensation expense	**13,485**	1,386
Gain on sale of assets	**(2,009)**	(1,521)
Distributions from unconsolidated entities	**–**	1,394
Gain on sale of Phytogen	**–**	(50,127)
Equity earnings in unconsolidated entities	**–**	(4,842)
Changes in operating assets and liabilities:		
(Increase) decrease in trade receivables	**(12,671)**	7,481
Decrease (increase) in inventories	**6,375**	(50,737)
Decrease in growing crops	**3,660**	18,142
Decrease (increase) in deposits, prepaid expenses and other	**11,447**	(10,998)
Decrease (increase) in other assets	**873**	(3,116)
Increase (decrease) accounts payable and accrued liabilities	**12,706**	(8,164)
Increase in the interest rate swap derivative instrument	**–**	2,416
Increase in accrued employee benefits and other noncurrent liabilities	**8,359**	10,820
Net cash provided by (used in) operating activities – continuing operations	**68,508**	(41,267)
Net cash used in operating activities – discontinued operations	**(44,619)**	(16,031)
Net cash provided by (used in) operating activities	**23,889**	(57,298)
Investing activities		
Proceeds from sale of property, plant and equipment	**5,498**	3,971
Purchase of property, plant and equipment	**(40,768)**	(50,904)
Proceeds from sale of Phytogen	**–**	60,000
Increase in other	**(918)**	(93)
Net cash (used in) provided by investing activities – continuing operations	**(36,188)**	12,974
Net cash provided by investing activities – discontinued operations	**297,514**	166,481
Net cash provided by investing activities	**261,326**	179,455

	Year Ended June 30	
	2021	**2020**
	(In Thousands)	
Financing activities		
Funding from notes payable	**–**	15,900
Repayment of notes payable	**(130,757)**	(74,462)
Repayment of interest rate swap	**–**	(6,378)
Dividends paid	**(13,769)**	(12,759)
Redemption of restricted stock units	**(1,334)**	(4,336)
Exercise of stock options	**1,338**	297
Repurchase of common stock	**(5,184)**	(2,937)
Purchase of treasury shares issued to Rabbi Trust	**(6,704)**	–
Net cash used in financing activities – continuing operations	**(156,410)**	(84,675)
Net cash used in financing activities – discontinued operations	**–**	(39,149)
Net cash used in financing activities	**(156,410)**	(123,824)
Effect of exchange rate changes on cash and cash equivalents	**7,479**	1,921
Net increase in cash and cash equivalents	**136,284**	254
Cash and cash equivalents at beginning of year	**1,657**	1,403
Cash and cash equivalents at end of year	**137,941**	1,657
Less cash and equivalents of discontinued operations, end of year	**–**	(297)
Cash and cash equivalents at end of year	**$ 137,941**	$ 1,360

See accompanying notes.

1. Lines of Business

J.G. Boswell Company's (the Company) principal business is the production, processing and marketing of agricultural commodities, primarily cotton, cotton seed products, tomatoes, small grains and orchards. Domestic agricultural operations are in California. The Company owns full or fractional subsurface oil, gas and mineral interests in the land it owns, and land owned by others in both California and Oregon. The Company's wholly owned Australian subsidiary (Auscott), which was sold during the year ended June 30, 2021, operated in the agricultural sector and was primarily involved in the growing, processing, marketing, shipping and warehousing of cotton and grains, in the state of New South Wales.

During the year ended June 30, 2020, the Board of Directors approved a plan to actively market the sale of Auscott. The primary reason for this decision was a strategic shift to focus on domestic operations. Accordingly, the Auscott operation met the criteria for Assets Held for Sale in accordance with Accounting Standards Codification (ASC) 360, *Property, Plant and Equipment*, as of June 30, 2020. The results of Auscott operations have been presented as Discontinued Operations in accordance with ASC 205-20.

2. Summary of Significant Accounting Policies

Recently Adopted Accounting Pronouncements

In August 2018, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2018-14, *Compensation – Retirement Benefits – Defined Benefit Plans – General (Topic 715-20): Disclosure Framework – Changes to the Disclosure Requirements for Defined Benefit Plans*, which modifies the disclosure requirements for defined benefit pension plans and other post-retirement plans. The ASU is effective for annual periods beginning after December 15, 2020. Early adoption is permitted, and the Company adopted ASU 2018-14 during the year ended June 30, 2021. Adoption of the new standard did not have a material impact on the consolidated financial statements.

2. Summary of Significant Accounting Policies (continued)

Recently Adopted Accounting Pronouncements (continued)

Effective July 1, 2019, the Company adopted ASU 2016-02 *Leases (Topic 842)*, which requires lessees to recognize a right-of-use (ROU) asset representing the Company's right to use an underlying asset and a lease liability representing the Company's obligation to make lease payments over the lease term. The Company elected the current period adjustment method which eliminates the requirement to restate the prior period financial statements and requires the cumulative effect of the retrospective adoption to be recorded at the date of adoption. Results for reporting periods beginning on July 1, 2019 are presented under Topic 842. The Company elected the "package of practical expedients" permitted under the transition guidance within the new standard, which among other things, did not require the Company to reassess whether contracts entered into prior to adoption contain leases and allowed the Company to carry forward the historical lease classification for existing leases. As a result, the Company measured the ROU asset and lease liability for operating leases using the remaining portion of the lease term at adoption on July 1, 2019. As permitted by Topic 842, the Company elected not to recognize the ROU assets and lease liabilities for leases with a term of twelve months or less.

Adoption of the new lease standard resulted in the recording of additional operating lease assets and operating lease liabilities of $3,566,000, respectively, as of July 1, 2019 for continuing operations and $8,760,000, respectively, for discontinued operations. The adoption of the new lease standard did not materially impact consolidated net earnings or consolidated cash flows.

Assets and Liabilities Held for Sale

The Company classifies long-lived assets to be sold as held for sale in the period in which all of the following criteria are met: (1) management, with authority from the Board of Directors, commits to a plan to sell the asset; (2) the asset is available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets or disposal groups; (3) an active program to locate a buyer and other actions required to complete the plan to sell the asset have been initiated; (4) the sale of the asset is probable, and transfer of the asset is expected to qualify for recognition as a completed sale within one year, except if events or circumstances beyond the Company's control extend the period of time required to sell the asset beyond one year; (5) the asset is being actively marketed for sale at a price that is reasonable in relation to its current fair value and (6) actions required to complete the plan indicate that it is unlikely that significant changes to the plan will be made or that the plan will be withdrawn.

2. Summary of Significant Accounting Policies (continued)

Assets and Liabilities Held for Sale (continued)

The Company initially measures a long-lived asset that is classified as held for sale at the lower of its carrying value or fair value less any costs to sell. Any loss resulting from this measurement is recognized in the period in which the held-for-sale criteria are met. Conversely, gains are not recognized on the sale of a long-lived asset or disposal group until the date of sale. The Company assesses the fair value of a long-lived asset or disposal group less any costs to sell in each reporting period and it remains classified as held for sale and report any subsequent changes as an adjustment to the carrying value of the asset or disposal group, as long as the new carrying value does not exceed the carrying value of the asset at the time it was initially classified as held for sale.

Discontinued Operations

A disposal group is classified as a discontinued operation when the following criteria are met: (1) the disposal group is a component of an entity; (2) the component of the entity meets the held-for-sale criteria in accordance with the policy described above and (3) the component of the entity represents a strategic shift in the entity's operating and financial results. Alternatively, if a business meets the criteria for held for sale on the acquisition date, the business is accounted for as a discontinued operation.

Pandemic

On March 11, 2020, the World Health Organization declared the novel strain of coronavirus (COVID-19) a global pandemic and recommended containment and mitigation measures worldwide. As of the date of this filing, the Company remains fully operational with employees working on location. The Company cannot reasonably estimate the length or severity of this pandemic, or the extent to which the disruption may continue to impact the consolidated financial position, consolidated results of operations and consolidated cash flows.

Basis of Consolidation

The consolidated financial statements include the accounts of the Company and the accounts of all subsidiaries and investments in which a controlling interest is held by the Company. All significant intercompany balances and transactions have been eliminated in consolidation.

2. Summary of Significant Accounting Policies (continued)

Accounts Receivable

Receivables are stated at the carrying values, net of a reserve for doubtful accounts. The Company records specific provisions for the individual accounts when the Company becomes aware of a customer's inability to meet its financial obligations. The provision for doubtful accounts was $14,000 and $75,000 for the years ended June 30, 2021 and 2020, respectively.

Foreign Currency Translation

Results of operations for Auscott are translated from Australian dollars into U.S. dollars at the average exchange rates. The Auscott balance sheets are translated from Australian dollars into U.S. dollars at the year-end exchange rates.

	AUD 1.00 2021	**AUD 1.00 2020**
U.S. dollar average exchange rate	**.7457**	.6711
U.S. dollar June 30 year-end exchange rate	**N/A**	.6900

For the year ended June 30, 2020, resulting balance sheet translation adjustments are reflected in accumulated other comprehensive income (loss), a component of stockholders' equity.

Inventories and Growing Crops

Agricultural products and growing crops are stated at the lower of cost or market, determined by the first-in, first-out (FIFO) method.

The carrying value of inventory is assessed based on a lower of cost or market analysis. A charge of $5,658,000 and $3,868,000 for continuing operations was recorded to cost of sales for the amount required to reduce the carrying value of inventory to net realizable value for the years ended June 30, 2021 and 2020, respectively. A charge of $0 and $3,589,000 for discontinued operations was recorded to cost of sales for the amount required to reduce the carrying value of inventory to net realizable value for the years ended June 30, 2021 and 2020, respectively.

2. Summary of Significant Accounting Policies (continued)

Inventories and Growing Crops (continued)

The Company records an inventory reserve for the anticipated loss associated with tomato paste spoilage. This reserve is based on management's current knowledge with respect to inventory levels, sales trends and historical experience. The inventory reserve was $1,100,000 for the years ended June 30, 2021 and 2020.

Commodities Futures and Forward Exchange Contracts

The Company enters into futures contracts and related swaps and options as a hedge of commodity sales. Additionally, Auscott enters into forward exchange contracts and related options to hedge revenues, which are received in U.S. dollars and converted to Australian dollars. The Company recognizes these financial instruments as either assets or liabilities at fair value in the consolidated balance sheets and based on exchange-quoted prices. When title of the hedged commodity passes to the customer and the sale is recognized, the gain or loss from the financial instruments used to hedge the transaction is also recorded in sales. Any additional gains and losses from hedging financial instruments are recorded on an accrual basis in discontinued operations in the accompanying consolidated statements of income.

In the normal course of business, management estimates future production and employs the Company's risk management strategy in hedging the variability of the price and exchange rate of that production. The Company's policy restricts the extent to which hedging is completed during the planning, growing and processing of commodities. The policy does not permit hedging more than estimated production under any circumstance. If production estimates change to a level below the hedged volume, the excess hedge position is removed.

2. Summary of Significant Accounting Policies (continued)

Property, Plant and Equipment

Property, plant and equipment are carried at cost and depreciated primarily on the double-declining balance method over the following estimated useful lives: buildings and improvements, 3–40 years, and machinery and equipment, 3–25 years. Building leasehold improvements are amortized over the related term of the lease.

Costs of planting and developing orchards are capitalized until the orchards become commercially productive. At such time, the Company ceases the capitalization of costs and commences depreciation. Subsequent orchard maintenance costs are accounted for as production costs.

The table below summarizes net property, plant and equipment by country, at June 30.

	2021	**2020**
	(In Thousands)	
United States – continuing operations	**$ 440,830**	$ 437,194
Australia – discontinued operations	**$ –**	$ 151,239

The table below summarizes capital expenditures from both continuing operations and discontinued operations for the years ended June 30.

	2021	**2020**
	(In Thousands)	
Continuing operations		
Segment capital expenditures	**$ 40,142**	$ 47,376
Corporate capital expenditures	**626**	3,528
Total capital expenditures – continuing operations	**$ 40,768**	$ 50,904
Discontinued operations		
Segment capital expenditures	**$ 999**	$ 580
Corporate capital expenditures	**49**	194
Total capital expenditures – discontinued operations	**$ 1,048**	$ 774

2. Summary of Significant Accounting Policies (continued)

Earnings per Share

Basic earnings per share information is based upon the weighted-average number of shares of common stock outstanding during each year. Diluted earnings per share is based on the weighted-average number of shares of common stock outstanding plus incentive stock option equivalents of 10,994 and 7,025 for the years ended June 30, 2021 and 2020, respectively. Diluted shares outstanding include the dilutive effect of incentive stock option equivalents.

Fair Value of Financial Instruments

The carrying amounts reported in the consolidated balance sheets for the Company's current financial instruments approximate fair value due to the short-term nature of these instruments. The fair value of notes payable approximates its carrying amount as the borrowing rate and related terms currently available to the Company from its lender are comparable to those in place as of June 30.

Treasury Stock

The Company records treasury stock at cost under the constructive retirement method. Shares repurchased by the Company are retired during the same fiscal year. In 2018, the Company purchased 11,761 shares and placed those shares into a Rabbi Trust for purposes of funding its non-qualified deferred compensation plan. In accordance with ASC 710, *Compensation,* employer stock held in the Rabbi Trust is included as Treasury Stock and is a reduction from equity in the stockholders' equity section of the consolidated balance sheets. During the year ended June 30, 2021, the Company exchanged cash for the fair value of the Company's shares held by the Rabbi Trust and concurrently retired the 11,761 shares. The amount paid for treasury stock was $8,703,000.

2. Summary of Significant Accounting Policies (continued)

Statements of Cash Flows

Cash and cash equivalents include cash on hand and in banks, and short-term highly liquid investments with maturities of 90 days or less. The Company places its cash with major financial institutions. At June 30, 2021, and throughout the year then ended, the Company had deposits in excess of federally insured limits. Management does not believe that this exposes the Company to unreasonable risks given the nature of the financial institutions utilized. The Company paid interest of $5,411,000 and received income tax refunds, net of income taxes paid, of $12,106,000 on continuing operations for the year ended June 30, 2021. The Company paid interest of $9,362,000 and received income tax refunds, net of income taxes paid, of $220,000 on continuing operations for the year ended June 30, 2020. The Company paid interest of $1,018,000 and income taxes of $10,211,000 on discontinued operations for the year ended June 30, 2021. The Company paid interest of $790,000 and zero income taxes on discontinued operations for the year ended June 30, 2020. The Company capitalized $4,357,000 and $4,546,000 of interest for the years ended June 30, 2021 and 2020, respectively.

Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from these estimates.

3. Discontinued Operations

On June 1, 2021, the Company completed the sale of its wholly-owned subsidiary, Auscott, to an unrelated third party. The transaction included cash proceeds of approximately $294,504,000, net of $3,010,000 of transaction expenses. The agreement also contains customary representations, warranties, and indemnification obligations. As a result, the Company recorded a pretax gain of $161,691,000, which is included in discontinued operations in the accompanying consolidated statements of income. The $2,500,000 of foreign currency related losses recorded in discontinued operations that were previously included in accumulated other comprehensive income on the consolidated balance sheet were settled as part of the transaction.

3. Discontinued Operations (continued)

On November 12, 2019, the Company sold its Auscott Midkin Aggregation at Moree to an unrelated third party for proceeds of approximately $168,139,000. As a result, the Company recorded a pretax gain of $110,758,000, which is included in discontinued operations in the accompanying consolidated statements of income.

The following table presents information related to the major classes of Auscott assets and liabilities that were classified as held for sale in the accompanying consolidated balance sheets at June 30, 2020:

	2020
	(In Thousands)
Assets	
Current assets:	
Cash and trade receivables	$ 9,046
Inventories	19,680
Deposits, prepaid and other	4,666
Total current assets	33,392
Right-of-use assets and other noncurrent assets	5,604
Net property, plant and equipment	151,239
Total assets	$ 190,235
Liabilities	
Current liabilities:	
Notes payable	$ 35,212
Accounts payable and accrued liabilities	26,091
Total current liabilities	61,303
Accrued liabilities and other noncurrent liabilities	6,058
Deferred tax liability – net	6,487
Total liabilities	$ 73,848

3. Discontinued Operations (continued)

The results of operations of Auscott for the years ended June 30, 2021 and 2020 that are reflected in the accompanying statements of income as discontinued operations consist of the following:

	2021	2020
	(In Thousands)	
Sales	**$ 35,453**	$ 62,224
Cost of sales	**28,354**	77,945
General and administrative	**4,730**	4,442
Operating income (loss)	**2,369**	(20,163)
Interest expense	**(1,112)**	(755)
Net (loss) gain on hedging activities	**(5,611)**	1,654
Other gains	**28**	870
Loss from discontinued operations before income tax	**(4,326)**	(18,394)
Income tax benefit	**1,713**	4,858
Loss from discontinued operations, net of tax	**(2,613)**	(13,536)
Gain on sale of Auscott, net of tax	**122,114**	–
Gain on sale of Midkin, net of tax	**–**	78,171
Net income from discontinued operations	**$ 119,501**	$ 64,635

4. Revenue Recognition

The Company accounts for its revenues in accordance with ASU 2014-09 *Revenue from Contracts with Customers* (Topic 606). Under this ASU, companies must apply a five step model to recognize revenue upon the transfer of promised goods or services to customers in an amount that reflects the consideration to which the Company expects to be entitled in exchange for those goods or services. The accounting impact of adopting this guidance was immaterial to the financial statements (due to the nature of the Company's revenue generating process which is consistent with a ship and bill model).

4. Revenue Recognition (continued)

Through the identification of the Company's chief operating decision maker and an analysis through the management approach as prescribed by ASC 280 – *Segment Reporting*, the Company operates in one reportable operating segment, which generates revenues from agricultural products and agricultural processing services. Agricultural products primarily include revenues generated from the sale of cotton, cotton seed, tomatoes, small grains and orchard products. Agricultural processing services includes revenues generated from services rendered to third parties for cotton ginning and oil milling services whereby these products are converted into sellable raw cotton and cottonseed oil.

The Company determines revenue recognition through the following steps:

- Identification of the contract, or contracts, with a customer
- Identification of the performance obligations in the contract
- Determination of the transaction price
- Allocation of the transaction price to the performance obligations in the contract
- Recognition of revenue when, or as, the Company satisfies a performance obligation

Revenues for agricultural products are recognized when the risks and rewards of ownership have substantively transferred to customers. This condition normally is met when the product has been delivered. Amounts related to shipping and handling billed to customers in a sales transaction are recorded as sales and related costs are recorded within cost of sales.

Revenues for agricultural processing services are generated via processing that is short-term in nature. The Company recognizes revenues for such services in a manner which depicts the transfer of promised services to customers in an amount that reflects the consideration to which the Company expects to be entitled in exchange for those services.

Performance Obligations – Revenues are recognized when control of the promised goods is transferred to the customer or delivery of services is rendered, in an amount that reflects the consideration the Company expects to be entitled to in exchange for those goods or services. Each shipment represents a separate performance obligation. The Company's selling price is directly observable as it is the price at which the Company sells its products separately to the customer. The Company recognizes revenue based on the point in time criteria based on the definition of control, which is generally upon shipment terms for products or as services are delivered.

4. Revenue Recognition (continued)

Revenues from continuing operations are generated in the United States of America. Revenues from discontinued operations are generated in Australia. Weather and water resources are critical factors in production and differ in the two locations. There are different price and market factor influences on Pima cotton from California and Upland cotton in Australia. The customer base of the two locations is similar. One customer comprised greater than 10% of revenues.

Disaggregated Revenue – The Company disaggregates revenue by geographic region and sales of goods or services (agricultural products or agricultural processing services). This disaggregation represents how the Company evaluates its financial performance, as well as how the Company communicates its financial performance to other users of its financial statements. The following table provide disaggregation of revenues by geography and revenue stream for the years ended June 30:

	2021	2020
	(In Thousands)	
Geography		
United States – continuing operations	**$ 353,539**	$ 288,984
Australia – discontinued operations	**$ 35,453**	$ 62,224
Revenue stream – continuing operations:		
Agricultural products	**$ 343,669**	$ 277,667
Agricultural services	**9,870**	11,317
Total sales – continuing operations	**$ 353,539**	$ 288,984
Revenue stream – discontinued operations:		
Agricultural products	**$ 31,175**	$ 53,505
Agricultural services	**4,278**	8,719
Total sales – discontinued operations	**$ 35,453**	$ 62,224

5. Investment in Unconsolidated Entities

Investment in unconsolidated entities consists of investments in joint ventures stated at cost. The unconsolidated joint ventures' accounting policies are generally consistent with those of the Company. Since the Company does not have a controlling interest or the power to unilaterally direct activities of the joint ventures, the investments are accounted for under the equity method. Equity method accounting results in the carrying value of the investments being increased or decreased by the Company's share of the joint ventures' net income (loss), and for distributions received from, or contributions made to the joint ventures.

The primary investment in joint ventures is in Phytogen Seed Company, LLC (Phytogen). Phytogen produces and markets leading varieties of cotton seed which exhibit high yields and insect, disease and herbicide tolerance. In June 2020, the Company sold its investment in Phytogen for $60,000,000. The following presents Phytogen's condensed financial information in which the Company had a noncontrolling 46% ownership interest during the year ended June 30:

	2020
	(In Thousands)
Condensed income statement	
Sales	$ 108,503
Cost of sales	68,482
Gross margin	40,021
Selling, administration and R&D expenses	29,602
Net income	$ 10,419

6. Notes Payable

Notes payable consist of the following at June 30:

	2021	2020
	(In Thousands)	
Continuing Operations		
$250 million unsecured domestic lines of credit. Interest is payable at the banks' quoted cost of funds rates ranging from 1.41% to 1.44% for 2021.	–	130,757
Total current notes payable – continuing operations	$ –	$ 130,757
Discontinued Operations		
$50 million unsecured Australian lines of credit. Interest is payable at the bank's quoted cost of funds rates ranging from 1.12% to 1.62% for 2021.	–	35,212
Total current notes payable – discontinued operations	$ –	$ 35,212

In July 2020, the Company refinanced its domestic lines of credit. The lines of credit were extinguished and replaced with a $350,000,000 secured revolving credit facility which matures July 2022. Interest is payable at the banks' quoted cost of funds rates ranging from 2.75% to 4.75%. On June 30, 2021, the Company reduced the aggregate principal amount of the revolving credit facility to $300,000,000. Capitalized finance costs related to the refinancing were not material. As of June 30, 2021, all outstanding indebtedness was paid.

7. Interest Rate Swap Derivative Instrument

In 2019, the Company entered into an interest rate swap agreement to limit the effect of the increases in interest rates on its variable rate term loan borrowings.

The interest rate swap was not designated as a cashflow hedge as of June 30, 2020. Accordingly, the changes in the fair value of the interest rate swap were included in other income.

8. Leases

Under ASC Topic 842, a lease is a contract, or part of a contract, that conveys the right to control the use of identified property, plant or equipment (i.e., an identified asset) for a period of time in exchange for consideration. The Company's contracts determined to be or contain a lease include explicitly or implicitly identified assets where the Company has the right to substantially all of the economic benefits of the assets and has the ability to direct how and for what purposes the assets are used during the lease term. The Company has leases for land, office facilities and equipment, which are classified and accounted for as operating leases. Some leases include one or more options to renew, generally at the Company's sole discretion, with renewal terms that can extend the lease term from one to three years or more. In addition, certain leases contain termination options, where the rights to terminate are held by either the Company, the lessor, or both parties. These options to extend or terminate a lease are included in the lease terms when it is reasonably certain that the Company will exercise that option. The Company has made an accounting policy election not to recognize ROU assets and lease liabilities for leases with a term of twelve months or less. Furthermore, the Company has elected not to separate the accounting for lease components and non-lease components, for all classes of leased assets. ROU assets and lease liabilities are recognized based on the present value of the fixed lease payments over the lease term at the commencement date. The ROU assets also include any initial direct costs incurred and lease payments made at or before the commencement date and are reduced by lease incentives. The Company uses its incremental borrowing rate as the discount rate to determine the present value of the lease payments for leases that do not have a readily determinable implicit discount rate. The Company's incremental borrowing rate is the rate of interest that it would have to borrow on a collateralized basis over a similar term and amount in a similar economic environment.

Operating lease cost is recognized on a straight-line basis over the lease term. The depreciable life of assets and leasehold improvements are limited by the expected lease term. Certain vendors have the right to declare the Company in default of its agreements if any such vendor, including the lessors under its vehicle leases, determines that a change in the Company's financial condition poses a substantially increased credit risk. The Company's lease agreements do not contain any significant residual value guarantees or material restrictive covenants. The Company's sublease income is immaterial to the financial statements.

8. Leases (continued)

The components of lease expense are as follows for the years ended June 30:

	2021	2020
	(In Thousands)	
Continuing Operations		
Operating lease cost	**$ 1,007**	$ 960
Short-term lease cost	**2,966**	3,129
Total lease cost – continuing operations	**$ 3,973**	$ 4,089
Discontinued Operations		
Operating lease cost	**$ 2,024**	$ 3,457
Short-term lease cost	**139**	61
Variable lease cost	**97**	49
Total lease cost – discontinued operations	**$ 2,260**	$ 3,567

8. Leases (continued)

Supplemental cash flow information related to leases is as follows for the years ended June 30:

	2021	2020
	(In Thousands)	
Continuing Operations		
Cash paid for amounts included in measurement of lease liabilities:		
Operating cash outflows – payments on operating leases	**$ 987**	$ 938
ROU assets obtained in exchange for new lease obligations:		
Operating leases	**$ 41**	$ 390
Discontinued Operations		
Cash paid for amounts included in measurement of lease liabilities:		
Operating cash outflows – payments on operating leases	**$ 3,834**	$ 3,375
ROU assets obtained in exchange for new lease obligations:		
Operating leases	**$ –**	$ 32

Rental expense from continuing operations and discontinued operations for the year ended June 30, 2021 was approximately $3,973,000 and $2,260,000 respectively. Rental expense from continuing operations and discontinued operations for the year ended June 30, 2020 was approximately $4,089,000 and $3,567,000, respectively.

8. Leases (continued)

Supplemental balance sheet information related to leases is as follows at June 30:

	2021	2020
	(In Thousands)	
Continuing Operations		
Operating leases:		
Right-of-use assets – operating leases	**$ 2,244**	$ 3,117
Other current liabilities	**$ 763**	$ 1,019
Operating lease liabilities	**1,516**	2,107
Total operating lease liabilities	**$ 2,279**	$ 3,126
Discontinued Operations		
Operating leases:		
Right-of-use assets – operating leases	**$ –**	$ 5,335
Other current liabilities	**$ –**	$ 3,442
Operating lease liabilities	**–**	1,975
Total operating lease liabilities	**$ –**	$ 5,417

	2021	2020
Continuing Operations		
Weighted-average remaining lease term:		
Operating leases	**3.50 years**	4.19 years
Weighted-average discount rate:		
Operating leases	**3.60 %**	3.60 %
Discontinued Operations		
Weighted-average remaining lease term:		
Operating leases	**–**	1.62 years
Weighted-average discount rate:		
Operating leases	**0 %**	1.89 %

8. Leases (continued)

The following represents the Company's future undiscounted cash flows of its operating leases for each of the next five years and thereafter and reconciliation to the lease liabilities recognized on the balance sheet at June 30, 2021:

	2021
	(In Thousands)
Continuing Operations	
2022	**$ 808**
2023	**571**
2024	**539**
2025	**349**
2026	**158**
Thereafter	**–**
Total lease payments	**$ 2,425**
Less imputed interest	**(146)**
Present value of lease liabilities	**$ 2,279**

9. Retirement Benefit Plans

The Company has a domestic defined benefit retirement plan for all eligible employees, which is funded on a current basis as required by applicable regulations. The Company also has retirement plans that cover certain key employees, which are funded only to meet current obligations.

In addition to the Company's defined benefit retirement plan, the Company sponsors a defined benefit health care plan that offers postretirement health care benefits to all eligible domestic employees. The plan is contributory and contains other cost-sharing features such as deductibles and coinsurance. The Company's policy is to fund the cost of benefits as they are incurred.

The principal actuarial assumptions used are as follows at June 30:

	2021	**2020**
Domestic retirement plans		
Discount rate	**2.50%**	2.80%
Expected long-term rate of return on assets	**6.10%**	6.10%
Domestic postretirement health care plan		
Discount rate	**2.40%**	2.60%
Health care cost trend rate	**5.75%**	6.00%

The primary investment objectives of the retirement plans are to achieve optimal rates of return with prudent levels of risk and liquidity, minimize risk of loss associated with the investments, and to provide adequate liquidity for benefit payments and plan management.

9. Retirement Benefit Plans (continued)

The following tables set forth the status of the domestic plans for the years ended June 30:

	Domestic Retirement Plans		Domestic Postretirement Health Care Plan	
	2021	**2020**	**2021**	**2020**
	(In Thousands)			
Change in benefit obligation:				
Benefit obligation at beginning of year	**$ 131,291**	$ 140,736	**$ 2,050**	$ 2,487
Service cost	**1,134**	1,111	**51**	38
Interest cost	**3,490**	4,674	**52**	82
Actuarial (gain) loss	**(691)**	24,815	**349**	568
Employee contributions	**–**	–	**–**	283
Benefit payments	**(9,471)**	(38,890)	**(240)**	(471)
Administrative expenses paid	**(1,104)**	(1,155)	**–**	–
Plan amendment	**–**	–	**–**	(542)
Curtailment gain	**–**	–	**–**	(395)
Benefit obligation at end of year	**124,649**	131,291	**2,262**	2,050
Change in plan assets:				
Fair value of plan assets at beginning of year	**59,175**	93,839	**–**	–
Actual return	**14,621**	1,841	**–**	–
Company contributions	**15,132**	3,431	**–**	–
Benefit payments	**(9,471)**	(38,781)	**–**	–
Administrative expenses paid	**(1,104)**	(1,155)	**–**	–
Fair value of plan assets at end of year	**78,353**	59,175	**–**	–
Funded status at end of year and amounts recognized	**$ (46,296)**	$ (72,116)	**$ (2,262)**	$ (2,050)
Amounts recognized in accumulated other comprehensive loss (income):				
Net prior service cost	**$ –**	$ –	**$ (615)**	$ (696)
Net actuarial loss (gain)	**33,265**	48,695	**(1,028)**	(1,474)
Net amounts recognized	**$ 33,265**	$ 48,695	**$ (1,643)**	$ (2,170)

9. Retirement Benefit Plans (continued)

Net periodic benefit costs include the following components for the years ended June 30:

	Domestic Retirement Plans		Domestic Postretirement Health Care Plan	
	2021	**2020**	**2021**	**2020**
	(In Thousands)			
Components of net periodic benefit cost:				
Service cost	**$ 1,134**	$ 1,111	**$ 51**	$ 38
Interest costs on projected benefit obligation	**3,490**	4,674	**52**	82
Expected return on plan assets	**(3,773)**	(5,278)	**–**	–
Amortization of actuarial loss (gain)	**2,190**	1,779	**(179)**	(221)
Settlements	**1,703**	13,406	**–**	–
Curtailment gain	**–**	–	**–**	(533)
Net periodic benefit cost	**$ 4,744**	$ 15,692	**$ (76)**	$ (634)

The estimated net periodic benefit cost for the domestic plans for the year ending June 30, 2022, is $2,201,000. Components of the estimated net periodic benefit cost are as follows: service cost – $39,000; interest costs on projected benefit obligation – $2,978,000; expected return on plan assets – $(2,688,000) and amortization of actuarial loss – $1,872,000.

In order to maintain 80% funded status of the domestic plans, estimated cash contributions of $3,371,000 would be required to be made during the year ending June 30, 2022.

Estimated future benefit payments expected to be paid out in the next ten years for the domestic plans are as follows: 2022 – $14,861,000; 2023 – $9,850,000; 2024 – $8,777,000; 2025 – $8,705,000; 2026 – $8,214,000 and $38,155,000 for the next five years thereafter.

Under ASU 2018-14, the following significant gain and loss items during the fiscal year ending June 30, 2021 were identified. Losses are due to decreases in the discount rate and other assumptions changes. Gains are due to minor differences in actuarial methods. Postretirement medical losses are due to the discount rate, claims cost and trend assumption changes. In particular, changes in the treatment of retiree drug costs increased the retiree liability.

9. Retirement Benefit Plans (continued)

Retirement plan assets consist of equity, debt and money market securities. At June 30, 2021, the investment mix was approximately 66% equity, 32% debt and 2% money market securities. At June 30, 2020, the investment mix was approximately 74% equity, 25% debt and 1% money market securities.

The asset allocation strategy is determined through a detailed analysis of assets and liabilities which defines the overall risk that is acceptable with regard to the expected level and variability of portfolio returns, contributions and plan expenses.

The long-term asset allocation policy was established by considering a variety of factors including, but not limited to, the duration of the liabilities, and the expected payout ratio.

ASC 820, *Fair Value Measurement*, establishes a fair value hierarchy that categorizes assets into levels based on the inputs to valuation techniques used to measure the assets' fair value. The hierarchy defines the highest category (Level 1) as that with the most observable inputs and the lowest category (Level 3) as that with the least observable inputs. The three levels are described below.

Level 1 **–** Unadjusted quoted prices in active markets that are accessible at the measurement date for identical assets.

Level 2 **–** Quoted prices in markets that are not considered to be active or assets for which all significant inputs are observable, either directly or indirectly.

Level 3 **–** Prices or valuations that require inputs that are both significant to the fair value measurement and unobservable. Level 3 inputs include management's own assumptions.

9. Retirement Benefit Plans (continued)

Retirement plan assets' level within the fair value hierarchy is based on the lowest level of any input that is significant to the assets' fair value measurement. The fair value of the plan's assets, by level, is as follows at June 30:

	2021			
	Level 1	**Level 2**	**Level 3**	**Total**
	(In Thousands)			
Plan assets at fair value:				
Mutual funds	**$ 5,320**	**$ –**	**$ –**	**$ 5,320**
Collective investment funds	**–**	**46,910**	**–**	**46,910**
Company common stock	**–**	**–**	**24,954**	**24,954**
Money market securities	**–**	**1,169**	**–**	**1,169**
Total plan assets at fair value	**$ 5,320**	**$ 48,079**	**$ 24,954**	**$ 78,353**

	2020			
	Level 1	**Level 2**	**Level 3**	**Total**
	(In Thousands)			
Plan assets at fair value:				
Mutual funds	$ 4,861	$ –	$ –	$ 4,861
Collective investment funds	–	33,527	–	33,527
Company common stock	–	–	20,144	20,144
Money market securities	–	643	–	643
Total plan assets at fair value	$ 4,861	$ 34,170	$ 20,144	$ 59,175

9. Retirement Benefit Plans (continued)

The following table sets forth a summary of changes in the fair value of the plan's Level 3 assets for the years ended June 30:

	2021	**2020**
	(In Thousands)	
Company common stock		
Balance at beginning of year	**$ 20,144**	$ 21,046
Unrealized gain (loss)	**4,810**	(902)
Balance at end of year	**$ 24,954**	$ 20,144

The Company common stock fair value has been determined using standard valuation techniques, including the discounted cash flow, capital market, business transaction and asset accumulation methods. The significant inputs for the valuation models include financial statement forecasts derived from Company data, weighted-average cost of capital, real estate appraisals, and comparable industry and market data. The inputs into determination of fair value require significant judgement and estimation. Due to uncertainties in the estimation process, it is possible that actual results could differ from those estimates.

Effective December 31, 2017, the Company froze all defined benefit retirement plans. No additional benefit will accrue to participants subsequent to that date.

10. Defined Contribution Retirement Plans

The Company maintains defined contribution retirement plans covering all eligible employees.

Through December 2017, the domestic profit sharing plans consisted of a qualified plan and a non-qualified plan. The Company made discretionary matching contributions to the plans up to the first 5% of salary contributed. Domestic employees are 100% vested in the Company's contributions after six years of employment.

Effective January 1, 2018, the Company replaced its domestic profit sharing plans with a qualified 401(k) plan and a non-qualified deferred compensation plan. Under these plans, the Company matching contributions are up to 4% of qualified earnings with an additional 4% annual contribution regardless of employee contributions. Employees classified as "highly compensated" under the Internal Revenue Code (IRC) may choose to participate in the deferred compensation plan in full or in addition to the 401(k) plan, however the maximum employer contributions that a highly compensated employee may receive from both plans combined is 4% of qualified earnings for the company matching contribution, and 4% for the annual contribution. All contributions under both plans are invested, at the employees' direction, among a variety of investment alternatives. Participants are immediately vested in their matching contributions while the 4% annual contributions vest after three years of employment.

Under the profit sharing plan for discontinued operations, the Company makes discretionary contributions to the plan based on annual earnings. Employees under this plan are fully vested in the Company's contribution after seven years of employment.

The 401(k) plan for continuing operations is fully funded, the deferred compensation plan is partially funded and the plans for discontinued operations are funded to meet current obligations. Accrued liabilities related to the defined contribution retirement plans for continuing operations were $23,861,000 and $19,136,000 at June 30, 2021 and 2020, respectively. Accrued liabilities related to the defined contribution retirement plans for discontinued operations were $0 and $2,461,000 at June 30, 2021 and 2020, respectively.

The Company's continuing operations contributions for the defined contribution retirement plans was $5,435,000 and $3,911,000 for the years ended June 30, 2021 and 2020, respectively. The Company's discontinued operations contributions for the defined contribution retirement plans was $59,000 and $24,000 for the years ended June 30, 2021 and 2020, respectively.

11. Stock Incentive Plans

The Company granted restricted common stock awards with immediate vesting during the years ended June 30, 2021 and 2020. Under the terms of the agreements, the Company may at any time repurchase some or all of the holders' shares. The holders may, at designated times during the year, require the Company to repurchase some or all of the holders' shares. The purchase price for any shares repurchased by the Company shall be the most recent semiannually prepared fair value. The Company recognizes stock-based compensation expense at the date of grant using the fair value method.

In addition, the Company's existing stock-based compensation plans consist of incentive stock options (ISOs) and allow for stock appreciation rights (SARs). These plans call for vesting at 25% per year, beginning one year after the grant date. The holders may exercise the vested portion of the units. Similar to the restricted common stock awards, certain shares resulting from this exercise may be repurchased by the Company, and the holders of those same shares may require the Company to repurchase some or all of the shares. The Company recognizes stock-based compensation expense for the appreciation of the exercisable and outstanding options and rights using the intrinsic value measurement method based on the fair value of the Company's common stock. The valuation of the Company's common stock requires unobservable inputs classifying it in Level 3 of the fair value hierarchy (see Note 9).

Information regarding the units under the ISO and SAR stock-based compensation plans is as follows:

	2021	**2020**
Units outstanding at beginning of year	**33,013**	40,888
Exercised	**(3,175)**	(7,300)
Forfeited	**–**	(575)
Units outstanding at end of year	**29,838**	33,013
Units exercisable at end of year	**28,750**	29,850

11. Stock Incentive Plans (continued)

Units and exercise price per unit by year of grant under the ISO and SAR-based compensation plans are as follows:

	Units	Exercise Price Per Unit
2012 Grant	11,688	$ 520
2013 Grant	3,400	$ 550
2014 Grant	3,425	$ 570
2015 Grant	3,285	$ 500
2016 Grant	3,765	$ 530
2017 Grant	4,275	$ 580
Units outstanding at June 30, 2021	**29,838**	

Management awarded 5,525 and 4,625 equity shares using the stock price on or around the date of settlement for the years ended June 30, 2021 and 2020, respectively. The related liability associated with these awards is recorded in accrued liabilities in the accompanying consolidated balance sheets. The compensation expense associated with these awards is included in total stock-based compensation expense. Stock-based compensation expense including fair value adjustments was $14,647,000 and $2,493,000 for the years ended June 30, 2021 and 2020, respectively.

12. Employee Severance Costs

The Company is required to record charges for one-time employee severance benefits and other associated costs as incurred. During the year ended June 30, 2020, the Company incurred severance costs of $10,261,000 in connection with the voluntary termination of employment of eligible employees. Severance costs are charged to general and administrative expense in the accompanying consolidated statements of income. The Company does not expect any additional benefits or other associated costs related to these terminations.

13. Income Taxes

The components of income tax expense (benefit) from continuing operations are as follows for the years ended June 30:

	2021		
	Current	**Deferred**	**Total**
	(In Thousands)		
Federal	**$ –**	**$ (4,491)**	**$ (4,491)**
State	**31**	**(834)**	**(803)**
	$ 31	**$ (5,325)**	**$ (5,294)**

	2020		
	Current	**Deferred**	**Total**
	(In Thousands)		
Federal	$ (14,482)	$ 9,777	$ (4,705)
State	140	1,142	1,282
	$ (14,342)	$ 10,919	$ (3,423)

Intraperiod tax allocation rules require the Company to allocate the provision for income taxes between continuing operations and other categories of earnings, such as discontinued operations. As a result, the Company has recorded tax expense of approximately $39,577,000 in discontinued operations related to the sale of the Company's wholly owned Australian entities as of June 30, 2021.

On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security (CARES) Act was enacted in response to the COVID-19 pandemic. The CARES Act contains, among other economic stimulus measures, several significant tax provisions intended to generate federal income tax refunds including a highly anticipated retroactive technical correction to the Tax Cuts & Jobs Act of 2017 which allows federal net operating losses (NOLs) arising in fiscal year 2018 to be carried back to the two preceding years, as well as, a temporary modification to the repeal of NOL carrybacks that allows NOLs arising in fiscal years 2019, 2020, and 2021 to be carried back five years. As a result of the changes to the NOL carryback rules, the Company recorded a current federal income tax receivable of $14,482,000, a reduction to deferred tax assets of $7,350,000 and an income tax benefit of $7,132,000 for the year ended June 30, 2020. The receivable is included in deposits, prepaids and other in the accompanying consolidated balance sheets.

13. Income Taxes (continued)

The major elements contributing to the difference between the U.S. federal statutory tax rate of 21% and the effective tax rate are as follows for the years ended June 30:

	2021			2020		
	(In Thousands, Except Percentages)					
Statutory rate	**$**	**5,697**	**21.0 %**	$	594	21.0 %
State income tax, net of federal tax		**727**	**2.7 %**		(1,341)	(47.4)%
Effects of CARES Act		**–**	**– %**		7,132	252.1 %
Share-based compensation		**(1,133)**	**(4.2)%**		268	9.5 %
Change in valuation allowances		**(84)**	**(0.3)%**		(3,688)	(130.4)%
Tax credits		**94**	**0.3 %**		304	10.8 %
Other items, net		**(7)**	**0.0 %**		154	5.4 %
Effective tax rate	**$**	**5,294**	**19.5 %**	$	3,423	121.0 %

In 2021, the effective tax rate was primarily impacted by the fair value adjustment for share-based compensation.

In 2020, the effective tax rate was primarily impacted by the recording of an income tax receivable at a higher federal tax rate than the statutory tax rate of 21% partially offset by the change in the valuation allowances relating to foreign tax credit utilization.

13. Income Taxes (continued)

The components of deferred tax assets (liabilities) are as follows at June 30:

	2021	2020
	(In Thousands)	
Deferred tax assets:		
Compensation and employee benefit accruals	**$ 6,956**	$ 5,672
Postretirement benefits	**12,303**	17,153
Tax loss and credit carryforwards	**5,922**	10,223
Inventories	**2,287**	6,193
Accrued liabilities	**4,481**	4,145
Other	**866**	22
Total deferred tax assets	**32,815**	43,408
Valuation allowance	**(4,685)**	(4,601)
Net deferred tax assets	**28,130**	38,807
Deferred tax liabilities:		
Depreciation and amortization	**(34,730)**	(32,935)
Investment basis difference	**(6,054)**	(6,247)
Total deferred tax liabilities	**(40,784)**	(39,182)
Total net deferred tax liabilities	**$ (12,654)**	$ (375)

The Company records deferred tax assets and liabilities for the expected future tax consequences of temporary differences between financial statement carrying amounts of assets and liabilities and their respective tax basis, using statutory tax rates in effect for the year in which the differences are expected to reverse. The effect of a change in tax laws and rates on deferred tax assets and liabilities is recognized in the results of operations in the period that includes the related enactment date.

As of June 30, 2021, the Company has available unused California Enterprise Zone tax credits of approximately $1,555,000 which expire at various dates from 2024 through 2029.

The Company has recorded a valuation allowance of approximately $4,685,000 and $4,601,000 at June 30, 2021 and 2020, respectively, related to foreign tax credits. In assessing whether its deferred tax assets are realizable, the Company considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized and adjusts the valuation allowance accordingly.

13. Income Taxes (continued)

The Company does not have any uncertain tax positions.

The Company files income tax returns in several tax jurisdictions, including the United States and California and is subject to routine audits by taxing authorities in the jurisdictions in which it files. As of June 30, 2021, tax years 2014 and 2016 through 2019 are under examination by the Internal Revenue Service and tax years 2012 and 2013 are under examination by the California Franchise Tax Board. The Company has extended the statute of limitations on its federal income tax returns for 2016 and 2017 to October 31, 2022 and California's 2012 through 2014 income tax returns to June 30, 2022. The statute of limitations has tolled on the Company's 2015 federal tax return.

14. Commitments and Contingencies

Other Commitments

The Company has a long-term purchase contract that includes annual fixed payment terms for fifty years with an option to extend for an additional fifty years. Every tenth year, the fixed payment amount is subject to reassessments. Expenditures related to this agreement were $2,143,000 and $2,259,000 for the years ended June 30, 2021 and 2020, respectively. The remaining commitments for the first ten years under this purchase contract total $4,373,000 and are payable as follows: 2022 – $2,172,000 and 2023 – $2,201,000.

Litigation

The Company is a defendant in a lawsuit alleging labor code violations. The Company is subject to claims under the Private Attorney General Act (PAGA), whereby a claim has been filed against the Company on behalf of the state of California as well as the entire class of employees who were allegedly subject to similar labor code violations.

The Company records accruals for loss contingencies associated with legal matters when it is probable that a liability will be incurred, and the amount of the loss can be reasonably estimated. As of June 30, 2021, and 2020, the Company determined that the liabilities associated with certain litigation matters are probable and can be reasonably estimated. The Company has accrued for these matters and will continue to monitor and adjust accruals based on further developments.

14. Commitments and Contingencies (continued)

Standby Letter of Credit

A commercial bank issued a standby letter of credit on behalf of the Company to the State of California Office of Self Insurance Plans (OSIP) for $8,047,000 under the Alternative Security Program. All employers who self-insure their workers' compensation liabilities are required to post collateral to protect and provide for their injured workers in the event the employer becomes insolvent or is otherwise unable to meet their statutory obligations. The standby letter of credit is valid until cancelled or matured and is collateralized by the revolving credit facility with the bank. The terms of the letter of credit are extended for a term of one year at a time. The Company intends to renew the standby letter of credit for as long as the Company has a self-insured workers' compensation program. No amounts have been drawn under the standby letter of credit.

15. Subsequent Events

Subsequent events have been evaluated through October 8, 2021, the date the financial statements were available to be issued.

In September 2021, the Company completed refinancing of its credit facility. As a result of this transaction, the previous secured revolving credit facility was replaced with a secured domestic line of credit up to an aggregate principal amount of $50,000,000, with an expiration date of September 2023. The facility permits for standby letters of credit up to $20,000,000.

Supplementary Information

J.G. Boswell Company

Consolidated Schedules – Non-US GAAP Presentation

	June 30	
	2021	**2020**
	(In Thousands, Except Share Information)	
Assets		
Current assets:		
Cash and cash equivalents	**$ 137,941**	$ 1,657
Trade receivables, net	**39,925**	36,003
Inventories	**141,972**	165,372
Growing crops	**109,073**	121,045
Deposits, prepaid expenses and other	**10,751**	26,865
Total current assets	**439,662**	350,942
Other assets and investments:		
Investment in unconsolidated entities	**660**	660
Right-of-use assets – operating leases	**2,244**	8,451
Other assets	**3,029**	2,381
Total other assets and investments	**5,933**	11,492
Property, plant and equipment, at cost:		
Buildings and improvements	**219,277**	264,305
Machinery and equipment	**457,864**	560,891
Orchards	**176,722**	151,785
Less accumulated depreciation and amortization	**(519,082)**	(589,124)
	334,781	387,857
Land and related water investments	**106,049**	200,576
Net property, plant and equipment	**440,830**	588,433
Total assets	**$ 886,425**	$ 950,867

J.G. Boswell Company

Consolidated Schedules – Non-US GAAP Presentation (Continued)

	June 30	
	2021	**2020**
	(In Thousands, Except Share Information)	
Liabilities and stockholders' equity		
Current liabilities:		
Notes payable	**$ –**	$ 165,969
Accounts payable trade	**47,600**	45,344
Accrued liabilities	**104,057**	88,381
Total current liabilities	**151,657**	299,694
Noncurrent liabilities:		
Accrued employee benefits and other noncurrent liabilities	**49,700**	78,893
Lease liabilities – operating leases	**1,516**	4,082
Deferred tax liability – net	**12,654**	6,862
Total noncurrent liabilities	**63,870**	**89,837**
Commitments and contingencies		
Stockholders' equity:		
Common stock, without par value:		
Authorized shares – 2,500,000		
Issued and outstanding – 979,091		
(991,696 issued and 979,935 outstanding in 2020)	**52,454**	59,634
Retained earnings	**641,775**	562,588
Accumulated other comprehensive loss	**(23,331)**	(54,182)
Treasury stock shares – 11,761	**–**	(6,704)
Total stockholders' equity	**670,898**	561,336
Total liabilities and stockholders' equity	**$ 886,425**	$ 950,867

J.G. Boswell Company

Consolidated Schedules – Non-US GAAP Presentation (Continued)

	Year Ended June 30	
	2021	**2020**
	(In Thousands, Except Share Information)	
Sales	**$ 388,992**	$ 351,208
Cost of sales	**375,394**	363,684
General and administrative	**39,008**	59,277
Operating loss	**(25,410)**	(71,753)
Other income (expense):		
Equity earnings in unconsolidated entities	**32**	4,842
Net interest expense	**(2,700)**	(6,139)
Net (loss) gain on hedging activities	**(5,610)**	1,654
Net loss on interest rate swap derivative instrument	**–**	(2,416)
Net gain on sale of assets	**2,005**	2,391
Gain on sale of Auscott	**161,691**	–
Gain on sale of Midkin, Auscott	**–**	110,758
Gain on sale of Phytogen	**–**	50,127
Other	**227**	72
Income before taxes	**130,235**	89,536
Income tax expense	**(32,571)**	(24,306)
Net income	**$ 97,664**	$ 65,230
Basic earnings per share	**$ 98.41**	$ 65.99
Diluted earnings per share	**$ 97.09**	$ 65.13
Weighted-average shares outstanding – basic	**992,481**	994,474
Weighted-average shares outstanding – diluted	**1,003,475**	1,001,499