

FARMER BROTHERS CO  
Form 10-K  
September 14, 2015

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

FORM 10-K  
(Mark One)

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

For the fiscal year ended June 30, 2015

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: 001-34249  
FARMER BROS. CO.  
(Exact Name of Registrant as Specified in Its Charter)

Delaware 95-0725980  
(State of Incorporation) (I.R.S. Employer Identification No.)

20333 South Normandie Avenue, Torrance, California 90502  
(Address of Principal Executive Offices; Zip Code)

310-787-5200  
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, \$1.00 par value	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  NO

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. YES  NO

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). YES  NO

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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. "

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 "  
(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 " NO

The aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the closing price at which the Farmer Bros. Co. common stock was sold on December 31, 2014 was \$247.4 million.

As of September 11, 2015 the registrant had 16,655,868 shares outstanding of its common stock, par value \$1.00 per share, which is the registrant's only class of common stock.

**DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the registrant's definitive proxy statement to be filed with the U.S. Securities and Exchange Commission ("SEC") pursuant to Regulation 14A in connection with the registrant's 2015 Annual Meeting of Stockholders (the "Proxy Statement") or portions of the registrant's 10-K/A, to be filed subsequent to the date hereof, are incorporated by reference into Part III of this report. Such Proxy Statement or 10-K/A will be filed with the SEC not later than 120 days after the conclusion of the registrant's fiscal year ended June 30, 2015.

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## TABLE OF CONTENTS

## PART I

ITEM 1.	Business	<u>1</u>
ITEM 1A.	Risk Factors	<u>6</u>
ITEM 1B.	Unresolved Staff Comments	<u>15</u>
ITEM 2.	Properties	<u>15</u>
ITEM 3.	Legal Proceedings	<u>16</u>
ITEM 4.	Mine Safety Disclosures	<u>17</u>

## PART II

ITEM 5.	Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities	<u>18</u>
ITEM 6.	Selected Financial Data	<u>20</u>
ITEM 7.	Management's Discussion and Analysis of Financial Condition and Results of Operations	<u>21</u>
ITEM 7A.	Quantitative and Qualitative Disclosures About Market Risk	<u>43</u>
ITEM 8.	Financial Statements and Supplementary Data	<u>45</u>
ITEM 9.	Changes in and Disagreements with Accountants on Accounting and Financial Disclosure	<u>94</u>
ITEM 9A.	Controls and Procedures	<u>94</u>
ITEM 9B.	Other Information	<u>96</u>

## PART III

ITEM 10.	Directors, Executive Officers and Corporate Governance	<u>96</u>
ITEM 11.	Executive Compensation	<u>96</u>
ITEM 12.	Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	<u>97</u>
ITEM 13.	Certain Relationships and Related Transactions, and Director Independence	<u>97</u>
ITEM 14.	Principal Accountant Fees and Services	<u>97</u>

## PART IV

ITEM 15.	Exhibits and Financial Statement Schedules	<u>97</u>
SIGNATURES		<u>99</u>

## CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

Certain statements contained in this Annual Report on Form 10-K are not based on historical fact and are forward-looking statements within the meaning of federal securities laws and regulations. These statements are based on management's current expectations, assumptions, estimates and observations of future events and include any statements that do not directly relate to any historical or current fact; actual results may differ materially due in part to the risk factors set forth below in Part I, Item 1A of this Annual Report on Form 10-K. These forward-looking statements can be identified by the use of words like "anticipates," "estimates," "projects," "expects," "plans," "believes," "intends," "will," "assumes" and other words of similar meaning. Owing to the uncertainties inherent in forward-looking statements, actual results could differ materially from those set forth in forward-looking statements. We intend these forward-looking statements to speak only at the time of this report and do not undertake to update or revise these statements as more information becomes available except as required under federal securities laws and the rules and regulations of the SEC. Factors that could cause actual results to differ materially from those in forward-looking statements include, but are not limited to, the timing and success of implementation of our corporate relocation plan, the relative effectiveness of compensation-based employee incentives in causing improvements in Company performance, the capacity to meet the demands of our large national account customers, the extent of execution of plans for the growth of Company business and achievement of financial metrics related to those plans, the success of the Company to retain and/or attract qualified employees, the effect of the capital markets as well as other external factors on stockholder value, fluctuations in availability and cost of green coffee, competition, organizational changes, changes in the strength of the economy, business conditions in the coffee industry and food industry in general, our continued success in attracting new customers, variances from budgeted sales mix and growth rates, weather and special or unusual events, changes in the quality or dividend stream of third parties' securities and other investment

vehicles in which we have invested our assets, as well as other risks described in this report and other factors described from time to time in our filings with the SEC.

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PART I

Item 1.

Business

Overview

Farmer Bros. Co., a Delaware corporation (including its consolidated subsidiaries unless the context otherwise requires, the “Company,” “we,” “our” or “Farmer Bros.”), is a manufacturer, wholesaler and distributor of coffee, tea and culinary products. Our customers include restaurants, hotels, casinos, offices, quick service restaurants (“QSRs”), convenience stores, healthcare facilities and other foodservice providers, as well as private brand retailers in the QSR, grocery, drugstore, restaurant, convenience store, and independent coffee house channels. We were founded in 1912, were incorporated in California in 1923, and reincorporated in Delaware in 2004. We operate in one business segment.

Business Strategy

Our mission is to “sell great coffee, tea and culinary products and provide superior service—one customer at a time.” Our products reach our customers primarily in two ways: through our nationwide Direct-Store-Delivery (“DSD”) network of approximately 470 delivery routes, 111 branch warehouses and five distribution centers, and through the distribution channels of our national account and institutional customers.

We differentiate ourselves in the marketplace through our customer service model. We offer value-added services to our foodservice customers, including:

- beverage equipment installation and service;
- menu solutions wherein we recommend products, how these products are prepared in the kitchen and presented on the menu; and
- hassle-free inventory and product procurement management.

These services are conducted primarily in person through Route Sales Representatives (“RSRs”), who develop personal relationships with chefs, restaurant owners and food buyers at their delivery locations. We also provide comprehensive coffee programs to our national account customers, including private brand development, green coffee procurement, category management, and supply chain management.

Since 2007, Farmer Bros. has achieved growth primarily through the acquisition in 2007 of Coffee Bean Holding Co., Inc., a Delaware corporation (“CBH”), the parent company of Coffee Bean International, Inc., an Oregon corporation (“CBI”), a specialty coffee manufacturer and wholesaler, and the acquisition in 2009 from Sara Lee Corporation (“Sara Lee”) of certain assets used in connection with its DSD coffee business in the United States (the “DSD Coffee Business”). Further, on January 12, 2015, we completed the acquisition of substantially all of the assets of Rae’ Launo Corporation (“RLC”) relating to its direct-store-delivery and in-room distribution business in the Southeastern United States (the “RLC Acquisition”).

We manufacture and distribute products under our owned brands, as well as under private labels on behalf of certain customers. Our owned brand products are sold primarily into the foodservice channel. Our primary brands include Farmer Brothers™, Artisan Collection by Farmer Brothers™, SuperMetropolitan™, Cain's™ and McGarvey™. Our product line is specifically focused on meeting the needs of the markets we serve. Our product line of approximately 2,700 Stock Keeping Units (“SKUs”) (excluding private label), includes roasted coffee, liquid coffee, coffee-related products such as coffee filters, sugar and creamers, assorted iced and hot teas, cappuccino, cocoa, spices, gelatins and puddings, soup bases, dressings, gravy and sauce mixes, pancake and biscuit mixes, and jellies and preserves. Sales of roast and ground coffee represented approximately 61%, 60% and 59% of our net sales in the fiscal years ended June 30, 2015, 2014 and 2013, respectively, and no class of similar products other than roast and ground coffee, culinary and other beverages accounted for more than 10% of our net sales. For more information, including the amount of net sales attributed to each of our product categories in fiscal 2015, 2014 and 2013, see Part II, Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Results of Operations” of this report.

We are focused on distributing our owned brands through our DSD network, while continuing to support and grow our private label national account business. We are focused on the following strategies:

**Reduce costs to compete more effectively:** In fiscal 2015, we commenced work on a corporate relocation plan to replace our aging production facility in Torrance, California with a more efficient, state-of-the-art facility to be located in Northlake, Texas. We undertook this endeavor, in part, to pursue improved production efficiency to allow us to provide a more cost-competitive offering of high-quality products. We believe the expected improvements in production efficiency, combined with the wind-down and sale of our Torrance facility, should allow us to operate at a lower cost, generally.

**Optimize sales and portfolio of products:** In fiscal 2015, we continued our efforts to improve efficiencies in our sales and product offerings. During fiscal 2015, we added sales capabilities and undertook targeted selling efforts in untapped markets, and continued sales and marketing training for all of our RSRs. We also continued to optimize and simplify our product portfolio by discontinuing over 300 SKUs (excluding the addition of SKUs from the RLC Acquisition) and by consolidating our coffee blends while maintaining original roasting profiles, resulting in a reduction in the number of coffee blends by nine.

**Strategic investment in assets and evaluation of cost structure:** Apart from our corporation relocation plan, we continue to look for ways to deploy our personnel, systems, assets and infrastructure to create or enhance shareholder value. Areas of focus have included corporate staffing and structure, methods of procurement, logistics, inventory management, supporting technology, and real estate assets.

**Corporate capabilities and alignment to create shareholder value:** In 2015, we made several hires that we believe will bring experience and capabilities to enhance our ability to create shareholder value. These new hires include Chief Information Officer Gary Nordlund, as well as, executive officers Barry Fischetto as Senior Vice President of Operations and Scott Bixby as Senior Vice President and General Manager of DSD. Each of these individuals brings a track record at both large consumer packaged goods operations as well as experience in dealing with smaller and more entrepreneurial companies. In addition, in fiscal 2015 we continued to emphasize greater alignment of employee individual goals with Company goals under our compensation plans in order to focus the entire organization on the effort to create value for our shareholders.

**Drive high growth product categories and address broader customer needs:** In fiscal 2015, we continued to expand our product portfolio by investing resources in what we believe to be key growth categories. We launched our Metropolitan™ single cup coffee, expanded our seasonal coffee and specialty beverage portfolio, developed new shelf-stable coffee products, and introduced new hot tea product lines. In July 2015 we were recognized at the North American Iced Tea Championship with first place awards for the best unflavored black iced tea and the best flavored black iced tea (raspberry) in the foodservice category, further bolstering our efforts to provide a useful array of high-quality products and enhance our reputation within the industry. In addition, we made marked progress in expanding our Direct Trade Verified Sustainable coffee portfolio to support future growth opportunities. We also developed an in-room, single-serve brewer program for our hospitality customers and, through the RLC Acquisition, we expanded our reach into in-room coffee distribution.

**Sustainability leadership:** We believe that our collective efforts in measuring our social and environmental impact, creating programs for waste, water and energy reduction, promoting partnerships in our supply chain that aim at supply chain stability and food security, and focusing on employee engagement place us in a unique position to help retailers and foodservice operators create differentiated coffee programs that can include sustainable supply chains, direct trade purchasing, training and technical assistance, recycling and composting networks, and packaging material reductions. During fiscal 2015, we submitted our first third-party verified Carbon Disclosure Project survey for Scope 1, 2 and 3 emissions (direct emissions, indirect emissions from consumption of purchased electricity, heat or steam and other indirect emissions). Further, we published a sustainability report based on the Global Reporting Initiative's core compliance standard. Our Portland roasting and distribution facility was one of the first in the Northwest to achieve LEED® Silver Certification. We anticipate the new facility in Northlake, Texas will also be LEED® certified.

We have also made the following investments to support our private label national account business:

**Coffee industry leadership:** Through our dedication to the craft of sourcing, blending and roasting coffee, and our participation and/or leadership positions with Alliance for Coffee Excellence, Coffee Quality Institute, Coalition for



Coffee Communities, International Society for Sustainability Professionals, International Women's Coffee Alliance, International Foodservice Manufacturers Association, Pacific Coast Coffee Association, Roasters Guild, Specialty Coffee Association of America (“SCAA”) and World Coffee Research, we work to help shape the future of the coffee industry. We believe that due to our commitment to the industry, large retail and foodservice operators are drawn to working with us. We were among the first coffee roasters in the nation to receive SCAA certification of a state-of-the-art coffee lab and operate Public Domain®, a specialty coffeehouse in Portland, Oregon.

Market insight and consumer research: We have developed a market insight capability internally that reinforces our business-to-business positioning as a thought leader in the coffee industry. We provide trend insights that help our customers create winning products and integrated marketing strategies for their own coffee brands.

#### Recent Developments

On February 5, 2015, we announced a corporate relocation plan, pursuant to which we will close our Torrance, California facility and relocate its operations to a new state-of-the-art facility housing our manufacturing, distribution, coffee lab and corporate headquarters (the “Corporate Relocation Plan”). The new facility will be located in Northlake, Texas in the Dallas/Fort Worth area.

We expect to close the Torrance facility in phases, and we began the process in the spring of 2015. Through April 2015, coffee purchasing, roasting, grinding, packaging and product development took place at our Torrance, California, Portland, Oregon and Houston, Texas production facilities. In May 2015, we moved the coffee roasting, grinding and packaging functions that had been conducted in Torrance to our Houston and Portland production facilities and in conjunction relocated our Houston distribution operations to our Oklahoma City distribution center. Spice blending, grinding, packaging and product development continue to take place at our Torrance production facility, and we are considering options for this division of our business. As of June 30, 2015, distribution continued to take place out of our Torrance and Portland production facilities, as well as separate distribution centers in Northlake, Illinois; Oklahoma City, Oklahoma; and Moonachie, New Jersey. We are in the process of transferring our primary administrative offices from Torrance to Fort Worth, Texas, where we have leased 32,000 square feet of temporary office space. The transfer of our primary administrative offices to this temporary office space is expected to be completed by the end of the second quarter of fiscal 2016. Construction of and relocation to the new facility are expected to be completed by the end of the second quarter of fiscal 2017. Our Torrance facility is expected to be sold as part of the Corporate Relocation Plan.

On July 17, 2015, we entered into a lease agreement (“Lease Agreement”) with WF-FB NLTX, LLC (“Landlord”), to lease a 538,000 square foot facility to be constructed on 28.2 acres of land located in Northlake, Texas. The new facility is expected to include approximately 85,000 square feet for corporate offices, more than 100,000 square feet for manufacturing, and more than 300,000 square feet for distribution. The facility will also house a coffee lab. The Lease Agreement contains a purchase option exercisable at any time by us on or before ninety days prior to the scheduled completion date with an option purchase price equal to 103% of the total project cost as of the date of the option closing if the option closing occurs on or before July 17, 2016. The option purchase price will increase by 0.35% per month thereafter up to and including the date which is the earlier of (A) ninety days after the scheduled completion date and (B) December 31, 2016. The obligation to pay rent will commence on December 31, 2016 if the option remains unexercised. On July 17, 2015, we also entered into a Development Management Agreement (“DMA”) with Stream Realty Partners-DFW, L.P., a Texas limited partnership (“Developer”). Pursuant to the DMA, we retained the services of Developer to manage, coordinate, represent, assist and advise us on matters concerning the pre-development, development, design, entitlement, infrastructure, site preparation and construction of the new facility. The term of the DMA is from July 17, 2015 until final completion of the project. For more information, see “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations—Corporate Relocation Plan” of this report.

#### Raw Materials and Supplies

Our primary raw material is green coffee, an agricultural commodity. The bulk of the world's green coffee supply is grown outside the United States and can be subject to volatile price fluctuations. Weather, real or perceived supply shortages, speculation in the commodity markets, agricultural diseases and pests, political unrest, tariffs, labor actions, currency fluctuations, armed conflict in coffee producing nations and government actions, including treaties and trade

controls between the U.S. and coffee producing nations, can affect the price of green coffee. Additionally, specialty green coffees sell at a premium to other green coffees because they generally taste cleaner, are fresher, have fewer overall defects,

3

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offer improved cup quality and cost more to produce. The cost spread between specialty and non-specialty coffees is widening as the demand for specialty coffees continues to grow with only a limited supply to satisfy the demand, and thus cost volatility can be expected to be even more pronounced. In general, increases in the price of green coffee could cause our cost of goods sold to increase and, if not offset by product price increases, could negatively affect our financial condition and results of operations. As a result, our business model strives to reduce the impact of green coffee price fluctuations on our financial results and to protect and stabilize our margins, principally through customer arrangements and derivative instruments.

Green coffee prices can also be affected by the actions of producer organizations. The most prominent of these are the Colombian Coffee Federation, Inc. (“CCF”) and the International Coffee Organization (“ICO”). Large coffee organizations such as the CCF and the ICO may release information from time to time that can affect coffee prices. Other raw materials used in the manufacture of our tea and culinary products include a wide variety of spices, such as cinnamon, pepper, chilies, oregano and thyme, as well as cocoa, dehydrated milk products, salt and sugar. These raw materials are agricultural products and can be subject to wide cost fluctuations. We are also subject to cost fluctuations in our packaging materials.

#### Trademarks and Licenses

We own 153 registered trademarks which are integral to customer identification of our products. It is not possible to assess the impact of the loss of such identification. Additionally, in connection with the DSD Coffee Business acquisition, the Company and Sara Lee entered into certain operational agreements that include trademark and formula license agreements. In February 2012, the trademark agreements and formula license agreements with Sara Lee were assigned to the J.M. Smucker Company (“J.M. Smucker”) as part of an acquisition transaction between J.M. Smucker and Sara Lee.

#### Seasonality

We experience some seasonal influences. The winter months are generally the strongest sales months. However, our product line and geographic diversity provide some sales stability during the warmer months when coffee consumption ordinarily decreases. Additionally, we usually experience an increase in sales during the summer and early fall months from seasonal businesses located in vacation areas and from grocery retailers ramping up inventory for the winter selling season.

#### Distribution

Most sales are made “off-truck” to our customers at their places of business by our RSRs who are responsible for soliciting, selling and collecting from and otherwise maintaining our customer accounts. We serve our customers from five distribution centers strategically located for national coverage. Our distribution trucks are replenished from 111 branch warehouses located throughout the contiguous United States. We operate our own trucking fleet to support our long-haul distribution requirements. A portion of our products is also distributed by third parties or is direct shipped via common carrier. We maintain inventory levels at each branch warehouse to promote minimal interruption in supply.

#### Customers

We serve a wide variety of customers, from small restaurants and donut shops to large institutional buyers like restaurant chains, hotels, casinos, hospitals, foodservice providers, convenience stores, gourmet coffee houses, bakery/café chains, national drugstore chains, large regional and national grocery and specialty food retailers and QSRs. Within our DSD network, we believe on-premise customer contact, our large distribution network, and our relationship-based high-quality service model are integral to our past and future success. We believe our coffee industry leadership, market insight and sustainability leadership play a key role in the success of our national account business. Although no single customer represents 10% or more of our net sales, we have several large national account customers, the loss of one or more of which is likely to have a material adverse effect on our results of operations.

#### Competition

We face competition from many sources, including the institutional foodservice divisions of multi-national manufacturers of retail products such as J.M. Smucker (Folgers Coffee), Dunkin' Brands Group, Inc. and KraftHeinz (Maxwell House Coffee), wholesale foodservice distributors such as Sysco Corporation and U.S. Foods, regional

institutional coffee roasters such as S&D Coffee & Tea and Boyd Coffee Company, and specialty coffee suppliers such as

4

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Keurig Green Mountain, Inc., Rogers Family Company, Distant Lands Coffee, Mother Parkers Tea & Coffee, Inc., Starbucks Coffee Company and Peet's Coffee & Tea. As many of our customers are small foodservice operators, we also compete with cash and carry and club stores such as Costco, Sam's Club and Restaurant Depot.

Competition is robust and is based primarily on products and price, with distribution and service often a major factor. Most of our customers rely on us for distribution; however, some of our customers use third-party distribution or conduct their own distribution. Some of our customers are "price" buyers, seeking the low-cost provider with little concern about service, while others find great value in the service programs we provide. We believe our longevity, product quality, national distribution network, coffee industry leadership, market insight, sustainability leadership and our comprehensive and superior customer service are the major factors that differentiate us from our competitors. We compete well when quality, comprehensive service, coffee industry leadership, market insight, sustainability leadership and distribution are valued by our customers, and are less effective when only price matters. Our customer base is price sensitive, and we are often faced with price competition.

#### Working Capital

We finance our operations internally and through borrowings under our senior secured revolving credit facility ("Revolving Facility") of up to \$75.0 million ("Revolving Commitment") which is administered by JP Morgan Chase Bank ("Chase"). The Revolving Facility, which expires on March 2, 2020, includes an accordion feature whereby we may increase the Revolving Commitment by an aggregate amount not to exceed \$50.0 million, subject to certain conditions. Our working capital needs are greater in the months leading up to our peak sales period during the winter months, which we typically finance with cash flow provided by operations. In anticipation of our peak sales period, we typically increase inventory in the first quarter of the fiscal year. We use various techniques including demand forecasting and planning to determine appropriate inventory levels for seasonal demand.

We believe the Revolving Facility, to the extent available, in addition to our cash flows from operations and other liquid assets, and the expected proceeds from the sale of our Torrance facility, collectively, will be sufficient to fund our working capital and capital expenditure requirements for the next 12 to 18 months including the expected capital expenditures associated with the Corporate Relocation Plan and other costs under the Lease Agreement and DMA for the new facility.

#### Foreign Operations

We have no material revenues from foreign operations.

#### Regulatory Environment

The conduct of our businesses, including, among other things, the production, storage, distribution, sale, labeling, quality and safety of our products, occupational safety and health practices, and distribution of many of our products, are subject to various laws and regulations administered by federal, state and local governmental agencies in the United States. It is our policy to abide by the laws and regulations around the world that apply to our businesses. Compliance with government regulations relating to the discharge of materials into the environment, or otherwise relating to protection of the environment, has not had a material effect on our financial condition or results of operations.

#### Other

On June 30, 2015 we employed 1,784 employees, 608 of whom are subject to collective bargaining agreements. The nature of our business does not provide for maintenance of or reliance upon a sales backlog. None of our business is subject to renegotiation of profits or termination of contracts or subcontracts at the election of the government.

#### Available Information

Our Internet website address is <http://www.farmerbros.com> (the website address is not intended to function as a hyperlink, and the information contained in our website is not intended to be part of this filing), where we make available, free of charge, copies of our annual report on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K, including amendments thereto, as soon as reasonably practicable after filing such material electronically or otherwise furnishing it to the SEC.

Item 1A.

Risk Factors

You should consider each of the following factors as well as the other information in this report, including our consolidated financial statements and the related notes, in evaluating our business and prospects. The risks and uncertainties described below are not the only ones we face. Additional risks and uncertainties not presently known to us or that we currently consider immaterial may also negatively affect our business operations. If any of the following risks actually occurs, our business and financial results could be harmed. In that case, the trading price of our common stock could decline.

**WE EXPECT TO INCUR SIGNIFICANT COSTS ASSOCIATED WITH THE EXIT FROM OUR TORRANCE, CALIFORNIA FACILITY AND RELOCATION TO A NEW FACILITY. THE CORPORATE RELOCATION PLAN MAY BE UNSUCCESSFUL OR LESS SUCCESSFUL THAN WE PRESENTLY ANTICIPATE AND MAY ADVERSELY AFFECT OUR BUSINESS, OPERATING RESULTS AND FINANCIAL CONDITION.**

On February 5, 2015, we announced the Corporate Relocation Plan to close and relocate our Torrance operations to a facility in Northlake, Texas, which is expected to affect approximately 350 positions as a result of the Torrance facility closure. We cannot guarantee that we will be successful in implementing the Corporate Relocation Plan in a timely manner or at all, or that such efforts will not interfere with our ability to achieve our business objectives. For example, our restructuring activities could disrupt our ongoing operations, which could adversely affect our ability to deliver products both on a timely basis and in accordance with customer requirements, the effect of which could delay revenues or result in lost business opportunities. Moreover, reductions in force can be difficult to manage, may cause concerns from current and potential customers, suppliers and other third parties with whom we do business which may cause them to delay or curtail doing business with us, may increase the likelihood of key employees leaving the Company or make it more difficult to recruit new employees, and may have an adverse impact on our business. Our success depends, in large part, on our ability to attract and retain skilled people. Competition for the best people in many of our key positions may be intense, and we may not be able to hire sufficiently skilled people or to retain them. Restructuring efforts have caused and will continue to cause us to incur significant expenses and other costs, including potential impairment losses on our long-lived assets, write-offs of inventory, losses on the disposal of fixed assets and certain pension-related costs. The timing and costs to implement the Corporate Relocation Plan, including completion of the new facility, may exceed our expectations which will interfere with our ability to achieve our business objectives or could cause us to incur indebtedness in amounts in excess of expectations. In addition, we have obtained approval from governmental entities in Texas for certain incentives, primarily tax abatements, related to the relocation to Northlake, Texas, subject to satisfying conditions required by those governmental entities. If we are unsuccessful in satisfying the conditions of any of these incentives, tax expenditures related to the new facility and ongoing tax obligations for the new facility may be higher than expected. If we fail to achieve our objectives of the Corporate Relocation Plan, further restructuring may be necessary. The inability to successfully complete the Corporate Relocation Plan could have a material adverse impact on our business, operating results and financial condition.

**INCREASES IN THE COST OF GREEN COFFEE COULD REDUCE OUR GROSS MARGIN AND PROFIT.**

Our primary raw material is green coffee, an agricultural commodity. The bulk of the world's green coffee supply is grown outside the United States and can be subject to volatile price fluctuations. Weather, real or perceived supply shortages, speculation in the commodity markets, agricultural diseases and pests, political unrest, tariffs, labor actions, currency fluctuations, armed conflict in coffee producing nations, and government actions, including treaties and trade controls between the U.S. and coffee producing nations, can affect the price of green coffee. Although Arabica "C" market prices are currently relatively low compared to their recent historical levels, there can be no assurance that green coffee prices will remain at these levels in the future. Additionally, specialty green coffees sell at a premium to other green coffees because they generally taste cleaner, are fresher, have fewer overall defects, offer improved cup quality and cost more to produce. The cost spread between specialty and non-specialty coffees is widening as the demand for specialty coffees continues to grow with only a limited supply to satisfy the demand, and thus cost volatility can be expected to be even more pronounced.

Green coffee prices can also be affected by the actions of producer organizations. The most prominent of these are the Colombian Coffee Federation, Inc. ("CCF") and the International Coffee Organization ("ICO"). Large coffee organizations such as the CCF and the ICO may release information from time to time that can affect coffee prices.



There can be no assurance that we will be successful in passing commodity price increases on to our customers without losses in sales volume or gross margin in the future. Additionally, if green coffee beans from a region become unavailable or prohibitively expensive, we could be forced to use alternative coffee beans or discontinue certain blends, which could adversely impact our sales.

**OUR EFFORTS TO SECURE AN ADEQUATE SUPPLY OF QUALITY COFFEES MAY BE UNSUCCESSFUL AND IMPACT OUR ABILITY TO SUPPLY OUR CUSTOMERS OR EXPOSE US TO COMMODITY PRICE RISK.**

Some of the Arabica coffee beans of the quality we purchase do not trade directly on the commodity markets. Rather, we purchase these coffee beans on a negotiated basis from coffee brokers, exporters and growers. If any of these supply relationships with coffee brokers, exporters or growers deteriorate, we may be unable to procure a sufficient quantity of high quality coffee beans at prices acceptable to us or at all. In such cases, we may not be able to fulfill the demand of our existing customers, supply new customers or expand other channels of distribution.

Maintaining a steady supply of green coffee is essential to be able to keep inventory levels low and, at the same time, secure sufficient stock to meet customer needs. To help ensure future supplies, we may purchase coffee for delivery in the future. Non-performance by suppliers could expose us to credit and supply risk. Additionally, entering into such future commitments exposes us to purchase price risk. Because we are not always able to pass price changes through to our customers due to competitive pressures or contractual restrictions, unpredictable price changes can have an immediate effect on operating results that cannot be corrected in the short run.

**CHANGES IN GREEN COFFEE COMMODITY PRICES MAY NOT BE IMMEDIATELY REFLECTED IN OUR COST OF GOODS SOLD AND MAY INCREASE VOLATILITY IN OUR RESULTS.**

We purchase exchange-traded coffee-related derivative instruments to enable us to lock in the price of green coffee commodity purchases. These derivative instruments also may be entered into at the direction of the customer under commodity-based pricing arrangements to effectively lock in the purchase price of green coffee under such customer arrangements, in certain cases up to 18 months or longer in the future. Accounting rules require that at the end of each reporting period we value those open hedging contracts that are not 100% effective as cash flow hedges and those that are not designated as accounting hedges by marking them to period-end market price and including in our financial results the unrealized gains or losses based on whether the period-end market price was higher or lower than the price we locked in. If the period-end green coffee commodity prices decline below our locked in price for these contracts, we will be required to recognize the resulting losses in our results of operations. Further, if our derivative counterparty determines that its exposure to us exceeds its exposure threshold, it may initiate a margin call and require us to post collateral. If we are unable to satisfy a margin call, we would be in default of our agreement, which could result in termination of that facility, limit our ability to manage our commodity price risk and have a material adverse effect on our business, financial condition and results of operations. Such transactions could cause volatility in our results because the recognition of losses and the offsetting gains may occur in different fiscal periods. Rapid, sharp decreases in the cost of green coffee could also force us to lower sales prices before realizing cost reductions in our green coffee inventory. Open contracts associated with these hedging activities are described in Part II, Item 7A, “Quantitative and Qualitative Disclosures About Market Risk” of this report.

**WE FACE EXPOSURE TO OTHER COMMODITY COST FLUCTUATIONS, WHICH COULD IMPACT OUR MARGINS AND PROFITABILITY.**

In addition to green coffee, we are also exposed to cost fluctuations in other commodities, including milk, spices, natural gas and gasoline. Our key packaging materials include plastic resins derived from petroleum, including polyethylene terephthalate or PET and polypropylene resin used for plastic bottles and film packaging used for our roasted coffees, closures, cardboard and paperboard cartons. Some of these raw materials and supplies are available from a limited number of suppliers or are in shortest supply when seasonal demand is at its peak. In addition, an increase in the cost of fuel could indirectly lead to higher electricity costs, transportation costs and other commodity costs. Much like green coffee costs, the costs of these commodities depend on various factors beyond our control, including economic and political conditions, foreign currency fluctuations, and global weather patterns. Unlike green coffee, we do not purchase any derivative instruments to hedge costs fluctuations in these other commodities. As a result, to the extent we are unable to pass along such costs to our customers through price increases, our margins and

profitability will decrease.

7

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**INCREASE IN THE COST, DISRUPTION OF SUPPLY OR SHORTAGE OF ENERGY OR FUEL COULD AFFECT OUR PROFITABILITY.**

We operate a large fleet of trucks and other motor vehicles to distribute and deliver our products to customers. A portion of our products is also distributed by third parties or is direct shipped via common carrier. In addition, we use a significant amount of electricity, natural gas and other energy sources to operate our plants and distribution facilities. An increase in the price, disruption of supply or shortage of fuel and other energy sources in North America that may be caused by increasing demand or by events such as natural disasters, power outages, or the like, would increase our operating costs and negatively impact our profitability.

**LOSS OF BUSINESS FROM ONE OR MORE OF OUR LARGE NATIONAL ACCOUNT CUSTOMERS COULD HAVE A MATERIAL ADVERSE EFFECT ON OUR OPERATIONS.**

In fiscal 2015 and 2014, we derived an increasing percentage of sales from national account customers. Although no single customer represents 10% or more of our consolidated net sales, we have several large national account customers, the loss of one or more of which is likely to have a material adverse effect on our results of operations.

**FUTURE ASSET IMPAIRMENT CHARGES COULD ADVERSELY AFFECT OUR FUTURE OPERATING RESULTS.**

We perform an asset impairment analysis on an annual basis or whenever events occur that may indicate possible existence of impairment. Failure to achieve our forecasted operating results, due to weakness in the economic environment or other factors, and declines in our market capitalization, among other things, could result in impairment of our intangible assets and goodwill and adversely affect our operating results.

**RESTRICTIVE COVENANTS IN OUR CREDIT FACILITY MAY RESTRICT OUR ABILITY TO PURSUE OUR BUSINESS STRATEGIES.**

Our credit facility contains various covenants that limit our ability and/or our subsidiaries' ability to, among other things:

- incur additional indebtedness;
- create, incur, assume or permit any lien on property that is owned or acquired in the future;
- pay dividends if, among other things, certain Excess Availability requirements are not met, and an event of default exists or has occurred and is continuing as of the date of any such payment and after giving effect thereto; and
- consolidate, merge, sell or otherwise dispose of all or substantially all of our assets.

Our credit facility also contains financial covenants relating to the maintenance of a fixed charge coverage ratio in certain circumstances. Our ability to meet those covenants may be affected by events beyond our control, and there can be no assurance that we will meet those covenants. The breach of any of these covenants could result in a default under the credit facility.

**WE RELY ON INFORMATION TECHNOLOGY AND ARE DEPENDENT ON ENTERPRISE RESOURCE PLANNING SOFTWARE IN OUR OPERATIONS. ANY MATERIAL FAILURE, INADEQUACY, INTERRUPTION OR SECURITY FAILURE OF THAT TECHNOLOGY COULD AFFECT OUR ABILITY TO EFFECTIVELY OPERATE OUR BUSINESS.**

We rely on information technology systems across our operations, including management of our supply chain, point-of-sale processing, and various other processes and transactions. Our ability to effectively manage our business and coordinate the production, distribution and sale of our products depends significantly on the reliability and capacity of these systems. The failure of these systems to operate effectively and continuously, problems with transitioning to upgraded or replacement systems, or a breach in security of these systems could result in delays in processing replenishment orders from our branch warehouses, an inability to record input costs or product sales accurately or at all, an impaired understanding of our operations and results and reduced operational efficiency. Significant capital investments could be required to remediate any potential problems.

In addition, if we are unable to prevent security breaches, we may suffer financial and reputational damage or penalties because of the unauthorized disclosure of confidential information belonging to us or to our customers or suppliers. In addition, the disclosure of non-public sensitive information through external media channels could lead to the loss of intellectual property or damage our reputation and brand image.

**VOLATILITY IN THE EQUITY MARKETS COULD REDUCE THE VALUE OF OUR INVESTMENT PORTFOLIO.**

We maintain a portfolio of fixed-income based investments disclosed as cash equivalents and short-term investments on our consolidated balance sheets. The value of our investments may be adversely affected by interest rate fluctuations, downgrades in credit ratings, illiquidity in the capital markets and other factors which may result in other than temporary declines in the value of our investments. Any of these events could cause us to record impairment charges with respect to our investment portfolio or to realize losses on the sale of investments. We have incurred operating losses in the past and if we incur operating losses in the future on a continual basis, a portion or all of this investment portfolio may be required to be liquidated to fund those losses.

**WE ARE LARGELY RELIANT ON MAJOR FACILITIES IN CALIFORNIA, TEXAS AND OREGON FOR DISTRIBUTION AND PRODUCTION OF OUR PRODUCT LINE.**

A significant interruption in operations at any of our facilities in Torrance, California, Houston, Texas, or Portland, Oregon, whether as a result of a natural disaster, terrorism or other causes, could significantly impair our ability to operate our business. Following the completion of the Corporation Relocation Plan, we anticipate that we will be subject to similar risks at our Northlake, Texas facility. During the execution of the Corporate Relocation Plan, we anticipate that our existing production facilities in Portland and Houston will operate at much higher utilization rates than they have historically, upwards of 90% or higher depending on product demand and the number of production shifts. In the event of significant increases in demand that precede the completion of our Northlake facility, we may be required to increase staffing, including through temporary labor and overtime, use third-party manufacturers, lease additional production facilities, or some combination of those alternatives or others to satisfy demand. There can be no assurance that we would be able to identify appropriate third-party providers on a timely basis or at all. The majority of our green coffee comes through the Ports of Los Angeles, Long Beach, Houston, San Francisco and Portland. Any interruption to port operations, highway arteries, gas mains or electrical service in the areas where we operate or obtain products or inventory could restrict our ability to manufacture and distribute our products for sale and would adversely impact our business. Further, any inability to satisfy increases in demand through our current facilities or identifying appropriate third-party providers could restrict our ability to manufacture our products for sale, adversely impact our business and damage our reputation.

**INCREASED SEVERE WEATHER PATTERNS MAY INCREASE COMMODITY COSTS, DAMAGE OUR FACILITIES AND IMPACT OR DISRUPT OUR PRODUCTION CAPABILITIES AND SUPPLY CHAIN.**

There is increasing concern that a gradual increase in global average temperatures due to increased concentration of carbon dioxide and other greenhouse gases in the atmosphere have caused and will continue to cause significant changes in weather patterns around the globe and an increase in the frequency and severity of extreme weather events. Major weather phenomena like El Niño and La Niña are dramatically affecting coffee growing countries. The wet and dry seasons are becoming unpredictable in timing and duration, causing improper development of the coffee cherries. A large portion of the global coffee supply comes from Brazil and so the climate and growing conditions in that country carry heightened importance. Decreased agricultural productivity in certain regions as a result of changing weather patterns may affect the quality, limit the availability or increase the cost of key agricultural commodities, such as green coffee, sugar and tea, which are important ingredients for our products. We have experienced storm-related damages and disruptions to our operations, in the recent past related to both winter storms as well as heavy rainfall and flooding. Increased frequency or duration of extreme weather conditions could also damage our facilities, impair production capabilities, disrupt our supply chain or impact demand for our products. As a result, the effects of climate change could have a long-term adverse impact on our business and results of operations.

**OUR INDUSTRY IS HIGHLY COMPETITIVE, AND WE MAY NOT HAVE THE RESOURCES TO COMPETE EFFECTIVELY.**

We primarily compete with other coffee companies, including multi-national firms with substantially greater financial, marketing and operating resources than the Company. We face competition from many sources, including the institutional foodservice divisions of multi-national manufacturers of retail products such as J.M. Smucker (Folgers Coffee), Dunkin' Brands Group, Inc. and KraftHeinz (Maxwell House Coffee), wholesale foodservice distributors such as Sysco Corporation and U.S. Foods, regional institutional coffee roasters such as S&D Coffee & Tea and Boyd Coffee Company, and specialty coffee suppliers such as Keurig Green Mountain, Inc., Rogers Family Company, Distant Lands Coffee, Mother Parkers Tea & Coffee, Inc., Starbucks Coffee Company and Peet's Coffee & Tea. As many of our customers are small foodservice operators, we also compete with cash and carry and club stores such as Costco, Sam's Club and Restaurant Depot. If we do not succeed in differentiating ourselves from our competitors or if our competitors adopt our strategies, then our competitive position may be weakened. In addition, from time to time, we may need to reduce our prices in response to competitive and customer pressures and to attract market share. Competition and customer pressures as well as contractual restrictions may also restrict our ability to increase prices in response to commodity and other cost increases resulting in lower profit margins. Our results of operations will be adversely affected if our profit margins decrease, as a result of a reduction in prices or an increase in costs, and if we are unable to increase sales volumes to offset those profit margin decreases.

**VOLATILITY IN THE EQUITY MARKETS OR INTEREST RATE FLUCTUATIONS COULD SUBSTANTIALLY INCREASE OUR PENSION FUNDING REQUIREMENTS AND NEGATIVELY IMPACT OUR FINANCIAL POSITION.**

At June 30, 2015, the projected benefit obligation under our single employer defined benefit pension plans was \$144.2 million and the fair value of plan assets was \$100.2 million. The difference between the projected benefit obligation and the fair value of plan assets, or the funded status of the plans, significantly affects the net periodic benefit cost and ongoing funding requirements of those plans. Among other factors, changes in interest rates, mortality rates, early retirement rates, mix of plan asset investments, investment returns and the market value of plan assets can affect the level of plan funding, cause volatility in the net periodic benefit cost, increase our future funding requirements and require payments to the Pension Benefit Guaranty Corporation.

**OUR SALES AND DISTRIBUTION NETWORK IS COSTLY TO MAINTAIN.**

Our sales and distribution network requires a large investment to maintain and operate. Costs include the fluctuating cost of gasoline, diesel and oil, costs associated with managing, purchasing, leasing, maintaining and insuring a fleet of delivery vehicles, the cost of maintaining distribution centers and branch warehouses throughout the country, and the cost of hiring, training and managing our RSRs. Many of these costs are beyond our control, and many are fixed rather than variable. Some competitors use alternate methods of distribution that fix, control, reduce or eliminate many of the costs associated with our method of distribution.

**EMPLOYEE STRIKES AND OTHER LABOR-RELATED DISRUPTIONS MAY ADVERSELY AFFECT OUR OPERATIONS.**

We have union contracts relating to a significant portion of our workforce. Although we believe union relations have been amicable in the past, there is no assurance that this will continue in the future, and our Corporate Relocation Plan could have the effect of encouraging labor disputes. There are potential adverse effects of labor disputes with our own employees or by others who provide transportation (shipping lines, truck drivers) or cargo handling (longshoremen), both domestic and foreign, of our raw materials or other products. These actions could restrict our ability to obtain, process and/or distribute our products.

**GOVERNMENT MANDATORY HEALTHCARE REQUIREMENTS COULD ADVERSELY AFFECT OUR PROFITS.**

We offer healthcare benefits to all employees who work at least 30 hours a week and meet service eligibility requirements. Comprehensive health care legislation (the Patient Protection and Affordable Care Act and the Health Care and Education Reconciliation Act of 2010) was passed and signed into law in March 2010. The law's requirements have been phased-in over the past few years and will continue to take further effect through 2018. Due to the breadth and



complexity of this legislation, it is difficult to predict the financial and operational impacts this legislation will have on us. Our expenses may significantly increase over the long-term as a result of this legislation.

**POSSIBLE LEGISLATION OR REGULATION INTENDED TO ADDRESS CONCERNS ABOUT CLIMATE CHANGE COULD ADVERSELY AFFECT OUR RESULTS OF OPERATIONS, CASH FLOWS AND FINANCIAL CONDITION.**

Governmental agencies are evaluating changes in laws to address concerns about the possible effects of greenhouse gas emissions on climate. Increased public awareness and concern over climate change may increase the likelihood of more proposals to reduce or mitigate the emission of greenhouse gases. Laws enacted that directly or indirectly affect our suppliers (through an increase in the cost of production or their ability to produce satisfactory products) or our business (through an impact on our inventory availability, cost of goods sold, operations or demand for the products we sell) could adversely affect our business, financial condition, results of operations and cash flows. Compliance with any new or more stringent laws or regulations, or stricter interpretations of existing laws, including increased government regulations to limit carbon dioxide and other greenhouse gas emissions as a result of concern over climate change, could require us to reduce emissions and to incur compliance costs which could affect our profitability or impede the production or distribution of our products, which could affect our results of operations, cash flows and financial condition. In addition, public expectations for reductions in greenhouse gas emissions could result in increased energy, transportation and raw material costs and may require us to make additional investments in facilities and equipment.

**CHANGES IN CONSUMER PREFERENCES COULD ADVERSELY AFFECT OUR BUSINESS.**

Our continued success depends, in part, upon the demand for coffee. We believe that competition from other beverages continues to dilute the demand for coffee. Consumers who choose soft drinks (including highly caffeinated energy drinks), juices, bottled water, teas and other beverages reduce spending on coffee. Consumer trends away from coffee could negatively impact our business.

**WE ARE SELF-INSURED AND OUR RESERVES MAY NOT BE SUFFICIENT TO COVER FUTURE CLAIMS.**

We are self-insured for many risks up to significant deductible amounts. The premiums associated with our insurance continue to increase. General liability, fire, workers' compensation, directors and officers liability, life, employee medical, dental and vision and automobile risks present a large potential liability. While we accrue for this liability based on historical claims experience, future claims may exceed claims we have incurred in the past. Should a different number of claims occur compared to what was estimated or the cost of the claims increase beyond what was anticipated, reserves recorded may not be sufficient and the accruals may need to be adjusted accordingly in future periods. Due to the Company's failure to meet the minimum credit rating criteria for participation in the alternative security program for California self-insurers for workers' compensation liability, the Company has posted a \$7.0 million and \$6.5 million letter of credit at June 30, 2015 and 2014, respectively, as a security deposit with the State of California Department of Industrial Relations Self-Insurance Plans.

**COMPETITORS MAY BE ABLE TO DUPLICATE OUR ROASTING AND BLENDING METHODS, WHICH COULD HARM OUR COMPETITIVE POSITION.**

We consider our roasting and blending methods essential to the flavor and richness of our coffees and, therefore, essential to our brand. Because our roasting methods cannot be patented, we would be unable to prevent competitors from copying these methods if such methods became known. If our competitors copy our roasts or blends, the value of our brand may be diminished, and we may lose customers to our competitors. In addition, competitors may be able to develop roasting or blending methods that are more advanced than our production methods, which may also harm our competitive position.

**OUR OPERATING RESULTS MAY HAVE SIGNIFICANT FLUCTUATIONS FROM PERIOD TO PERIOD WHICH COULD HAVE A NEGATIVE EFFECT ON OUR STOCK PRICE.**

Our operating results may fluctuate from period to period or within certain periods as a result of a number of factors, including fluctuations in the price and supply of green coffee, fluctuations in the selling prices of our products, the success of our hedging strategy, competition from existing or new competitors in our industry, changes in consumer preferences, our ability to manage inventory and fulfillment operations and maintain gross margin, and period and year-end LIFO inventory adjustments. Fluctuations in our operating results as a result of these factors or for any other

reason could cause our stock

11

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price to decline. Accordingly, we believe that period-to-period comparisons of our operating results are not necessarily meaningful, and such comparisons should not be relied upon as indicators of future performance. OPERATING LOSSES MAY RECUR AND, AS A RESULT, COULD LEAD TO INCREASED LEVERAGE WHICH MAY HARM OUR FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

We incurred an operating loss in fiscal 2012 and a net loss in fiscal 2013 and 2012. If our current strategies are unsuccessful, we may not achieve the levels of sales and earnings we expect. As a result, we could suffer additional losses in future years and our stock price could decline leading to deterioration in our credit rating, which could limit the availability of additional financing and increase the cost of obtaining financing. In addition, an increase in leverage could raise the likelihood of a financial covenant breach which in turn could limit our access to existing funding under our credit facility.

Our ability to fund the expenditures associated with our Corporate Relocation Plan, satisfy our lease obligations and make payments of principal and interest on our indebtedness depends on our future performance. Should we experience deterioration in operating performance, we will have less cash inflows from operations available to meet these obligations. In addition, if such deterioration were to lead to the closure of leased facilities, we would need to fund the costs of terminating those leases. If we are unable to generate sufficient cash flows from operations in the future to satisfy these financial obligations, we may be required to, among other things:

- seek additional financing in the debt or equity markets;
- refinance or restructure all or a portion of our indebtedness;
- sell selected assets; or
- reduce or delay planned capital or operating expenditures.

Such measures might not be sufficient to enable us to satisfy our financial obligations. In addition, any such financing, refinancing or sale of assets might not be available on economically favorable terms.

WE COULD FACE SIGNIFICANT WITHDRAWAL LIABILITY IF WE WITHDRAW FROM PARTICIPATION IN THE MULTIEMPLOYER PENSION PLANS IN WHICH WE PARTICIPATE.

We participate in two multiemployer defined benefit pension plans and a multiemployer defined contribution pension plan for certain union employees. We make periodic contributions to these plans to allow them to meet their pension benefit obligations to their participants. In the event we withdraw from participation in one or more of these plans, we could be required to make an additional lump-sum contribution to the plan, which would be reflected as an expense in our consolidated statement of operations and a liability on our consolidated balance sheet. Our withdrawal liability for any multiemployer pension plan would depend on the extent of the plan's funding of vested benefits. Future collective bargaining negotiations may result in our withdrawal from the remaining multiemployer pension plans in which we participate and, if successful, may result in a withdrawal liability, the amount of which could be material to our results of operations and cash flows.

WE DEPEND ON THE EXPERTISE OF KEY PERSONNEL. THE UNEXPECTED LOSS OF ONE OR MORE OF THESE KEY EMPLOYEES COULD HAVE A MATERIAL ADVERSE EFFECT ON OUR OPERATIONS AND COMPETITIVE POSITION.

Our continued success largely depends on the efforts and abilities of our executive officers and other key personnel. There is limited management depth in certain key positions throughout the Company. We must continue to recruit, retain and motivate management and other employees to maintain our current business and support our projected growth. The loss of key employees could adversely affect our operations and competitive position. We do not maintain key person life insurance policies on any of our executive officers.

CUSTOMER QUALITY CONTROL PROBLEMS MAY ADVERSELY AFFECT OUR BRANDS THEREBY NEGATIVELY IMPACTING OUR SALES.

Our success depends on our ability to provide customers with high quality products and service. Although we take measures to ensure that we sell only fresh coffee, tea and culinary products, we have no control over our products once they are purchased by our customers. Accordingly, customers may store our products for longer periods of time, potentially



affecting product quality. If consumers do not perceive our products and service to be of high quality, then the value of our brands may be diminished and, consequently, our operating results and sales may be adversely affected.

**ADVERSE PUBLIC OR MEDICAL OPINIONS ABOUT CAFFEINE AND REPORTS OF INCIDENTS INVOLVING FOOD BORNE ILLNESS AND TAMPERING MAY HARM OUR BUSINESS.**

Coffee contains significant amounts of caffeine and other active compounds, the health effects of some of which are not fully understood. A number of research studies conclude or suggest that excessive consumption of caffeine may lead to increased adverse health effects. An unfavorable report on the health effects of caffeine or other compounds present in coffee could significantly reduce the demand for coffee which could harm our business and reduce our sales.

Similarly, instances or reports, whether true or not, of unclean water supply, food-borne illnesses and food tampering have in the past severely injured the reputations of companies in the food processing sector and could in the future affect us as well. Any report linking us to the use of unclean water, food-borne illnesses or food tampering could damage the value of our brands, negatively impact sales of our products, and potentially lead to product liability claims. Clean water is critical to the preparation of coffee beverages. We have no ability to ensure that our customers use a clean water supply to prepare coffee beverages.

**PRODUCT RECALLS AND INJURIES CAUSED BY PRODUCTS COULD REDUCE OUR SALES AND HARM OUR BUSINESS.**

Selling products for human consumption involves inherent legal risks. We could be required to recall products due to product contamination, spoilage or other adulteration, product misbranding or product tampering. We may also suffer losses if our products or operations violate applicable laws or regulations, or if our products cause injury, illness or death. A significant product liability claim against us, whether or not successful, or a widespread product recall may reduce our sales and harm our business.

**GOVERNMENT REGULATIONS AFFECTING THE CONDUCT OF OUR BUSINESS COULD INCREASE OUR OPERATING COSTS, REDUCE DEMAND FOR OUR PRODUCTS OR RESULT IN LITIGATION.**

The conduct of our businesses, including, among other things, the production, storage, distribution, sale, labeling, quality and safety of our products, occupational safety and health practices, and distribution of many of our products, are subject to various laws and regulations administered by federal, state and local governmental agencies in the United States. These laws and regulations and interpretations thereof are subject to change as a result of political, economic or social events. Such changes may include changes in: food and drug laws; laws relating to product labeling, advertising and marketing practices; laws regarding ingredients used in our products; and increased regulatory scrutiny of, and increased litigation involving, product claims and concerns regarding the effects on health of ingredients in, or attributes of, our products. We are subject to additional and changing requirements under the Food Safety Modernization Act of 2011 (“FSMA”), which requires among other things, that food facilities conduct contamination hazard analyses, implement risk-based preventive controls and develop track-and-trace capabilities. While some of the FSMA rule-making has been completed, there are still portions of the law for which final rule-making has not yet concluded. We currently have “hazard analysis and critical control points” processes and procedures in place that may appropriately address many of the existing or future concerns arising out of FSMA; however, any new Food and Drug Administration (“FDA”) rules and regulations could require us to change certain of our operational processes and procedures, or implement new ones, and there could also be unforeseen issues, requirements and costs that arise as the FDA promulgates its new rules and regulations. The implementation of the final regulations may change our operating procedures for the production, handling and sale of our products, and may increase our operating and compliance costs.

In addition, for example, we are subject to the California Safe Drinking Water and Toxic Enforcement Act of 1986 (commonly known as “Proposition 65”), a law which requires that a specific warning appear on any product sold in California that contains a substance listed by that State as having been found to cause cancer or birth defects.

Proposition 65 exposes all food and beverage producers to the possibility of having to provide warnings on their products in California because it does not provide for any generally applicable quantitative threshold below which the presence of a listed substance is exempt from the warning requirement. Consequently, the detection of even a trace amount of a listed substance can subject an affected product to the requirement of a warning label. The Council for

Education and Research on Toxics (“CERT”) has filed suit against a number of companies as defendants, including CBI, which sell coffee in California for

13

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allegedly failing to issue clear and reasonable warnings in accordance with Proposition 65 that the coffee they produce, distribute and sell contains acrylamide.

Any action under Proposition 65 would likely seek statutory penalties and costs of enforcement, as well as a requirement to provide warnings and other notices to customers or remove acrylamide from finished products (which may be impossible). If we were required to add warning labels to any of our products or place warnings in certain locations where our products are sold, sales of those products could suffer not only in those locations but elsewhere. Any change in labeling requirements for our products also may lead to an increase in packaging costs or interruptions or delays in packaging deliveries. If we fail to comply with applicable laws and regulations, we may be subject to civil remedies, including fines, injunctions, recalls or seizures, as well as potential criminal sanctions, which could have a material adverse effect on our results of operations.

#### COMPLIANCE WITH REGULATIONS AFFECTING PUBLICLY TRADED COMPANIES HAS RESULTED IN INCREASED COSTS AND MAY CONTINUE TO RESULT IN INCREASED COSTS IN THE FUTURE.

We are subject to laws, rules and regulations of federal and state regulatory authorities, including NASDAQ and financial market entities, charged with the protection of investors and the oversight of publicly traded companies. During the past few years, these entities, including the Public Company Accounting Oversight Board, the SEC and NASDAQ, have issued new regulations and continue to develop additional regulations, most notably the Sarbanes-Oxley Act of 2002 (“SOX”) and, more recently, the Dodd-Frank Wall Street Reform and Consumer Protection Act. Our efforts to comply with these requirements and regulations have resulted in, and are likely to continue to result in, increased expenses and a diversion of substantial management time and attention from revenue-generating activities to compliance activities. In particular, our efforts to comply with Section 404 of SOX and the related regulations regarding our required assessment of our internal control over financial reporting and our independent registered public accounting firm's audit of the effectiveness of our internal control over financial reporting, have required, and continue to require, the commitment of significant financial and management resources. To the extent that we identify areas of our disclosure controls and procedures and/or internal control over financial reporting requiring improvement (such as the material weakness in internal control over financial reporting as of June 30, 2013 identified in Part II, Item 9A of our Annual Report on Form 10-K for the fiscal year ended June 30, 2013), we may have to incur additional costs and divert management's time and attention. Because these regulations are subject to varying interpretations, their application in practice may evolve over time as new guidance becomes available. This evolution may result in continuing uncertainty regarding compliance matters and additional costs necessitated by ongoing revisions to our disclosure and governance practices. Failure to comply with such regulations could have a material adverse effect on our business and stock price.

#### CONCENTRATION OF OWNERSHIP AMONG OUR PRINCIPAL STOCKHOLDERS MAY DISSUADE POTENTIAL INVESTORS FROM PURCHASING OUR STOCK, MAY PREVENT NEW INVESTORS FROM INFLUENCING SIGNIFICANT CORPORATE DECISIONS AND MAY RESULT IN A LOWER TRADING PRICE FOR OUR STOCK THAN IF OWNERSHIP OF OUR STOCK WAS LESS CONCENTRATED.

As of September 11, 2015, members of the Farmer family or entities controlled by the Farmer family (including trusts) comprising a group for purposes of Section 13 of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), beneficially owned approximately 36.5% of our outstanding common stock. As a result, these stockholders, acting together, may be able to influence the outcome of stockholder votes, including votes concerning the election and removal of directors and approval of significant corporate transactions. This level of concentrated ownership may have the effect of delaying or preventing a change in the management or voting control of the Company. In addition, this significant concentration of share ownership may adversely affect the trading price of our common stock if investors perceive disadvantages in owning stock in a company with such concentrated ownership.

#### FUTURE SALES OF SHARES BY EXISTING STOCKHOLDERS COULD CAUSE OUR STOCK PRICE TO DECLINE.

All of our outstanding shares are eligible for sale in the public market, subject in certain cases to limitations under Rule 144 of the Securities Act of 1933, as amended (the “Securities Act”). Also, shares subject to outstanding options and restricted stock under the Farmer Bros. Co. Amended and Restated 2007 Long-Term Incentive Plan and its predecessor plan, the Farmer Bros. Co. 2007 Omnibus Plan, are eligible for sale in the public market to the extent

permitted by the provisions

14

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of various vesting agreements, our stock ownership guidelines, and Rule 144 under the Securities Act. If these shares are sold, or if it is perceived that they will be sold in the public market, the trading price of our common stock could decline.

#### ANTI-TAKEOVER PROVISIONS COULD MAKE IT MORE DIFFICULT FOR A THIRD PARTY TO ACQUIRE US.

Our Board of Directors has the authority to issue up to 500,000 shares of preferred stock and to determine the price, rights, preferences, privileges and restrictions, including voting rights, of those shares without any further vote or action by stockholders. The rights of the holders of our common stock may be subject to, and may be adversely affected by, the rights of the holders of any preferred stock that may be issued in the future. The issuance of preferred stock may have the effect of delaying, deterring or preventing a change in control of the Company without further action by stockholders and may adversely affect the voting and other rights of the holders of our common stock. Further, certain provisions of our charter documents, including a classified board of directors, provisions eliminating the ability of stockholders to take action by written consent, and provisions limiting the ability of stockholders to raise matters at a meeting of stockholders without giving advance notice, may have the effect of delaying or preventing changes in control or management of the Company, which could have an adverse effect on the market price of our stock. In addition, our charter documents do not permit cumulative voting, which may make it more difficult for a third party to gain control of our Board of Directors. Further, we are subject to the anti-takeover provisions of Section 203 of the Delaware General Corporation Law, which will prohibit us from engaging in a “business combination” with an “interested stockholder” for a period of three years after the date of the transaction in which the person became an interested stockholder, even if such combination is favored by a majority of stockholders, unless the business combination is approved in a prescribed manner. The application of Section 203 also could have the effect of delaying or preventing a change in control or management.

Item 1.B. Unresolved Staff Comments

None.

Item 2. Properties

We currently have three production facilities in Torrance, California, Portland, Oregon and Houston, Texas. Pursuant to the Corporate Relocation Plan, we will close our Torrance facility and relocate its operations to a new state-of-the-art facility housing our manufacturing, distribution, coffee lab and corporate headquarters in Northlake, Texas in the Dallas/Fort Worth area.

We expect to close the Torrance facility in phases, and we began the process in the spring of 2015. Through April 2015, coffee purchasing, roasting, grinding, packaging and product development took place at our Torrance, Portland and Houston production facilities. In May 2015, we moved the coffee roasting, grinding and packaging functions that had been conducted in Torrance to our Houston and Portland production facilities and in conjunction relocated our Houston distribution operations to our Oklahoma City distribution center. Spice blending, grinding, packaging and product development continues to take place at our Torrance production facility, and we are considering options for this division of our business. We are in the process of transferring our primary administrative offices from Torrance to Fort Worth, Texas, where we have leased 32,000 square feet of temporary office space. The transfer of our primary administrative offices to this temporary office space is expected to be completed by the end of the second quarter of fiscal 2016. Construction of and relocation to the new facility are expected to be completed by the end of the first half of fiscal 2017. Our Torrance facility is expected to be sold as part of the Corporate Relocation Plan.

On July 17, 2015, we entered into a lease agreement (“Lease Agreement”) with WF-FB NLTX, LLC (“Landlord”), to lease a 538,000 square foot facility to be constructed on 28.2 acres of land located in Northlake, Texas. The new facility is expected to include approximately 85,000 square feet for corporate offices, more than 100,000 square feet for manufacturing, and more than 300,000 square feet for distribution. The facility will also house a coffee lab. The Lease Agreement contains a purchase option exercisable at any time by us on or before ninety days prior to the scheduled completion date with an option purchase price equal to 103% of the total project cost as of the date of the option closing if the option closing occurs on or before July 17, 2016. The option purchase price will increase by 0.35% per month thereafter up to and including the date which is the earlier of (A) ninety days after the scheduled completion date and (B) December



31, 2016. The obligation to pay rent will commence on December 31, 2016 if the option remains unexercised. On July 17, 2015, we also entered into a Development Management Agreement (“DMA”) with Stream Realty Partners-DFW, L.P., a Texas limited partnership (“Developer”). Pursuant to the DMA, we retained the services of Developer to manage, coordinate, represent, assist and advise the Company on matters concerning the pre-development, development, design, entitlement, infrastructure, site preparation and construction of the new facility. The term of the DMA is from July 17, 2015 until final completion of the project. For more information, see Part II. Item 7. “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Corporate Relocation Plan” of this report.

As of June 30, 2015, distribution continued to take place out of our Torrance and Portland production facilities, as well as separate distribution centers in Northlake, Illinois, Oklahoma City, Oklahoma, and Moonachie, New Jersey. We stage our products in 111 branch warehouses throughout the contiguous United States. Our five distribution centers and these branch warehouses, taken together, represent a vital part of our business, but no individual branch warehouse is material to the business as a whole. Our branch warehouses vary in size from approximately 2,500 to 50,000 square feet.

Approximately 55% of our facilities are leased with a variety of expiration dates through 2020, although our two largest facilities, in Torrance and Houston, are owned. The lease on the Portland facility expires in 2018 and has options to renew for up to an additional 10 years. The new facility in Northlake, Texas will be leased subject to the purchase option described above.

During the execution of the Corporate Relocation Plan, we anticipate that our existing production facilities in Portland and Houston will operate at much higher utilization rates than they have historically, upwards of 90% or higher depending on product demand and the number of production shifts. We believe our existing Portland and Houston production facilities, together with our existing distribution centers and branch warehouses will provide adequate capacity for our current operations. In the event of significant increases in demand that precede the completion of construction of our Northlake facility, we may be required to increase staffing, including through temporary labor and overtime, use third-party manufacturers, lease production facilities or use some combination of those alternatives or others to satisfy the additional demand. We believe the temporary office space for our administrative offices in Fort Worth, Texas is adequate to meet the needs of our administrative staff until our new facility is complete. A complete list of properties operated by Farmer Bros. is attached hereto as Exhibit 99.1 and incorporated herein by reference.

#### Item 3. Legal Proceedings

Council for Education and Research on Toxics (“CERT”) v. Brad Berry Company Ltd., et al., Superior Court of State of California, County of Los Angeles

On August 31, 2012, CERT filed an amendment to a private enforcement action adding a number of companies as defendants, including CBI, which sell coffee in California. The suit alleges that the defendants have failed to issue clear and reasonable warnings in accordance with Proposition 65 that the coffee they produce, distribute and sell contains acrylamide. This lawsuit was filed in Los Angeles Superior Court (the “Court”). CERT has demanded that the alleged violators remove acrylamide from their coffee or provide Proposition 65 warnings on their products and pay \$2,500 per day for each and every violation while they are in violation of Proposition 65.

Acrylamide is produced naturally in connection with the heating of many foods, especially starchy foods, and is believed to be caused by the Maillard reaction, though it has also been found in unheated foods such as olives. With respect to coffee, acrylamide is produced when coffee beans are heated during the roasting process—it is the roasting itself that produces the acrylamide. While there has been a significant amount of research concerning proposals for treatments and other processes aimed at reducing acrylamide content of different types of foods, to our knowledge there is currently no known strategy for reducing acrylamide in coffee without negatively impacting the sensorial properties of the product.

The Company has joined a Joint Defense Group and, along with the other co-defendants, has answered the complaint, denying, generally, the allegations of the complaint, including the claimed violation of Proposition 65 and further denying CERT’s right to any relief or damages, including the right to require a warning on products. The Joint Defense Group contends that based on proper scientific analysis and proper application of the standards set forth in Proposition 65, exposures to acrylamide from the coffee products pose no significant risk of cancer and, thus, these exposures are exempt from Proposition 65’s warning requirement.



To date, the pleadings stage of the case has been completed. The Court has phased trial so that the “no significant risk level” defense, the First Amendment defense, and the preemption defense will be tried first. Fact discovery and expert discovery on these “Phase 1” defenses have been completed, and the parties filed trial briefs. Trial commenced on September 8, 2014, and testimony completed on November 4, 2014, for the three Phase 1 defenses. Following two continuances, the court heard on April 9, 2015 final arguments on the Phase 1 issues. On July 25, 2015, the court issued its Proposed Statement of Decision with respect to Phase 1 defenses against the defendants, which was confirmed, on September 2, 2015 in the Final Statement of Decision. At this time, we are not able to predict the probability of the outcome or estimate of loss, if any, related to this matter.

Steve Hernandez vs. Farmer Bros. Co., Superior Court of State of California, County of Los Angeles

On July 24, 2015, former Company employee Hernandez filed a putative class action complaint for damages alleging a single cause of action for unfair competition under the California Business & Professions Code. The claim purports to seek disgorgement of profits for alleged violations of various provisions of the California Labor Code relating to: failing to pay overtime, failing to provide meal breaks, failing to pay minimum wage, failing to pay wages timely during employment and upon termination, failing to provide accurate and complete wage statements, and failing to reimburse business-related expenses. Hernandez’s complaint seeks restitution in an unspecified amount and injunctive relief, in addition to attorneys’ fees and expenses. Hernandez alleges that the putative class is all “current and former hourly-paid or non-exempt individuals” for the four (4) years preceding the filing of the complaint through final judgment, and Hernandez also purports to reserve the right to establish sub-classes as appropriate. The court to which the case was initially assigned issued an order on September 4, 2015 staying this case until the initial status conference on November 17, 2015 on the basis that the case will be re-assigned as a “complex” action to the Central Civil West Courthouse in Los Angeles. We intend to timely respond to the complaint once the stay has been lifted. At this time, we are not able to predict the probability of the outcome or estimate of loss, if any, related to this matter.

We are party to various other pending legal and administrative proceedings. It is our opinion that the outcome of such proceedings will not have a material impact on our financial position, results of operations, or cash flows.

Item 4. Mine Safety Disclosures

Not applicable.

## PART II

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

## Market Information

We have one class of common stock which is traded on the NASDAQ Global Select Market under the symbol "FARM." The following table sets forth, for the periods indicated, the cash dividends declared and the high and low sales prices of the shares of common stock of the Company as quoted on the NASDAQ Global Select Market.

	Year Ended June 30, 2015			Year Ended June 30, 2014		
	High	Low	Dividend	High	Low	Dividend
1st Quarter	\$29.10	\$20.29	\$—	\$16.44	\$13.07	\$—
2nd Quarter	\$31.86	\$26.01	\$—	\$24.33	\$14.73	\$—
3rd Quarter	\$32.50	\$22.72	\$—	\$24.28	\$19.45	\$—
4th Quarter	\$25.96	\$23.39	\$—	\$21.92	\$18.05	\$—

## Holders

As of September 11, 2015, there were approximately 2,300 holders of record and the closing price of our common stock on NASDAQ was \$25.86. Determination of holders of record is based upon the number of record holders and individual participants in security position listings.

## Dividends

The Company's Board of Directors has omitted the payment of a quarterly dividend since the third quarter of fiscal 2011. The amount, if any, of dividends to be paid in the future will depend upon the Company's then available cash, anticipated cash needs, overall financial condition, loan agreement restrictions, future prospects for earnings and cash flows, as well as other relevant factors. For a description of the loan agreement restrictions on the payment of dividends, see "Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources" included in Part II, Item 7 of this report, and Note 12, "Bank Loan," of the Notes to Consolidated Financial Statements included in Part II, Item 8 of this report.

## Equity Compensation Plan Information

This information appears in Part III, Item 12 of this report.

### Performance Graph

The chart set forth below shows the value of an investment of \$100.00 at the close of trading on June 30, 2010 in each of Farmer Bros. Co. common stock, the Russell 2000 Index, the Value Line Food Processing Index and a peer group index. All values assume reinvestment of the pre-tax value of dividends paid by companies included in these indices and are calculated as of June 30 of each year.

Because no published peer group is similar to the Company's portfolio of business, the Company created a peer group index that includes the following companies: B&G Foods, Inc., Boulder Brands, Inc., Coffee Holding Co. Inc., Dunkin' Brands Group, Inc., National Beverage Corp., SpartanNash Co., Inventure Foods, Inc., Treehouse Foods, Inc. and Farmer Bros. Co. The companies in the peer group index are in the same industry as Farmer Bros. Co. with product offerings that overlap with the Company's product offerings.

The historical stock price performance of the Company's common stock shown in the performance graph below is not necessarily indicative of future stock price performance. The Russell 2000 Index, the Value Line Food Processing Index and the peer group index are included for comparative purposes only. They do not necessarily reflect management's opinion that such indices are an appropriate measure for the relative performance of the stock involved, and they are not intended to forecast or be indicative of possible future performance of our common stock.

#### Comparison of Five-Year Cumulative Total Return

Farmer Bros. Co., Russell 2000 Index, Value Line Food Processing Index and Peer Group Index  
(Performance Results Through June 30, 2015)

	2010	2011	2012	2013	2014	2015
Farmer Bros. Co.	\$100.00	\$68.50	\$53.78	\$94.99	\$145.99	\$158.76
Russell 2000 Index	\$100.00	\$137.41	\$134.55	\$167.12	\$206.63	\$220.69
Value Line Food Processing Index	\$100.00	\$129.52	\$140.73	\$168.82	\$206.60	\$220.89
Peer Group Index	\$100.00	\$140.22	\$167.29	\$202.21	\$225.56	\$246.30

Source: Value Line Publishing, LLC

## Item 6. Selected Financial Data

The following selected consolidated financial data should be read in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations and our consolidated financial statements and the notes thereto included elsewhere in this report.

(In thousands, except per share data)	Year Ended June 30,				
	2015	2014	2013	2012	2011
Consolidated Statement of Operations Data:					
Net sales	\$545,882	\$528,380	\$513,869	\$498,701	\$464,346
Cost of goods sold	\$348,846	\$332,466	\$328,693	\$332,309	\$316,109
Restructuring and other transition expenses(1)	\$10,432	\$—	\$—	\$—	\$—
Income (loss) from operations	\$3,284	\$8,916	\$372	\$(21,846)	\$(70,725)
Income (loss) from operations per common share—diluted	\$0.20	\$0.56	\$0.02	\$(1.41)	\$(4.69)
Net income (loss)(2)	\$652	\$12,132	\$(8,462)	\$(26,576)	\$(52,033)
Net income (loss) per common share—basic	\$0.04	\$0.76	\$(0.54)	\$(1.72)	\$(3.45)
Net income (loss) per common share—diluted	\$0.04	\$0.76	\$(0.54)	\$(1.72)	\$(3.45)
Cash dividends declared per common share	\$—	\$—	\$—	\$—	\$0.18
(In thousands)	June 30,				
	2015	2014	2013	2012	2011
Consolidated Balance Sheet Data:					
Total assets	\$240,943	\$266,177	\$244,136	\$257,916	\$292,050
Capital lease obligations(3)	\$5,848	\$9,703	\$12,168	\$15,867	\$8,636
Long-term borrowings under revolving credit facility	\$—	\$—	\$10,000	\$—	\$—
Earn-out payable-RLC acquisition(4)	\$200	\$—	\$—	\$—	\$—
Long-term derivative liabilities	\$25	\$—	\$1,129	\$—	\$—
Total liabilities(5)	\$150,932	\$151,313	\$162,298	\$174,364	\$158,635

(1) See Note 3 “Corporate Relocation Plan” of the Notes to Consolidated Financial Statements included in Part II, Item 8 of this report.

(2) Includes: (a) \$(0.4) million in net losses from sales of assets, primarily vehicles, \$10.4 million in restructuring and other transition expenses and \$4.9 million in beneficial effect of liquidation of LIFO inventory quantities in fiscal 2015; (b) \$3.8 million in net gains from sales of assets, primarily real estate, in fiscal 2014; (c) \$4.5 million in net gains from sales of assets, primarily real estate, and \$1.1 million in beneficial effect of liquidation of LIFO inventory quantities in fiscal 2013; (d) \$14.2 million in beneficial effect of liquidation of LIFO inventory quantities, \$5.6 million in impairment losses on goodwill and intangible assets and \$4.6 million in pension withdrawal expense in fiscal 2012; and (e) \$(13.4) million in income tax benefit, \$7.8 million in impairment losses on intangible assets, \$1.5 million in pension curtailment expense and \$1.1 million in beneficial effect of liquidation of LIFO inventory quantities in fiscal 2011.

(3) Excludes imputed interest.

(4) See Note 2 “Acquisition” of the Notes to Consolidated Financial Statements included in Part II, Item 8 of this report.

(5) Excludes the Lease Agreement for the Northlake, Texas facility that the Company entered into subsequent to the fiscal year ended June 30, 2015 (see Note 21 “Subsequent Event” of the Notes to Consolidated Financial Statements included in Part II, Item 8 of this report).

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion contains forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from those anticipated in these forward-looking statements as a result of many factors. The results of operations for the fiscal years ended June 30, 2015, 2014 and 2013 are not necessarily indicative of the results that may be expected for any future period. The following discussion should be read in combination with the consolidated financial statements and the notes thereto included in Part II, Item 8 of this report and with the "Risk Factors" described in Part I, Item 1A of this report.

Overview

We are a manufacturer, wholesaler and distributor of coffee, tea and culinary products. Our customers include restaurants, hotels, casinos, offices, QSRs, convenience stores, healthcare facilities and other foodservice providers, as well as private brand retailers in the QSR, grocery, drugstore, restaurant, convenience store and independent coffeehouse channels. We were founded in 1912, were incorporated in California in 1923, and reincorporated in Delaware in 2004. We operate in one business segment.

Since 2007, Farmer Bros. has achieved growth primarily through the acquisition in 2007 of CBH, the parent company of CBI, a specialty coffee manufacturer and wholesaler, and the acquisition in 2009 from Sara Lee of certain assets used in connection with the DSD Coffee Business. Further, in fiscal 2015, we completed the RLC Acquisition to expand our DSD and in-room distribution business in the Southeastern United States.

Corporate Relocation Plan

On February 5, 2015, we announced the Corporate Relocation Plan, pursuant to which we will close our Torrance facility and relocate these operations to a new state-of-the-art facility housing our manufacturing, distribution, coffee lab and corporate headquarters. Our decision resulted from a comprehensive review of alternatives designed to make the Company more competitive and better positioned to capitalize on growth opportunities. The new facility will be located in Northlake, Texas in the Dallas/Fort Worth area.

We expect to close our Torrance facility in phases and we began the process in the spring of 2015. Through April 2015, coffee purchasing, roasting, grinding, packaging and product development took place at our Torrance, Portland and Houston production facilities. In May 2015, we moved the coffee roasting, grinding and packaging functions that had been conducted in Torrance to our Houston and Portland production facilities and in conjunction relocated our Houston distribution operations to our Oklahoma City distribution center. Spice blending, grinding, packaging and product development continues to take place at our Torrance production facility, and we are considering options for this division of our business. As of June 30, 2015, distribution continued to take place out of our Torrance and Portland production facilities, as well as separate distribution centers in Northlake, Illinois; Oklahoma City, Oklahoma; and Moonachie, New Jersey. We are in the process of transferring our primary administrative offices from Torrance to Fort Worth, Texas, where we have leased 32,000 square feet of temporary office space. The transfer of our primary administrative offices to this temporary office space is expected to be completed by the end of the second quarter of fiscal 2016. Construction of and relocation to the new facility are expected to be completed by the end of the second quarter of fiscal 2017. Our Torrance facility is expected to be sold as part of the Corporate Relocation Plan. Expenses related to the Corporate Relocation Plan included in "Relocation and other transition expenses" in our consolidated statements of operations include employee retention and separation benefits, facility-related costs, and other related costs such as travel, legal, consulting and other professional services. In order to receive the retention and/or separation benefits, impacted employees are required to provide service through their retention dates which vary from May 2015 through March 2016 or separation dates which vary from May 2015 through June 2016. A liability for such retention and separation benefits was recorded at the communication date in "Accrued payroll expenses" on our consolidated balance sheets. Facility-related costs and other related costs are recognized in the period when the liability is incurred.

Expenses related to our Corporate Relocation Plan in fiscal 2015 consisted of \$6.5 million in employee retention and separation benefits, \$0.6 million in facility-related costs including the relocation of certain distribution operations, and \$3.3 million in other related costs including travel, legal, consulting and other professional services. Facility-related costs



included \$0.3 million in non-cash depreciation expense associated with the idled Torrance production facility resulting from the consolidation of coffee production operations with the Houston and Portland production facilities.

The following table sets forth the activity in liabilities associated with our Corporate Relocation Plan for the fiscal year ended June 30, 2015:

(In thousands)	Balances, July 1, 2014	Additions	Payments	Non-Cash Settled	Adjustments	Balances, June 30, 2015
Employee-related costs(1)	\$—	\$6,513	\$357	\$—	\$—	\$6,156
Facility-related costs(2)	—	625	373	252	—	—
Other(3)	—	3,294	3,094	—	—	200
Total	\$—	\$10,432	\$3,824	\$252	\$—	\$6,356
Current portion	—					6,356
Non-current portion	—					—
Total	\$—					\$6,356

(1) Included in “Accrued payroll expenses” on the consolidated balance sheets.

(2) Non-cash settled facility-related cost represents depreciation expense associated with the idled Torrance production facility resulting from the consolidation of coffee production operations with the Houston and Portland production facilities.

(3) Included in “Accounts payable” on the consolidated balance sheets.

Based on current assumptions and subject to continued implementation of the Corporate Relocation Plan as planned, we estimate that we will incur approximately \$25 million in cash costs in connection with the exit of the Torrance facility consisting of \$14 million in employee retention and separation benefits, \$4 million in facility-related costs and \$7 million in other related costs. We may incur certain other non-cash asset impairment costs, pension-related costs and postretirement benefit costs in connection with the Corporate Relocation Plan which we have not yet determined. We recognized approximately 41% of the aggregate cash costs in fiscal 2015. The remainder is expected to be recognized in fiscal 2016 and the first quarter of fiscal 2017.

On July 17, 2015, we entered into a lease agreement (“Lease Agreement”) with WF-FB NLTX, LLC (“Landlord”), to lease a 538,000 square foot facility to be constructed on 28.2 acres of land located in Northlake, Texas. The new facility is expected to include approximately 85,000 square feet for corporate offices, more than 100,000 square feet for manufacturing, and more than 300,000 square feet for distribution. The facility will also house a coffee lab. The Lease Agreement contains a purchase option exercisable at any time by us on or before ninety days prior to the scheduled completion date with an option purchase price equal to 103% of the total project cost as of the date of the option closing if the option closing occurs on or before July 17, 2016. The option purchase price will increase by 0.35% per month thereafter up to and including the date which is the earlier of (A) ninety days after the scheduled completion date and (B) December 31, 2016. The obligation to pay rent will commence on December 31, 2016, if the option remains unexercised.

The initial term of the lease is for 15 years from the rent commencement date with six options to renew, each with a renewal term of 5 years. The annual base rent for the new facility will be an amount equal to:

- the product of 7.50% and (a) the total estimated budget for the project, or (b) all construction costs outlined in the final budget on or prior to the scheduled completion date; or
- the product of 7.50% and the total project costs, to the extent that all components of the document delivery and completion requirement are fully satisfied on or prior to the scheduled completion date.

Annual base rent will increase by 2% during each year of the lease term.

On July 17, 2015, we also entered into a Development Management Agreement (“DMA”) with Stream Realty Partners-DFW, L.P., a Texas limited partnership (“Developer”). Pursuant to the DMA, we retained the services of Developer to manage, coordinate, represent, assist and advise us on matters concerning the pre-development, development, design, entitlement, infrastructure, site preparation and construction of the new facility. The term of the DMA is from July 17, 2015 until final completion of the project. Pursuant to the DMA, we will pay Developer:

- a development fee of 3.25% of all development costs;
- an oversight fee of 2% of any amounts paid to the Company-contracted parties for any oversight by the Developer of Company-contracted work;
- an incentive fee, the amount of which will be determined by the parties, if final completion occurs prior to the scheduled completion date; and
- an amount equal to \$2.6 million as additional fee in respect of development services.

Subject to the finalization of the optimal utilization, automation and build-out of the facility, the new facility construction costs are currently expected to be approximately \$35 million to \$40 million. Pursuant to the Lease Agreement, Landlord owns the premises, and is obligated to finance the overall construction and to reimburse us for substantially all expenditures we incur with respect to the construction of the premises. In addition to Landlord's expenditures for the construction of the new facility, we expect to incur and pay for approximately \$20 million to \$25 million in anticipated capital expenditures for machinery and equipment, furniture and fixtures, and related expenditures. No such capital expenditures were incurred in the fiscal years ended June 30, 2015 and 2014. The majority of the capital expenditures associated with the new facility are expected to be incurred in early fiscal 2017. The expenditures associated with the new facility are expected to be partially offset by the net proceeds from the planned sale of our Torrance facility.

#### Acquisition

On January 12, 2015, we completed the RLC Acquisition. The purchase price was \$1.5 million, consisting of \$1.2 million in cash paid at closing and earnout payments of up to \$0.1 million that we expect to pay each year over a three-year period based on achievement of certain milestones.

The accompanying consolidated financial statements include RLC's results since the date of acquisition. At closing, we received substantially all of the fixed assets of RLC. We did not assume any liabilities of RLC. Disclosure of the impact of the RLC Acquisition on a pro forma basis as if the results of RLC had been included from the beginning of the periods presented has not been included in the accompanying consolidated financial statements as the impact was not material.

The acquisition has been accounted for as a business combination. The total purchase price has been allocated to tangible and intangible assets based on their estimated fair values as of January 12, 2015 as determined by management based upon a third-party valuation.

The following table summarizes the estimated fair values of the assets acquired at the date of acquisition, based on the final purchase price allocation:

Fair Values of Assets Acquired		Estimated Useful Life (years)
(In thousands)		
Property, plant and equipment	\$338	
Intangible assets:		
Non-compete agreement	20	3.0
Customer relationships	870	4.5
Goodwill	272	
Total assets acquired	\$1,500	

The excess of the purchase price over the total fair value of assets acquired is included as goodwill. Intangible assets consist of a non-compete agreement and customer relationships with a total net carrying value and accumulated amortization



as of June 30, 2015 of \$0.8 million and \$0.1 million, respectively. Estimated aggregate amortization of acquired intangible assets, calculated on straight-line basis and based on the estimated fair values is \$0.2 million in each of the next four fiscal years commencing with fiscal 2016.

#### Critical Accounting Policies and Estimates

Management's discussion and analysis of financial condition and results of operations is based upon our consolidated financial statements, which have been prepared in accordance with U.S. generally accepted accounting principles ("GAAP"). Our significant accounting policies are discussed in Note 1 to our consolidated financial statements, included herein at Part II, Item 8. The preparation of these financial statements requires us to make estimates, judgments and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. On an ongoing basis, we evaluate our estimates, including those related to inventory valuation, including LIFO reserves, the allowance for doubtful accounts, deferred tax assets, liabilities relating to retirement benefits, liabilities resulting from self-insurance, tax liabilities and litigation. We base our estimates, judgments and assumptions on historical experience and other relevant factors that are believed to be reasonable based on information available to us at the time these estimates are made.

While we believe that the historical experience and other factors considered provide a meaningful basis for the accounting policies applied in the preparation of the consolidated financial statements, actual results may differ from these estimates, which could require us to make adjustments to these estimates in future periods.

We believe that the estimates, judgments and assumptions involved in the accounting policies described below require the most subjective judgment and have the greatest potential impact on our financial statements, so we consider these to be our critical accounting policies. Our senior management has reviewed the development and selection of these critical accounting policies and estimates, and their related disclosure in this report, with the Audit Committee of our Board of Directors.

#### Coffee Brewing Equipment and Service

We classify certain expenses related to coffee brewing equipment provided to customers as cost of goods sold. These costs include the cost of the equipment as well as the cost of servicing that equipment (including service employees' salaries, cost of transportation and the cost of supplies and parts) and are considered directly attributable to the generation of revenues from our customers. We capitalize coffee brewing equipment and depreciate it over a three or five year period, depending on the assessment of its useful life and report the depreciation expense in cost of goods sold.

#### Investments

Our investments consist of money market instruments, marketable debt, equity and hybrid securities. Investments are held for trading purposes and stated at fair value. The cost of investments sold is determined on the specific identification method. Dividend and interest income are accrued as earned.

#### Exposure to Commodity Price Fluctuations and Derivative Instruments

Our primary raw material is green coffee, an agricultural commodity. Green coffee prices are determined by worldwide forces of supply and demand, and, as a result, green coffee prices are volatile. In the fiscal year ended June 30, 2015, "C" market prices rose in the first quarter but declined during the remaining three quarters. In the fiscal year ended June 30, 2014, the "C" market experienced a significant drop during the first two quarters and then increased sharply in the third quarter. In the fiscal year ended June 30, 2013, average "C" market prices declined approximately 30.1% from the prior fiscal year. Average "C" market prices in fiscal 2015, 2014 and 2013 were \$1.66, \$1.42 and \$1.51, respectively. In general, increases in the price of green coffee could cause our cost of goods sold to increase and, if not offset by product price increases, could negatively affect our financial condition and results of operations. As a result, our business model strives to reduce the impact of green coffee price fluctuations on our financial results and to protect and stabilize our margins, principally through customer arrangements and derivative instruments. Customers generally pay for our products based either on a price schedule that we announce or on a commodity-based pricing mechanism whereby the changes in green coffee commodity costs are passed through to the customer. The pricing



schedule is generally subject to adjustment, either on contractual terms or in accordance with periodic product price adjustments, typically monthly, resulting in, at the least, a 30-day lag in our ability to correlate the changes in our prices with fluctuations in the cost of raw materials and other inputs. Approximately 36% and 40%, respectively, of our roast and ground coffee volumes for the fiscal years ended June 30, 2015 and 2014 were based on a price schedule. Approximately 64% and 60%, respectively, of our roast and ground coffee volumes for the fiscal years ended June 30, 2015 and 2014 were sold to customers under commodity-based pricing arrangements. Consequently, while our revenues can fluctuate significantly as green coffee prices change, we would expect the impact of these price changes on our profitability to be less significant.

In addition to our customer arrangements, we utilize derivative instruments to reduce further the impact of changing green coffee commodity prices. We purchase exchange-traded coffee-related derivative instruments to enable us to lock in the price of green coffee commodity purchases. These derivative instruments may be entered into at the direction of the customer under commodity-based pricing arrangements to effectively lock in the purchase price of green coffee under such customer arrangements, in certain cases up to 18 months or longer in the future.

Notwithstanding this customer direction, pursuant to Accounting Standards Codification 815, "Derivatives and Hedging" ("ASC 815"), we are considered the owner of these derivative instruments and, therefore, we are required to account for them as such. In the event the customer fails to purchase the products associated with the underlying derivative instruments for which the price has been locked-in on behalf of the customer, we expect that such derivative instruments will be assigned to, and assumed by, the customer in accordance with contractual terms or, in the absence of such terms, in accordance with standard industry custom and practice. In the event the customer fails to assume such derivative instruments, we will remain obligated on the derivative instruments at settlement. We generally settle derivative instruments to coincide with the receipt of the purchased green coffee or apply the derivative instruments to purchase orders effectively fixing the cost of in-bound green coffee purchases. As of June 30, 2015 and 2014, we had 34.2 million and 19.8 million pounds of green coffee covered under coffee-related derivative instruments, respectively. We do not purchase any derivative instruments to hedge cost fluctuations of any commodities other than green coffee.

The fair value of derivative instruments is based upon broker quotes. Beginning April 1, 2013, we implemented procedures following the guidelines of ASC 815 to enable us to account for certain coffee-related derivative instruments as accounting hedges in order to minimize the volatility created in our quarterly results from utilizing these derivative contracts and to improve comparability between reporting periods. As a result, beginning in the fourth quarter of fiscal 2013, the effective portion of the gains and losses from re-valuing the coffee-related derivative instruments to their market prices is being recorded in accumulated other comprehensive income (loss) ("AOCI") on our consolidated balance sheet and subsequently reclassified into cost of goods sold in the period or periods when the hedged transaction affects earnings. At June 30, 2015, approximately 94% of our outstanding coffee-related derivative instruments, representing 32.3 million pounds of forecasted green coffee purchases, were designated as cash flow hedges. At June 30, 2014, approximately 98% of our outstanding coffee-related derivative instruments, representing 19.4 million pounds of forecasted green coffee purchases, were designated as cash flow hedges. The portion of open hedging contracts that are not 100% effective as cash flow hedges and those that are not designated as accounting hedges are marked to period-end market price and unrealized gains or losses based on whether the period-end market price was higher or lower than the price we locked-in are recognized in our results of operations.

Our risk management practices reduce but do not eliminate our exposure to changing green coffee prices. While we have limited our exposure to unfavorable green coffee price changes, we have also limited our ability to benefit from favorable price changes. Further, our counterparty may require that we post cash collateral if the fair value of our derivative liabilities exceed the amount of credit granted by such counterparty, thereby reducing our liquidity. At June 30, 2015, we had \$1.0 million in restricted cash representing cash held on deposit in margin accounts for coffee-related derivative instruments due to a net loss position in such accounts. At June 30, 2014, because we had a net gain position in our coffee-related derivative margin accounts, none of the cash in these accounts was restricted. Changes in commodity prices and the number of coffee-related derivative instruments held could have a significant impact on cash deposit requirements under our broker and counterparty agreements.

Allowance for Doubtful Accounts

We maintain an allowance for estimated losses resulting from the inability of our customers to meet their obligations. Due to improved collection of our outstanding receivables in fiscal 2015, we decreased the allowance for doubtful accounts

25

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by \$8,000. In fiscal 2014, we reclassified \$0.5 million of the allowance for doubtful long-term notes receivable to net with the corresponding notes receivable. Due to improved collection of our outstanding receivables, in fiscal 2013, we reduced our allowance for doubtful accounts by \$0.8 million, however, in fiscal 2014 we increased the allowance for doubtful accounts by \$0.1 million.

#### Inventories

Inventories are valued at the lower of cost or market. We account for coffee, tea and culinary products on the last in, first out (“LIFO”) basis, and coffee brewing equipment parts on the first in, first out (“FIFO”) basis. We regularly evaluate our inventories to determine whether market conditions are appropriately reflected in the recorded carrying value. At the end of each quarter, we record the expected effect of the liquidation of LIFO inventory quantities, if any, and record the actual impact at fiscal year-end. An actual valuation of inventory under the LIFO method is made only at the end of each fiscal year based on the inventory levels and costs at that time. If inventory quantities decline at the end of the fiscal year compared to the beginning of the fiscal year, the reduction results in the liquidation of LIFO inventory quantities carried at the cost prevailing in prior years. This LIFO inventory liquidation may result in a decrease or increase in cost of goods sold depending on whether the cost prevailing in prior years was lower or higher, respectively, than the current year cost.

Inventories decreased at the end of fiscal 2015 compared to fiscal 2014, primarily due to the consolidation of our Torrance coffee production with our coffee production in Houston as part of our Corporate Relocation Plan. As a result, we recorded \$4.9 million in beneficial effect of liquidation of LIFO inventory quantities in cost of goods sold in the fiscal year ended June 30, 2015, which reduced net loss for the fiscal year ended June 30, 2015 by \$4.9 million. Inventories increased at the end of fiscal 2014 compared to fiscal 2013 and, therefore, no beneficial effect of liquidation of LIFO inventory quantities was recorded in cost of goods sold in fiscal 2014. We recorded \$1.1 million in beneficial effect of liquidation of LIFO inventory quantities in cost of goods sold in the fiscal year ended June 30, 2013, which reduced net loss for the fiscal year ended June 30, 2013 by \$1.1 million.

#### Capacity Utilization

We calculate our utilization for all of our production facilities on an aggregate basis based on the number of product pounds manufactured during the actual number of production shifts worked during an average week, compared to the number of product pounds that could be manufactured based on the maximum number of production shifts that could be operated during the week (assuming three shifts per day, seven days per week), in each case, based on our current product mix. Utilization rates for our production facilities were approximately 66%, 65% and 58% during the fiscal years ended June 30, 2015, 2014 and 2013, respectively. Through April 2015, coffee purchasing, roasting, grinding, packaging and product development took place at our Torrance, Portland and Houston production facilities. In connection with the Corporate Relocation Plan, in May 2015, we moved the coffee roasting, grinding and packaging functions that had been conducted in Torrance to our Houston and Portland production facilities and in conjunction relocated our Houston distribution operations to our Oklahoma City distribution center. Spice blending, grinding, packaging and product development continues to take place at our Torrance production facility, and we are considering options for this division of our business. As of June 30, 2015, distribution continued to take place out of our Torrance and Portland production facilities, as well as separate distribution centers in Northlake, Illinois; Oklahoma City, Oklahoma; and Moonachie, New Jersey.

During the execution of the Corporate Relocation Plan, we anticipate that our existing production facilities in Portland and Houston will operate at much higher utilization rates than they have historically, upwards of 90% or higher depending on product demand and the number of production shifts. We believe our existing Portland and Houston production facilities, together with our existing distribution centers and branch warehouses, will provide adequate capacity for our current operations. Since most of our customers do not commit to long-term firm production schedules, we are unable to forecast the level of customer orders with certainty to maximize utilization of manufacturing capacity. As a result, our production facility capacity utilization generally remains less than 100%. In the event of significant increases in demand that precede the completion of construction of our Northlake facility, we may be required to increase staffing, including through temporary labor and overtime, use third-party manufacturers, lease production facilities or use some combination of those alternatives or others to satisfy the additional demand.



#### Impairment of Goodwill and Indefinite-lived Intangible Assets

We perform our annual impairment test of goodwill and/or other indefinite-lived intangible assets as of June 30. Goodwill and other indefinite-lived intangible assets are not amortized but instead are reviewed for impairment annually, as well as on an interim basis if events or changes in circumstances between annual tests indicate that an asset might be impaired. Testing for impairment of goodwill is a two-step process. The first step requires us to compare the fair value of our reporting units to the carrying value of the net assets of the respective reporting units, including goodwill. If the fair value of a reporting unit is less than its carrying value, goodwill of the reporting unit is potentially impaired and we then complete step two to measure the impairment loss, if any. The second step requires the calculation of the implied fair value of goodwill, which is the residual fair value remaining after deducting the fair value of all tangible and intangible net assets of the reporting unit from the fair value of the reporting unit. If the implied fair value of goodwill is less than the carrying amount of goodwill, an impairment loss is recognized equal to the difference. In fiscal 2015, we recorded \$0.3 million in goodwill in connection with the RLC Acquisition. In our annual goodwill impairment test in the fourth quarter of fiscal 2015, we determined that there were no events or circumstances that indicated impairment and, therefore, no goodwill impairment charges were recorded for the fiscal year ended June 30, 2015. There was no goodwill on our balance sheet as of June 30, 2014.

Indefinite-lived intangible assets are tested for impairment by comparing their fair values to their carrying values. An impairment charge is recorded if the estimated fair values of such assets has decreased below their carrying values. In our annual test of impairment in the fourth quarter of fiscal 2015 and 2014, we determined that the book value of trademarks acquired in connection with the CBI acquisition and DSD Coffee Business acquisition was lower than the present value of the estimated future cash flows and concluded that the trademarks were not impaired. In our annual test of impairment in the fourth quarter of fiscal 2013, we determined that the book value of a certain trademark acquired in connection with the DSD Coffee Business acquisition was higher than the present value of the estimated future cash flows and concluded that the trademark was impaired. As a result, we recorded an impairment charge of \$0.1 million to earnings in the fourth quarter of fiscal 2013.

#### Long-Lived Assets, Excluding Goodwill and Indefinite-lived Intangible Assets

We review the recoverability of our long-lived assets whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. Long-lived assets evaluated for impairment are grouped with other assets to the lowest level for which identifiable cash flows are largely independent of the cash flows of other groups of assets and liabilities. The estimated future cash flows are based upon, among other things, assumptions about expected future operating performance and may differ from actual cash flows. If the sum of the projected undiscounted cash flows (excluding interest) is less than the carrying value of the assets, the assets will be written down to the estimated fair value in the period in which the determination is made. There were no such events or circumstances during the fiscal years ended June 30, 2015, 2014 and 2013. In our annual test of impairment in the fourth quarter of fiscal 2015, we determined that the book values of the definite-lived customer relationships and the non-compete agreement acquired in connection with the RLC Acquisition were lower than the present value of the estimated future cash flows from each of these intangible assets and concluded that these assets were not impaired. We may incur certain other non-cash asset impairment costs in connection with the Corporate Relocation Plan which we have not yet determined.

#### Self-Insurance

We are self-insured for workers' compensation insurance subject to specific retention levels and use historical analysis to determine and record the estimates of expected future expenses resulting from workers' compensation claims. The estimated outstanding losses are the accrued cost of unpaid claims. The estimated outstanding losses, including allocated loss adjustment expenses ("ALAE"), include case reserves, the development of known claims and incurred but not reported claims. ALAE are the direct expenses for settling specific claims. The amounts reflect per occurrence and annual aggregate limits maintained by the Company. The analysis does not include estimating a provision for unallocated loss adjustment expenses.

We account for our accrued liability relating to workers' compensation claims on an undiscounted basis. The estimated gross undiscounted workers' compensation liability relating to such claims was \$13.4 million and \$9.6 million, respectively, and the estimated recovery from reinsurance was \$2.5 million and \$1.2 million, respectively, as of June

30, 2015 and 2014. The short-term and long-term accrued liabilities for workers' compensation claims are presented on our consolidated

27

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balance sheets in “Other current liabilities” and in “Accrued workers' compensation liabilities,” respectively. The estimated insurance receivable is included in “Other assets” on our consolidated balance sheets.

Management believes that the amount recorded at June 30, 2015 is adequate to cover all known workers' compensation claims at June 30, 2015. If the actual costs of such claims and related expenses exceed the amount estimated, additional reserves may be required which could have a material negative effect on operating results. If our estimate were off by as much as 15%, the reserve could be under or overstated by approximately \$1.4 million as of June 30, 2015.

Due to our failure to meet the minimum credit rating criteria for participation in the alternative security program for California self-insurers for workers' compensation liability, we posted a \$7.0 million and \$6.5 million letter of credit at June 30, 2015 and 2014, respectively, as a security deposit with the State of California Department of Industrial Relations Self-Insurance Plans.

The estimated liability related to our self-insured group medical insurance at June 30, 2015 and 2014 was \$1.0 million and \$0.8 million, respectively, recorded on an incurred but not reported basis, within deductible limits, based on actual claims and the average lag time between the date insurance claims are filed and the date those claims are paid.

General liability, product liability and commercial auto liability are insured through a captive insurance program. We retain the risk within certain aggregate amounts. Cost of the insurance through the captive program is accrued based on estimates of the aggregate liability claims incurred using certain actuarial assumptions and historical claims experience. Our liability reserve for such claims was \$0.8 million and \$0.4 million as of June 30, 2015 and 2014, respectively.

The estimated liability related to our self-insured group medical insurance, general liability, product liability and commercial auto liability is included on our consolidated balance sheets in “Other current liabilities.”

#### Employee Benefit Plan

We provide benefit plans for most full-time employees, including 401(k), health and other welfare benefit plans and, in certain circumstances, pension benefits. Generally the plans provide benefits based on years of service and/or a combination of years of service and earnings. In addition, we contribute to two multiemployer defined benefit pension plans, one multiemployer defined contribution pension plan and ten multiemployer defined contribution plans other than pension plans that provide medical, vision, dental and disability benefits for active, union-represented employees subject to collective bargaining agreements. In addition, we sponsor a postretirement defined benefit plan that covers qualified non-union retirees and certain qualified union retirees and provides retiree medical coverage and, depending on the age of the retiree, dental and vision coverage. We also provide a postretirement death benefit to certain of our employees and retirees.

We are required to recognize the funded status of a benefit plan in our consolidated balance sheet. We are also required to recognize in other comprehensive income (loss) (“OCI”) certain gains and losses that arise during the period but are deferred under pension accounting rules.

#### Single Employer Pension Plans

We have a defined benefit pension plan, the Farmer Bros. Co. Pension Plan for Salaried Employees (the “Farmer Bros. Plan”), for the majority of our employees who are not covered under a collective bargaining agreement. We amended the Farmer Bros. Plan, freezing the benefit for all participants effective June 30, 2011. After the plan freeze, participants do not accrue any benefits under the Farmer Bros. Plan, and new hires are not eligible to participate in the Farmer Bros. Plan. As all plan participants became inactive following this pension curtailment, net (gain) loss is now amortized based on the remaining life expectancy of these participants instead of the remaining service period of these participants.

We also have two defined benefit pension plans for certain hourly employees covered under collective bargaining agreements (the “Brewmatic Plan” and the “Hourly Employees’ Plan”). We actuarially determined that no adjustments were required to be made to fiscal 2015 net periodic benefit cost for the defined benefit pension plans as a result of the Corporate Relocation Plan.

In the fourth quarter of fiscal 2013, we determined that we would shut down our equipment refurbishment operations in Los Angeles, California and move them to our Oklahoma City distribution center effective August 30, 2013. Due to this



shut down, all hourly employees responsible for these operations in Los Angeles were terminated and their pension benefits in the Brewmatic Plan were frozen effective August 30, 2013. As a result, we recorded a pension curtailment expense of \$34,000 in the fourth quarter of fiscal 2013.

We obtain actuarial valuations for our single employer defined benefit pension plans. In fiscal 2015 we discounted the pension obligations using a 4.15% discount rate and estimated an 7.5% long-term rate of return on plan assets. The performance of the stock market and other investments as well as the overall health of the economy can have a material effect on pension investment returns and these assumptions. A change in these assumptions could affect our operating results.

At June 30, 2015, the projected benefit obligation under our single employer defined benefit pension plans was \$144.2 million and the fair value of plan assets was \$100.2 million. The difference between the projected benefit obligation and the fair value of plan assets is recognized as a decrease in OCI and an increase in pension liability and deferred tax assets. The difference between plan obligations and assets, or the funded status of the plans, significantly affects the net periodic benefit cost and ongoing funding requirements of those plans. Among other factors, changes in interest rates, mortality rates, early retirement rates, mix of plan asset investments, investment returns and the market value of plan assets can affect the level of plan funding, cause volatility in the net periodic benefit cost, increase our future funding requirements and require premium payments to the Pension Benefit Guaranty Corporation. For the fiscal year ended June 30, 2015, we made \$1.4 million in contributions to our single employer defined benefit pension plans and recorded a credit to pension expense of \$(34,000). We expect to make approximately \$1.6 million in contributions to our single employer defined benefit pension plans in fiscal 2016 and accrue pension expense of approximately \$1.2 million per year beginning in fiscal 2016. These pension contributions are expected to continue at this level for several years; however a deterioration in the current economic environment would increase the risk that we may be required to make larger contributions in the future.

The following chart quantifies the effect on the projected benefit obligation and the net periodic benefit cost of a change in the discount rate assumption and the impact on the net periodic benefit cost of a change in the assumed rate of return on plan assets under our single employer defined benefit pension plans for fiscal 2016:

(\$ in thousands)

Farmer Bros. Plan Discount Rate	3.9%	Actual 4.40%	4.9%
Net periodic benefit cost	\$810	\$816	\$805
Projected benefit obligation	\$145,997	\$136,962	\$128,817
Farmer Bros. Plan Rate of Return	7.0%	Actual 7.50%	8.0%
Net periodic benefit cost	\$1,276	\$816	\$355
Brewmatic Plan Discount Rate	3.9%	Actual 4.40%	4.9%
Net periodic benefit cost	\$20	\$21	\$22
Projected benefit obligation	\$4,300	\$4,064	\$3,852
Brewmatic Plan Rate of Return	7.0%	Actual 7.50%	8.0%
Net periodic benefit cost	\$37	\$21	\$6
Hourly Employees' Plan Discount Rate	3.9%	Actual 4.40%	4.9%
Net periodic benefit cost	\$426	\$377	\$349
Projected benefit obligation	\$3,414	\$3,145	\$2,907
Hourly Employees' Plan Rate of Return	7.0%	Actual 7.50%	8.0%
Net periodic benefit cost	\$388	\$377	\$366

### Multiemployer Pension Plans

We participate in two multiemployer defined benefit pension plans that are union sponsored and collectively bargained for the benefit of certain employees subject to collective bargaining agreements. We make contributions to these plans generally based on the number of hours worked by the participants in accordance with the provisions of negotiated labor contracts.

The risks of participating in multiemployer pension plans are different from single-employer plans in that: (i) assets contributed to a multiemployer plan by one employer may be used to provide benefits to employees of other participating employers; (ii) if a participating employer stops contributing to the plan, the unfunded obligations of the plan may be borne by the remaining participating employers; and (iii) if we stop participating in the multiemployer plan, we may be required to pay the plan an amount based on the underfunded status of the plan, referred to as a withdrawal liability.

In fiscal 2012, we withdrew from the Local 807 Labor-Management Pension Fund (“Pension Fund”) and recorded a charge of \$4.3 million associated with withdrawal from this plan, representing the present value of the estimated withdrawal liability expected to be paid in quarterly installments of \$0.1 million over 80 quarters. The short-term and long-term portions of this estimated withdrawal charge are reflected in current and long-term liabilities, respectively, on our consolidated balance sheets at June 30, 2015 and June 30, 2014. On November 18, 2014, the Pension Fund sent us a notice of assessment of withdrawal liability in the amount of \$4.35 million, which the Pension Fund adjusted to \$4.86 million on January 5, 2015. We are in the process of negotiating a reduced liability amount. We have commenced quarterly installment payments to the Pension Fund of \$91,000 pending the final settlement of the liability.

We may incur certain pension-related costs in connection with the Corporate Relocation Plan which we have not yet determined. Future collective bargaining negotiations may result in the Company withdrawing from the remaining multiemployer pension plans in which it participates and, if successful, the Company may incur a withdrawal liability, the amount of which could be material to the Company's results of operations and cash flows.

### Postretirement Benefits

We sponsor a postretirement defined benefit plan that covers qualified non-union retirees and certain qualified union retirees. The plan provides medical, dental and vision coverage for retirees under age 65 and medical coverage only for retirees age 65 and above. Under this postretirement plan, our contributions toward premiums for retiree medical, dental and vision coverage for participants and dependents are scaled based on length of service, with greater Company contributions for retirees with greater length of service, subject to a maximum monthly Company contribution. Our retiree medical, dental and vision plan is unfunded, and its liability was calculated using an assumed discount rate of 4.7% at June 30, 2015. We project an initial medical trend rate of 7.7% in fiscal 2016, ultimately reducing to 4.5% in 10 years.

We also provide a postretirement death benefit to certain of our employees and retirees, subject, in the case of current employees, to continued employment with the Company until retirement, and certain other conditions related to the manner of employment termination and manner of death. We record the actuarially determined liability for the present value of the postretirement death benefit using a discount rate of 4.7%. We have purchased life insurance policies to fund the postretirement death benefit wherein we own the policy but the postretirement death benefit is paid to the employee's or retiree's beneficiary. We record an asset for the fair value of the life insurance policies which equates to the cash surrender value of the policies.

We may incur certain postretirement-related costs in connection with the Corporate Relocation Plan which we have not yet determined

### Share-based Compensation

We measure all share-based compensation cost at the grant date, based on the fair value of the award, and recognize that cost as an expense in our consolidated statements of operations over the requisite service period. The process of estimating the fair value of share-based compensation awards and recognizing share-based compensation cost over the requisite service period involves significant assumptions and judgments. We estimate the fair value of stock option awards on the date of grant using the Black-Scholes valuation model which requires that we make certain assumptions regarding: (i) the expected volatility in the market price of our common stock; (ii) dividend yield; (iii) risk-free

interest rates; and

30

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(iv) the period of time employees are expected to hold the award prior to exercise (referred to as the expected holding period). In addition, we estimate the expected impact of forfeited awards and recognize share-based compensation cost only for those awards ultimately expected to vest. If actual forfeiture rates differ materially from our estimates, share-based compensation expense could differ significantly from the amounts we have recorded in the current period. We will periodically review actual forfeiture experience and revise our estimates, as necessary. We will recognize as compensation cost the cumulative effect of the change in estimated forfeiture rates on current and prior periods in earnings of the period of revision. As a result, if we revise our assumptions and estimates, our share-based compensation expense could change materially in the future. In fiscal 2015 and 2014, we used an estimated annual forfeiture rate of 4.8% and 6.5%, respectively, to calculate share-based compensation expense based on actual forfeiture experience.

We have outstanding share-based awards that have performance-based vesting conditions in addition to time-based vesting. Awards with performance-based vesting conditions require the achievement of certain financial and other performance criteria as a condition to the vesting. We recognize the estimated fair value of performance-based awards, net of estimated forfeitures, as share-based compensation expense over the performance period based upon our determination of whether it is probable that the performance targets will be achieved. At each reporting period, we reassess the probability of achieving the performance criteria and the performance period required to meet those targets. Determining whether the performance criteria will be achieved involves judgment, and the estimate of share-based compensation expense may be revised periodically based on changes in the probability of achieving the performance criteria. Revisions are reflected in the period in which the estimate is changed. If performance goals are not met, no share-based compensation expense is recognized, and, to the extent share-based compensation expense was previously recognized, such share-based compensation expense is reversed.

#### Income Taxes

Deferred income taxes are determined based on the temporary differences between the financial reporting and tax bases of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse. Estimating our tax liabilities involves judgments related to uncertainties in the application of complex tax regulations. We make certain estimates and judgments to determine tax expense for financial statement purposes as we evaluate the effect of tax credits, tax benefits and deductions, some of which result from differences in the timing of recognition of revenue or expense for tax and financial statement purposes. Changes to these estimates may result in significant changes to our tax provision in future periods. Each fiscal quarter we re-evaluate our tax provision and reconsider our estimates and assumptions related to specific tax assets and liabilities, making adjustments as circumstances change.

#### Deferred Tax Asset Valuation Allowance

We evaluate our deferred tax assets quarterly to determine if a valuation allowance is required. We consider whether a valuation allowance should be recorded against deferred tax assets based on the likelihood that the benefits of the deferred tax assets will or will not ultimately be realized in future periods. In making this assessment, significant weight is given to evidence that can be objectively verified, such as recent operating results, and less consideration is given to less objective indicators, such as future earnings projections.

After consideration of positive and negative evidence, including the recent history of losses, we cannot conclude that it is more likely than not that we will generate future earnings sufficient to realize our net deferred tax assets as of June 30, 2015. Accordingly, we are maintaining a valuation allowance against our net deferred tax assets. We increased our valuation allowance by \$12.3 million in the fiscal year ended June 30, 2015 to \$84.9 million. The valuation allowance at June 30, 2014 was \$72.6 million. Deferred tax assets were \$90.1 million as of June 30, 2015 compared to \$74.6 million as of June 30, 2014. In fiscal 2015, deferred tax assets increased primarily due to losses recorded in OCI related to coffee-related derivative instruments, the Company's defined benefit pension plans and the retiree medical plan. In fiscal 2014, deferred tax assets decreased primarily due to the utilization of net operating losses to offset taxable income. Additionally, a cumulative loss in OCI related to coffee hedging, which previously represented a deferred tax asset, became a cumulative gain as of the end of fiscal 2014 which lowered the total net deferred tax assets as of June 30, 2014.



## Liquidity and Capital Resources

### Credit Facility

On March 2, 2015, we, as Borrower, together with our wholly owned subsidiaries, CBI, FBC Finance Company, a California corporation, and CBH, as additional Loan Parties and as Guarantors, entered into a Credit Agreement (the "Credit Agreement") and a related Pledge and Security Agreement (the "Security Agreement") with JPMorgan Chase Bank, N.A. ("Chase"), as Administrative Agent, and SunTrust Bank ("SunTrust"), as Syndication Agent (collectively, the "Lenders") (capitalized terms used below are defined in the Credit Agreement). The Credit Agreement replaced our September 12, 2011 Amended and Restated Loan and Security Agreement with Wells Fargo Bank, N.A. that expired on March 2, 2015 (the "Wells Fargo Credit Facility").

The Credit Agreement provides for a senior secured revolving credit facility ("Revolving Facility") of up to \$75.0 million ("Revolving Commitment") consisting of Revolving Loans, Letters of Credit and Swingline Loans provided by the Lenders, with a sublimit on Letters of Credit outstanding at any time of \$30.0 million and a sublimit for Swingline Loans of \$15.0 million. Chase agreed to provide \$45.0 million of the Revolving Commitment and SunTrust agreed to provide \$30.0 million of the Revolving Commitment. The Credit Agreement also includes an accordion feature whereby we may increase the Revolving Commitment by an aggregate amount not to exceed \$50.0 million, subject to certain conditions.

The Credit Agreement provides for advances of up to: (a) 85% of the Borrowers' eligible accounts receivable, plus (b) 75% of the Borrowers' eligible inventory (not to exceed 85% of the product of the most recent Net Orderly Liquidation Value percentage multiplied by the Borrowers' eligible inventory), plus (c) the lesser of \$25.0 million and 75% of the fair market value of the Borrowers' Eligible Real Property, subject to certain limitations, plus (d) the lesser of \$10.0 million and the Net Orderly Liquidation Value of certain trademarks, less (e) reserves established by the Administrative Agent.

The Credit Agreement has a commitment fee ranging from 0.25% to 0.375% per annum based on Average Revolver Usage. Outstanding obligations under the Credit Agreement are collateralized by all of the Borrowers' and the Guarantors' assets, excluding, among other things, real property not included in the Borrowing Base, machinery and equipment (other than inventory), and the Company's preferred stock portfolio. The Credit Agreement expires on March 2, 2020.

The Credit Agreement provides for interest rates based on Average Historical Excess Availability levels with a range of PRIME - 0.25% to PRIME + 0.50% or Adjusted LIBO Rate + 1.25% to Adjusted LIBO Rate + 2.00%.

The Credit Agreement contains a variety of affirmative and negative covenants of types customary in an asset-based lending facility, including financial covenants relating to the maintenance of a fixed charge coverage ratio in certain circumstances. The Credit Agreement allows us to pay dividends, provided, among other things, certain Excess Availability requirements are met, and no event of default exists or has occurred and is continuing as of the date of any such payment and after giving effect thereto. The Credit Agreement also allows the Lenders to establish reserve requirements, which may reduce the amount of credit otherwise available to us, and provides for customary events of default.

On June 30, 2015, we were eligible to borrow up to a total of \$55.1 million under the Revolving Facility. As of June 30, 2015, we had outstanding borrowings of \$0.1 million, utilized \$11.5 million of the letters of credit sublimit, and had excess availability under the Revolving Facility of \$43.5 million. At June 30, 2015, the weighted average interest rate on our outstanding borrowings under the Revolving Facility was 1.26%. At June 30, 2015, we were in compliance with all of the restrictive covenants under the Credit Agreement.

Effective December 1, 2012, we entered into an interest rate swap transaction utilizing a notional amount of \$10.0 million and a maturity date of March 1, 2015. We entered into the swap transaction to effectively fix the future interest rate during the applicable period on a portion of our borrowings under the Wells Fargo Credit Facility. The swap transaction was intended to manage our interest rate risk related to the Wells Fargo Credit Facility and required us to pay a fixed rate of 0.48% per annum in exchange for a variable interest rate based on 1-month USD LIBOR-BBA. We terminated the swap transaction on March 5, 2014. As of June 30, 2015 and 2014, we had no interest rate swap transactions in place.

We did not designate our interest rate swap as an accounting hedge. In the fiscal years ended June 30, 2014 and 2013, respectively, we recorded in "Other, net" in our consolidated statements of operations a loss of \$5,000 and \$25,000 for the

32

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change in fair value of our interest rate swap. No such gain or loss was recorded in fiscal 2015 (see Note 4 of the Notes to Consolidated Financial Statements).

#### Liquidity

We generally finance our operations through cash flows from operations and borrowings under our Revolving Facility described above. As of June 30, 2015, we had \$15.2 million in cash and cash equivalents, \$1.0 million in restricted cash in our margin accounts for coffee-related derivative instruments and \$23.7 million in short-term investments. We believe our Revolving Facility, to the extent available, in addition to our cash flows from operations and other liquid assets, and the expected proceeds from the sale of our Torrance facility, collectively, will be sufficient to fund our working capital and capital expenditure requirements for the next 12 to 18 months including the expected capital expenditures associated with the Corporate Relocation Plan and other costs under the Lease Agreement and DMA for the new facility.

We generate cash from operating activities primarily from cash collections related to the sale of our products. Net cash provided by operating activities was \$26.9 million in fiscal 2015 compared to \$52.9 million in fiscal 2014 and \$21.9 million in fiscal 2013. The lower level of net cash provided by operating activities in fiscal 2015 compared to the prior fiscal year was due to lower net income and a higher level of cash outflows from operating activities. Cash outflows were primarily from payments of accounts payable balances including the payment of expenses associated with the Corporate Relocation Plan, payroll expenses including accrued bonuses and restriction of cash held in margin accounts for coffee-related derivative instruments. Cash outflows were partially offset by cash inflows from a decrease in inventory balances. Inventory balances decreased in fiscal 2015 compared to fiscal 2014 primarily due to the consolidation of coffee production from the Torrance production facility with the Houston and Portland production facilities pursuant to our Corporate Relocation Plan. At June 30, 2015, we had a net loss position in our margin accounts for coffee-related derivative instruments resulting in restriction of the use of \$1.0 million of cash in these accounts, which contributed to lower cash inflows in fiscal 2015. In fiscal 2014, net cash provided by operating activities resulted from a higher net income along with lower cash outflows from operating activities. Cash outflows were primarily for payments of accounts payable balances, payroll expenses and from an increase in inventory. Cash outflows were partially offset by cash inflows from release of restriction on cash held in margin accounts for coffee-related derivative instruments. At June 30, 2014, we had a gain position in our margin accounts for coffee-related derivative instruments, resulting in the release of previously restricted \$8.1 million of cash. In addition, timing differences between the receipt or payment of cash and recognition of the related net gains (losses) from derivative instruments contributed to the differences in cash from operations in the fiscal years ended June 30, 2015 and 2014.

Net cash used in investing activities was \$20.1 million in fiscal 2015 as compared to \$20.7 million in fiscal 2014, and \$10.2 million in fiscal 2013. In fiscal 2015, net cash used in investing activities included \$1.2 million in payments in connection with the RLC Acquisition and \$19.2 million for purchases of property, plant and equipment, partially offset by proceeds from sales of assets, primarily vehicles, of \$0.3 million. In fiscal 2014, net cash used in investing activities included \$25.3 million for purchases of property, plant and equipment offset by proceeds from sales of assets, primarily real estate, of \$4.5 million. In fiscal 2013, net cash used in investment activities included \$15.9 million for purchases of property, plant and equipment offset by proceeds from sales of assets, primarily real estate, of \$5.7 million.

Net cash used in financing activities in fiscal 2015 was \$3.6 million compared to \$22.8 million in fiscal 2014 and \$12.9 million in fiscal 2013. Net cash used in financing activities in fiscal 2015 included net repayments on our credit facility of \$0.6 million, \$0.6 million in deferred financing costs for the Revolving Facility and \$0.1 million in tax withholding payments related to net share settlement of equity awards offset by \$1.5 million in proceeds from stock option exercises. Net cash used in financing activities in fiscal 2014 included net repayments on our credit facility of \$20.6 million partially offset by \$1.5 million in proceeds from stock option exercises. Net repayments on our credit facility in fiscal 2013 were \$10.8 million.

In fiscal 2015, we capitalized \$19.2 million in property, plant and equipment purchases which included \$10.7 million in expenditures to replace normal wear and tear of coffee brewing equipment, \$1.5 million in building and facility improvements, \$6.1 million in expenditures for vehicles, and machinery and equipment, and \$0.9 million in

information technology related expenditures. The decrease in cash outflows for property, plant and equipment compared to the prior fiscal year was primarily due to decreases in the purchase of coffee brewing equipment, machinery and equipment and replacement vehicles.

Based on current assumptions and subject to continued implementation of the Corporate Relocation Plan as planned, we estimate that we will incur approximately \$25 million in cash costs in connection with the exit of the Torrance facility consisting of \$14 million in employee retention and separation benefits, \$4 million in facility-related costs and \$7 million in other related costs. We may incur certain other non-cash asset impairment costs, pension-related costs and postretirement benefit costs in connection with the Corporate Relocation Plan which we have not yet determined. We recognized approximately 41% of the aggregate cash costs in fiscal 2015, including \$6.5 million in employee retention and separation benefits, \$0.3 million in facility-related costs related to the relocation of certain distribution operations and \$3.3 million in other related costs including travel, legal, consulting and other professional services. The remainder is expected to be recognized in fiscal 2016 and the first quarter of fiscal 2017.

Subject to the finalization of the optimal utilization, automation and build-out of the facility, the new facility construction costs are currently expected to be approximately \$35 million to \$40 million. Pursuant to the Lease Agreement, Landlord owns the premises and is obligated to finance the overall construction and to reimburse us for substantially all expenditures we incur with respect to the construction of the premises.

In addition to Landlord's expenditures for the construction of the new facility, we expect to incur and pay for approximately \$20 million to \$25 million in anticipated capital expenditures for machinery and equipment, furniture and fixtures, and related expenditures. No such capital expenditures were incurred in the fiscal years ended June 30, 2015 and 2014. The majority of the capital expenditures associated with the new facility are expected to be incurred in early fiscal 2017. The expenditures associated with the new facility are expected to be partially offset by the net proceeds from the planned sale of our Torrance facility.

Our expected capital expenditures unrelated to the Corporate Relocation Plan for fiscal 2016 include expenditures to replace normal wear and tear of coffee brewing equipment, vehicles, machinery and equipment and mobile sales solution hardware, and are expected to be flat with fiscal 2015 levels.

At June 30, 2015 and 2014, our working capital was composed of the following:

(In thousands)	June 30,	
	2015	2014
Current assets(1)	\$ 135,685	\$ 157,460
Current liabilities(2)	64,874	76,870
Working capital	\$ 70,811	\$ 80,590

(1) Includes \$1.0 million in restricted cash at June 30, 2015 and \$5.2 million in coffee-related short-term derivative assets at June 30, 2014.

(2) Includes \$4.0 million in coffee-related short-term derivative liabilities at June 30, 2015.

For the fiscal years ended June 30, 2015, 2014 and 2013, our capital expenditures were as follows:

(In thousands)	June 30,		
	2015	2014	2013
Capital expenditures	\$ 19,216	\$ 25,267	\$ 15,894

Results of Operations

Fiscal Years Ended June 30, 2015 and 2014

Overview

In fiscal 2015, green coffee commodity prices rose in the first quarter and fell during the remaining three quarters. Average "C" market prices increased to \$1.66 per pound in fiscal 2015 from \$1.42 per pound in fiscal 2014. In fiscal 2015, we continued our hedging strategy intended to reduce the impact of changing green coffee commodity prices through the purchase of exchange-traded coffee-related derivative instruments for our own account and at the direction of customers under commodity-based pricing arrangements. In fiscal 2015, a lower percentage of our roast and ground coffee volume was

based on a price schedule and a higher percentage was sold to customers under commodity-based pricing arrangements as compared to fiscal 2014.

On February 5, 2015, we announced the Corporate Relocation Plan pursuant to which we will close our Torrance, facility and relocate its operations to a new state-of-the-art facility housing our manufacturing, distribution, coffee lab and corporate headquarters. Our decision resulted from a comprehensive review of alternatives designed to make us more competitive and better positioned to capitalize on growth opportunities. The new facility will be located in Northlake, Texas in the Dallas/Fort Worth area.

On January 12, 2015, we completed the acquisition of substantially all of the assets of Rae' Launo Corporation ("RLC") relating to its direct-store-delivery and in-room distribution business in the Southeastern United States.

In fiscal 2015, we continued our efforts to improve efficiencies in our sales and product offerings. These efforts included targeted selling efforts in untapped markets, sales and marketing training for all of our RSRs, and the discontinuation over 300 SKUs, excluding the SKUs added from the RLC Acquisition. We also continued to expand our product portfolio by investing resources in what we believe to be key growth categories, including the launch of our Metropolitan™ single cup coffee, expanded seasonal coffee and specialty beverages, new shelf-stable coffee products, and new hot teas.

Net sales in fiscal 2015 increased \$17.5 million, or 3.3%, to \$545.9 million from \$528.4 million in fiscal 2014. The increase in net sales in fiscal 2015 included \$8.8 million in price increases to customers utilizing commodity-based pricing arrangements, where the changes in the green coffee commodity costs are passed on to the customer.

The change in net sales in fiscal 2015 compared to fiscal 2014 was due to the following:

(In millions)	Year Ended June 30, 2015 vs. 2014
Effect of change in unit sales	\$(2.0 )
Effect of pricing and product mix changes	19.5
Total increase in net sales	\$ 17.5

Unit sales decreased (0.2)% in fiscal 2015 as compared to fiscal 2014, fully offset by a 3.5% increase in average unit price resulting in an increase in net sales of 3.3%. The decrease in unit sales was primarily due to a (0.7)% decrease in unit sales of roast and ground coffee products, which accounted for approximately 61% of our total net sales, while the increase in average unit price was primarily due to the higher average unit price of roast and ground coffee products primarily driven by the pass-through of higher green coffee commodity purchase costs to our customers. In fiscal 2015, we processed and sold approximately 87.7 million pounds of green coffee as compared to approximately 88.3 million pounds of green coffee processed and sold in fiscal 2014. There were no new product category introductions in fiscal 2015 or 2014 which had a material impact on our net sales.

The following table presents net sales aggregated by product category for the respective periods indicated:

(In thousands)	Year Ended June 30,			
	2015		2014	
	\$	% of total	\$	% of total
Net Sales by Product Category:				
Coffee (Roast & Ground)	\$336,129	61 %	\$319,251	60 %
Coffee (Frozen)	37,428	7 %	37,840	7 %
Tea (Iced & Hot)	27,172	5 %	28,452	5 %
Culinary	54,208	10 %	56,567	11 %
Spice	32,336	6 %	31,876	6 %
Other beverages(1)	54,933	10 %	50,572	10 %
Net sales by product category	542,206	99 %	524,558	99 %
Fuel surcharge	3,676	1 %	3,822	1 %
Net sales	\$545,882	100 %	\$528,380	100 %

(1) Includes all beverages other than coffee and tea.

Cost of goods sold in fiscal 2015 increased \$16.4 million, or 4.9%, to \$348.8 million, or 63.9% of net sales, from \$332.5 million, or 62.9% of net sales in fiscal 2014. The increase in cost of goods sold as a percentage of net sales in fiscal 2015 was primarily due to a 16.9% increase in the average "Arabica C" market price of green coffee. Inventories decreased at the end of fiscal 2015 compared to fiscal 2014 and, therefore, a beneficial effect of liquidation of LIFO inventory quantities in the amount of \$4.9 million was recorded in cost of goods sold in fiscal 2015 reducing cost of goods sold by the same amount. No beneficial effect of liquidation of LIFO inventory quantities was recorded in the prior fiscal year.

Gross profit in fiscal 2015 increased \$1.1 million, or 0.6%, to \$197.0 million from \$195.9 million in fiscal 2014 but gross margin decreased to 36.1% in fiscal 2015 from 37.1% in the prior fiscal year. The increase in gross profit was primarily due to the increase in net sales from higher prices of roast and ground coffee, frozen coffee, tea products, spice and other beverages. The decrease in gross margin was primarily due to a 16.9% increase in the average "C" market price of green coffee as compared to the prior fiscal year. Gross profit in fiscal 2015 included the beneficial effect of the liquidation of LIFO inventory quantities in the amount of \$4.9 million.

In fiscal 2015, operating expenses increased \$6.8 million, or 3.6%, to \$193.8 million, or 35.5% of net sales, from \$187.0 million, or 35.4% of net sales, in fiscal 2014, primarily due to \$10.4 million in restructuring and other transition expenses associated with the Corporate Relocation Plan. In fiscal 2015 selling expenses decreased \$3.3 million and general and administrative expenses decreased \$4.6 million as compared to fiscal 2014. The decrease in selling expenses in fiscal 2015 as compared to fiscal 2014 was primarily due to lower depreciation and amortization expense, bonus expense and salaries-related expense offset by an increase in worker's compensation expense. The decrease in general and administrative expenses in fiscal 2015 as compared to fiscal 2014 was primarily due to lower depreciation and amortization expense, bonus expense, consulting expense and the absence of expenses in connection with the restatement of certain prior period financial statements included in our Annual Report on Form 10-K for the fiscal year ended June 30, 2013. This decrease in general and administrative expenses was partially offset by an increase in salaries-related expense, employee and retiree medical expense, ESOP compensation expense and worker's compensation expense. Operating expenses in fiscal 2015 also reflected \$(0.4) million in net losses from sales of assets, primarily vehicles, as compared to \$3.8 million in net gains from sales of assets, primarily real estate, in fiscal 2014.

Income from operations in fiscal 2015 was \$3.3 million compared to \$8.9 million in fiscal 2014 primarily due to restructuring and other transition expenses associated with the Corporate Relocation Plan and lower gross profit partially offset by the decrease in selling expenses and general administrative expenses.

#### Total other income (expense)

Total other expense in fiscal 2015 was \$(2.2) million compared to total other income of \$3.9 million in fiscal 2014, primarily due to net losses on derivative instruments and investments of \$(3.3) million compared to net gains on derivative instruments and investments of \$3.1 million in fiscal 2014. The net losses and net gains on derivative instruments and investments in fiscal 2015 and fiscal 2014, respectively, were primarily due to mark-to-market net losses and net gains, respectively, on coffee-related derivative instruments not designated as accounting hedges. Net losses on such coffee-related derivative instruments in fiscal 2015 were \$(3.0) million compared to net gains on such coffee-related derivative instruments in fiscal 2014 of \$2.7 million. In each of the fiscal years ended June 30, 2015 and 2014, we recognized \$(0.3) million in losses on coffee-related derivative instruments designated as cash flow hedges due to ineffectiveness.

#### Income taxes

In fiscal 2015, we recorded income tax expense of \$0.4 million compared to \$0.7 million in fiscal 2014. Income tax expense in fiscal 2015 was primarily attributable to cash taxes paid.

As of June 30, 2015, the Company has generated approximately \$0.6 million of excess tax benefits related to stock compensation, the benefit of which will be recorded to additional paid in capital if and when realized. The Internal Revenue Service is currently auditing the Company's tax year ended June 30, 2013.

#### Net income

As a result of the foregoing factors, net income was \$0.7 million, or \$0.04 per diluted common share, in fiscal 2015 compared to \$12.1 million, or \$0.76 per diluted common share, in fiscal 2014.

Fiscal Years Ended June 30, 2014 and 2013

#### Overview

In fiscal 2014, green coffee commodity prices continued to fall during the first two quarters and rose sharply in the third quarter and fuel costs remained high. Our average cost of green coffee purchased fell from \$1.70 per pound in fiscal 2013 to \$1.46 per pound in fiscal 2014. In fiscal 2014, we continued our hedging strategy intended to reduce the impact of changing green coffee commodity prices through the purchase of exchange-traded coffee-related derivative instruments for our own account and at the direction of customers under commodity-based pricing arrangements. To address the ongoing high fuel costs, in fiscal 2014, we continued to bill our customers fuel surcharges.

We continued our efforts to improve efficiencies by consolidating our coffee blends while maintaining original roasting profiles, resulting in a reduction in the number of coffee blends by 22. We also continued to optimize and simplify our product portfolio by discontinuing over 400 SKUs. We completed the integration of the enterprise resource planning system in all of our facilities under one common software platform. We continued to improve our real-estate asset management by divesting underutilized properties. We also made measurable progress in our facilities and in our outreach programs under our sustainability initiatives in fiscal 2014.

#### Operations

Net sales in fiscal 2014 increased \$14.5 million, or 2.8%, to \$528.4 million from \$513.9 million in fiscal 2013. The change in net sales in fiscal 2014 compared to fiscal 2013 was due to the following:

(In millions)	Year Ended June 30, 2014 vs. 2013
Effect of change in unit sales	\$ 34.6
Effect of pricing and product mix changes	(20.1 )
Total increase in net sales	\$ 14.5

Unit sales increased 8% in fiscal 2014 as compared to fiscal 2013, partially offset by a 5% decrease in average unit price resulting in an increase in net sales of 3%. The increase in unit sales was primarily due to a 12% increase in unit sales

of roast and ground coffee products, which accounted for approximately 60% of our total net sales, while the decrease in average unit price was primarily due to the lower average unit price of roast and ground coffee products primarily driven by the pass-through of lower green coffee commodity purchase costs to our customers. In fiscal 2014, we processed and sold approximately 88.3 million pounds of green coffee as compared to approximately 76.2 million pounds of green coffee processed and sold in fiscal 2013. There were no new product category introductions in fiscal 2014 or 2013 which had a material impact on our net sales.

The following table presents net sales aggregated by product category for the respective periods indicated:

(In thousands)	Year Ended June 30,			
	2014		2013	
	\$	% of total	\$	% of total
Net Sales by Product Category:				
Coffee (Roast & Ground)	\$319,251	60	% \$305,623	59
Coffee (Frozen)	37,840	7	% 36,311	(1) 7
Tea (Iced & Hot)	28,452	5	% 27,919	(1) 6
Culinary	56,567	11	% 61,447	12
Spice	31,876	6	% 32,431	6
Other beverages(2)	50,572	10	% 46,233	(1) 9
Net sales by product category	524,558	99	% 509,964	99
Fuel surcharge	3,822	1	% 3,905	1
Net sales	\$528,380	100	% \$513,869	100

(1) Re-categorized to be consistent with fiscal 2014 presentation.

(2) Includes all beverages other than coffee and tea.

Cost of goods sold in fiscal 2014 increased \$3.8 million, or 1.1%, to \$332.5 million, or 62.9% of net sales, from \$328.7 million, or 64.0% of net sales in fiscal 2013. The decrease in cost of goods sold as a percentage of net sales in fiscal 2014 was primarily due to a 6.0% decrease in the average cost of green coffee purchased. Inventories increased at the end of fiscal 2014 compared to fiscal 2013 and, therefore, no beneficial effect of liquidation of LIFO inventory quantities was recorded in cost of goods sold in fiscal 2014. The beneficial effect of liquidation of LIFO inventory quantities reduced cost of goods sold by \$1.1 million in the prior fiscal year.

Gross profit in fiscal 2014 increased \$10.7 million, or 5.8%, to \$195.9 million from \$185.2 million in fiscal 2013.

Gross margin increased to 37.1% in fiscal 2014 from 36.0% in the prior fiscal year. The increase in gross profit was primarily due to the increase in net sales from higher unit sales of roast and ground coffee, frozen coffee, tea products and other beverages. The increase in gross margin was primarily due to a 14.2% decrease in the average cost of green coffee purchased as compared to the prior fiscal year. Gross profit in fiscal 2013 included the expected beneficial effect of the liquidation of LIFO inventory quantities in the amount of \$1.1 million.

In fiscal 2014, operating expenses increased \$2.2 million, or 1.2%, to \$187.0 million, or 35.4% of net sales, from \$184.8 million, or 36.0% of net sales, in fiscal 2013. The increase in operating expenses in fiscal 2014 was primarily due to a \$3.6 million increase in general and administrative expenses and lower net gains from sales of assets compared to fiscal 2013, partially offset by a \$1.9 million decrease in selling expenses and by the absence of impairment losses on intangible assets. The increase in general and administrative expenses in fiscal 2014 was primarily due to an increase in accruals for anticipated bonus payments for eligible employees, higher ESOP compensation expense and expenses in connection with the restatement of certain prior period financial statements included in our Annual Report on Form 10-K for the fiscal year ended June 30, 2013, partially offset by lower retiree medical expenses and depreciation and amortization expenses. The decrease in selling expenses was primarily due to lower retiree medical expenses and depreciation and amortization expenses, partially offset by higher payroll-related expenses from increased headcount, an increase in freight costs, additional accruals for self-insurance claims and accruals for anticipated bonus payments for eligible employees.



Income from operations in fiscal 2014 was \$8.9 million compared to \$0.4 million in fiscal 2013, primarily due to the improvement in gross profit.

Total other income (expense)

Total other income in fiscal 2014 was \$3.9 million compared to total other expense of \$(9.7) million in fiscal 2013, primarily due to net gains on derivative instruments and investments of \$3.1 million compared to net losses on derivative instruments and investments of \$(11.1) million in fiscal 2013. The net gains on derivative instruments and investments in fiscal 2014 were primarily due to net gains on coffee-related derivative instruments not designated as accounting hedges. Net gains on such coffee-related derivative instruments in fiscal 2014 were \$2.7 million compared to net losses on such coffee-related derivative instruments of \$(11.3) million in fiscal 2013. The increase in net gains on such coffee-related derivative instruments in fiscal 2014 compared to fiscal 2013 was due to the increase in coffee commodity prices in the second half of fiscal 2014. For the fiscal years ended June 30, 2014 and 2013, we recognized \$(0.3) million and \$(0.4) million, respectively, in losses on coffee-related derivative instruments designated as cash flow hedges due to ineffectiveness.

Income taxes

In fiscal 2014, we recorded income tax expense of \$0.7 million compared to income tax benefit of \$(0.8) million in fiscal 2013. Income tax expense in fiscal 2014 was primarily attributable to cash taxes paid.

The Company has generated approximately \$0.6 million of excess tax benefits related to stock compensation, the benefit of which will be recorded to additional paid in capital if and when realized.

The Company made a determination in the quarter ended June 30, 2014 that it would not, at this time, pursue certain refund claims requested on its amended tax returns for the fiscal years ended June 30, 2003 through June 30, 2008.

The Internal Revenue Service previously denied these refund claims upon audit and maintained that decision upon appeal. The Company released its tax reserve related to these refunds in the fourth quarter of fiscal 2014.

Income tax benefit for fiscal 2013 was primarily attributable to the gain on postretirement benefits. Income tax expense or benefit from continuing operations is generally determined without regard to other categories of earnings, such as discontinued operations and OCI. An exception is provided in ASC 740, "Tax Provisions" ("ASC 740"), when there is aggregate income from categories other than continuing operations and a loss from continuing operations in the current year. In this case, the income tax benefit allocated to continuing operations is the amount by which the loss from continuing operations reduces the income tax expense recorded with respect to the other categories of earnings, even when a valuation allowance has been established against the deferred tax assets. In instances where a valuation allowance is established against current year losses, income from other sources, including gain from postretirement benefits recorded as a component of OCI, is considered when determining whether sufficient future taxable income exists to realize the deferred tax assets. As a result, for the fiscal year ended June 30, 2013, we recorded income tax expense of \$1.1 million in OCI related to the gain on postretirement benefits, and recorded a corresponding income tax benefit of \$1.1 million in continuing operations.

Net income

As a result of the foregoing factors, net income was \$12.1 million, or \$0.76 per diluted common share, in fiscal 2014 compared to net loss of \$(8.5) million, or \$(0.54) per common share, in fiscal 2013.

Non-GAAP Financial Measures

In addition to net income (loss) determined in accordance with GAAP, we use the following non-GAAP financial measures in assessing our operating performance:

"Non-GAAP net income" is defined as net income (loss) excluding the impact of:

- restructuring and other transition expenses, net of tax; and
- net gains and losses from sales of assets, net of tax.

“Non-GAAP net income per diluted common share” is defined as Non-GAAP net income divided by the weighted-average number of common shares outstanding, inclusive of the dilutive effect of common equivalent shares outstanding during the period.

“Adjusted EBITDA” is defined as net income (loss) excluding the impact of:

- income taxes;
- interest expense;
- depreciation and amortization expense;
- ESOP and share-based compensation expense;
- non-cash impairment losses;
- non-cash pension withdrawal expense;
- other similar non-cash expenses;
- restructuring and other transition expenses; and
- net gains and losses from sales of assets.

“Adjusted EBITDA Margin” is defined as Adjusted EBITDA expressed as a percentage of net sales.

Restructuring and other transition expenses are expenses that are directly attributable to the Corporate Relocation Plan, consisting primarily of employee retention and separation benefits, facility-related costs and other related costs such as travel, legal, consulting and other professional services.

We believe these non-GAAP financial measures provide a useful measure of the Company’s operating results, a meaningful comparison with historical results and with the results of other companies, and insight into the Company's ongoing operating performance. Further, management utilizes these measures, in addition to GAAP measures, when evaluating and comparing the Company's operating performance against internal financial forecasts and budgets. In the fourth quarter of fiscal 2015, we modified previously reported non-GAAP financial measures to exclude net gains and losses on sales of assets because we believe these gains and losses are not reflective of our ongoing operating results. As a result, we began referring to the measures previously titled “Net income excluding restructuring and other transition expenses” and “Net income excluding restructuring and other transition expenses per common share-diluted” as “Non-GAAP net income” and “Non-GAAP net income per diluted common share.” In addition, we redefined “Adjusted EBITDA” to also exclude net gains and losses from sales of assets. The historical presentation of these measures has been recast to conform to the revised definitions and the current year presentation. Non-GAAP net income, Non-GAAP net income per diluted common share, Adjusted EBITDA and Adjusted EBITDA Margin, as defined by us, may not be comparable to similarly titled measures reported by other companies. We do not intend for non-GAAP financial measures to be considered in isolation or as a substitute for other measures prepared in accordance with GAAP.

Set forth below is a reconciliation of reported net income (loss) to Non-GAAP net income (loss) and reported net income (loss) per common share-diluted to Non-GAAP net income (loss) per diluted common share:

(In thousands)	Year Ended June 30,		
	2015	2014	2013
Net income (loss), as reported(1)	\$652	\$12,132	\$(8,462)
Restructuring and other transition expenses, net of tax of zero	10,432	—	—
Net losses (gains) from sales of assets, net of tax of zero	394	(3,814)	(4,467)
Non-GAAP net income (loss)	\$11,478	\$8,318	\$(12,929)
Net income (loss) per common share—diluted, as reported	\$0.04	\$0.76	\$(0.54)
Impact of restructuring and other transition expenses, net of tax of zero	\$0.64	\$—	\$—
Impact of net losses (gains) from sales of assets, net of tax of zero	\$0.03	\$(0.24)	\$(0.29)
Non-GAAP net income (loss) per diluted common share	\$0.71	\$0.52	\$(0.83)

(1) Includes: (a) \$4.9 million in beneficial effect of liquidation of LIFO inventory quantities in fiscal 2015; and (b) \$1.1 million in beneficial effect of liquidation of LIFO inventory quantities in fiscal 2013.

Set forth below is a reconciliation of reported net income (loss) to Adjusted EBITDA:

(In thousands)	Year Ended June 30,		
	2015	2014	2013
Net income (loss), as reported(1)	\$652	\$12,132	\$(8,462)
Income tax expense (benefit)	402	705	(825)
Interest expense	769	1,258	1,782
Depreciation and amortization expense	24,179	27,334	32,542
ESOP and share-based compensation expense	5,691	4,692	3,563
Restructuring and other transition expenses	10,432	—	—
Net losses (gains) from sales of assets	394	(3,814)	(4,467)
Impairment losses on goodwill and intangible assets	—	—	92
Adjusted EBITDA	\$42,519	\$42,307	\$24,225
Adjusted EBITDA Margin	7.8	% 8.0	% 4.7

(1) Includes: (a) \$4.9 million in beneficial effect of liquidation of LIFO inventory quantities in fiscal 2015; and (b) \$1.1 million in beneficial effect of liquidation of LIFO inventory quantities in fiscal 2013.

## Contractual Obligations

The following table contains information regarding total contractual obligations as of June 30, 2015, including capital leases:

(In thousands)	Payment due by period(1)				
	Total	Less Than One Year	1-3 Years	3-5 Years	More Than 5 Years
Contractual obligations:					
Operating lease obligations	\$ 10,658	\$ 3,991	\$ 4,532	\$ 2,104	\$ 31
Capital lease obligations(2)	6,162	3,464	2,499	195	4
Pension plan obligations	87,682	7,590	15,965	17,094	47,033
Postretirement benefits other than pension plans	15,538	1,076	2,477	3,035	8,950
Revolving credit facility	78	78	—	—	—
Purchase commitments(3)	45,324	45,324	—	—	—
Total contractual obligations	\$ 165,442	\$ 61,523	\$ 25,473	\$ 22,428	\$ 56,018

(1) Excludes the Lease Agreement for the Northlake, Texas facility that the Company entered into subsequent to the fiscal year ended June 30, 2015 (see Note 21 of the Notes to Consolidated Financial Statements).

(2) Includes imputed interest of \$0.3 million.

(3) Commitments under coffee purchase contracts for which all delivery terms have been finalized but the related coffee has not been received as of June 30, 2015. Amounts shown in the table above: (a) include all coffee purchase contracts that the Company considers to be from normal purchases; and (b) do not include amounts related to derivative instruments that are recorded at fair value on the Company's consolidated balance sheets.

As of June 30, 2015, we had committed to purchasing green coffee inventory totaling \$41.0 million under fixed-price contracts and other inventory totaling \$4.3 million under non-cancelable purchase orders.

## Off-Balance Sheet Arrangements

We have no off-balance sheet arrangements.

## Item 7A. Quantitative and Qualitative Disclosures About Market Risk

## Interest Rate Risk

We are exposed to market value risk arising from changes in interest rates on our securities portfolio. Our portfolio of preferred securities has sometimes included investments in derivative instruments that provide a natural economic hedge of interest rate risk. We review the interest rate sensitivity of these securities and may enter into “short positions” in futures contracts on U.S. Treasury securities or hold put options on such futures contracts to reduce the impact of certain interest rate changes. Specifically, we attempt to manage the risk arising from changes in the general level of interest rates. We do not transact in futures contracts or put options for speculative purposes. The number and type of futures and options contracts entered into depends on, among other items, the specific maturity and issuer redemption provisions for each preferred stock held, the slope of the U.S. Treasury yield curve, the expected volatility of U.S. Treasury yields, and the costs of using futures and/or options.

The following table demonstrates the impact of varying interest rate changes based on our preferred securities holdings and market yield and price relationships at June 30, 2015. This table is predicated on an “instantaneous” change in the general level of interest rates and assumes predictable relationships between the prices of our preferred securities holdings and the yields on U.S. Treasury securities. At June 30, 2015, we had no futures contracts or put options with respect to our preferred securities portfolio designated as interest rate risk hedges.

(\$ in thousands)	Market Value of Preferred Securities at June 30, 2015	Change in Market Value
Interest Rate Changes		
–150 basis points	\$24,529	\$863
–100 basis points	\$24,303	\$637
Unchanged	\$23,666	\$—
+100 basis points	\$22,866	\$(800)
+150 basis points	\$22,461	\$(1,205)

The Credit Agreement for our Revolving Facility provides for interest rates based on Average Historical Excess Availability levels with a range of PRIME - 0.25% to PRIME + 0.50% or Adjusted LIBO Rate + 1.25% to Adjusted LIBO Rate + 2.00%.

As of June 30, 2015, we had outstanding borrowings of \$0.1 million, utilized \$11.5 million of the letters of credit sublimit, and had excess availability under the Revolving Facility of \$43.5 million. The weighted average interest rate on our outstanding borrowings under the Revolving Facility at June 30, 2015 was 1.26%.

Effective December 1, 2012, we entered into an interest rate swap transaction utilizing a notional amount of \$10.0 million and a maturity date of March 1, 2015. We entered into the swap transaction to effectively fix the future interest rate during the applicable period on a portion of our borrowings under the Wells Fargo Credit Facility. The swap transaction was intended to manage our interest rate risk related to our borrowings under the Wells Fargo Credit Facility and required us to pay a fixed rate of 0.48% per annum in exchange for a variable interest rate based on 1-month USD LIBOR-BBA. We terminated the swap transaction on March 5, 2014. As of June 30, 2015 and 2014, we had no interest rate swap transactions in place.

We did not designate our interest rate swap as an accounting hedge. In the fiscal years ended June 30, 2014 and 2013, respectively, we recorded in “Other, net” in our consolidated statements of operations a loss of \$5,000 and \$25,000, respectively, for the change in fair value of our interest rate swap. No such gain or loss was recorded in fiscal 2015.

## Commodity Price Risk

We are exposed to commodity price risk arising from changes in the market price of green coffee. We value green coffee inventory on the LIFO basis. In the normal course of business we hold a large green coffee inventory and enter into forward commodity purchase agreements with suppliers. We are subject to price risk resulting from the volatility of green



coffee prices. Due to competition and market conditions, volatile price increases cannot always be passed on to our customers.

We purchase exchange-traded coffee-related derivative instruments to enable us to lock in the price of green coffee commodity purchases. These derivative instruments also may be entered into at the direction of the customer under commodity-based pricing arrangements to effectively lock in the purchase price of green coffee under such customer arrangements, in certain cases up to 18 months or longer in the future. Prior to April 1, 2013, none of our derivative instruments was designated as an accounting hedge. Beginning April 1, 2013, we implemented procedures following the guidelines of ASC 815 to enable us to account for certain coffee-related derivative instruments as accounting hedges in order to minimize the volatility created in our quarterly results from utilizing these derivative contracts and to improve comparability between reporting periods.

When we designate coffee-related derivative instruments as cash flow hedges, we formally document the hedging instruments and hedged items, and measure at each balance sheet date the effectiveness of our hedges. Beginning in the fourth quarter of fiscal 2013, the effective portion of the gains and losses from re-valuing the coffee-related derivative instruments to their market prices is being recorded in AOCI and subsequently reclassified into cost of goods sold in the period or periods when the hedged transaction affects earnings. For the fiscal years ended June 30, 2015, 2014 and 2013 we reclassified \$4.2 million, \$1.2 million and \$0.1 million, respectively, in net gains into cost of goods sold from AOCI. Any ineffective portion of the derivative's change in fair value is recognized currently in "Other, net." Gains or losses deferred in AOCI associated with terminated derivative instruments, derivative instruments that cease to be highly effective hedges, derivative instruments for which the forecasted transaction is reasonably possible but no longer probable of occurring, and cash flow hedges that have been otherwise discontinued remain in AOCI until the hedged item affects earnings. If it becomes probable that the forecasted transaction designated as the hedged item in a cash flow hedge will not occur, we recognize any gain or loss deferred in AOCI in "Other, net" at that time. For the fiscal years ended June 30, 2015, 2014 and 2013, we recognized in "Other, net" \$(0.3) million, \$(0.3) million and \$(0.4) million, respectively, in net losses on coffee-related derivative instruments designated as cash flow hedges due to ineffectiveness.

For derivative instruments that are not designated in a hedging relationship, and for which the normal purchases and normal sales exception has not been elected, the changes in fair value are reported in "Other, net."

For the fiscal years ended June 30, 2015, 2014 and 2013, we recorded in "Other, net" (losses) gains from coffee-related derivative instruments not designated as accounting hedges in the amounts of \$(3.0) million, \$2.7 million and \$(11.3) million, respectively.

The following table summarizes the potential impact as of June 30, 2015 to net income and OCI from a hypothetical 10% change in coffee commodity prices. The information provided below relates only to the coffee-related derivative instruments and does not include, when applicable, the corresponding changes in the underlying hedged items:

Increase (Decrease) to Net Income	Increase (Decrease) to OCI
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