

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

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

For the fiscal year ended June 30, 2002

Commission file number: 0-1375

FARMER BROS. CO.

California  
State of Incorporation

95-0725980  
Federal ID Number

20333 South Normandie Avenue, Torrance, California  
Registrant's address

(310) 787-5200  
Registrant's telephone number

Securities registered pursuant to Section 12(b) of the Act: None

Securities registered pursuant to Section 12(g) of the Act:

Title of each class which registered	Name of each exchange on which registered
Common stock, \$1.00 par value	OTC

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 ☐

Number of shares of Common Stock, \$1.00 par value, outstanding as of August 2, 2002: 1,926,414 and the aggregate market value of the common shares held by non-affiliates of the Registrant was approximately \$645 million.

PART I

Item 1. Business

General: Farmer Bros. Co. was incorporated in California in 1923. We manufacture and distribute a product line that includes roasted coffee, coffee related products (coffee filters, stir sticks and creamers), teas, cocoa, spices, and soup and beverage bases to restaurants and other institutional establishments that prepare food, including restaurants, hotels, hospitals, convenience stores and fast food outlets. The product line presently includes over 300 items. Roasted coffee products make up 54% of total sales. No single product other than coffee accounts for 10% or more of revenue. Our products are sold directly from delivery trucks by sales representatives who solicit, sell, and otherwise maintain our customer's accounts.

Raw Materials and Supplies: Our primary raw material is green coffee. Coffee purchasing, roasting and packaging takes place at our Torrance, California plant, which is also the distribution hub for our branches. Green coffee is an agricultural commodity. We purchase our green coffee through domestic commodity brokers. Coffee is grown mainly outside the United States and can be subject to volatile price fluctuations resulting from supply concerns related to crop availability and related conditions such as weather, political events and social instability in coffee producing

nations. Government actions and trade restrictions between our own and foreign governments can also influence prices.

Green coffee prices are affected by the actions of producer organizations. The most prominent of these are the Colombian Coffee Federation (CCF), the Association of Coffee Producing Countries (ACPC) and the International Coffee Organization (ICO). These organizations seek to increase green coffee prices largely by attempting to restrict supplies, thereby limiting the availability of green coffee to the coffee consuming nations. In recent years the green coffee market has been influenced by additional production from a variety of producers, notably Vietnam and Brazil. These additional supplies have had the tendency to hold prices down.

Other raw materials used in the manufacture of allied products include a wide variety of spices, including pepper, chilies, oregano & thyme, as well as tea, dry cocoa, dehydrated milk products, salt and sugar. All of these agricultural products can be subject to wide cost variation, but historically no combination of these raw materials has had the material effect on our operating results as has green coffee.

Trademarks & Patents: We own approximately 38 registered U.S. trademarks, which are integral to customer identification of our products. It is not possible to assess the impact of the loss of such identification.

Seasonality: We experience some seasonal influences. The winter months are the best sales months. However, our product line and geographic diversity provides some sales stability during the warmer months when coffee consumption ordinarily decreases. Additionally, the summer months usually experience an increase in sales to seasonal businesses located in popular vacation areas.

Distribution: Our products are distributed by our selling divisions from branches located in most large cities throughout the western United States. We operate our own long haul trucking fleet to more effectively control the supply of products to these warehouses and try to minimize our inventory levels within each branch warehouse.

Customers: No customer represents a significant concentration of sales. The loss of any one or more of our larger customer accounts would have no material adverse effect on our operations. Customer contact and service quality, which is integral to our sales effort, is often secondary to product pricing for customers with their own distribution systems. Such customers can be very price sensitive.

Competition: We face competition from many sources, including multi-national manufacturers of retail products like Procter & Gamble and Sara Lee Foods, grocery distributors like Sysco and U.S. Food Service and regional coffee roasters like Boyd Coffee Co. and Lingle Bros. We may have some competitive advantages due to our longevity, strong regional roots and sales and service force. Our customer base is price sensitive and we are often faced with price competition.

Working Capital: We finance our operations internally, and we believe that working capital from internal sources will be adequate for the coming year.

Foreign Operations: We have no material revenues that result from foreign operations.

Other: On June 30, 2002, we employed 1,113 employees; 470 are subject to collective bargaining agreements. The effects of compliance with government provisions regulating discharge of materials into the environment have not had a material effect on our financial condition or results of operations. The nature of our business does not provide for maintenance of or reliance upon a sales backlog.

## Item 2. Properties

Our largest and most significant facility is the roasting plant, warehouses and administrative offices in Torrance, California. This facility is our primary manufacturing facility and the distribution hub for our fleet. We stage product in more than 100 small branch warehouses throughout our service area. These warehouses taken together represent a vital part of our business, but no individual warehouse is material to the group as a whole, and most warehouses vary in size from 2,500-12,000 sq. feet. We believe both the existing plant and the distribution warehouses will continue to provide adequate capacity for the foreseeable future. A complete list of facilities is found in Exhibit (99).

## Item 3. Legal Proceedings

We are both defendant and plaintiff in various legal proceedings incidental

to our business which are ordinary and routine. It is our opinion that the resolution of these lawsuits will not have a material impact on our financial condition or results of operations.

#### Item 4 Submission of Matters to a Vote of Security Holders

None.

## PART II

#### Item 5. Market for Registrant's Common Equity and Related Shareholder Matters

We have one class of common stock which is traded in the over the counter market. The bid prices indicated below are as reported by NASDAQ and represent prices between dealers, without including retail mark up, mark down or commission, and do not necessarily represent actual trades.

	2002			2001		
	High	Low	Dividend	High	Low	Dividend
1st Quarter	\$259.50	\$215.00	\$0.85	\$194.19	\$165.00	\$0.80
2nd Quarter	\$267.75	\$192.00	\$0.85	\$211.00	\$176.88	\$0.80
3rd Quarter	\$304.00	\$268.98	\$0.85	\$258.52	\$188.00	\$0.80
4th Quarter	\$370.99	\$306.00	\$0.85	\$239.00	\$205.00	\$0.80

There were 2,667 holders of record on August 2, 2002.

#### Item 6. Selected Financial Data (In thousands, except per share data)

	2002	2001	2000	1999	1998
Net sales	\$205,857	\$215,431	\$218,688	\$221,571	\$240,092
Income from operations	\$38,210	\$42,115	\$48,965	\$36,770	\$40,955
Net income	\$30,569	\$36,178	\$37,576	\$28,865	\$33,400
Net income per share	\$16.54	\$19.62	\$20.22	\$15.16	\$17.34
Proforma net income (a)		\$36,488	\$35,445	\$27,327	\$33,702
Proforma net income (a) per share		\$19.79	\$19.08	\$14.36	\$17.71
Total assets	\$417,524	\$390,395	\$353,467	\$324,836	\$307,012
Dividends per share	\$3.40	\$3.20	\$3.00	\$2.80	\$2.55

(a) Upon adoption of SFAS No. 133 on July 1, 2000, the Company reclassified its investments held as "available for sale" to the "trading" category which resulted in an entry to recognize the accumulated unrealized loss of \$3,894,000. The "proforma" amounts above summarize the effect on earnings and earnings per share on prior years' results as if the change had been in effect for those periods presented.

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

Management's Discussion and Analysis discusses the results of operations as reflected in the Company's consolidated financial statements. 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 years ended June 30, 2002, 2001 and 2000 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 Item 8 of this report and with the "Risk Factors" described below.

#### Critical Accounting Policies

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 accounting principles generally accepted in the United States. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. On an on-going basis, we evaluate our estimates, including those related to inventory valuation, including LIFO reserves, the allowance for doubtful accounts, deferred tax assets, liabilities related to retirement benefits, liabilities resulting from self-insurance of our worker's compensation liabilities, and litigation. We base our estimates on historical experience and other relevant factors that are believed to be reasonable under the circumstances.

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 the Company to make adjustments to these estimates in future periods.

**Investments:** Our investments consist of investment grade marketable debt instruments issued by the US Government and major US and foreign corporations, equity securities, primarily preferred stock, and various derivative instruments, primarily exchange traded treasury futures and options, green coffee forward contracts and commodity purchase agreements. All derivatives not designated as accounting hedges are marked to market and changes are recognized in current earnings. The fair value of derivative instruments is based upon broker quotes where possible.

**Allowance for Doubtful Accounts:** We maintain an allowance for estimated losses resulting from the inability of our customers to meet their obligations. Our ability to maintain a relatively small reserve is directly related to our ability to collect from our customers when our sales people regularly interact with our customers in person. This method of operation has historically provided us with a historically low bad debt experience.

**Inventories:** Inventories are valued at the lower of cost or market and the costs of coffee and allied products are determined on the Last In, First Out (LIFO) basis. Costs of coffee brewing equipment manufactured are accounted for on the First In, First Out (FIFO) basis. We regularly evaluate these inventories to determine that market conditions are correctly reflected in the recorded carrying value.

**Self-Insurance Retention:** We are self-insured for California workers' compensation insurance and utilize historical analysis to determine and record the estimates of expected future expenses resulting from worker's compensation claims. Additionally, we accrue for estimated losses not covered by insurance for liability, auto, medical and fire up to the deductible amounts.

**Retirement Plans:** We have two defined benefit plans that provide retirement benefits for the majority of our employees (the balance of our employees are covered by union defined benefit plans). We obtain actuarial valuations for both plans and at present we discount the pension obligations using 7.20% discount rate and we estimate an 8% return on plan assets. Our retiree medical plan is not funded and shares the same discount rate as the defined benefit plans. We also project an initial medical trend rate of 11% ultimately reducing to 5.5% in 6 years.

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 have an effect on operating results.

**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 differences are expected to reverse. We do not presently have a valuation allowance for our deferred tax assets as we currently believe it is more likely than not that we will realize our deferred tax assets.

#### Liquidity and Capital Resources

We have been able to maintain a strong working capital position, and believe that both our short and long term cash requirements for the coming year will be provided by internal sources. We have no major commitments for capital expenditures at this time, but intend to begin a multi-year upgrading of our internal management information system. Additionally we are prepared to loan additional funds to the employee stock ownership plan (ESOP) for purchase of up to 300,000 shares of Farmer Bros Co. common stock at a cost not to exceed \$50,000,000. At June 30, 2002 the ESOP loan balance was \$13,243,000.

(In thousands except ratio data)

	2002	2001	2000
Current assets(a)	\$348,434	\$318,879	\$188,560
Current liabilities	\$16,259	\$17,655	\$16,966
Working capital	\$332,175	\$301,224	\$171,594
Capital Expenditures	\$5,039	\$5,912	\$14,130

(a) Upon adoption of SFAS No. 133 on July 1, 2000, the Company reclassified its investments held as "available for sale" to the

"trading" category.

## Results of Operations

Years ended June 30, 2002 and 2001

Fiscal 2002 was challenging for us. Although green coffee costs remained relatively stable throughout the year, the events of September 11, 2001 are still being felt. Recession related reductions in business and personal travel and entertainment expenses combined with reduced activities outside the home resulting from public concern about terrorist activities resulted in decreased sales and profitability. As depicted in the "Change in Earnings per Share" analysis below, our 2002 net sales declined 4.4%. Net sales decreased to \$205,857,000 in 2002 as compared to \$215,431,000 in 2001.

Gross profit decreased to \$138,093,000 in fiscal 2002, or 67% of sales, compared to \$141,400,000 in fiscal 2001, or 66% of sales. The world supply of green coffee continues to be ample, and some producing countries have discussed a variety of approaches to improve producer profitability, including production decreases, decreased farm maintenance and farm worker layoffs. To date, none of these approaches appear to have had a material effect on green coffee prices.

Operating expenses, comprised of selling and general and administrative expenses were \$99,883,000 in 2002 as compared to \$99,285,000 in 2001. A \$3,339,000 increase, or 28%, in employee benefits expenses in fiscal 2002, including the costs of employee benefit plans and medical coverage, was substantially offset by a decreases in payroll expenses, (1%), vehicle related expenses (including maintenance, gas & oil), (6%), and coffee brewing equipment costs, (36%).

Other income decreased 36% to \$11,150,000 in 2002 as compared to \$17,401,000 in 2001. The 2001 amount includes the accumulated unrealized loss of \$3,894,000 resulting from the accounting change that year. Exclusive of the accounting change, other income decreased 48% in 2002 from \$21,295,000 in 2001. This decrease is primarily the result of lower interest rates during 2002 as the Federal Reserve Board has attempted to stimulate the economy. Our investments continue to be in short term money market instruments: primarily investment grade commercial paper, corporate notes and US treasury and agency debt. At June 30, 2002 we held approximately \$168,000,000 in US Treasury Bills.

Income before taxes decreased 21% to \$49,360,000, or 24% of sales, for the year ended June 30, 2002, as compared to \$59,516,000, or 28% of sales, in the prior fiscal year. Net income, before cumulative effect of accounting change, for fiscal year 2002 was \$30,569,000, or \$16.54 per share, as compared to \$36,488,000, or \$19.79 per share, in 2001.

Years ended June 30, 2001 and 2000

Fiscal 2001 presented us with a less volatile green coffee market than 2000. World green coffee supplies, bolstered by new supply from Vietnam and Brazil pressured green coffee prices. Green coffee prices at June 30, 2001 were down about 34% from the beginning of 2001. The coffee crop in Brazil, the world's largest coffee producer, weathered the 2001 frost season (during our summer) and a good crop was harvested. As depicted in the "Change in Earnings per Share" analysis below, our 2001 sales declined 1.5%. Net sales decreased to \$215,431,000 in 2001 as compared to \$218,688,000 in 2000. The primary cause of our sales decline was reduced coffee usage by our customers who attributed this decrease to a variety of causes which, although not quantifiable, included the increasing number of competing beverages (both hot & cold) and a decrease in consumer spending.

Gross profit decreased to \$141,400,000 in fiscal 2001, or 66% of sales, compared to \$141,719,000 in 2000, or 65% of sales. During fiscal 2001, green coffee prices declined about 35% as compared to fiscal 2000 prices; however, as described below gross profit was impacted by the change in accounting for coffee contracts. During fiscal 2000, green coffee costs increased nearly 40% in the first half of the year, decreasing to beginning of the year levels by the first of June 2000. During the month of June 2000, green coffee costs increased over 30% as the result of a weather threat to the Brazilian coffee crop.

Operating expenses, composed of selling and general and administrative expenses increased to \$99,285,000 in 2001 from \$92,754,000 in 2000. This increase in 2001 was primarily the result of an increase of \$2,181,000, or 32%, in the cost of providing coffee brewing equipment to our customers and an increase of \$2,678,000, or 4.2%, in payroll & employee benefits expenses as compared to fiscal 2000. This increase is primarily related to the cost of our employee stock ownership plan.

In June 1998, the Financial Accounting Standards Board (FASB) issued Statement No. 133, "Accounting for Derivative Instruments and Hedging Activities", as amended by SFAS No. 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities-An Amendment of FASB Statement 133." The adoption of Statement Nos. 133 and 138 on July 1, 2001 resulted in a cumulative effect of an accounting change of \$515,000 (\$310,000 net of taxes) being recognized in the Statement of Net Income. Upon adoption of SFAS 133, securities were reclassified from the "available for sale" to the "trading" category. This resulted in the recognition of the accumulated unrealized loss of \$3,894,000 in other income. All investments, consisting of marketable debt and equity securities, interest rate futures or options and money market instruments, are now held for trading purposes and are stated at fair value. Gains and losses, both realized and unrealized, are now included in other income and expense. Other income increased to \$17,401,000 in 2001 as compared to \$12,254,000 in 2000 as the result of an increase in trading securities and coffee contracts net of the reclassification adjustment described above.

Income before taxes was \$59,516,000 or 28% of sales in 2001, as compared to \$61,219,000 or 28% of sales in 2000. Net income for fiscal year 2001 was \$36,178,000, or \$19.62 per share, as compared to \$37,576,000, or \$20.22 per share, in 2000.

#### Change in Earnings Per Share

The following provides additional information regarding changes in operating results.

	2002	2001	2000
Net income per common share	\$16.54	\$19.62	\$20.22

#### Percentage change:

	2002 to 2001	2001 to 2000
Net sales	(4.4)%	(1.5)%
Cost of goods sold	(8.5)%	(3.8)%
Gross profit	(2.3)%	(0.2)%
Operating expenses	0.6 %	7.0 %
Income from operations	(9.3)%	(14.0)%
Provisions for income taxes	(18.4)%	(2.6)%
Net income	(15.5)%	(3.7)%

A summary of the change in earnings per share, which highlights factors discussed earlier, is as follows:

	Per Share Earnings	
	2002 vs. 2001	2001 vs. 2000
Coffee: Prices	\$ 0.15	\$ 0.32
Volume	(3.71)	(3.20)
Cost	2.25	2.09
Gross profit	(1.31)	(0.79)
Allied products: Gross profit	(0.48)	0.62
Operating expenses	(0.32)	(3.54)
Other income	(3.38)	2.79
Provision for income taxes	2.29	0.33
Accounting change	0.17	(0.17)
Change in weighted average shares outstanding	(0.05)	0.16
Net income	\$ (3.08)	\$(0.60)

#### Risk Factors

Certain statements contained in this Annual Report on Form 10-K regarding the risks, circumstances and financial trends that may affect our future operating results, financial position and cash flows may be forward-looking statements within the meaning of federal securities laws. These statements are based on management's current expectations, assumptions, estimates and observations about our business and are subject to risks and uncertainties. As a result, actual results could materially differ from the forward looking statements contained herein. These forward looking statements can be identified by the use of words like "expects," "plans," "believes," "intends," "will," "assumes" and other words of similar meanings. These and other similar words can be identified by the fact that they do not relate solely to historical or current facts. While we believe our assumptions are reasonable, we caution that it is impossible to predict the impact of such factors which could cause actual results to differ materially from predicted results. We intend these forward-looking statements to speak only at the time of this report and do not

undertake to update or revise these projections as more information becomes available. For these statements, we claim the protection of the safe harbor for forward-looking statements provided by the Private Securities Litigation Reform Act of 1995.

Factors that could cause our actual results to materially differ from those expressed or implied by any forward looking statements described herein include:

Green coffee price volatility.

Our results of operations can vary dramatically with the volatility of the green coffee market. Virtually all coffee is grown outside the United States. Some of the producing countries have experienced a variety of problems, including civil war in Peru and Indonesia, rebel insurgents in the Philippines and the threat of economic collapse in Brazil. Green coffee can be one of the most volatile of commodities. It is subject to all the factors that influence the price of agricultural products including weather (especially drought and frost), world supplies, the actions of our own and foreign governments (including trade restrictions, farm subsidies & currency devaluations), transportation issues (including port and trucker strikes domestically and in the producing countries), and insect pests (cigarette beetle and broca).

Competition.

Our customer base has undergone a dramatic shift in the past decade. This is the result of several factors, including competition from other coffee companies and from other beverages. Other coffee companies include multi-national firms with vast financial resources, a business model that is very different and superior information technologies. Large restaurant chains and other institutional buyers (representing hospitals, hotels, contract food services, convalescent hospitals and other similar institutions) often prefer the "price leader" and find insufficient value in the sales & service aspect of our business. We believe some of our competitors are willing to accept smaller profit margins from some customers because they do not have the distribution and service organization we do. In addition, there are numerous beverages competing for the same restaurant dollar. Soft drinks, bottled water, flavored coffees & teas all have grown at the expense of a "standard" cup of coffee. We believe the growth of coffee shops that roast their own coffee has also contributed to the decrease in demand for the "standard" cup of coffee.

Sales & Distribution Network.

We believe our sales and distribution network to be one of the best in the industry. It is also expensive to operate. Some of our competitors market through wholesale grocers. Therefore they do not have to address certain issues that we do, including gasoline and oil prices, the costs of purchasing, maintaining and insuring a fleet of delivery vehicles, the costs of purchasing or leasing and maintaining distribution warehouses throughout the country, or the costs of hiring, training and paying benefits for our route sales professionals. We find that competitors unencumbered with this overhead sometimes choose to be very price competitive throughout our service area.

General economic and market conditions.

Our primary market is restaurants and other food service establishments. We also provide coffee and related products to offices. We believe the success of this business market segment is dependent upon personal and business expenditures in restaurant locations. In a slow economy businesses and individuals often scale back their discretionary spending on travel and entertainment, including "eating out." A weaker economy may also cause businesses to cut back on their travel and entertainment expenses, and even reduce or eliminate office coffee benefits.

Self insurance.

We are self-insured for many risks. Although we carry insurance, our deductibles require that we bear a substantial liability. The premiums associated with our insurance have recently increased substantially. General liability, fire, workers' compensation, director & officer, life, employee medical, dental & vision and automobile present a large potential liability. While we accrue for this liability based on historical experience, future losses may exceed losses we have incurred in the past.

Risks from possible acquisitions and new business ventures.

The Company regularly evaluates opportunities that may enhance shareholder value. There is no assurance that any such venture, should we decide to enter into one, will accrue the projected returns. It is possible that such ventures could result in losses or returns that would have a negative impact on operating income.

Stock purchases and sales by major shareholders.

Approximately 52% of all outstanding shares are owned or controlled by Company employees, officers and directors. The combined holdings of the 8 largest institutions are approximately 24% of outstanding shares. Including the holdings of a former director of approximately 10% of outstanding shares, current and former management and institutions control approximately 83% of shares. Future sales of Company stock could adversely and unpredictably affect the price of our shares.

ESOP.

The Farmer Bros. Co. Employee Stock Ownership Plan was designed to help us attract and retain employees. Additionally, we believe employee stock ownership helps align the efforts of our employees with the interests of our shareholders. To that end, the board of directors has approved loaning up to \$50,000,000 to acquire shares. As additional shares come available, we expect that a substantial additional amount will be approved to finance that acquisition of shares. This will deplete our working capital and increase costs associated with the ESOP, especially future funding (i.e., requirement to provide the ESOP with liquidity for shares tendered back to the ESOP by departing employees). We expect that as the ESOP acquires additional shares, the Company will take on a growing fixed cost which may have a material effect on future earnings.

External factors: strikes, natural disasters, acts of war and other difficulties.

Over half of our business is conducted in California, Oregon & Washington. This area is prone to seismic activity and a major earthquake could have a significant negative effect on our operations. Our major manufacturing facility and distribution hub is in Los Angeles, and a serious interruption to highway arteries, gas mains or electrical service could restrict our ability to supply our branches with product.

Most of our customers are disbursed throughout the western United States, with concentrations in major cities. We depend on our own route sales network for reaching our customers. Any interruption of that distribution system could have material negative consequences for us. Our major product, coffee, is grown primarily in the tropics. Hurricanes, monsoons, tornados, severe winter storms, drought and floods all have an affect on our customers and our sources of supply.

Strikes against our suppliers or their transportation vendors could restrict our ability to obtain our supply of green coffee and other supplies. Coffee is shipped to us by sea from every producing country, and by rail from Mexico. Any major interruption in that flow, for example, trucker strikes in Brazil, railroad strikes in Mexico, coffee processors strikes in El Salvador, or longshoremen strikes in U.S. ports, can reduce our ability to maintain our flow of green coffee to our production facility and ultimately to our customers. Coffee is perishable, and although its shelf life is lengthy compared to other types of agricultural products, it does not allow for any significant stock-piling.

Acts of war or terrorism.

Any action domestically or in a coffee producing country that interrupts the supply of green coffee to our plant or restricts our delivery of finished product to our warehouses and customers can have a material impact on our operating results. Civil war in Columbia or Peru, or terrorist actions in the Philippines or elsewhere, can have a material effect on our operations if we are unable to receive or replace key coffee shipments. If suitable substitute sources of supply can be located, they are often found at a much higher price.

ERP System Conversion.

Our internal management information system is several years old and in need of updating. The Company has embarked on a two year program to update these systems by converting to a single enterprise-wide software. We believe this will be a challenging conversion. While our personnel and consultants are working to make the conversion a success, it is possible that the conversion cost, potential complications resulting from the conversion itself, and system problems in our use of the new software could have a material impact on our future operating results.

Staffing.

There is little depth of management in certain positions and a loss of one or more of these key employees could have a material effect on our operations and competitive position. We have union contracts relating to our employees serving our California, Oregon, Washington and Nevada markets. Although we believe union relations have been amicable in the past, there is no assurance that this will continue in the future.



#### Hedging activities

The most important aspect of our operation is to secure a consistent supply of coffee. Some proportion of green coffee price fluctuations can be passed through to our customers, with some delay; but maintaining a steady supply of green coffee is essential to keep inventory levels low and sufficient stock to meet customer needs. We purchase our coffee through established coffee brokers to help minimize the risk of default on coffee deliveries. To help ensure future supplies, we purchase much of our coffee on forward contracts for delivery as long as six months in the future. Sometimes these contracts are fixed price contracts, where the price of the purchase is set regardless of the change in price of green coffee between the contract and delivery dates. At other times these contracts are variable price contracts that allow the delivered price of contracted coffee to reflect the market price of coffee at the delivery date.

Futures contracts not designated as hedges, and terminations of contracts designated as hedges, are marked to market and changes are recognized in current earnings. Open contracts at June 30, 2002 are addressed in the following Item 7A.

In the event of non-performance by the counter parties, the Company could be exposed to credit and supply risk. The Company monitors the financial viability of the counter parties in an attempt to minimize this risk.

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

We are exposed to market value risk arising from changes in interest rates on our securities portfolio. Our portfolio of investment grade money market instruments includes discount commercial paper, medium term notes, federal agency issues and treasury securities. As of June 30, 2002 over 80% of these funds were invested in instruments with maturities shorter than 180 days. This portfolio's interest rate risk is not hedged and its average maturity is approximately 150 days. A 100 basis point move in the general level of interest rates would result in a change in the market value of the portfolio of approximately \$2,400,000.

Our portfolio of preferred securities includes investments in derivatives that provide a natural economic hedge of interest rate risk. We review the interest rate sensitivity of these securities and (a) enter into "short positions" in futures contracts on U.S. Treasury securities or (b) hold put options on such futures contracts in order to reduce the impact of certain interest rate changes on such preferred stocks. 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 following table demonstrates the impact of varying interest rate changes based on the preferred stock holdings, futures and options positions, and market yield and price relationships at June 30, 2002. This table is predicated on an instantaneous change in the general level of interest rates and assumes predictable relationships between the prices of preferred securities holdings, the yields on U.S. Treasury securities and related futures and options.

#### Interest Rate Changes (In thousands)

	Market Value at June 30, 2002 Preferred Securities	Futures and Options	Change in Market Total Value of Total Portfolio	Change in Market Total Value of Total Portfolio
- 200 basis points "(b.p.)"	\$56,169	\$0	\$56,169	\$6,477
- 100 b.p.	53,071	6	53,077	3,385
Unchanged	48,873	819	49,692	0
+100 b.p.	44,693	4,679	49,372	(320)
+200 b.p.	40,735	8,257	48,992	(700)

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 security held, the slope of the Treasury yield curve, the expected volatility of Treasury yields, and the costs of using futures and/or options.

#### Commodity Price Changes

We are exposed to commodity price risk arising from changes in the market price of green coffee. We price our inventory on the LIFO basis. In the normal course of business we enter into commodity purchase agreements with suppliers and we purchase exchange traded green coffee contracts. The following table demonstrates the impact of changes in the price of green coffee on inventory and green coffee contracts at June 30, 2002. It assumes an immediate change in the price of green coffee, and the valuations of

coffee futures and relevant commodity purchase agreements at June 30, 2002.

Commodity Risk Disclosure  
(In thousands)

Coffee Cost Change	Coffee Inventory	Market Value of June 30, 2002		Change in Market Value	
		Futures & Options	Total	Derivatives	Inventory
- -10%	\$12,448	\$121	\$12,569	\$58	(\$1,383)
unchanged	13,831	63	13,894	-	
+10%	15,214	5	15,219	(58)	\$1,383

At June 30, 2002 the derivatives consisted mainly of commodity futures with maturities shorter than three months.

Item 8. Financial Statements and Supplementary Data

REPORT OF INDEPENDENT AUDITORS

To the Board of Directors and Shareholders of Farmer Bros. Co. and  
Subsidiary

We have audited the accompanying consolidated balance sheets of Farmer Bros. Co. and Subsidiary (the "Company") as of June 30, 2002 and 2001, and the related consolidated statements of income, cash flows, and shareholders' equity for the three years ended June 30, 2002. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Farmer Bros. Co. and Subsidiary at June 30, 2002 and 2001, and the consolidated results of their operations and their cash flows for each of the three years in the period ended June 30, 2002, in conformity with accounting principles generally accepted in the United States.

As discussed in Note 2 to the consolidated financial statements, the Company changed its method of accounting for derivative financial instruments in 2001.

/s/Ernst & Young LLP

Long Beach, California  
September 6, 2002

FARMER BROS. CO.  
CONSOLIDATED BALANCE SHEETS  
(Dollars in thousands, except share data)

	June 30,	
	2002	2001
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 7,047	\$ 29,001
Short term investments	285,540	234,179
Accounts and notes receivable, net	14,004	15,326

Inventories	37,361	35,780
Income tax receivable	2,553	2,991
Deferred income taxes	1,188	1,092
Prepaid expenses	741	510
Total current assets	348,434	318,879
Property, plant and equipment, net	38,572	39,094
Notes receivable	224	2,727
Other assets	27,622	26,432
Deferred income taxes	2,672	3,263
Total assets	\$417,524	\$390,395

#### LIABILITIES AND SHAREHOLDERS' EQUITY

Current liabilities:		
Accounts payable	\$ 4,827	\$ 5,153
Accrued payroll expenses	6,407	6,421
Other	5,025	6,081
Total current liabilities	16,259	17,655
Accrued postretirement benefits	22,726	20,800
Other long term liabilities	5,486	4,892
Total Liabilities	44,471	43,347
Commitments and contingencies	-	-
Shareholders' equity:		
Common stock, \$1.00 par value, authorized 3,000,000 shares; issued and outstanding 1,926,414	1,926	1,926
Additional paid-in capital	17,627	16,629
Retained earnings	365,725	341,434
Unearned ESOP shares	(12,225)	(12,941)
Total shareholders' equity	373,053	347,048
Total liabilities and shareholders' equity	\$417,524	\$390,395

The accompanying notes are an integral part of these financial statements.

#### FARMER BROS. CO. CONSOLIDATED STATEMENTS OF INCOME (Dollars in thousands, except share data)

	Years ended June 30,		
	2002	2001	2000
Net sales	\$205,857	\$215,431	\$218,688
Cost of goods sold	67,764	74,031	76,969
	138,093	141,400	141,719
Selling expense	86,025	84,524	82,858
General and administrative expense	13,858	14,761	9,896
	99,883	99,285	92,754
Income from operations	38,210	42,115	48,965
Other income:			
Dividend income	3,198	3,039	2,741
Interest income	7,261	12,308	10,080
Other, net	691	2,054	(567)
	11,150	17,401	12,254
Income before taxes	49,360	59,516	61,219
Income taxes	18,791	23,028	23,643
Income before cumulative effect of accounting change	\$30,569	\$36,488	\$37,576
Cumulative effect of accounting change (net of income taxes of \$205)	-	(310)	-
Net income	\$30,569	\$36,178	\$37,576

Income per common share:			
Before cumulative effect of accounting change	\$16.54	\$19.79	\$20.22
Cumulative effect of accounting change	-	(\$0.17)	-
Net income per common share	\$16.54	\$19.62	\$20.22

Pro forma assuming accounting changes were retroactively applied

Net income		\$36,488	\$35,445
Net income per common share		\$19.79	\$19.08
Weighted average shares outstanding	1,848,395	1,843,392	1,858,034

The accompanying notes are an integral part of these financial statements.

FARMER BROS. CO.  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
(Dollars in thousands)

	Years ended June 30,		
	2002	2001	2000
Cash flows from operating activities:			
Net income	\$30,569	\$36,178	\$37,576
Adjustments to reconcile net income to net cash (used in) provided by operating activities:			
Cumulative effect of accounting change	-	310	-
Depreciation	5,493	5,527	5,628
Deferred income taxes	495	1,736	2,505
(Gain) loss on sales of assets	(239)	(131)	686
ESOP compensation expense	2,529	1,398	489
Net (gain) loss on investments	(51)	(1,614)	1,502
Net unrealized loss on investments reclassified as trading	-	2,337	-
Change in assets and liabilities:			
Short term investments	(51,310)	(23,976)	-
Accounts and notes receivable	1,220	2,769	(335)
Inventories	(1,581)	990	(3,095)
Income tax receivable	438	(1,651)	(1,091)
Prepaid expenses and other assets	(1,421)	(2,130)	(3,128)
Accounts payable	(326)	(768)	1,135
Accrued payroll and expenses and other liabilities	(1,070)	1,457	(87)
Accrued postretirement benefits	1,926	1,602	1,491
Other long term liabilities	594	702	690
Total adjustments	(43,303)	(11,442)	6,390
Net cash (used in) provided by operating activities	(12,734)	\$24,736	\$43,966

The accompanying notes are an integral part of these financial statements.

FARMER BROS. CO.  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
(Dollars in thousands)

	Years ended June 30,		
	2002	2001	2000
Net cash (used in) provided by operating activities	\$(12,734)	\$24,736	\$43,966
Cash flows from investing activities:			
Purchases of property, plant and equipment	(5,039)	(5,912)	(14,130)
Proceeds from sales of property, plant and equipment	307	207	700
Purchases of available for sale investments	-	-	(278,083)
Proceeds from sales of available for sale investments	-	-	268,337
Notes issued	(35)	(78)	-
Notes repaid	2,640	831	843
Net cash used in investing activities	\$ (2,127)	(\$4,952)	(\$22,333)
Cash flows from financing activities:			
Dividends paid	(6,278)	(5,897)	(5,580)
Common stock repurchased	-	-	(4,103)
Common stock issued	-	-	13,287
ESOP contributions	(815)	(390)	(14,136)
Net cash used in financing activities	(7,093)	(6,287)	(10,532)
Net (decrease) increase in cash and cash equivalents	(21,954)	13,497	11,101
Cash and cash equivalents at beginning of year	29,001	15,504	4,403
Cash and cash equivalents at end of year	\$ 7,047	\$29,001	\$15,504

The accompanying notes are an integral part of these financial statements.

FARMER BROS. CO.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

(Dollars in thousands, except share data)

	Common Shares	Stock Amount	Additional Paid-in Capital	Retained Earnings	Unearned Esop Shares	Accumulated Other Comprehensive Income (Loss)	Total
Balance at June 30,1999	1,870,754	\$1,871	\$3,164	\$283,191	\$0	(\$515)	\$287,711
Comprehensive income							
Net income				37,576			37,576
Other comprehensive income, net of taxes				-			-
Change in unrealized gain on available for sale securities						(2,512)	(2,512)
Reclassification adjustment for realized gain						381	381
Total comprehensive income						(2,131)	(2,131)
Dividends (\$3.00 per share)				(5,580)			(5,580)
Common stock repurchased	(25,715)	(26)	(43)	(4,034)			(4,103)
Common stock issued to ESOP	81,375	81	13,206		(13,287)		0
ESOP contributions					(849)		(849)
ESOP compensation expense			32		457		489
Balance at June 30,2000	1,926,414	\$1,926	\$16,359	\$311,153	(\$13,679)	(\$2,646)	\$313,113
Comprehensive income							
Net income				36,178			36,178
Transition adjustment for SFAS No. 133						2,646	2,646

Total comprehensive income						2,646	2,646
Dividends (\$3.20 per share)				(5,897)			(5,897)
ESOP contributions					(390)		(390)
ESOP compensation expense			270		1,128		1,398
Balance at June 30, 2001	1,926,414	\$1,926	\$16,629	\$341,434	(\$12,941)	-	\$347,048
Comprehensive income							
Net income				30,569			30,569
Total comprehensive income							30,569
Dividends (\$3.40 per share)				(6,278)			(6,278)
ESOP contributions					(815)		(815)
ESOP compensation expense			998		1,531		2,529
Balance at June 30, 2002	1,926,414	\$1,926	\$17,627	\$365,725	(\$12,225)	-	\$373,053

The accompanying notes are an integral part of these financial statements.

## Notes to Consolidated Financial Statements

### Note 1 Summary of Significant Accounting Policies

#### Organization

The Company, which operates in one business segment, is in the business of roasting, packaging, and distributing coffee and allied products through direct sales to restaurants, hotels, hospitals, convenience stores and fast food outlets. The Company's products are distributed by its selling divisions from branch warehouses located in most large cities throughout the western United States.

#### Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary FBC Finance Company. All significant inter-company balances and transactions have been eliminated.

#### Financial Statement Preparation

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

#### Cash Equivalents

The Company considers all highly liquid investments with a maturity of 90 days or less when purchased to be cash equivalents. Fair values of cash equivalents approximate cost due to the short period of time to maturity.

#### Investments

The Company's investments consist of marketable debt and equity securities, money market instruments and various derivative instruments, primarily exchange traded treasury futures and options, green coffee forward contracts and commodity purchase agreements. All such instruments not designated as accounting hedges are marked to market and changes are recognized in current earnings. At June 30, 2002 no derivative instruments were designated as accounting hedges. The fair value of derivative instruments is based upon broker quotes. The cost of investments sold is determined on the specific identification method. Dividend and interest income is accrued as earned.

#### Concentration of Credit Risk

At June 30, 2002, the financial instruments which potentially expose the Company to concentrations of credit risk consist of cash in financial institutions (which exceeds federally insured limits), cash equivalents (principally commercial paper), short term investments, investments in the preferred stocks of other companies and trade receivables. Cash equivalents and short term investments are not concentrated by issuer, industry or geographic area. Maturities are generally shorter than 180 days. Other investments are in U.S. government securities. Investments in the preferred stocks of other companies are limited to high quality issuers and are not concentrated by geographic area or issuer. Concentration of credit risk with respect to trade receivables for the Company is limited due to the large number of customers comprising the Company's customer base and their dispersion across many different geographic areas. The trade receivables are short-term, and all probable bad debt losses have been appropriately considered in establishing the allowance for doubtful accounts.

#### Inventories

Inventories are valued at the lower of cost or market. Costs of coffee and allied products are determined on the Last In, First Out (LIFO) basis. Costs of coffee brewing equipment manufactured are accounted for on the First In,

First Out (FIFO) basis.

#### Property, Plant and Equipment

Property, plant and equipment is carried at cost, less accumulated depreciation. Depreciation of buildings and facilities is computed using the straight-line method. All other assets are depreciated using the sum-of-the-years' digits and straight-line methods. The following useful lives are used:

Building and facilities	10 to 30 years
Machinery and equipment	3 to 5 years
Office furniture and equipment	5 years

When assets are sold or retired the asset and related depreciation allowance are eliminated from the records and any gain or loss on disposal is included in operations. Maintenance and repairs are charged to expense, and betterments are capitalized.

#### 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 differences are expected to reverse.

#### Revenue Recognition

Sales and the cost of products sold are recorded at the time of delivery to the customer.

#### Net Income Per Common Share

Basic earnings per share is computed by dividing the net income attributable to common stockholders by the weighted average number of common shares outstanding during the period, excluding unallocated shares held by the Company's Employee Stock Ownership Plan (see Note 6). The Company has no dilutive shares for any of the three fiscal years in the period ended June 30, 2002. Accordingly, the consolidated financial statements present only basic net income per share.

#### Long-Lived Assets

Long-lived assets held and used by the Company are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. For purposes of evaluating the recoverability of long-lived assets, the Company evaluates the carrying value of its property, plant and equipment on an ongoing basis and recognizes an impairment when the estimated future undiscounted cash flows from operations are less than the carrying value of the related long-lived assets.

#### Shipping and Handling Costs

The Company distributes its products directly to its customers and shipping and handling costs are considered Company selling expenses.

#### Collective Bargaining Agreements

Certain Company employees are subject to collective bargaining agreements. The duration of these agreements extend from 2005 to 2006.

#### Reclassifications

Certain reclassifications have been made to prior year balances to conform to the current year presentation.

#### Recently Issued Accounting Standards

In October 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," which supercedes SFAS 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of." SFAS No. 144 addresses financial accounting and reporting for the impairment of long-lived assets and for long-lived assets to be disposed of and is effective for fiscal years beginning after December 15, 2001. SFAS retains certain fundamental provisions of SFAS No. 121 including recognition and measurement of the impairment of long-lived assets to be held and used and measurement of long-lived assets to be disposed of by sale. The Company is presently assessing the effect of adopting SFAS No. 144.

#### Note 2 Investments and Derivative Instruments

In June 1998 the Financial Accounting Standards Board issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities", as amended by Statements 137 and 138. The Statement requires the Company to recognize all derivatives on the balance sheet at fair value. Derivatives that are not hedges must be adjusted to fair value through income. If the derivative is a hedge, depending on the nature of the hedge, changes in the fair value of derivatives are either offset against the change in fair value of assets, liabilities, or firm commitments through earnings or recognized in other comprehensive income until the hedged item is recognized in earnings. The ineffective portion of a derivative's change in fair value is immediately

recognized in earnings. The adoption of SFAS No. 133, resulted in a cumulative effect of an accounting change of \$515,000 (\$310,000 net of taxes) being recognized in the Statement of Net Income, and a corresponding credit in other comprehensive income.

The Company purchases various derivative instruments as investments or to create economic hedges of its interest rate risk and commodity price risk. At June 30, 2002 derivative instruments are not designated as accounting hedges as defined by SFAS No. 133. The fair value of derivative instruments is based upon broker quotes. The Company records unrealized gains and losses on trading securities and changes in the market value of certain coffee contracts meeting the definition of derivatives in other income and expense.

Investments, consisting of marketable debt and equity securities and money market instruments, are held for trading purposes and are stated at fair value. Gains and losses, both realized and unrealized, are included in other income and expense. On July 1, 2000 the company transferred all of its investments classified as "available for sale" at June 30, 2000 into the "trading" category. Accordingly, the Company recognized the accumulated unrealized loss of \$3,894,000 in the consolidated statement of income.

Investments at June 30, are as follows:  
(In thousands)

	2002	2001
Trading securities at fair value		
Corporate debt	\$18,863	\$85,427
U.S. Treasury Obligations	184,756	61,267
U.S. Agency Obligations	26,983	31,958
Preferred Stock	48,873	46,254
Other fixed income	5,181	8,011
Futures, options and other derivatives	884	1,262
	\$285,540	\$234,179

#### Note 3 Allowance for Doubtful Accounts

		June 30,	
(In thousands)	2002	2001	2000
Balance at beginning of year	\$395	\$420	\$470
Additions	218	346	280
Deductions	(268)	(371)	(330)
Balance at end of year	\$345	\$395	\$420

#### Note 4 Inventories

June 30, 2002			
(In thousands)	Processed	Unprocessed	Total
Coffee	\$ 3,438	\$10,393	\$13,831
Allied products	12,482	5,116	17,598
Coffee brewing equipment	2,528	3,404	5,932
	\$18,448	\$18,913	\$37,361

June 30, 2001			
(In thousands)	Processed	Unprocessed	Total
Coffee	\$4,120	\$8,752	\$12,872
Allied products	13,847	3,980	17,827
Coffee brewing equipment	2,201	2,880	5,081
	\$20,168	\$15,612	\$35,780

Current cost of coffee and allied products inventories is (less than) or greater than the LIFO cost by approximately \$(491,000) and \$1,553,000 as of June 2002 and 2001, respectively.

The change in the Company's green coffee and allied product inventories during fiscal 2002, 2001, and 2000 resulted in LIFO decrements which had the effect of increasing income before taxes those years by \$207,000, 1,283,000, and \$277,000, respectively.

#### Note 5 Property, Plant and Equipment (In thousands)

	June 30,	
	2002	2001
Buildings and facilities	\$40,914	\$39,858
Machinery and equipment	48,690	48,999
Office furniture and equipment	6,055	6,280



	95,659	95,137
Accumulated depreciation	(62,950)	(61,880)
Land	5,863	5,837
	\$38,572	\$39,094

Maintenance and repairs charged to expense for the years ended June 30, 2002, 2001, and 2000 were \$11,202,000, \$10,514,000, and \$10,596,000, respectively.

#### Note 6 Employee Benefit Plans

The Company has a contributory defined benefit pension plan for all employees not covered under a collective bargaining agreement (Farmer Bros. Co. Plan) and a non-contributory defined benefit pension plan (Brewmatic Co. Plan) for certain hourly employees covered under a collective bargaining agreement. The Company's funding policy is to contribute annually at a rate that is intended to fund benefits as a level percentage of salary (non-bargaining) and as a level dollar cost per participant (bargaining) over the working lifetime of the plan participants. Benefit payments are determined under a final payment formula (non-bargaining) and flat benefit formula (bargaining).

The Company sponsors defined benefit postretirement medical and dental plans that cover non-union employees and retirees, and certain union locals. The plan is contributory and retirees contributions are fixed at a current level. The plan is not funded.

(In thousands)

	Defined Benefit Pensions		Accrued Postretirement	
	June 30, 2002	2001	June 30, 2002	2001
Benefits				
Changes in benefit obligation				
Benefit obligation at the beginning of the year	\$48,909	\$42,461	\$22,951	18,908
Service cost	1,527	1,338	670	646
Interest cost	3,684	3,446	1,721	1,539
Plan participants' contributions	160	146	117	71
Amendments	285		(907)	
Actuarial loss	3,153	4,163	651	2,633
Benefits paid (846)	(2,602)	(2,645)	(869)	
Benefit obligation at the end of the year	\$55,116	\$48,909	\$24,335	\$22,951
Changes in plan assets				
Fair value in plan assets at the beginning of the year	\$79,259	\$77,337	\$ -	\$ -
Actual return on plan assets	(1,285)	4,401	-	-
Company contributions	21	20	752	775
Plan participants' contributions	160	146	117	71
Benefits paid	(2,602)	(2,645)	(869)	(846)
Fair value in plan assets at the end of the year	\$75,553	\$79,259	\$ -	\$ -
Funded status of the Plan	\$20,437	\$30,350	(\$24,335)	(\$22,951)
Unrecognized net asset	(657)	(1,314)	-	-
Unrecognized net gain	1,062	(11,062)	17	2,784
Unrecognized prior service cost	(88)	1,016	1,592	(633)
Prepaid accrued benefit cost	\$20,754	\$18,990	(\$22,726)	(\$20,800)

Weighted average assumptions as of June 30:

Discount rate	7.20%	7.70%	7.20%	7.70%
Expected return on Plan assets	8.00%	8.00%	-	-
Rate of compensation increase	3.50%	3.50%	-	-
Initial medical rate trend			11.00%	12.00%
Ultimate medical trend rate			5.50%	5.50%
Number of years from initial to ultimate trend rate			6	7
Initial dental/vision trend rate			7.50%	8.00%
Ultimate dental/vision trend rate			5.50%	5.50%

	Defined Benefit Pensions			Accrued Postretirement Benefits		
	June 30, 2002	2001	2000	June 30, 2002	2001	2000
Components of net periodic benefit costs						

Service cost	\$ 1,527	\$1,338	\$1,617	\$ 670	\$646	\$ 661
Interest cost	3,684	3,446	3,252	1,721	1,539	1,290
Expected return on Plan assets	(6,267)	(6,121)	(6,191)	-	-	-
Actuarial gain	-	-	-	-	-	(68)
Unrecognized net transition asset	(657)	(657)	(657)	-	-	-
Unrecognized net gain	(268)	(840)	(757)		(94)	-
Unrecognized prior service cost	239	239	239	286	286	286
Benefit cost	(1,742)	(\$2,595)	(\$2,497)	\$2,677	\$2,377	\$2,169

The assumed health care cost trend rate has a significant effect on the amounts reported. A one-percentage point change in the assumed health care cost trend rate would have the following effects:

Other Information	2002	2001
1% Increase in Trend Rates		
Effect on service + interest cost	\$ 90	\$131
Effect on APBO	897	751
1% Decrease in Trend Rates		
Effect on service + interest cost	(95)	(140)
Effect on APBO	(963)	(806)

At June 30, 2002 and 2001, the Farmer Bros. Co. Plan benefit obligation was \$52,088,000 and \$46,369,000, respectively, and the prepaid benefit cost was \$19,080,000 and \$17,415,000, respectively. At June 30, 2002 and 2001, the Brewmatic Company Plan benefit obligation was \$3,028,000 and \$2,540,000, respectively, and the prepaid benefit cost was \$1,674,000 and \$1,574,000, respectively.

The Farmer Bros. Co. Plan owned 39,940 shares of the Company's common stock at June 30, 2002, with a fair value of approximately \$14,489,000. The Brewmatic Co. Plan owned 2,400 shares of the Company's common stock at June 30, 2002, with a fair value of approximately \$871,000. The Company paid dividends of \$136,000 and \$8,000 for the year ended June 30, 2002 to the Farmer Bros. Co. Plan and the Brewmatic Co. Plan, respectively.

The Company contributes to two multi-employer defined benefit plans for certain union employees. The contributions to these multi-employer pension plans were approximately \$2,183,000, \$2,144,000, and \$2,005,000 for 2002, 2001, and 2000 respectively. The Company also has defined contribution plans for eligible union and non-union employees. No Company contributions have been made nor are required to be made to either defined contribution plan.

"Other long term liabilities" represents deferred compensation payable to a company officer. The deferred compensation plan provides for deferred compensation awards to earn interest based upon the Company's average rate of return on its investments. Total deferred compensation expense amounted to \$595,000, \$701,000, and \$690,000 for the years ended June 30, 2002, 2001, and 2000, respectively.

#### Employee Stock Ownership Plan

On January 1, 2000, the Company established the Farmer Bros. Co. Employee Stock Ownership Plan (ESOP) to provide benefits to all employees. The Board of Directors authorized a loan of up to \$50,000,000 to the ESOP to purchase up to 300,000 shares of Farmer Bros. Co. common stock secured by the stock purchased. The loan will be repaid from the Company's discretionary plan contributions over a fifteen year term at a variable rate of interest, 3.30% at June 30, 2002.

For the year ended June 30, 2000 the Company loaned the ESOP \$14,136,000, which the ESOP used to purchase 86,575 shares of the Company's common stock. For the year ended June 30, 2001 the Company loaned the ESOP an additional \$389,880, which the ESOP used to purchase 2,200 shares of the Company's common stock. For the year ended June 30, 2002 the Company loaned the ESOP \$815,040, which was used by the ESOP to purchase 3,800 shares of the Company's common stock.

Shares purchased with loan proceeds are held by the plan trustee for allocation among participants as the loan is repaid. The unencumbered shares are allocated to participants using a compensation-based formula. Subject to vesting requirements, allocated shares are owned by participants and shares are held by the plan trustee until the participant retires.

The Company reports compensation expense equal to the fair market price of shares committed to be released to employees in the period in which they are committed. The cost of shares purchased by the ESOP which have not been

committed to be released or allocated to participants are shown as a contra-equity account "Unearned ESOP Shares" and are excluded from earnings per share calculations. During the fiscal years ended June 30, 2002 and June 30, 2001 the Company charged \$1,531,000 and \$1,136,000 respectively, to compensation expense related to the ESOP. The difference between cost and fair market value of committed to be released shares, which was \$998,000 and \$270,000 for the years ended June 30, 2002 and June 30, 2001, respectively, is recorded as additional paid in capital.

	June 30,	
	2002	2001
Allocated shares	16,083	6,673
Committed to be released share	3,636	2,939
Unallocated shares	74,003	79,163
Total ESOP Shares	93,722	88,775
Fair value of ESOP shares	\$34,000,000	\$20,685,000

#### Note 7 Income Taxes

The current and deferred components of the provision for income taxes consist of the following:

(In thousands)	June 30,		
	2002	2001	2000
Current: Federal	\$15,367	\$17,607	\$18,249
State	2,929	3,685	2,889
	\$18,296	21,292	21,138
Deferred: Federal	434	1,451	1,174
State	61	285	1,334
	495	1,736	2,505
	\$18,791	\$23,028	\$23,643

A reconciliation of the provision for income taxes to the statutory federal income tax expense is as follows:

	June 30,		
	2002	2001	2000
Statutory tax rate	35.0%	35.0%	35.0%
Income tax expense at statutory rate	\$17,276	\$20,831	\$21,427
State income tax (net federal tax benefit)	1,943	2,552	2,809
Dividend income exclusion	(767)	(731)	(660)
Other (net)	339	376	67
	\$18,791	\$23,028	\$23,643
Income taxes paid	\$17,881	\$24,879	\$22,622

The primary components of temporary differences which give rise to the Company's net deferred tax assets are as follows:

(In thousands)	June 30,	
	2002	2001
Deferred tax assets:		
Postretirement benefits	\$ 8,938	\$ 8,239
Accrued liabilities	4,426	4,364
State taxes	791	941
	\$14,155	\$13,544
Deferred tax liabilities:		
Pension assets	\$(7,877)	\$(7,236)
Other	(2,418)	(1,953)
	(10,295)	(9,189)
Net deferred tax assets	\$ 3,860	\$ 4,355

#### Note 8 Other Current Liabilities

(In thousands)

Other current liabilities consist of the following:

	June 30,	
	2002	2001
Accrued workers' compensation liabilities	\$3,119	\$3,316
Dividends payable	1,637	1,541
Other	269	1,224
	\$5,025	\$6,081

#### Note 9 Commitments and Contingencies

The Company incurred rent expense of approximately \$736,000, \$698,000, and \$700,000 for the fiscal years ended June 30, 2002, 2001, and 2000, respectively, and is obligated under leases for branch warehouses. Certain leases contain renewal options.

Future minimum lease payments are as follows:

June 30,	(In thousands)
2003	\$ 615
2004	449
2005	203
2006	89
2007	51
	\$1,407

The Company is a party to various pending legal and administrative proceedings. It is management's opinion that the outcome of such proceedings will not have a material impact on the Company's financial position, results of operations, or cash flows.

Note 10 Quarterly Financial Data (Unaudited)  
(In thousands except per share data)

	September 30, 2001	December 31, 2001	March 31, 2002	June 30, 2002
Net sales	\$49,400	\$54,755	\$51,298	\$50,404
Gross profit	32,569	37,337	34,786	33,401
Income from operations	9,286	11,891	9,843	7,190
Net income	7,763	9,733	6,406	6,667
Net income per common share	\$4.21	\$5.27	\$3.47	\$3.60

	September 30, 2000	December 31, 2000	March 31, 2001	June 30, 2001
Net sales	\$52,015	\$57,795	\$54,814	\$50,807
Gross profit	32,303	38,631	36,413	34,053
Income from operations	9,458	14,764	11,882	6,011
Income before cumulative effect adjustment	7,911	11,807	9,793	6,977
Net income	7,601	11,807	9,793	6,977
Income per common share before cumulative effect adjustment	\$4.30	\$6.40	\$5.32	\$3.78
Net income per common share	\$4.13	\$6.40	\$5.32	\$3.78

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

None.

PART III

Item 10. Directors and Executive Officers of the Registrant

Directors

Name	Age	Served as a Director Continuously Since	Principal Occupation for the Last Five Years
Roy F. Farmer (1)	86	1951	Chairman and Chief Executive Officer
Roy E. Farmer (1)	50	1993	President and Chief Operating Officer
Guenter W. Berger	65	1980	Vice President - Production
Lewis A. Coffman	83	1983	Retired (formerly Vice President - Sales)
John M. Anglin(2)	55	1985	Partner in Law Firm of Anglin, Flewelling, Rasmussen, Campbell & Trytten, LLP, Pasadena, California since 2002; partner in Law Firm of Walker, Wright, Tyler and Ward, LLP, Los Angeles, California, previously.
John H. Merrell	58	2001	Partner in Accounting Firm of Hutchinson and Bloodgood LLP, Glendale, California

(1) Roy F. Farmer is the father of Roy E. Farmer.

(2) Anglin, Flewelling, Rasmussen, Campbell & Trytten LLP provides legal services to the Company.

## Executive Officers

Name	Age	Position Last Five Years
Roy F. Farmer	86	Chairman and Chief Executive Officer.
Roy E. Farmer	50	President and Chief Operating Officer, son of CEO, R. F. Farmer.
Guenter W. Berger	65	Vice President of Production.
Kenneth R. Carson	62	Vice President of Sales.
John E. Simmons	51	Secretary-Treasurer since 2001; Treasurer since 1985.

All officers are elected annually by the Board of Directors and serve at the pleasure of the Board.

## Item 11. Executive Compensation

### Summary Compensation Table

Name and Principal Position Compensation(1)	Fiscal Year	Annual Compensation Salary	Bonus(2)	Other Annual Compensation	All Other
ROY F. FARMER Chairman and CEO	2002	\$1,000,000	\$450,000	\$ -	\$138,815 (3)
	2001	\$1,000,000	\$450,000	\$ -	\$117,482 (3)
	2000	\$1,000,000	\$500,000	\$ -	\$104,721 (3)
ROY E. FARMER President and COO	2002	\$325,730	\$300,000	\$ -	\$425
	2001	\$309,000	\$300,000	\$ -	\$383
	2000	\$302,933	\$250,000	\$ -	\$343
GUENTER W. BERGER Vice President, Production	2002	\$238,113	\$100,000	\$ -	\$630
	2001	\$224,149	\$100,000	\$ -	\$570
	2000	\$221,561	\$100,000	\$ -	\$520
KENNETH R. CARSON Vice President, Sales	2002	\$208,544	\$75,000	\$ -	\$384
	2001	\$197,080	\$75,000	\$ -	\$356
	2000	\$194,805	\$75,000	\$ -	\$331
JOHN E. SIMMONS Treasurer	2002	\$188,584	\$75,000	\$ -	\$148
	2001	\$178,849	\$75,000	\$ -	\$181
	2000	\$175,114	\$75,000	\$ -	\$166

(1) Except as stated in footnote (3) the amount shown represents the dollar value of the benefit to the executive officer for the years shown under the Company's executive life insurance plan.

(2) Awarded under the Company's Incentive Compensation Plan. The awards for fiscal 2002 were based primarily upon the Company's earnings achieved that year. Roy F. Farmer's award has been deferred until death or retirement. The awards to the other officers were paid currently (See "Compensation Committee Report," infra.).

(3) The amount shown for Roy F. Farmer represents P.S. 58 costs of the two split-dollar life insurance policies purchased pursuant to the prior employment agreement with Mr. Farmer which expired in 1998 plus the dollar value of the benefit to him under the Company's executive life insurance plan.

## Pension Plan Table

Annualized Pension Compensation  
for Highest 60 Consecutive Months  
in Last Ten Years of Employment

Credited Years of Service  
20 25 30 35

\$100,000	\$30,000	\$37,500	\$45,000	\$ 52,500
125,000	37,500	46,875	56,250	65,625
150,000	45,000	56,250	67,500	76,750
170,000	52,500	65,625	78,750	91,875
200,000	60,000	75,000	90,000	105,000
250,000	60,000	75,000	90,000	105,000

The above table shows estimated annual benefits payable for the 2002 plan year under the Company's retirement plan upon retirement at age 62 to persons at various average compensation levels and years of credited service based on a straight life annuity. The retirement plan is a contributory defined benefit plan covering all non-union Company employees. The following figures assume that employee contributions (2% of annual gross earnings) are made throughout the employees' first five years of service and are not withdrawn. After five years of participation in the plan, employees make no further contributions. Benefits under a predecessor plan are included in the following figures. Maximum annual combined benefits under both plans generally cannot exceed the lesser of \$200,000 or the average of the employee's highest three years of compensation.

The earnings of executive officers by which benefits in part are measured consist of the amounts reportable under "Annual Compensation" in the Summary Compensation Table less certain allowance items (none in 2001). Credited years of service through December 31, 2001 were as follows: Guenter W. Berger - 37 years; Roy E. Farmer - 25 years; Kenneth R. Carson - 36 years; John E. Simmons - 20 years. After 37 years of credited service, Roy F. Farmer began receiving maximum benefits during fiscal 1988. The above straight life annuity amounts are not subject to deductions for Social Security or other offsets. Other payment options, one of which is integrated with Social Security benefits, are available.

#### Compensation of Directors

Each director who is not a Company employee is paid an annual retainer fee of \$10,000 and the additional sum of \$1,000 for each board meeting and committee meeting (if not held in conjunction with a board meeting). A director also will receive reimbursement of travel expenses from outside the greater Los Angeles area to attend a meeting.

#### Compensation Committee Interlocks and Insider Participation

The Compensation Committee (the "Committee") is comprised of John M. Anglin, a director, Lewis A. Coffman, a director and retired executive officer of the Company, and John H. Merrell, a director.

#### Compensation Committee Report

The Compensation Committee, comprised of Messrs. Anglin, Coffman and Merrell, met once in fiscal 2002. The Compensation Committee makes all determinations with respect to executive compensation and administers the Company's Incentive Compensation Plan.

#### Compensation Philosophy and Objectives

The Committee believes that once base salaries of executive officers are established at competitive levels, increases should generally reflect cost of living changes and that individual performance should be rewarded by bonuses or other incentive compensation awards. The Committee believes that most of the officers will be incentivized to a greater degree by such a program.

#### Chief Executive Officer Compensation

In 1999 the Committee obtained a competitive compensation study prepared by Ernst & Young LLP relating to Roy F. Farmer's compensation. The study concluded that the total direct compensation paid to CEO's of companies deemed comparable by Ernst & Young LLP was in the range of \$669,700 to \$1,444,000. The term "total direct compensation", as used in the Ernst & Young LLP study, does not include retirement benefits (including pension

plans, 401(k) plans, deferred compensation plans and supplemental retirement plans or split-dollar life insurance programs) typically provided to CEO's of successful companies. The Committee determined that the retirement benefits provided to Mr. Farmer were well below those provided to CEO's of comparable companies.

The Committee determined that Roy F. Farmer's salary for the fiscal year ended June 30, 2002, excluding the award under the Company's Incentive Compensation Plan (see below), be \$1,000,000. This represents no change from fiscal 2001.

#### Incentive Compensation Plan

The Company made awards under its Incentive Compensation Plan (the "Plan") for fiscal 2002 to all executive officers. The Committee felt that awards were justified in light of the Company's performance in 2002.

Under the provisions of the Plan, a percentage of the Company's annual pre-tax income is made available for cash or deferred awards. The percentage varies from three percent of pre-tax income over \$14 million to six percent of pre-tax income of \$24 million or more. Amounts available for awards but not awarded are carried forward. The pool available for awards for fiscal 2002 under the Incentive Compensation Plan was in excess of \$15 million. Of the available pool, the Committee awarded a total of \$1 million of which \$450,000 was awarded to Roy F. Farmer, the Company's Chief Executive Officer, and \$550,000 in toto was awarded to the other executive officers.

The award to Roy F. Farmer is payable in five annual installments commencing upon retirement. The unpaid balance of the award is payable upon death. Under the terms of the Plan, the unpaid balance of deferred awards is increased by a growth factor keyed to the Company's average return on invested funds. Under Plan provisions, the unpaid portion of deferred awards is forfeited in the event the recipient engages in activities competitive with the Company or is guilty of malfeasance.

In making the award to Roy F. Farmer, the Committee was motivated primarily by the earnings achieved by the Company in 2002 and Mr. Farmer's substantial contribution to those earnings.

John M. Anglin  
Lewis A. Coffman  
John H. Merrell

#### Performance Graph

Comparison of Five-Year Cumulative Total Return\*  
Farmer Brothers Co., Russell 2000 Index And Value  
Line Food Processing Index  
(Performance Results Through 6/30/02)

	1997	1998	1999	2000	2001	2002
Farmer Brothers Co.	100.00	191.78	164.68	144.78	189.44	298.02
Russell 2000 Index	100.00	116.13	117.14	132.38	129.50	116.87
Food Processing	100.00	134.95	129.38	134.32	163.58	201.16

Assumes \$100 invested at the close of trading 6/30/97 in Farmer Brothers Co. common stock, Russell 2000 Index and Food Processing Index.

\*Cumulative total return assumes reinvestment of dividends.

Source: Value Line, Inc.

Factual material is obtained from sources believed to be reliable, but the publisher is not responsible for any errors or omissions contained herein.

Item 12. Security Ownership of Certain Beneficial Owners and Management

(a) Beneficial Ownership Reporting Compliance

The following are all persons known to management who beneficially own more than 5% of the Company's common stock:

Name and Address of Beneficial Owner	Amount and Nature of Beneficial Ownership (1)	Percent of Class
Roy F. Farmer c/o Farmer Bros. Co. 20333 South Normandie Ave. Torrance, California 90502	835,071 shares (2)	43.35%
Catherine E. Crowe c/o Farmer Bros. Co. 20333 South Normandie Ave. Torrance, California 90502	203,430 shares (3)	10.56%
Franklin Mutual Advisers, LLC 51 John F. Kennedy Parkway Short Hills, NJ 07078 Attn: Bradley Takahashi	184,688 shares (4)	9.59%

(1) Sole voting and investment power unless indicated otherwise in following footnotes.

(2) Includes 171,041 shares owned outright by Mr. Farmer and his wife as trustees of a revocable living trust, 662,121 shares held by various trusts of which Mr. Farmer is sole trustee for the benefit of family members, 1,849 shares owned by his wife and 60 shares beneficially owned by Mr. Farmer through the Company's Employee Stock Ownership Plan ("ESOP"), rounded to the nearest whole share.

(3) Excludes 9,900 shares held by trusts for Mrs. Crowe's benefit. Mr. Farmer is sole trustee of said trusts and said shares are included in his reported holdings.

(4) According to a Schedule 13D/A filed with the Securities and Exchange Commission dated September 19, 2002 by Franklin Mutual Advisers, LLC ("Franklin"), Franklin on that date beneficially owned 184,688 shares (9.59%). Franklin is reported to have sole voting and investment power over these shares pursuant to certain Investment Advisory contracts with one or more record shareholders, which advisory clients are the record owners of the 184,688 shares.

(b) The following sets forth the beneficial ownership of the common stock of the Company by each director and nominee, each executive officer named in the Summary Compensation Table, and all directors and executive officers as a group:

Name	Number of Shares and Nature of Beneficial Ownership (1)	Percent of Class
Roy F. Farmer	(See "Item 12(a)," supra)	
Guenter W. Berger	560(2)	*
Lewis A. Coffman	15(3)	*
Roy E. Farmer	38,271(4)	1.99%
John M. Anglin	None	-
Kenneth R. Carson	310(5)	*
John E. Simmons	422(6)	*
John H. Merrell	None	-
All directors and executive officers as a group (8 persons)	992,228(7)	51.51%



\* Less than 1%.

(1) Sole voting and investment power unless indicated otherwise in following footnotes.

(2) Held in trust with voting and investment power shared by Mr. Berger and his wife, includes 60 shares beneficially owned by Mr. Berger through the Company's ESOP, rounded to the nearest whole share. Excludes other shares owned by Company benefit plans over which Mr. Berger has shared voting and/or investment power as a member of the plan committees. Mr. Berger disclaims beneficial ownership of such benefit plan shares. See footnote (7) below.

(3) Voting and investment power shared with spouse.

(4) Includes 4,000 shares owned outright by Mr. Farmer, 34,211 shares held by various trusts of which Mr. Farmer is sole trustee and 60 shares beneficially owned by Mr. Farmer through the Company's ESOP, rounded to the nearest whole share. Excludes 21,218 shares held in a trust of which Roy F. Farmer is sole trustee (reported under Roy F. Farmer's name in Item 12(a), supra) and of which Roy E. Farmer is the beneficiary. Excludes other shares owned by Company benefit plans over which Mr. Farmer has shared voting and/or investment power as a member of the plan committees. Mr. Farmer disclaims beneficial ownership of such benefit plan shares. See footnote (7) below.

(5) Includes 60 shares beneficially owned by Mr. Carson through the Company's ESOP, rounded to the nearest whole share. Excludes other shares owned by Company benefit plans over which Mr. Carson has shared voting and/or investment power as a member of the plan committees. Mr. Carson disclaims beneficial ownership of such benefit plan shares. See footnote (7) below.

(6) Voting and investment power shared with spouse, includes 60 shares beneficially owned by Mr. Simmons through the Company's ESOP, rounded to the nearest whole share. Excludes other shares owned by Company benefit plans over which Mr. Simmons has shared voting and/or investment power as a member of the plan committees. Mr. Simmons disclaims beneficial ownership of such benefit plan shares. See footnote (7) below.

(7) Includes 77,639 unallocated shares held by the Company's ESOP and 39,940 shares held by the Farmer Bros Co. Plan (pension) over which officers, as members of the plan committees, have direct or indirect voting and investment power. Excludes 16,083 allocated shares held by the Company's ESOP over which plan committee members have voting rights only if the participants fail to vote.

#### Item 13. Certain Relationships and Related Transactions

Reference is made to the information set forth in Items 10 and 11 of this Form 10-K Annual Report.

#### PART IV

#### Item 14. Exhibits, Financial Statement Schedules and Reports on Form 10-K.

##### (a) List of Financial Statements and Financial Statement Schedules:

###### 1. Financial Statements included in Item 8:

Consolidated Balance Sheets as of June 30, 2002 and 2001.

Consolidated Statements of Income for the Years Ended  
June 30, 2002, 2001 and 2000.

Consolidated Statements of Cash Flows for the Years Ended  
June 30, 2002, 2001 and 2000.

Consolidated Statements of Shareholders' Equity For the Years  
Ended June 30, 2002, 2001, and 2000.

Notes to Consolidated Financial Statements.

2. Financial Statement Schedules: Financial Statement Schedules are omitted as they are not applicable, of the required information is given in the consolidated financial statements of notes thereto.

(b) No reports on Form 8-K were filed during the last quarter of the period covered by this report.

##### (c) Exhibits

(3)(i) Amended and Restated Articles of Incorporation filed January 29, 2002.

(3)(ii) By-Laws: Registrant's bylaws as amended are incorporated by reference to Registrant's report on Form 10-K/A filed February 15, 2002.

(10) Material contracts:

- 10.1 The Farmer Bros. Co. Pension Plan for Salaried Employees: filed herewith.
- 10.2 The Farmer Bros. Co. Incentive Compensation Plan: filed herewith.
- 10.3 The Farmer Bros. Co. Employee Stock Ownership Plan: filed herewith.

(21) Subsidiaries of the Registrant:

Subsidiary information filed herewith.

(99) Additional Exhibits.

Property information filed herewith.

#### SIGNATURES

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

FARMER BROS. CO.

By: /s/ Roy F. Farmer

Roy F. Farmer, Chief Executive Officer and Director  
Date: September 25, 2002

By: /s/ John E. Simmons

John E. Simmons, Treasurer and Chief Financial and Accounting Officer  
Date: September 25, 2002

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

/s/ Roy E. Farmer

Roy E. Farmer, President and Director  
Date: September 25, 2002

/s/ John M. Anglin

John M. Anglin, Director  
Date: September 25, 2002

/s/ Guenter W. Berger

Guenter W. Berger, Vice President and Director  
Date: September 25, 2002

#### CERTIFICATIONS

I, Roy F. Farmer, certify that:

- 1. I have reviewed this annual report on Form 10-K of Farmer Bros. Co.;
- 2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual

report; and

3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report.

/s/ Roy F. Farmer

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Roy F. Farmer, Chief Executive Officer

Dated: September 25, 2002.

I, John E. Simmons, certify that:

1. I have reviewed this annual report on Form 10-K of Farmer Bros. Co.;

2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report; and

3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report.

/s/ John E. Simmons

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John E. Simmons, Chief Financial Officer

Dated: September 25, 2002.

FARMER BROS. CO.  
INCENTIVE COMPENSATION PLAN

1. Purpose.

The purpose of this Plan is to further the Company's profitability by providing an incentive and reward to key management employees of the Company who through industry, ability and exceptional service contribute materially to the success of the Company and by enhancing the Company's ability to attract and retain in its employ key personnel upon whose efforts the success of the Company is dependent.

2. Definitions.

As used in this Plan, the following terms shall have the following meanings:

(a) "Plan" means this Farmer Bros. Co. Incentive Compensation Plan, as it may be amended from time to time.

(b) "Company" means Farmer Bros. Co., a California corporation, and includes the Company's subsidiaries and divisions.

(c) "Board of Directors" or "Board" means the Board of Directors of Farmer Bros. Co.

(d) "Committee" means the Compensation Committee of the Board of Directors established pursuant to section 7 of the Plan.

(e) "Fiscal Year" means the year selected by the Company for income taxation and financial reporting purposes.

(f) "Employee" or "Eligible Employee" means any officer or other key management employee of the Company who is in the employ of the Company at the end of a Fiscal Year or whose employment by the Company is terminated prior to the end of a Fiscal Year by reason of death, disability or retirement. No member of the Committee shall be an Eligible Employee while serving on the Committee or for a period of one year thereafter.

(g) "Participant" means an Eligible Employee to whom an award is made under this Plan.

(h) "Current Award" means an award payable during the Fiscal Year in which the award is made pursuant to section 5 (a) of the Plan.

(i) "Deferred Award" means an award payable during one or more Fiscal Years after the award is made pursuant to section 5(b) of the Plan.

3. Amount Subject to Awards.

The amount available for awards under this Plan in any Fiscal Year shall be (a) the sum of the following percentages of the Company's adjusted net income for the preceding Fiscal Year:

Adjusted Net Income	Percent
\$14 million through \$17,999,000	Three percent (3%)
\$18 million through \$23,999,999	Four percent (4%)
\$24 million and up	Six percent (6%)
* * plus * *	

(b) the cumulative amount of funds which were available for awards in prior Fiscal Years which have not been awarded; plus

(c) the amount of any Deferred Awards forfeited during the preceding Fiscal Year.

As used in this section 3, the phrase "adjusted net income" means the consolidated net income of the Company determined in accordance with generally accepted accounting principles before provision for federal, state, local, or foreign taxes measured, in whole or in part, by the Company's income, except that all items of non-recurring or other extraordinary gain or loss shall be excluded, and any amounts charged against income for the Fiscal Year in question for awards made under this Plan during that or any prior Fiscal Year shall be added back to income. Adjusted net income shall be determined by the Company's independent public accountants whose determination in that regard shall be conclusive and binding.

4. Awards.

Based on its evaluation of an Employee's performance, contribution to the Company, compensation, and other criteria it deems relevant, the Committee shall determine in its sole discretion the Employees to whom awards are to be made, the amount of the award to be made to each Participant, whether such award is to be in whole or in part a Current Award or

Deferred Award, and, subject to the provisions of the Plan, the time and manner of payment of the award. At the time of making an award, the Committee shall deliver to the Participant a written notice of award stating the amount of the award and the time and manner of making payment.

#### 5. Payment of Awards

(a) Current Awards. Current Awards of \$10,000 or less shall be paid within (60) days after the award is made. Current awards in excess of \$10,000 shall be paid either in lump sum or in such installments, without interest, during the Fiscal Year in which the award is made as the Committee shall determine in its sole discretion. Current Awards become vested at the time the award is made and are not subject to forfeiture.

(b) Deferred Awards. Deferred Awards shall be paid either in lump sum or in installments at such time or times as the Committee shall determine in its sole discretion.

(i) Altering Time and Method of Payment.

Notwithstanding anything to the contrary in the Plan, upon written notice to the Participant from time to time, the Committee in its sole discretion may alter the time and manner in which a Deferred Award shall be paid. Without limiting the Committee's authority under the preceding sentence, the Committee may cause a Deferred Award previously payable in installments to become payable in lump sum or in installments over a shorter or longer time and may cause a Deferred Award previously payable in a lump sum to be payable in lump sum at an earlier or later date or in installments. However, if the Participant has died or become disabled, the Committee shall not alter the manner or time of payment so as to defer further or reduce the amount of any payment to which the Participant or his heirs or devisees would have been entitled otherwise without the written consent of the Participant or his heirs or devisees, as the case may be.

(ii) Adjustment of Amount of Deferred Award. As of the end of each Fiscal Year, the unpaid portion of a Deferred Award shall be increased by a percentage equal to the Company's average rate of return during said Fiscal Year on invested funds, or if none, the prime lending rate of Bank of America at Los Angeles, California, as of the last day of said Fiscal Year. If the Deferred Award is payable in installments, the amount of the increase shall be allocated proportionately among the installments remaining to be paid.

(iii) Forfeiture of Deferred Awards. The right of a Participant to receive future payments of Deferred Awards shall be forfeited upon the termination of the Participant's employment by the Company for malfeasance or in the event the Participant shall enter into a business or employment which the Committee determines to be detrimentally competitive with the business of the Company.

#### 6. Designation of Beneficiaries.

Each Participant shall file with the Committee a written designation of the person or persons who shall be entitled to receive any amounts payable under this Plan after the Participant's death. The Participant may designate natural persons, charitable institutions, trusts, or the Participant's estate as beneficiaries. A Participant may name one or more contingent beneficiaries. Unless otherwise designated by a Participant, payments shall be divided equally among co-beneficiaries. A Participant may from time to time revoke or change a beneficiary designation without the consent of any prior beneficiary by filing a new designation with the Committee. The last such designation received by the Committee shall be controlling; provided, however, that no designation, or change or revocation thereof, shall be effective unless received by the Committee prior to the Participant's death, and in no event shall it be effective as of a date prior to such receipt.

If no such beneficiary designation is in effect at the time of a Participant's death, or if no designated beneficiary survives the Participant, or if such designation conflicts with law, the payment of the amount, if any, payable under the Plan after his death shall be made to the Participant's estate. If the Committee is in doubt as to the right of any person to receive such amount, the Committee may retain such amount, without liability for any interest thereon, until the rights thereon are determined, or the Committee may pay such amount into any court of appropriate jurisdiction and such payment shall be a complete discharge of the liability of the Plan, the Company

and the Committee therefor.

7. Administration.

The Plan shall be administered by a Committee of the Board of Directors. The Committee shall have full power and authority to construe, interpret and administer the Plan. All decisions, actions or interpretations of the Committee shall be final, conclusive and binding upon all parties unless overruled by the Board of Directors.

The Committee shall consist of two or more members, each of whom shall be appointed by, shall remain in office at the will of, and may be removed, with or without cause by the Board of Directors. Any member of the Committee may resign at any time. No member of the Committee shall be entitled to act on or decide any matter relating solely to himself or any of his rights or benefits under the Plan. No member of the Committee shall be entitled to receive an award under this Plan while serving on the Committee or within one year thereafter. The members of the Committee shall not receive any special compensation for serving in their capacities as members of the Committee. No bond or other security need be required of the Committee or any member thereof in any jurisdiction.

The procedures for the proceedings of the Committee shall be established by resolution of the Board of Directors.

No member of the Committee shall be personally liable by reason of any contract or other instrument executed by him or his behalf in his capacity as a member of the Committee nor for any mistake of judgment made in good faith, and the Company shall indemnify and hold harmless each member of the Committee and each other officer, employee or director of the Company to whom any duty or power relating to the administration or interpretation of the Plan has been delegated, to the fullest extent permissible under the California General Corporation Law.

8. Amendment or Termination.

The Board of Directors reserves the right at any time to amend, suspend, or terminate the Plan in whole or in part and for any reason without the consent of any Participant or beneficiary; provided that no such action shall adversely affect the rights of Participants or beneficiaries with respect to Awards made prior to such action. Subject to the foregoing provision, any amendment, modification, suspension, or termination of any provisions of the Plan may be retroactively.

9. General Provisions.

Nothing contained in the Plan shall give any Employee the right to be retained in the employ of the Company or affect the right of the Company to dismiss any Employee. The adoption of the Plan shall not create a right in any Employee to receive an award under the Plan. No award under the Plan shall be considered as compensation under any employee benefit plan of the Company except as otherwise determined by the Committee.

If the Committee shall find that any person to whom any amount is payable under the Plan is unable to care for his affairs because of illness or accident, or is a minor, or is under any other disability, then any payment due him (unless a prior claim therefore has been made by a duly appointed legal representative), may, if the Committee so directs the Company, be paid to his spouse, a child, a relative, an institution maintaining or having custody of such person, or any other person deemed by the Committee to be a proper recipient on behalf of such person otherwise entitled to payment. Any such payment shall be a complete discharge of the liability of the Plan, the Company, and the Committee therefor.

Except insofar as may otherwise be required by law, no amount payable at any time under the Plan shall be subject in any manner to alienation by anticipation, sale, transfer, assignment, bankruptcy, pledge, attachment, charge, or encumbrance of any kind nor in any manner be subject to the debts or liabilities of any person and any attempt to so alienate or subject any such amount, whether presently or thereafter payable, shall be void. If any person shall attempt to, or shall, alienate, sell, transfer, assign, pledge, attach, charge, or otherwise encumber any amount payable under the Plan, or any part thereof, or if by reason of his bankruptcy or

other event happening at any such time such amount would be made subject to his debts or liabilities or would otherwise not be enjoyed by him, then the Committee, if it so elects, may direct that such amount be withheld and that the same or any part thereof be paid or applied to or for the benefit of such person, his spouse, children or other dependents, or any of them, in such manner and proportion as the Committee may deem proper.

The Participant shall have no right, title or interest whatsoever in or to any investments which the Company may make to aid it in meeting its obligations hereunder. Nothing contained in the Plan, and no action taken pursuant to its provisions, shall create or be construed to create a trust of any kind, or a fiduciary relationship, joint venture or partnership between the Company and the Employee or any other person. To the extent that any person acquires a right to receive payments from the Company under this Plan, such right shall be no greater than the right of an unsecured general creditor of the Company. All payments to be made hereunder shall be paid in cash from the general funds of the Company and no special or separate fund shall be established and no segregation of assets shall be made to assure payments of such amounts.

All Deferred Awards under the Plan constitute unfounded deferred compensation arrangements for a select group of key management personnel and all rights thereunder shall be governed by and construed in accordance with the laws of California.

The Committee shall make such adjustments as it deems equitable in the even the Company changes its fiscal year.

10. Effective Date of the Plan.

The effective date of the Plan is February 5, 1982. No awards under the Plan shall be made for the year ended June 30, 1981, but nothing contained herein shall be construed as preventing the Board from paying other cash bonuses during the year ending June 30, 1982 or in any subsequent year.

Amendment and Restatement  
Effective January 1, 2001

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# PREAMBLE TO FARMER BROS. CO. RETIREMENT PLAN

The Farmer Bros. Co. Retirement Plan (the "Plan") was originally adopted, effective July 1, 1964, by Farmer Bros. Co. for the benefit of its employees. The Plan was subsequently amended on various occasions, and restated effective January 1, 1982 (the "Prior Plan").

This document constitutes the terms of the Plan, as amended and restated effective January 1, 1989, except as otherwise provided herein. This document incorporates Amendment 1 through Amendment 6 to the Prior Plan. In addition, it is intended that this document include all additional amendments necessary for the Plan to remain qualified under Section 401(a) of the Internal Revenue Code of 1986, as amended by the Tax Reform Act of 1986, the Omnibus Budget Reconciliation Act of 1986, the Omnibus Budget Reconciliation Act of 1987, the Technical and Miscellaneous Revenue Act of 1988, the Omnibus Budget Reconciliation Act of 1989, the Unemployment Compensation Amendments of 1992, and the Omnibus Budget Reconciliation Act of 1993.

Effective January 1, 2001, except as stated herein, the Plan is hereby amended and restated in its entirety to comply with the following acts of legislation known collectively as GUST:

General Agreement on Tariffs and Trade enacted in 1994 [also known as the Uruguay Round Agreements Act] (GATT)  
Uniformed Services Employment and Reemployment Rights Act of 1994 (USERRA)  
Small Business Job Protection Act of 1996 (SBJPA '96)  
Taxpayer Relief Act of 1997 (TRA '97)

## Article 1. Definitions

The following words and phrases, when used in the Plan with an initial capital letter, shall have the following meanings, unless the context clearly indicates otherwise:

1.01 "Accrued Pension" means, as of any Determination Date, the normal retirement Pension, payable commencing on the Participant's Normal Retirement Date, or immediately if the Participant has already attained his Normal Retirement Age, computed under Section 5.01(b) on the basis of the Participant's Final Average Compensation and Benefit Service to the Determination Date.

1.02 "Accrued Pension Derived from Employer Contributions" means, as of any Determination Date, the excess, if any, of a Participant's Accrued Pension over his Accrued Pension Derived from Participant Contributions.

1.03 "Accrued Pension Derived from Participant Contributions" means the portion of a Participant's Accrued Pension payable at age 65, or current age if later than age 65, funded with his Accumulated Contributions. The Accrued Pension Derived from Participant Contributions shall be equal to the Actuarial Equivalent of the Participant's Accumulated Contributions, credited with interest, compounded annually at the IRS Interest Rate (the Section 417 Interest Rate prior to January 1, 2000) for the period beginning on the Determination Date and ending on the later of the Participant's Normal Retirement Age or Annuity Starting Date, expressed as an annual benefit payable at age 65, or current age if later than age 65, in the form described in Section 7.01.

1.04 "Accumulated Contributions" means, with respect to a Participant, his Participant Contributions credited with interest, compounded annually at the rate of:

(a) 3% per annum through December 31, 1975;

(b) 5% per annum for the period beginning January 1, 1976, and ending December 31, 1987; and

(c) 120% of the Federal mid-term rate (as in effect under Section 1274 of the Code for the first month of the applicable Plan Year) for the period beginning January 1, 1988, and ending on the Determination Date.

1.05 "Actuarial Equivalent" means the equivalent, payable in an alternate form or at an alternate time, of a benefit payable in a normal form under the Plan as described in Section 7.01. Such equivalent shall generally be calculated based on a rate of interest of 6.5, utilizing the 1971 Group Annuity Mortality Table for Males.

With respect to the calculation of lump sum payments in accordance with Section 4.02(e), 7.02(b), 7.03(a)(iii) and 12.01(b), the interest rate utilized prior to January 1, 2000 shall be the lesser of 6.5% or the Section 417 Interest Rate.

Notwithstanding the above, for the purpose of determining lump sums on and after January 1, 2000 and ending on the date this Plan is adopted, Actuarial Equivalent shall be based on one of the following assumptions, whichever produces the greater benefit:

(a) The IRS Interest Rate and the IRS Mortality Table.

(b) The 1971 Group Annuity Mortality Table for Males and an interest rate equal to the lesser of (a) 6.5% or (b) the Section 417 Interest Rate.

For lump sum payments determined after the date this Plan is adopted, Actuarial Equivalent shall be based on one of the following assumptions, whichever produces the greater benefit:

(a) The IRS Interest Rate and the IRS Mortality Table.

(b) The 1971 Group Annuity Mortality Table for Males and an interest rate equal to 6.5%.

1.06 "Administrative Committee" means the committee appointed pursuant to Article 9.

1.07 "Affiliated Employer" means any company not participating in the Plan which is a member of a controlled group of corporations (as defined in Section 414(b) of the Code) with the Employer; any trade or business under common control (as defined in Section 414(c) of the Code) with the Employer; any organization (whether or not incorporated) which is a member of an affiliated service group (as defined in Section 414(m) of the Code) which includes the Employer; and any other entity required to be aggregated with the Employer pursuant to regulations under Section 414(o) of the Code. Notwithstanding the foregoing, for purposes of Sections 1.30(b) and 6.01, the definitions in Sections 414(b) and 414(c) of the Code shall be modified as provided in Section 415(h) of the Code.

1.08 "Alternate Accrued Pension Derived from Participant Contributions" is equal to the Participant's Accumulated Contributions divided by 10, or an actuarially equivalent factor in the event the Participant's Annuity Starting Date is later than his Normal Retirement Age. Notwithstanding the foregoing, the Participant's Alternate Accrued Pension Derived from Participant Contributions shall not exceed his Accrued Pension Derived from Participant Contributions.

1.09 "Annuity Starting Date" means, with respect to a Participant, the applicable of:

(a) The first day of the first period for which an amount is payable as an annuity under the Plan, or

(b) Where the benefit is not payable in the form of an annuity, the first day on which all events have occurred which entitle the Participant to his benefit under the Plan.

1.10 "Beneficiary" means any person, persons or entity named by a Participant by written designation filed with the Administrative Committee to receive benefits payable in the event of the Participant's death. However, if the Participant is married, his Spouse shall be deemed to be the Beneficiary unless or until he elects another Beneficiary by a written designation filed with the Administrative Committee. Any such designation shall not be effective without Spousal Consent. If no such designation is in effect at the time of death of the Participant, or if no person, persons or entity so designated shall survive the Participant, the Participant's estate shall be deemed to be the Beneficiary.

1.11 "Benefit Service" means, with respect to any Participant, the period beginning on the Participant's Enrollment Date and ending on his Severance from Service Date, subject to the following:

(a) Prior to July 1, 1964, Benefit Service shall not be credited:

(i) Until the later of the date the Participant (A) attains age 35, or (B) completes one Year of Eligibility Service;

(ii) For any period credited for retirement benefits under any other pension plan to which the Employer contributes; and

(iii) Unless the Participant elects to become a participant as of the date he is first eligible to do so.

(b) If the Participant is absent from the service of the Employer or an Affiliated Employer because of service in the uniformed services of the United States and if the Participant returns to the service of the Employer or an Affiliated Employer, having applied to return while his reemployment rights were protected by law, and makes all Participant Contributions as required under Plan Section 3.07, that absence shall be included in his Benefit Service;

(c) If the Participant is on a Leave of Absence approved by the Employer under rules uniformly applicable to all Employees similarly situated, the Employer may authorize the inclusion in his Benefit Service of any portion of that period of leave;

(d) Service during a period in which a Participant fails to make the contributions required under Section 3.01 shall not count as Benefit Service hereunder;

(e) Service with any other company which has been or may later be acquired by the Employer or an Affiliated Employer shall count only as required by law or as may be determined by the Company;

(f) With respect to the month that includes the Participant's Enrollment Date, a Participant shall be credited with one full month of Benefit Service if the Participant's Enrollment Date is on or before the 15th day of the month; with respect to the month that includes the Participant's Severance from Service Date, a Participant shall be credited with one full month of Benefit Service if the Participant's Severance from Service Date is on or after the 15th day of the month; otherwise partial months of Benefit Service shall be disregarded; and

(g) Service with the Employer or an Affiliated Employer on and after July 1, 1964, while the Employee is a Union Employee shall count provided that:

(i) The Employee is credited with an Hour of Service on or after January 1, 1995, or is on an approved Leave of Absence as of January 1, 1995;

(ii) The Employee makes Participant Contributions during the 60 months required by Section 3.01;

(iii) The Employee does not terminate his employment with the Employer and all Affiliated Employers prior to the date the Employee reaches his earliest Early Retirement Date; and

(iv) The Employee provides the Administrative Committee with the information it deems necessary to determine the amount of any pension payable to the Employee under the terms of a defined benefit pension plan to which the Employer contributes, directly or indirectly, to the extent that such pension is based on a period of employment with the Employer for which the Employee receives credit for Pension benefits under this Section 1.11(g); and

(h) If the Participant incurs a Break in Service, and he is subsequently rehired, the Participant's Benefit Service accrued after reemployment shall be aggregated with his Benefit Service accrued prior to the Break in Service only if (i) the Participant was vested in his Accrued Pension Derived from Employer Contributions, or (ii) (A) the Participant's consecutive one-year Breaks in Service do not equal or exceed the greater of five years or his Years of Vesting Service before the Break in Service, and (B) the Participant is credited with at least one Year of Vesting Service after his Break in Service. If the Participant's Break in Service ended prior to January 1, 1985, or if he had a Break in Service on December 31, 1984, and the number of his consecutive one-year Breaks in Service as of that date exceeded his Years of Vesting Service under the Plan provisions then in effect, then his previously accrued Benefit Service shall be excluded.

1.12 "Board of Directors" means the Board of Directors of the Company.

1.13 "Break in Service" means any Plan Year in which an Employee completes less than 501 Hours of Service. A Break in Service shall not occur during a layoff that is less than one year in duration, or an approved Leave of Absence or a period of military service which is included in a Participant's Benefit Service pursuant to Sections 1.11(b) and (c).

1.14 "Code" means the Internal Revenue Code of 1986, as it may be amended from time to time.

1.15 "Company" means Farmer Bros. Co., and any successor by merger, purchase or otherwise, with respect to its employees.

1.16 "Compensation" means wages as defined in Section 3401(a) of the Code (for purposes of income tax withholding at the source), but determined without regard to any rules under Section 3401(a) of the Code that limit the remuneration included in wages based on the nature or location of the employment or the services performed (e.g., the exception for agricultural labor in Section 3401(a)(2)). However, for purposes of the Plan, Compensation shall:

(a) Include any salary deferral reductions pursuant to Section 401(k) of the Code or pursuant to a cafeteria plan as described in Section 125 of the Code;

(b) Exclude any imputed income for auto allowances or company-paid life insurance for the Participant (including amounts for which the Employer or Affiliated Employer is required to furnish a written statement pursuant to Section 6052 of the Code); and

(c) Not exceed the Maximum Compensation Limitation.

Prior to January 1, 1972, Compensation means the compensation paid to a Participant by the Employer for services performed, but excluding overtime pay, premium pay, commissions, bonuses, any benefits received under the Employer's salary continuation plans, and travel expense and other allowances.

1.17 "Determination Date" means the date as of which an Accrued Pension or

other benefit is calculated.

1.18 "Disability" or "Disabled" means the total and permanent incapacity, as determined by the Administrative Committee based upon competent medical advice, of the Employee to engage in any occupation or perform any work for remuneration or profit by reason of any medically determinable injury, disease or mental impairment. In determining whether or not a Participant is and continues to be Disabled, the Administrative Committee may at any reasonable time require the Participant to submit to an examination by one or more physicians approved by the Administrative Committee. If the Participant refuses to submit to such examination, the Participant shall be deemed, for purposes of the Plan, to have recovered from his Disability.

Notwithstanding the foregoing, an Employee shall not be considered Disabled if the injury or disease (a) resulted from or consists of habitual drunkenness or addiction to narcotics, (b) was contracted, suffered or incurred while the Employee was engaged in, or resulted from his having engaged in, a criminal enterprise, (c) was intentionally self-inflicted, (d) arose while the Employee was absent without leave or layoff, (e) arose out of service in the armed forces of any country, or (f) arose as a result of or while engaged in his own business or in working for an employer other than the Employer.

1.19 "Early Retirement Date" means the first day of the calendar month on or immediately after the later of the date the Participant attains age 55 or completes five years of Benefit Service.

1.20 "Effective Date" means July 1, 1964.

1.21 "Eligible Employee" means an Employee other than:

(a) An Employee who is included in a unit of employees covered by a collective bargaining agreement between employee representatives and the Employer if there is evidence that retirement benefits were the subject of good faith bargaining and the agreement does not provide for such Employee's participation in the Plan,

(b) An Employee who is a nonresident alien and receives no United States source income,

(c) A Leased Employee, and

(d) An Employee who is employed in a division, unit, facility or class of Employees whom the Employer has determined in writing not to be covered by the terms of the Plan.

1.22 "Employee" means an individual employed by the Employer who meets the following requirements:

(a) the Employer withholds income tax on any portion of his or her income and Social Security contributions are made for him or her by the Employer, and

(b) such individual is determined by the Employer to be an Employee, for purposes of the Employer's payroll records.

"Employee" does not include a "Leased Employee," as defined in Code Section 414(n)(2). Only individuals who are paid as employees from an Employer payroll and are treated by the Employer as Employees will be considered Employees for purposes of the plan. Any individual who is treated as an independent contractor by the Employer is not an Employee. Also, an individual who renders services to the Employer pursuant to an agreement between the Employer and a leasing organization, temporary employment agency or any other organization is not an Employee. Any individual who is retroactively or in any other way held or found to be a "statutory" or "common law employee" of the Employer will not be eligible to participate in the Plan for any period he or she was not contemporaneously treated as an Employee by the Employer and considered by the Employer to be an Employee under this Section 1.22. In addition, such an individual will remain ineligible for participation in the Plan unless the Plan is amended to specifically render the individual eligible for Plan participation.

1.23 "Employer" means the Company, F.B.C. Finance Company, and any other company participating in the Plan as provided in Section 11.03 with respect to its employees.

1.24 "Enrollment Date" means the Effective Date and the first day of any pay period thereafter as of which an Employee who has met the Plan's eligibility requirements elects to commence participation in the Plan.

1.25 "ERISA" means the Employee Retirement Income Security Act of 1974, as amended from time to time.

1.26 "Final Average Compensation" means the sixty (60) consecutive calendar months of Benefit Service during which the Participant's average monthly Compensation is the highest out of the one hundred twenty (120) consecutive calendar months of Benefit Service immediately preceding the Participant's date of termination, retirement or Disability. If the Participant has less than sixty (60) consecutive months of Benefit Service, his Final Average Compensation shall be equal to the monthly average of his Compensation during the total calendar months of his Benefit Service. Compensation earned during partial months of Benefit Service shall be ignored.

For purposes of this Section 1.26, months of Benefit Service shall be considered consecutive if separated by (a) a Break in Service, (b) a period of layoff, (c) an unpaid leave of absence, (d) a period of non-covered service, or (e) a period during which no Participant Contributions are made.

1.27 "Highly Compensated Employee" means an Employee classified as a highly compensated employee as determined under Section 414(q) of the Code and any regulations issued thereunder. Notwithstanding the foregoing, for each Plan Year the Administrative Committee may elect to determine the status of Highly Compensated Employees under the simplified snapshot method described in IRS Revenue Procedure 93-42.

Effective for Plan Years beginning January 1, 1997, "Highly Compensated Employee" means an Employee who:

(a) was a five percent (5%) owner during the current Plan Year or the preceding Plan Year; or

(b) during the preceding Plan Year,

(1) received Section 414(s) Compensation of more than \$80,000 (or such larger amount as may be modified for cost-of-living adjustments by the Commissioner of the IRS); and

(2) if the Employer so elects, was a member of the top twenty percent (20%) of active Employees when ranked on the basis of Section 414(s) Compensation during the preceding Plan Year. Any election hereunder shall be made in accordance with regulations issued under section 414(q)(1) of the Code, as amended by section 1431(a) of the Small Business Job Protection Act of 1996. For purposes of determining the group with the highest twenty percent (20%) of Section 414(s) Compensation, employees described in Section 414(q)(8) of the Code and Q&A-9(b) of regulation section 1.414(q)-1T are excluded.

For purposes of determining Highly Compensated Employees, employers aggregated with the Employer under section 414(b), (c), (m) or (o) are treated as a single Employer.

1.28 "Hour of Service" means, for purposes of determining a Participant's Benefit Service, each hour for which an Employee is paid or entitled to payment for the performance of duties for the Employer or an Affiliated Employer.

For purposes of determining an Employee's Vesting and Eligibility Service, Hour of Service means, with respect to any applicable computation period-

(a) Each hour for which the Employee is paid or entitled to payment for the performance of duties for the Employer or an Affiliated Employer,

(b) Each hour for which the Employee is paid or entitled to payment by the Employer or an Affiliated Employer on account of a period during which no duties are performed, whether or not the employment relationship has terminated, due to vacation, holiday, illness, incapacity (including Disability), layoff, jury duty, military duty or Leave of Absence, but not more than 501 hours

for any single continuous period,

(c) Each hour for which back pay, irrespective of mitigation of damages, is either awarded or agreed to by the Employer or an Affiliated Employer, excluding any hour credited under (a) or (b), which shall be credited to the computation period or periods to which the award, agreement or payment pertains, rather than to the computation period in which the award, agreement or payment is made, and

(d) Solely for purposes of determining whether the Employee has incurred a Break in Service under the Plan, each hour for which the Employee would normally be credited under paragraph (a) or (b) above during a period of Parental Leave but not more than 501 hours for any single continuous period. However, the number of hours credited to the Employee under this paragraph (d) during the computation period in which the Parental Leave began, when added to the hours credited to the Employee under paragraphs (a) through (c) above during that computation period, shall not exceed 501. If the number of hours credited under this paragraph (d) for the computation period in which the Parental Leave began is zero, the provisions of this paragraph (d) shall apply as though the Parental Leave began in the immediately following computation period.

No hours shall be credited on account of any period during which the Employee performs no duties and receives payment solely for the purpose of complying with unemployment compensation, workers' compensation or disability insurance laws. Hours of Service are also not required to be credited for a payment which solely reimburses an Employee for medical or medically related expenses incurred by the Employee. The Hours of Service credited shall be determined as required by Title 29 of the Code of Federal Regulations, Section 2530.200b-2(b) and (c).

1.29 "IRS Interest Rate" means the annual rate of interest on 30-year Treasury Securities as specified by the Commissioner for the November (the look-back month) preceding the Stability Period.

1.30 "IRS Mortality Table" means the mortality table prescribed by the Secretary of the Treasury under Code Section 417(e)(3)(A)(ii)(I) as in effect on the first day of the applicable Stability Period.

1.31 "Investment Manager" means the person (or organization), if any, to whom the Company has, pursuant to Section 10.03, delegated the responsibility and authority to manage, acquire or dispose of all or a designated portion of the assets of the Plan. The Investment Manager shall be (a) registered in good standing as an investment adviser under the Investment Advisers Act of 1940 (the "Act"), (b) a bank, as defined in the Act, or (c) an insurance company qualified to perform investment management services under the laws of more than one state of the United States. In addition, the Investment Manager shall acknowledge in writing that it is a fiduciary with respect to the management, acquisition and control of all or the designated portion of the assets of the Plan.

1.32 "Leased Employee" means any person (other than a person described in Section 414(n)(5) of the Code) who is not otherwise an Employee of the Employer or an Affiliated Employer and who provides services to the Employer or an Affiliated Employer (the "Recipient") if:

(a) Such services are provided pursuant to an agreement between the Recipient and a "leasing organization";

(b) Such person has performed such services for the Recipient (or the Recipient and the Employer or an Affiliated Employer) on a substantially full-time basis for a period of at least one year; and

(c) Effective for Plan Years beginning after December 31, 1996, such services are performed under the primary direction and control of the Employer.

1.33 "Leave of Absence" means an absence authorized by the Employer under its standard personnel practices as applied in a uniform and non-discriminatory manner to all persons similarly situated.

1.34 "Maximum Compensation Limitation" means, effective on or after January 1, 1989, and before January 1, 1994, \$200,000 per year. As of January 1 of each calendar year on and after January 1, 1990, and before January 1, 1994, the Maximum Compensation Limitation as determined by the Commissioner of Internal Revenue for the calendar year shall become



effective as the Maximum Compensation Limitation taken into account for Plan purposes for the Plan Year beginning within that calendar year in lieu of the \$200,000 limitation set forth above.

Commencing January 1, 1994, the Maximum Compensation Limitation means \$150,000 per year. If for any calendar year after 1994, the cost-of-living adjustment described in the following sentence is equal to or greater than \$10,000, then the Maximum Compensation Limitation (as previously adjusted hereunder) for any Plan Year beginning in any subsequent calendar year shall be increased by the amount of such cost-of-living adjustment, rounded to the next lowest multiple of \$10,000. The cost-of-living adjustment shall equal the excess of (i) \$150,000 increased by the adjustment made under Section 415(d) of the Code for the calendar year, except that the base period for purposes of Section 415(d)(1)(A) of the Code shall be the calendar quarter beginning October 1, 1993, over (ii) the Maximum Compensation Limitation in effect for the Plan Year beginning in the calendar year.

Prior to Plan Years beginning on January 1, 1997, in determining a Participant's compensation for purposes of the Maximum Compensation Limitation, if any individual is a member of the family of a 5-percent owner or of a Highly Compensated Employee who is in the group consisting of the 10 individuals paid the greatest compensation during the year, then (i) such individual shall not be considered as a separate employee and (ii) any compensation paid to such individual (and any applicable benefit on behalf of such individual) shall be treated as if it were paid to (or on behalf of) the 5-percent owner or Highly Compensated Employee; provided, however, that for purposes of this Section 1.34, the term "family" shall include only the Participant's Spouse and any lineal descendants of the Participant who have not attained age 19 before the close of the year. If, as a result of the application of the foregoing family aggregation rules, the Maximum Compensation Limitation is exceeded, then the limit shall be prorated among the affected individuals in proportion to each such individual's compensation as determined prior to the application of the Maximum Compensation Limitation. After December 31, 1996, the family aggregation rules are repealed.

1.35 "Normal Retirement Age" means the date the Participant attains age 65.

1.36 "Normal Retirement Date" means the first day of the calendar month on or immediately after an Employee's Normal Retirement Age.

1.37 "Parental Leave" means a period in which the Employee is absent from work immediately following his or her active employment due to (a) the Employee's pregnancy, (b) the birth of the Employee's child, (c) the placement of a child with the Employee in connection with the adoption of that child by the Employee, or (d) the Employee's caring for that child for a period beginning immediately following the birth or placement of such child. Such a leave shall be subject to verification by the Administrative Committee.

1.38 "Participant" means any person included for participation in the Plan as provided in Article 2 and who continues to be entitled to benefits under the Plan.

1.39 "Participant Contributions" means the mandatory contributions paid by Participants pursuant to Section 3.01.

1.40 "Pension" means a Participant's benefit under the Plan, generally payable in the form of an annuity.

1.41 "Plan" means the Farmer Bros. Co. Retirement Plan as set forth in this document, or as amended from time to time.

1.42 "Plan Year" means the 12-month period beginning on any January 1.

1.43 "Postponed Retirement Date" means the first day of the calendar month on or immediately after the date that a Participant terminates his employment with the Employer or an Affiliated Employer after his Normal Retirement Date.

1.44 "Qualified Domestic Relations Order" means a judgment, decree, or order issued by a court of competent jurisdiction which:

(a) Creates for, or assigns to, a Spouse, former Spouse, child or other dependent of a Participant the right to receive all or a portion of the Participant's benefits under the Plan for the purpose of providing child support, alimony payments or marital property rights to that Spouse, former Spouse, child or dependent;

(b) Is made pursuant to a State domestic relations law;

(c) Does not require the Plan to provide any type of benefit, or any option, not otherwise provided under the Plan; and

(d) Otherwise meets the requirements of Section 206(d) of ERISA as determined by the Administrative Committee.

1.45 "Qualified Joint and Survivor Annuity" means an annuity described in Section 7.02(a).

1.46 "Residual Accrued Pension Derived from Participant Contributions" is equal to the excess, if any, of the Participant's Accrued Pension Derived from Participant Contributions over the Participant's Alternate Accrued Pension Derived from Participant Contributions.

1.47 "Retirement Date" means a Participant's Early, Normal or Postponed Retirement Date, whichever is applicable.

1.48 "Section 203(a)(3)(B) Service" means the employment of an Employee by the Employer or an Affiliated Employer during a calendar month, subsequent to the time the payment of the Participant's Pension commenced or would have commenced if the Employee had not remained in or returned to employment during such month, if the Employee is credited with at least 40 Hours of Service during such calendar month.

1.49 "Section 417 Interest Rate" means the interest rate or rates that would be used by the Pension Benefit Guaranty Corporation for purposes of determining the present value of a lump sum distribution upon termination of an insufficient trustee single-employer plan as of the first day of the Plan Year in which the determination is made.

1.50 "Severance from Service Date" means the earlier of:

(a) The date an Employee quits, retires, is discharged or dies, or

(b) The first anniversary of the date on which an Employee is first absent from service from the Employer or an Affiliated Employer, with or without pay, for any reason (other than resignation, retirement, discharge or death), such as vacation, sickness, Disability, layoff or Leave of Absence.

1.51 "Spousal Consent" means written consent given by a Participant's Spouse to an election made by the Participant of a specified form of benefit or a designation by the Participant of a specified Beneficiary other than the Spouse. That consent shall be duly witnessed by a Plan representative or notary public and shall acknowledge the effect on the Spouse of the Participant's election. The requirement for spousal consent may be waived by the Administrative Committee if it is established to its satisfaction that there is no spouse, or that the Spouse cannot be located, or because of such other circumstances as may be established by applicable law. Spousal Consent shall be applicable only to the particular Spouse who provides such consent.

1.52 "Spouse" means the person legally married to the Participant.

1.53 "Stability Period" means the calendar year in which the Annuity Starting Date occurs for the distribution.

1.54 "Trust" means the fund established by the Company to hold and invest the assets of the Plan.

1.55 "Trustee" means the bank, trust company or individuals selected by the Company to take custody of the assets of the Plan.

1.56 "Year of Eligibility Service" means, with respect to an Employee, the 12-month period beginning on the first date as of which the Employee is credited with an Hour of Service, or any Plan Year beginning after that date, in which the Employee first completes at least 1,000 Hours of Service.

1.57 "Year of Vesting Service" means, with respect to an Employee, any Plan Year in which the Employee completes at least 1,000 Hours of Service. If the Employee incurs a Break in Service, and he is subsequently rehired, the Employee's Years of Vesting Service accrued after reemployment shall be aggregated with his Years of Vesting Service accrued prior to the Break in Service only if (i) the Employee was vested in his Accrued Pension Derived from Employer Contributions, or

(ii) (A) the Employee's consecutive one-year Breaks in Service do not equal or exceed the greater of five years or his Years of Vesting Service before the Break in Service, and (B) the Employee is credited with at least one Year of Vesting Service after his Break in Service. If the Employee's Break in Service ended prior to January 1, 1985, or if he had a Break in Service on December 31, 1984, and the number of his consecutive one-year Breaks in Service as of that date exceeded his Years of Vesting Service under the Plan provisions then in effect, then his previously accrued Years of Vesting Service shall be excluded.

If an Employee returns to employment after a period of service in the uniformed services of the United States within the time stipulated under Section 414(u) of the Code, he/she shall be credited for Years of Vesting Service during such period.

1.58 'Union Employee' means an Employee who is not eligible to participate in the Plan solely because he is a member of a unit of employees covered by a collective bargaining agreement between employee representatives and the Employer or Affiliated Employer and there is evidence that retirement benefits were the subject of good faith bargaining and the agreement does not provide for such Employee's participation in the Plan.

## Article 2. Eligibility and Participation

### 2.01 Eligibility

(a) Each Employee who is a Participant in the Plan on December 31, 1988, shall continue to be a Participant in the Plan as of January 1, 1989. Former Employees who retired, died or terminated prior to January 1, 1989, shall continue to receive or be entitled to receive such benefits as they may have accrued pursuant to the terms of the Plan in effect on December 31, 1988.

(b) Each other Employee shall be eligible to become a Participant in the Plan provided that he is an Eligible Employee and:

(i) The Employee has completed one Year of Eligibility Service;  
or

(ii) The Employee was a participant under, and transferred from, another plan maintained by the Employer.

### 2.02 Participation

An Employee who is eligible to become a Plan Participant in accordance with Section 2.01 shall become a Participant as of the first Enrollment Date after the date he files with the Employer, within the time period established by the Administrative Committee, an enrollment form as prescribed by the Administrative Committee which shall authorize the Employer to deduct from his Compensation the Participant Contributions required under Section 3.01.

### 2.03 Reemployment of Former Employees and Former Participants

(a) Any person reemployed by the Employer as an Eligible Employee who was previously a Participant or who was previously eligible to become a Participant, shall be immediately eligible to become a Participant in the Plan upon the filing of an enrollment form in accordance with Section 2.02.

(b) Each other person reemployed by the Employer as an Eligible Employee shall be eligible to become a Participant in the Plan upon satisfying the requirements of Section 2.01(b) and the filing of an enrollment form in accordance with Section 2.02.

### 2.04 Transferred Participants

A Participant who remains in the employ of the Employer or an Affiliated Employer, but ceases to be an Eligible Employee, shall continue to be a Participant in the Plan, but shall not be eligible to make Participant Contributions or otherwise accrue benefits under the Plan while his employment status is other than as an Eligible Employee.

### 2.05 Termination of Participation

An Eligible Employee's participation in the Plan shall terminate on the date he terminates employment with the Employer and all Affiliated

Employers unless the Participant is entitled to benefits under the Plan, in which event his participation shall terminate when those benefits are distributed to him.

### Article 3. Contributions

#### 3.01 Participant Contributions

Each Employee who meets the eligibility requirements for Plan participation described in Article 2, and who completes an enrollment form as described in Section 2.02, shall:

(a) Prior to April 1, 1995, contribute to the Plan, by payroll deduction, 2% of his Compensation for all periods that he is an active Plan Participant inclusive of a period of active Plan participation after he has reached Normal Retirement Age; and

(b) On and after April 1, 1995, contribute to the Plan, by payroll deduction, 2% of his Compensation for all periods that he is an active Plan Participant inclusive of a period of active Plan participation after he has reached Normal Retirement Age; provided, however, that such Participant Contributions shall not be required (or permitted):

(i) With respect to a Participant who is an Employee as of January 1, 1995, or who is on an approved Leave of Absence as of January 1, 1995, after the Participant has been credited with 60 months of Benefit Service (before Section 1.11(g) is applied); and

(ii) With respect to a Participant who is not an Employee as of January 1, 1995, and who is not on an approved Leave of Absence as of January 1, 1995, after the Participant has been credited with 60 months of Benefit Service after January 1, 1995 (before Section 1.11(g) is applied).

#### 3.02 Suspension of Participation

(a) Participation in the Plan by each Eligible Employee is voluntary. A Participant may suspend his participation as of the end of any pay period. To suspend participation the Participant must file a written notice with the Administrative Committee within the time period established by the Administrative Committee. A Participant who has suspended participation may resume participation on the first day of any pay period which is at least twelve calendar months after the effective date of his last suspension of participation.

(b) In no event shall a Participant be permitted to make up contributions he could have made during a period of suspension.

#### 3.03 In-Service Withdrawal of Accumulated Contributions

On and after January 1, 1985, a Participant shall not be permitted to withdraw his Participant Contributions while he is employed by the Employer.

#### 3.04 Employer Contributions

The Employer shall make the contributions that, in addition to the contributions made by Participants employed by the Employer, are necessary to maintain the Plan on a sound actuarial basis and to meet the minimum funding standards prescribed by law. Any forfeitures shall be used to reduce the contributions otherwise payable by the Employer.

#### 3.05 Plan-to-Plan Transfers / Rollover Contributions

A Participant shall not be permitted to transfer to the Trust any portion of his distribution from any other qualified plan, nonqualified plan, or individual retirement annuity or account.

#### 3.06 Return of Contributions

Except as provided below, at no time shall any contributions (or portions thereof) revert to the Employer prior to discharge of all liabilities under the Plan -

(a) The Employer's contributions to the Plan are conditioned upon

Section 404 of the Code. If all or part of the Employer's deductions under Section 404 of the Code for contributions to the Plan are disallowed by the Internal Revenue Service, the portion of the contributions to which that disallowance applies shall be returned to the Employer without interest but reduced by any investment loss attributable to those contributions. The return shall be made within one year after the disallowance of the deduction.

(b) The Employer may recover, without interest, the amount of its contributions to the Plan made on account of a mistake of fact, reduced by any investment loss attributable to those contributions, if recovery is made within one year after the date of those contributions.

### 3.07 Contributions during Period of Service in the Uniformed Services of the United States

(a) Notwithstanding any provision of this Plan to the contrary, contributions, benefits and service credit with respect to qualified service in the uniformed services of the United States will be provided in accordance with Section 414(u) of the Code. Without regard to any limitations on contributions set forth in this Article 3, a Participant who is reemployed on or after August 1, 1990 and is credited with benefit service under the provisions of Section 1.11 because of a period of service in the uniformed services of the United States, may elect to contribute to the Plan the Participant Contributions that could have been contributed to the Plan in accordance with the provisions of the Plan had he or she remained continuously employed by the Employer throughout such period of absence ("make-up contributions"). The amount of make-up contributions shall be determined on the basis of the Participant's Compensation in effect immediately prior to the period of absence, and the terms of the Plan at such time. Any contribution to the Plan described in this paragraph shall be made during the applicable repayment period. The repayment period shall equal three (3) times the period of absence, but not longer than five (5) years and shall begin on the latest of: (i) the Participant's date of reemployment, (ii) October 13, 1996, or (iii) the date the Employer notifies the Employee of his or her rights under this Section. Credited interest on make-up contributions is made in accordance with Section 1.04.

(b) Participant Contributions under this Section 3.07 are considered "Annual Additions," as defined in Section 415(c)(2) of the Code, and shall be limited in accordance with the provisions of Section 6.01 and Appendix A with respect to the Plan Year or Plan Years to which such contributions relate rather than the Plan Year in which payment is made.

## Article 4. Termination of Employment Prior to Retirement

### 4.01 Amount of Vested Interest

(a) A Participant shall at all times be fully vested in his Accrued Pension Derived from Participant Contributions and Residual Accrued Pension Derived from Participant Contributions, whichever is applicable.

(b) A Participant shall become fully vested in his Accrued Pension Derived from Employer Contributions on the date he (i) attains his Normal Retirement Age provided that the Participant is employed by an Employer or Affiliated Employer on that date, or (ii) completes 5 years of Vesting Service.

### 4.02 Distribution of Vested Interest

(a) If, on his Severance from Service Date, the Participant has no vested interest in his Accrued Pension, the Participant shall be deemed to have received a cash lump sum of \$0 (equal to the present value of his vested Accrued Pension as of such termination date) and such Accrued Pension shall be forfeited as of his Severance from Service Date.

(b) If, on his Severance from Service Date, the Participant has a vested interest only in his Accrued Pension Derived from Participant Contributions (i.e., he has no vested interest in his Accrued Pension Derived from Employer Contributions), the

Participant may elect:

(i) To receive a lump sum distribution of his Accumulated Contributions, with Spousal Consent if the present value of his vested Accrued Pension exceeds \$5,000 (prior to August 5, 1997 this amount was \$3,500), in which event he will forfeit his Accrued Pension Derived from Employer Contributions; however, if he later again becomes a Participant, he may repay such Accumulated Contributions in accordance with the repayment provisions contained in Section 4.03 in order to restore his prior Accrued Pension;

(ii) To receive his Accrued Pension Derived from Participant Contributions in the form of an immediate annuity, commencing as of the first day of the month immediately following the Participant's Severance from Service Date; the annuity shall be the Actuarial Equivalent (determined without regard to the early retirement factors described in Section 5.03(b)) of the Participant's Accrued Pension Derived from Participant Contributions and shall be payable only as a Qualified Joint and Survivor Annuity; or

(iii) To receive his Accrued Pension Derived from Participant Contributions commencing as of his Retirement Date.

(c) If, on his Severance from Service Date, the Participant has a vested interest only in his Accrued Pension Derived from Employer Contributions (i.e., he has no Accumulated Contributions), he will receive a deferred Pension based on such interest commencing as of his Retirement Date.

(d) If, on his Severance from Service Date, the Participant has a vested interest in his Accrued Pension Derived from Participant Contributions and his Accrued Pension Derived from Employer Contributions, he may elect:

(i) To receive his entire Accrued Pension commencing as of his Retirement Date;

(ii) Prior to the date that he commences to receive the Pension described in Section 4.02(d)(i), to receive a lump sum distribution of his Accumulated Contributions, with Spousal Consent if the present value of his Accrued Pension exceeds \$5,000 (prior to August 5, 1997 this amount was \$3,500); if he later again becomes a Participant, he may repay such Accumulated Contributions in accordance with the repayment provisions contained in Section 4.03 in order to restore his prior Accrued Pension; in the event the Participant does not repay his Accumulated Contributions, the Pension payable to the Participant as of his Retirement Date shall be the sum of his (A) Accrued Pension Derived from Employer Contributions and (B) Residual Accrued Pension Derived from Participant Contributions; or

(iii) Prior to the date that he commences to receive the Pension described in Section 4.02(d)(i), to receive his Accrued Pension Derived from Participant Contributions in the form of an immediate annuity; the annuity shall be the Actuarial Equivalent (determined without regard to the early retirement factors described in Section 5.03(b) unless the Participant has attained age 55) of the Participant's Accrued Pension Derived from Participant Contributions and shall be payable only as a Qualified Joint and Survivor Annuity; in the event the Participant elects to receive his Accrued Pension Derived from Participant Contributions as an immediate annuity, the additional Pension payable to the Participant as of his Retirement Date shall be the sum of his (A) Accrued Pension Derived from Employer Contributions and (B) Residual Accrued Pension Derived from Participant Contributions.

(e) In any case, an immediate lump sum payment, which is the Actuarial Equivalent of the Participant's vested Accrued Pension, shall be made in lieu of all benefits if the value of the lump sum payment is \$5,000 (prior to August 5, 1997 this amount was \$3,500) or less. The lump sum payment may be made at any time on or after the date the Participant terminates employment. However, if a lump sum payment is to be made after a Participant's Annuity Starting Date, the Participant must consent in writing to such form of distribution and, if he is married, Spousal Consent must also be obtained. If a Participant, who has

a vested interest only in his Accrued Pension Derived from Participant Contributions (i.e., he has no vested interest in his Accrued Pension Derived from Employer Contributions), receives a lump sum distribution in accordance with this subparagraph (e) and later again becomes a participant, he may repay his Accumulated Contributions in accordance with the repayment provisions contained in Section 4.03 in order to restore his prior Accrued Pension.

#### 4.03 Repayment of Participant Contributions

A Participant who has received a prior distribution of his Accumulated Contributions shall have forfeited his Accrued Pension Derived from Participant Contributions to the extent of such distribution, and may have forfeited the related Accrued Pension Derived from Employer Contributions. A Participant may restore such benefits by repaying the amount of the prior distribution of Accumulated Contributions, plus interest at the rates described in Section 1.04 from the date of the prior distribution to the date of repayment. Such repayment must be made:

(a) In the case of an in-service withdrawal as described in Section 3.03, within 5 years of the date of withdrawal, or

(b) In the case of a withdrawal after a Severance from Service Date as described in Section 4.02, before the earlier of (i) 5 years after the Participant is reemployed by the Employer or an Affiliated Employer following the withdrawal, or (ii) the date the Participant incurs 5 consecutive one-year Breaks in Service after the withdrawal.

### Article 5. Eligibility for and Amount of Pension Benefits

#### 5.01 Normal Retirement

(a) The right of a Participant to his normal retirement Pension shall be nonforfeitable as of the date he attains his Normal Retirement Age provided that the Participant is employed by an Employer or Affiliated Employer on that date. A Participant who has attained Normal Retirement Age may retire and commence to receive a normal retirement Pension, upon providing written notification to the Administrative Committee, beginning as of his Normal Retirement Date, or he may postpone his retirement Pension in which event the provisions of Section 5.02 shall be applicable.

(b) Subject to Section 5.01(g), the normal retirement Pension payable upon retirement on a Participant's Normal Retirement Date shall be a monthly benefit payable for life, equal to (i) plus, where applicable (ii), as follows:

(i) One and one-half percent (1.5%) of the Participant's Final Average Compensation multiplied by his Benefit Service accrued after December 31, 1978.

(ii) For a Participant who participated in the Plan prior to January 1, 1979, the greater of:

(A) The Participant's accrued monthly benefit as of December 31, 1978, determined in accordance with the terms of the Plan in effect on that date; or

(B) One and one-half percent (1.5%) of the Participant's Final Average Compensation multiplied by his Benefit Service accrued prior to January 1, 1979.

(c) Notwithstanding Section 5.01(b), with respect to a Participant who is credited with an Hour of Service on or after January 1, 1995, or who is on an approved Leave of Absence as of January 1, 1995, the Participant's monthly normal retirement Pension shall not be less than the sum of:

(i) \$60.00 multiplied by the Participant's Benefit Service not in excess of 20 years; and

(ii) \$80.00 multiplied by the Participant's Benefit Service in excess of 20 years.

(d) Notwithstanding Section 5.01(b), a Participant's normal retirement Pension shall never be less than his Accrued Pension Derived from Participant Contributions calculated as of his Normal Retirement Age.

(e) Notwithstanding Section 5.01(b), a Participant's normal retirement Pension shall not be less than the sum of:

(i) His OBRA 1993 Accrued Pension; and

(ii) His Accrued Pension determined as of his Normal Retirement Date using Benefit Service and Compensation earned on and after January 1, 1994. For purposes of this subparagraph (ii), the Participant's Compensation in each of the relevant years shall not exceed the Maximum Compensation Limitation (as adjusted in accordance with Section 1.34) in effect for each of the relevant years on and after January 1, 1994.

(f) The following definitions apply to the terms used in this Section 5.01:

(i) "OBRA 1988 Accrued Pension" means the Participant's Accrued Pension determined as if the Participant terminated employment on December 31, 1988 (or date of termination, if earlier).

(ii) "OBRA 1993 Accrued Pension" means the greater of:

(A) The Participant's Accrued Pension, determined using all Benefit Service and Compensation earned prior to January 1, 1994. For purposes of this subparagraph (A), the Participant's Compensation in each of the relevant years shall not exceed the \$200,000 Maximum Compensation Limitation (as adjusted in accordance with Section 1.34) in effect prior to January 1, 1994; or

(B) The sum of (i) the Participant's OBRA 1988 Accrued Pension, and (ii) the Participant's Accrued Pension, determined using Years of Service and Compensation earned after December 31, 1988, and prior to January 1, 1994. For purposes of this subparagraph (B)(ii), the Participant's Compensation in each of the relevant years shall not exceed the \$200,000 Maximum Compensation Limitation (as adjusted in accordance with Section 1.34) in effect prior to January 1, 1994.

(g) Upon a Retirement Date, a Participant may elect to receive an immediate lump sum distribution of his Accumulated Contributions. In such event, the benefits payable to the Participant pursuant to this Section 5.01 shall be the sum of his (i) Accrued Pension Derived from Employer Contributions and (ii) Residual Accrued Pension Derived from Participant Contributions.

## 5.02 Postponed Retirement

(a) If a Participant retires on a Postponed Retirement Date or otherwise postpones his retirement Pension, he shall commence to receive a late retirement Pension as of the earlier of (i) the first day of the calendar month after his actual Retirement Date; (ii) the date that he is required to commence receiving payment of his benefit in accordance with Section 7.06(b); or (iii) the first day of the calendar month after the calendar month in which the Participant is no longer employed in Section 203(a)(3)(B) Service.

(b) A late retirement Pension that commences after the Participant elects a Postponed Retirement Date shall, subject to the provisions of Section 7.02, be equal to:

(i) With respect to any Participant who during any month after his Normal Retirement Date is not employed in Section 203(a)(3)(B) Service, the Accrued Pension accrued by the Participant as of his Normal Retirement Date determined in accordance with Section 5.01(b) above, plus, for each Plan Year ending after the Participant's Normal Retirement Date through the Participant's Postponed Retirement Date, the greater of:



(A) The additional Accrued Pension accrued by the Participant for each such Plan Year determined in accordance with Section 5.01(b) based on the Participant's Compensation and Benefit Service earned in such Plan Year, or

(B) The actuarial increase in the Accrued Pension accrued by the Participant as of the end of the Plan Year preceding the Plan Year in question to take into account the nonpayment of such benefits.

(ii) With respect to all other Participants, the greater of:

(A) The Accrued Pension accrued by the Participant determined in accordance with Section 5.01(b) based on the Participant's Final Average Compensation and Benefit Service as of his Postponed Retirement Date, or

(B) The Participant's Accrued Pension as of his Normal Retirement Date determined in accordance with Section 5.01(b), actuarially increased to take into account the nonpayment of such benefits.

(c) If a Participant's Pension commences in accordance with the requirements of Section 7.06(b), but before the Participant elects a Postponed Retirement Date, the following provisions shall apply:

(i) The Pension payable to the Participant as of the date required by Section 7.06(b) shall be calculated in accordance with Section 5.02(b) above through the date the Pension will commence in accordance with Section 7.06(b), rather than through the Participant's Postponed Retirement Date; and

(ii) The amount of Pension to which a Participant is entitled under the Plan shall be recalculated annually in accordance with Section 5.02(b) above, during the period that the Participant is still employed by the Employer or an Affiliated Employer, as of the end of each Plan Year with the amount of the Pension being paid adjusted as of the first day of the following Plan Year. Any additional accrual during a Plan Year shall be reduced, however, by the Actuarial Equivalent of the employer-derived portion of any payments during the Plan Year to the Participant during any month in which the Participant is employed in Section 203(a)(3)(B) Service; provided, however, that such reduction shall not exceed 25% of the amount of the Pension due the Participant before application of the reduction provided for in this sentence.

(d) A Participant who continues employment past his Normal Retirement Date shall be given such notice with respect to the suspension of his retirement benefit payments as is required by applicable Department of Labor Regulations.

### 5.03 Early Retirement

(a) A Participant who has not reached his Normal Retirement Date but who, prior to his termination of employment with the Employer and all Affiliated Employers, has reached an Early Retirement Date may elect to retire on an Early Retirement Date and commence to receive an early retirement Pension as of the first day of the calendar month after he submits to the Administrative Committee a written application for retirement benefits.

(b) Unless the Participant otherwise elects, the early retirement Pension shall be a deferred Pension beginning on the Participant's Normal Retirement Date and, subject to the provisions of Section 7.02, shall be equal to his Accrued Pension. However, the Participant may elect to receive an early retirement Pension beginning on the first day of any calendar month on or after his Early Retirement Date but before his Normal Retirement Date. The Participant's early retirement Pension shall be equal to the Participant's Accrued Pension reduced by one-third of one percent for each full calendar month by which the date the Participant's actual Early Retirement Date precedes the

Participant's Normal Retirement Date; provided, however, that if the Participant is credited with an Hour of Service on or after January 1, 1995, or the Participant is on an approved Leave of Absence as of January 1, 1995, and the sum of Participant's age and Benefit Service as of his actual Early Retirement Date equals at least 82, the Participant's early retirement Pension shall be equal to the Participant's Accrued Pension reduced by one-third of one percent for each full calendar month, if any, by which the date the Participant's actual Early Retirement Date precedes the date that the Participant will attain age 62.

#### 5.04 Disability Retirement

(a) If a Participant ceases to be employed by the Employer while an Employee on account of Disability, and he has not reached his Normal Retirement Date, but (i) has attained age 45, (ii) has completed 10 years of Benefit Service, and (iii) is eligible for and continuously receiving disability insurance benefits under the Social Security Act, the Participant shall upon such termination of employment be eligible to receive a disability retirement Pension beginning on the first day of the calendar month immediately after the Administrative Committee receives written application for the disability retirement Pension made by or for the Participant.

(b) Subject to the provisions of Section 7.02, the disability retirement Pension shall be equal to the Participant's Accrued Pension determined in accordance with Section 5.03(b) as if the Participant had elected to retire as of the date disability benefits commence, but it shall only be payable subject to continuance of his Disability as provided in Section 5.04(c).

(c) As a condition of his continuing to receive a disability retirement Pension, a Participant who has not reached his Normal Retirement Date may be required by the Administrative Committee to provide satisfactory proof of his continued receipt of disability insurance benefits under the Social Security Act. If the Participant refuses to provide that proof, his disability retirement Pension shall cease until he no longer refuses to provide that proof. If his refusal continues for a year, all rights to the disability retirement Pension shall cease and the election of an optional benefit if one has been elected shall no longer be effective. If the Administrative Committee finds that the Participant has stopped receiving those disability insurance benefits, his disability retirement Pension shall cease. In that case, if the Participant is not restored to service with the Employer or an Affiliated Employer, he shall be entitled to (1) retire on an early retirement Pension as of the first day of the calendar month immediately after his disability retirement Pension ceases, if as of the date his disability retirement Pension ceases, he has attained the required age for early retirement, or (b) to receive a vested Pension payable in accordance with Section 5.05. In either case, the Pension shall be equal to the Participant's Accrued Pension determined in accordance with Section 5.03(b) as if the Participant had elected to retire as of the date disability benefits commenced.

#### 5.05 Termination With Vesting

(a) In accordance with Section 4.01, a Participant shall be 100 percent vested in, and have a nonforfeitable right to, his Accrued Pension on the date he (i) attains his Normal Retirement Age provided that the Participant is employed by an Employer or Affiliated Employer on that date, or (ii) completes 5 years of Vesting Service. If the Participant's employment with the Employer is subsequently terminated for reasons other than retirement or death, he shall be eligible for a deferred vested Pension to commence, as of a date described in Section 5.05(b) below, after the Participant has provided written notification to the Administrative Committee of his intention to commence receiving his Pension benefits.

(b) The deferred vested Pension shall generally commence to be paid as of the Participant's Normal Retirement Date and, subject to the provisions of Section 7.02, shall be equal to his Accrued Pension. However, if the Participant has completed five Years of Vesting Service on the date of his termination, the Participant may elect to have his vested Pension commence as of the first day of any calendar month after he attains age 55 and before his Normal Retirement Date. In that case, the Participant's Pension shall be equal to the Participant's vested Pension otherwise payable at his Normal Retirement Date reduced by one-third of one

percent for each full calendar month by which the date the Participant's actual Retirement Date precedes the Participant's Normal Retirement Date..

#### 5.06 Adjustments to Pensions in Pay Status

(a) Effective September 1, 1980, the Pension payable to a Participant who is receiving a monthly annuity on that date shall be increased by 3% for each complete year of retirement, measured from the date benefits became payable and ending on September 1, 1980.

(b) Effective January 1, 1986, the Pension payable to a Participant who is receiving a monthly annuity on that date shall be increased by the lesser of:

(i) 10%; or

(ii) 2% multiplied by the excess, if any, of 1986 over the year benefits first became payable.

(c) Effective January 1, 1990, the Pension payable to a Participant who is receiving a monthly annuity on that date shall be increased 10%.

#### 5.07 Suspension of Benefits

(a) During any month in which a Participant who is receiving a Pension is employed in Section 203(a)(3)(B) Service as an Eligible Employee, the following provisions shall apply provided that the Participant is delivered a notice that complies with Department of Labor Regulations Section 2530.203-3:

(i) The Participant's Pension shall cease and any election of an optional benefit in effect shall be void.

(ii) Any Years of Vesting Service and Benefit Service to which the Participant was entitled when he retired or terminated service shall be restored to him.

(iii) Upon later retirement, termination, or failure to be employed in Section 203(a)(3)(B) Service, the Participant's Pension shall be calculated in accordance with the following:

(A) If his reemployment occurred prior to his Normal Retirement Date, his Pension shall be calculated under the benefit formula in effect upon his latest Retirement Date, based on his Compensation and Benefit Service before and after the period when he was not in the service of the Employer, reduced by the Actuarial Equivalent of the benefits, if any, he received before his return to service with the Employer; or

(B) If his reemployment occurred on or after his Normal Retirement Date, his Pension shall be equal to the benefit he was receiving as of his rehire date plus any additional benefits he accrued on account of his Compensation and Benefit Service after such rehire date. Any additional accrual during a Plan Year shall be reduced, however, by the Actuarial Equivalent of the employer-derived portion of any payments during the Plan Year to the Participant during any month in which the Participant is employed in Section 203(a)(3)(B) Service; provided, however, that such reduction shall not exceed 25% of the amount of the Pension due the Participant before application of the reduction provided for in this sentence.

(iv) The portion of the Participant's Pension upon later retirement payable with respect to Benefit Service rendered before his previous retirement or termination of service shall never be less than the amount of his previous Pension modified to reflect any option in effect on his later retirement.

(b) The Administrative Committee shall establish procedures

consistent with Department of Labor Regulations Section 2530.203-3 regarding the suspension of benefits under this Section 5.07 including but not limited to procedures for resumption of benefits, offsetting benefit payments and notice regarding suspension of benefits.

#### 5.08 Nonduplication of Benefits

Any Pension payable under the Plan shall be reduced by any pension paid to a Participant under the terms of any other defined benefit pension plan to which the Employer contributes, directly or indirectly, other than by payment of taxes, to the extent that such pension is based on a period of employment with the Employer for which a Participant receives credit for Pension benefits under this Plan.

### Article 6. Restrictions on Benefits and Payments

#### 6.01 Maximum Annual Benefit Limitation and Maximum Annual Additions Limitation

(a) Subject to the adjustments described in Appendix A, the annual Accrued Pension Derived from Employer Contributions payable to a Participant under the Plan, when added to any pension attributable to contributions of the Employer or an Affiliated Employer provided to the Participant under any other qualified defined benefit plan, shall not exceed the lesser of:

(i) \$90,000 (adjusted in accordance with Appendix A); or

(ii) The Participant's average annual "Section 415 Compensation" (as defined in Appendix A) during three consecutive calendar years of his participation in the Plan affording the highest such average, or during all of the years in which he was a Participant in the Plan if less than three years.

(b) In accordance with the provisions of Appendix A attached hereto, a Participant's Participant Contributions for any Plan Year, when added to the Participant's "Annual Additions" (as defined in Appendix A) for that Plan Year under any other qualified plan of the Employer or an Affiliated Employer, shall not exceed an amount which is equal to the lesser of (i) 25% of his "Section 415 Compensation" (as defined in Appendix A) for that Plan Year or (ii) the greater of \$30,000 or one-quarter of the dollar limitation in effect under Section 415(b)(1)(A) of the Code.

#### 6.02 Top-Heavy Provisions

Notwithstanding anything else contained herein, for any Plan Year for which this Plan is "top-heavy", as defined in Section B.02 of Appendix B attached hereto, this Plan will be subject to the provisions of Appendix B.

#### 6.03 Limitation Concerning Highly Compensated Employees or Former Highly Compensated Employees

(a) Beginning January 1, 1994, the provisions of Appendix C shall apply (i) in the event the Plan is terminated, to any Participant who is a Highly Compensated Employee or former Highly Compensated Employee of the Employer or an Affiliated Employer, and (ii) in any other event, to any Participant who is one of the 25 highest compensated employees or former highest compensated employees of the Employer or Affiliated Employer with the greatest compensation in any Plan Year.

(b) For the period beginning January 1, 1989, and ending December 31, 1993, the provisions of Appendix D shall apply to any Participant who is one of the 25 highest paid Employees of the Employer on any "Commencement Date" and whose anticipated annual Pension provided under the Plan at Normal Retirement Date exceeds \$1,500. "Commencement Date", for purposes of this Section 6.03(b), shall

mean the Effective Date of the Plan or the effective date of any amendment to the Plan which increases the benefits.

## Article 7. Form of Payment of Pension Benefits

### 7.01 Normal Form of Payment

The normal form of payment payable under the Plan shall be a monthly benefit payable for the life of the Participant.

### 7.02 Automatic Form of Payment

(a) Except as provided in Section 7.02(b), the automatic form of payment payable under the Plan shall be a Qualified Joint and Survivor Annuity, which is described in (i) and (ii) below:

(i) If the Participant is not married on his Annuity Starting Date, the Qualified Joint and Survivor Annuity shall be equal to the normal form of payment described in Section 7.01; provided, however, that if the Participant is credited with an Hour of Service on or after January 1, 1995, or the Participant is on an approved Leave of Absence as of January 1, 1995, the Qualified Joint and Survivor Annuity shall be equal to the Five Year Certain and Life Annuity described in Section 7.03(a)(ii), but no actuarial adjustment shall be made to account for the five year certain period.

(ii) If the Participant is married on his Annuity Starting Date, the Qualified Joint and Survivor Annuity shall be equal to the Actuarial Equivalent of the normal form of payment, which provides (A) for a reduced benefit payable to the Participant during his life, and (B) after the Participant's death, a benefit at the rate of 75% of the benefit paid to the Participant, payable during the life of and to the Participant's Spouse; provided, however, that if the Participant is credited with an Hour of Service on or after January 1, 1995, or the Participant is on an approved Leave of Absence as of January 1, 1995, the Qualified Joint and Survivor Annuity shall be equal to the 75% Joint and Survivor Annuity described in Section 7.03(a)(i), but no actuarial adjustment shall be made to account for the five year certain period.

(b) In any case, an immediate lump sum payment, which is the Actuarial Equivalent of the Participant's vested Accrued Pension, shall be made in lieu of all benefits if the value of the lump sum payment does not exceed \$5,000 (\$3,500 prior to August 5, 1997). The lump sum payment may be made at any time on or after the date the Participant terminates employment. However, if a lump sum payment is to be made after a Participant's Annuity Starting Date, the Participant must consent in writing to such form of distribution and, if he is married, Spousal Consent must also be obtained. If a Participant, who has a vested interest only in his Accrued Pension Derived from Participant Contributions (i.e., he has no vested interest in his Accrued Pension Derived from Employer Contributions), receives a lump sum distribution in accordance with this subparagraph (b) and later again becomes a participant, he may repay his Accumulated Contributions in accordance with the repayment provisions contained in Section 4.03 in order to restore his prior Accrued Pension.

### 7.03 Optional Forms of Payment

(a) A Participant who is credited with an Hour of Service on or after January 1, 1995, or who is on an approved Leave of Absence as of January 1, 1995, may, subject to the provisions of Section 7.04, elect to convert the automatic form of the Pension otherwise payable to him (other than a disability retirement Pension) into one of the following optional forms of benefit:

(i) Joint and Survivor Option -- a reduced Pension payable to the Participant during his life and, after his death, payable to his designated Beneficiary for the remainder of her life, in an amount equal to 50%, 75% or 100% (according to the election of the Participant) of the Pension the Participant was receiving; provided, however, that if the Participant's Beneficiary dies before the Participant, the Participant

shall receive, commencing on the first day of the month after the Beneficiary dies, the benefit he would have received as of his Annuity Starting Date if he had elected the normal form of benefit described in Section 7.01(a) (referred to as the "Pop-Up Feature"); provided further that such Joint and Survivor Annuity shall be payable for a minimum of 60 months. If both the Participant and the Participant's Beneficiary die during the first 60 months of payment, a lump sum payment equal to the Actuarial Equivalent of the remaining payments shall be paid to the estate of the Participant unless the Participant's Beneficiary dies after the Participant, in which case, the lump sum payment shall be paid to the Beneficiary's estate. This Option shall not be available to a Participant whose Beneficiary is more than 30 years younger than the Participant, unless the Beneficiary is the Participant's Spouse.

(ii) Five Year Certain and Life Option -- a Pension payable to the Participant during his life; provided, however, that such annuity shall be payable for a minimum of 60 months. If the Participant dies during the first 60 months of payment, the Pension shall be payable for the balance of the 60 months to the Beneficiary designated by the Participant when he elected the option, or the Beneficiary may elect to receive a lump sum payment equal to the Actuarial Equivalent of the remaining payments. If both the Participant and the Participant's Beneficiary die during the first 60 months of payment, a lump sum payment equal to the Actuarial Equivalent of the remaining payments shall be paid to the estate of the Participant unless the Participant's Beneficiary dies after the Participant, in which case, the lump sum payment shall be paid to the Beneficiary's estate.

(iii) Ten Year Certain and Life Option -- a Pension payable to the Participant during his life; provided, however, that such annuity shall be payable for a minimum of 120 months. If the Participant dies during the first 120 months of payment, the Pension shall be payable for the balance of the 120 months to the Beneficiary designated by the Participant when he elected the option, or the Beneficiary may elect to receive a lump sum payment equal to the Actuarial Equivalent of the remaining payments. If both the Participant and the Participant's Beneficiary die during the first 120 months of payment, a lump sum payment equal to the Actuarial Equivalent of the remaining payments shall be paid to the estate of the Participant unless the Participant's Beneficiary dies after the Participant, in which case, the lump sum payment shall be paid to the Beneficiary's estate.

(iv) Level Income Option -- an increased Pension payable to the Participant before commencement of Social Security benefits and a correspondingly reduced Pension after commencement of Social Security benefits such that the total income (from the adjusted Pension payable pursuant to the Plan and the Social Security benefit to which the Participant is entitled) shall be as level as practicable both before and after commencement of Social Security benefits. Such Level Income Annuity shall be payable for a minimum of 60 months. If the Participant dies during the first 60 months of payment, the Pension (the amount of which is determined as if the Participant had lived for the 60 months) shall be payable for the balance of the 60 months to the Beneficiary designated by the Participant when he elected the option, or the Beneficiary may elect to receive a lump sum payment equal to the Actuarial Equivalent of the remaining payments. If both the Participant and the Participant's Beneficiary die during the first 60 months of payment, a lump sum payment equal to the Actuarial Equivalent of the remaining payments shall be paid to the estate of the Participant unless the Participant's Beneficiary dies after the Participant, in which case, the lump sum payment shall be paid to the Beneficiary's estate. Effective January 1, 1995, this Option shall not be available to a Participant who retires on or after the date that the Participant attains age 62.

(b) Except as otherwise provided in this Section 7.03(b), the benefit payable under options (i) through (iv) above shall be the Actuarial Equivalent of the normal form of payment described in Section 7.01. With respect to the Joint and Survivor Option, the Actuarial Equi-

valent shall be based on the percentage of the benefit to be continued to the surviving Beneficiary and the ages of both the Participant and his designated Beneficiary, but no actuarial adjustment shall be made to account for the Pop-Up Feature and the five year certain period. With respect to the Five Year Certain and Life Option, the Actuarial Equivalent shall be based on the age of the Participant, but no actuarial adjustment shall be made to account for the five year certain period. With respect to the Ten Year Certain and Life Option, the Actuarial Equivalent shall be based on the age of the Participant and an actuarial adjustment shall be made to account for the ten year certain period. With respect to the Level Income Option, the Actuarial Equivalent shall be based on the age of the Participant and an estimate of the Social Security benefit that will be payable to the Participant assuming that the Participant will commence receiving Social Security Benefits on the date the Participant attains age 65, but no actuarial adjustment shall be made to account for the five year certain period.

(c) A Participant who is not credited with an Hour of Service on or after January 1, 1995, and who is not on an approved Leave of Absence as of January 1, 1995, may, subject to the provisions of Section 7.04, elect to convert the automatic form of the Pension otherwise payable to him (other than a disability retirement Pension) into one of the optional forms of benefit available in accordance with the terms of the Plan in effect on December 31, 1994.

#### 7.04 Election of Options

(a) A married Participant's election of any option shall be effective only if the Administrative Committee receives Spousal Consent to the election unless:

(i) The option is the Actuarial Equivalent of the Qualified Joint and Survivor Annuity; and

(ii) The option provides for monthly payments to the Participant's Spouse for life after the Participant's death in an amount equal to at least 50% but not more than 100% of the monthly amount payable to the Participant under the option.

(b) The Administrative Committee shall furnish to each Participant, no less than 30 days and no more than 90 days before his Annuity Starting Date, a written explanation in nontechnical language of the terms and conditions of the benefit payable to the Participant in the automatic and optional forms described in Sections 7.02(a) and 7.03. Such explanation shall include a general description of the eligibility conditions for, and the material features and relative values of, the automatic and optional forms of benefit under the Plan, any rights the Participant may have to defer commencement of his benefit, the requirement for Spousal Consent as provided in Section 7.04(a), and the right of the Participant to make and to revoke elections under Section 7.03. An election under Section 7.03 shall be made on a form provided by the Administrative Committee, and may be made only during the 90-day period ending on the Participant's Annuity Starting Date, but not prior to the date the Participant receives the written explanation described in this Section 7.04(b).

(c) An election of an option under Section 7.03 may be revoked on a form provided by the Administrative Committee, and subsequent elections and revocations may be made at any time and from time to time during the 90-day election period. An election of an optional benefit shall be effective on the Participant's Annuity Starting Date. A revocation of any election shall be effective when the completed form is filed with the Administrative Committee. If a Participant who has elected an optional benefit dies before the date the election of the option becomes effective, the election shall be revoked except as provided in Section 8.01. If the Beneficiary designated under an option dies before the date the election of the option becomes effective, the election shall be revoked.

(d) Notwithstanding the foregoing subsections, if a Participant, who has been given the written explanation described in Section 7.04(b) (referred to as the "Written Explanation"), affirmatively elects a form of distribution and, where applicable, the

Participant's spouse consents to such form of distribution the Participant's Annuity Starting Date may be less than thirty (30) days after the Written Explanation is given to the Participant provided that:

(i) The Company notifies the Participant that he has the right to a period of at least thirty (30) days after receipt of the Written Explanation to consider whether or not to elect a distribution;

(ii) The Company notifies the Participant that he has the right to revoke his election to commence receiving his distribution during the period ending seven (7) days after the Participant receives the Written Explanation, or, if later, the Participant's Annuity Starting Date;

(iii) The Participant's Annuity Starting Date is after the date the Written Explanation is provided to the Participant; provided, however, that the Participant's Annuity Starting Date may be before the Participant makes an affirmative election to commence distribution and before the expiration of the period described in Section 7.04(d)(ii); and

(iv) The actual distribution of benefits to the Participant does not commence before the expiration of the period described in Section 7.04(d)(ii).

#### 7.05 Method of Payment for Eligible Rollover Distributions

(a) Notwithstanding any provision of the Plan to the contrary, effective January 1, 1993, if a Distributee is entitled to receive an Eligible Rollover Distribution which exceeds \$200, the Distributee may elect, at the time and in the manner prescribed by the Administrative Committee, and in accordance with this Section 7.05, to have his Eligible Rollover Distribution paid in accordance with one of the following methods:

(i) All of the Eligible Rollover distribution shall be paid directly to the Distributee;

(ii) All of the Eligible Rollover Distribution shall be paid as a Direct Rollover to the Eligible Retirement Plan designated by the Distributee; or

(iii) The portion of the Eligible Rollover Distribution designated by the Participant, which portion shall be at least \$500, shall be paid as a Direct Rollover to the Eligible Retirement Plan designated by the Distributee and the balance of the Eligible Rollover Distribution shall be paid directly to the Distributee.

(b) No less than 30 days and no more than 90 days prior to the Distributee's Annuity Starting Date, the Administrative Committee shall provide the Distributee with an election form and a notice that satisfies the requirements of Section 1.411(a)-11(c) of the Income Tax Regulations and Section 402(f) of the Code. In the event the Distributee does not return the signed election form by his Annuity Starting Date, he shall be deemed to have elected the method of payment described in Section 7.05(a)(i).

(c) Notwithstanding the provisions of Section 7.05(b) above, distributions paid in accordance with Section 7.05(a) may commence less than 30 days after the material described in Section 7.05(b) is given to the Distributee provided that:

(i) If the Distributee is the Participant, the Actuarial Equivalent of the Participant's vested Accrued Pension does not exceed \$5,000 (\$3,500 prior to August 5, 1997);

(ii) If the Distributee is the Participant's Spouse, the Actuarial Equivalent of the Spouse's Pension does not exceed \$5,000 (\$3,500 prior to August 5, 1997);

(iii) The Distributee is notified that he has the right to a period of at least 30 days after receipt of the material to consider whether or not to elect a distribution; and

(iv) After receipt of such notification, he affirmatively elects to receive a distribution.



(d) The following definitions apply to the terms used in this Section 7.05:

(i) "Eligible Rollover Distribution" means any distribution of all or any portion of the balance to the credit of the Distributee, except that an Eligible Rollover Distribution does not include:

(A) Any distribution that is one of a series of substantially equal periodic payments (not less frequently than annually) made for the life (or life expectancy) of the Distributee or the joint lives (or joint life expectancies) of the Distributee and the Distributee's designated beneficiary, or for a specified period of ten years or more;

(B) Any distribution to the extent such distribution is required under Section 401(a)(9) of the Code;

(C) The portion of any distribution that is not includible in gross income (determined without regard to the exclusion for net unrealized appreciation with respect to employer securities); and

(D) Any other type of distribution that the Internal Revenue Service announces (pursuant to regulation, notice or otherwise) is not an Eligible Rollover Distribution pursuant to Section 402(c) of the Code.

(ii) "Eligible Retirement Plan" means an individual retirement account described in Section 408(a) of the Code, an individual retirement annuity described in Section 408(b) of the Code, an annuity plan described in Section 403(a) of the Code, or a qualified trust described in Section 401(a) of the Code, that accepts the Distributee's Eligible Rollover Distribution. However, in the case of an Eligible Rollover Distribution to the surviving Spouse, an Eligible Retirement Plan is an individual retirement account or individual retirement annuity.

(iii) "Distributee" includes an Employee or former Employee. In addition, the Employee's or former Employee's surviving Spouse and the Employee's or former Employee's Spouse or former Spouse who is the "alternate payee," as defined in Section 414(p)(8) of the Code, pursuant to a Qualified Domestic Relations Order are Distributees with regard to the interest of the Spouse or former Spouse.

(iv) "Direct Rollover" means a payment by the Plan to the Eligible Retirement Plan specified by the Distributee.

#### 7.06 Commencement of Payments

(a) Except as otherwise provided in this Article 7, payment of a Participant's Pension shall begin as soon as administratively practicable following the latest of (i) the date the Participant attains age 65, (ii) the fifth anniversary of the date on which he became a Participant, or (iii) the date the Participant terminates service with the Employer (but not more than 60 days after the close of the Plan Year in which the latest of (i), (ii) or (iii) occurs).

(b) Notwithstanding the foregoing, distributions to a Participant shall be required by the April 1 following the calendar year in which he/she attains age seventy and one-half (70.5) or retires, except that a distribution to a Participant who owns five percent (5%) or more of the outstanding stock of the Employer (or stock possessing more than five percent (5%) of the total combined voting power of all Employer stock, a ("5% owner") must commence by the April 1 of the calendar year in which he or she attains age seventy and one-half (70.5).

In the event a Participant's benefit commences under this subsection while the Participant is in active service, such required beginning date shall be the Participant's Annuity Starting Date for purposes of this Article 6, and the Participant shall receive a late retirement benefit commencing on or before his required beginning date in an amount determined as if he had

retired on his required beginning date. As of each succeeding January 1 prior to the Participant's actual late retirement date and as of his actual late retirement date, the Participant's benefit shall be recomputed to reflect additional accruals. The Participant's recomputed benefit shall then be reduced by the Actuarial Equivalent value of the total payments of his late retirement benefits, which were paid prior to each such recomputation, to arrive at the Participant's late retirement benefit; provided that no such reduction shall reduce the Participant's late retirement benefit below the amount of any late retirement benefit payable to the Participant prior to the recomputation of his benefit.

(c) In the event a Participant remains in service after the end of the calendar year in which he attains age 70.5, and payment of the Participant's benefit is not required to commence under Section 7.06(c) above, then the benefit upon his late retirement shall be equal to the greater of:

- (i) His Accrued Benefit as of his actual retirement date; or
- (ii) His Accrued Benefit as of the April 1st that next follows the Plan Year in which he attains age 70.5 recomputed in accordance with regulations issued by the Secretary of the Treasury as of the first day of each subsequent Plan Year (and as of his actual retirement date), less the Actuarial Equivalent of any distribution he has received, if any, subsequent to the aforementioned April 1st.

(d) Notwithstanding any provision of this Plan to the contrary, all Plan distributions shall conform to the regulations issued under Section 401(a)(9) of the Code, including the incidental death benefit provisions of Section 401(a)(9)(G) of the Code. Further, such regulations shall override any Plan provision that is inconsistent with Section 401(a)(9) of the Code.

With respect to distributions made under this subsection for calendar years beginning on or after January 1, 2001, the Plan will apply the minimum distribution requirements of section 401(a)(9) of the Internal Revenue Code in accordance with the regulations under section 401(a)(9) that were proposed on January 17, 2001, notwithstanding any provision of the Plan to the contrary. This amendment shall continue in effect until the end of the last calendar year beginning before the effective date of final regulations under section 401(a)(9) or such other date as may be specified in guidance published by the Internal Revenue Service.

Notwithstanding the foregoing, Participants who attained age 70.5 prior to January 1, 1997 shall continue to receive minimum distributions in accordance with the terms of the Plan in effect at that time.

## Article 8. Death Benefits

### 8.01 Spouse's Pension

(a) If a married Participant, who is credited with an Hour of Service on or after January 1, 1995, or who is on an approved Leave of Absence as of January 1, 1995, dies prior to his Annuity Starting Date and while in the active service of the Employer or an Affiliated Employer after having met the requirements for any vested Pension, a Pension shall be payable to his surviving Spouse for life in accordance with the following:

(i) If the Participant dies after a date on which he could have retired pursuant to Section 5.01, 5.02 or 5.03, whichever is applicable, the Spouse's Pension shall be an amount payable as if the Participant had retired and elected the 100% Joint and Survivor Annuity described in Section 7.03(a)(i) on the day before his death. Payment of the Spouse's Pension shall commence on the first day of the calendar month following the Participant's date of death, unless the Spouse makes a written election to defer commencement to a later date, which date shall not be later than the date the Participant would have attained age 65.

(ii) If the Participant dies before a date on which he could have retired, the Spouse's Pension shall be an amount payable as

if the following events had occurred: (A) the Participant separated from service on the date of his death or, if earlier, the date of his actual separation from service, (B) the Participant survived to the earliest date he could have retired, (C) the Participant retired and elected an immediate payment of the 100% Joint and Survivor Annuity described in Section 7.03(a)(i), and (D) the Participant died on the day after the earliest date he could have retired. Payment of the Spouse's Pension shall commence on the first day of the calendar month following the earliest date the Participant could have retired, unless the Spouse makes a written election to defer commencement to a later date, which date shall not be later than the date the Participant would have attained age 65.

(b) If a married Participant, who is credited with an Hour of Service on or after January 1, 1995, or who is on an approved Leave of Absence as of January 1, 1995, dies prior to his Annuity Starting Date and after having terminated from the Employer or an Affiliated Employer after having become entitled to a vested Pension, a Pension shall be payable to his surviving Spouse for life in accordance with the following:

(i) If the Participant dies after a date on which he could have retired pursuant to Section 5.01, 5.02 or 5.03, whichever is applicable, the Spouse's Pension shall be an amount payable as if the Participant had retired and elected the 75% Joint and Survivor Annuity described in Section 7.03(a)(i) on the day before his death. Payment of the Spouse's Pension shall commence on the first day of the calendar month following the Participant's date of death, unless the Spouse makes a written election to defer commencement to a later date, which date shall not be later than the date the Participant would have attained age 65.

(ii) If the Participant dies before a date on which he could have retired, the Spouse's Pension shall be an amount payable as if the following events had occurred: (A) the Participant separated from service on the date of his death or, if earlier, the date of his actual separation from service, (B) the Participant survived to the earliest date he could have retired, (C) the Participant retired and elected an immediate payment of the 75% Joint and Survivor Annuity described in Section 7.03(a)(i), and (D) the Participant died on the day after the earliest date he could have retired. Payment of the Spouse's Pension shall commence on the first day of the calendar month following the earliest date the Participant could have retired, unless the Spouse makes a written election to defer commencement to a later date, which date shall not be later than the date the Participant would have attained age 65.

(c) If a married Participant, who is not credited with an Hour of Service on or after January 1, 1995, and who is not on an approved Leave of Absence as of January 1, 1995, dies prior to his Annuity Starting Date and after having become entitled to a vested Pension, a Pension shall be payable to his surviving Spouse for life in accordance with the terms of the Plan in effect on December 31, 1994.

(d) In any case, an immediate lump sum payment, which is equal to the Actuarial Equivalent of the Spouse's Pension shall be made in lieu of the Spouse's Pension if the value of the lump sum payment is equal to or less than \$5,000 (prior to August 5, 1997 this amount was \$3,500). The lump sum payment may be made at any time on or after the date the Participant dies. However, if a lump sum payment is to be made after payment of the Spouse's Pension is to commence, the Spouse must consent in writing to such form of distribution.

## 8.02 Children's Pension

(a) If a Participant, who is credited with an Hour of Service on or after January 1, 1995, or who is on an approved Leave of Absence as of January 1, 1995, dies prior to his Annuity Starting Date after having met the requirements for any vested Pension, and the Participant is not survived by a Spouse, but is survived by a child or children who are under the age of 23, a Pension shall be payable to such surviving child or children in equal shares. The total amount of the Pension payable to the surviving child or children shall be equal to the following:

(i) If the Participant dies after a date on which he could have retired pursuant to Section 5.01, 5.02 or 5.03, whichever is applicable, the Pension payable as if the Participant had retired on the day before his death.

(ii) If the Participant dies before a date on which he could have retired, the Actuarial Equivalent of the Pension payable as if the following events had occurred: (A) the Participant separated from service on the date of his death or, if earlier, the date of his actual separation from service, and (B) the Participant retired on the earliest date he could have retired.

Such benefit shall be payable until each such child attains age 23; provided, however, that such annuity shall be payable for a minimum of 60 months.

(b) If a Participant's surviving Spouse dies after benefits have commenced pursuant to Section 8.01, and the Surviving Spouse is survived by a child or children of the Participant who are under the age of 23, a Pension equal to the benefit received by the surviving Spouse pursuant to Section 8.01 prior to her death shall be payable to such surviving child or children in equal shares until each one attains age 23; provided, however, that if the Participant is credited with an Hour of Service on or after January 1, 1995, or the Participant is on an approved Leave of Absence as of January 1, 1995, such annuity shall be payable for a minimum of 60 months (including the payments to the Spouse).

(c) In any case, an immediate lump sum payment, which is equal to the Actuarial Equivalent of the Pension payable to the surviving child or children shall be made in lieu of such Pension if the value of the lump sum payment is equal to or less than \$5,000 (prior to August 5, 1997 this amount was \$3,500). The lump sum payment may be made at any time on or after the date the Participant or Spouse dies, whichever is applicable.

#### 8.03 Death Benefit Payable to Participant's Estate

If a Participant, who is credited with an Hour of Service on or after January 1, 1995, or who is on an approved Leave of Absence as of January 1, 1995, dies prior to his Annuity Starting Date after having met the requirements for any vested Pension, and the Participant is not survived by a Spouse or children under the age of 23, a single lump sum payment shall be immediately payable to his estate in an amount equal to the Actuarial Equivalent of the following:

(a) If the Participant dies after a date on which he could have retired pursuant to Section 5.01, 5.02 or 5.03, whichever is applicable, the Pension payable as if the Participant had retired on the day before his death and elected the Five Year Certain and Life Annuity described in Section 7.03(a)(ii).

(b) If the Participant dies before a date on which he could have retired, the Pension payable as if the following events had occurred: (A) the Participant separated from service on the date of his death or, if earlier, the date of his actual separation from service, (B) the Participant survived to the earliest date he could have retired, (C) the Participant retired and elected an immediate payment of the Five Year Certain and Life Annuity described in Section 7.03(a)(ii), and (D) the Participant died on the day after the earliest date he could have retired.

#### 8.04 Accumulated Contributions

In the event that a Participant's Accumulated Contributions exceed the aggregate benefits paid under the Plan to the Participant and each of the Participant's Beneficiaries as of the date that such payments cease under the terms of the Plan (or if no payments are otherwise payable under the terms of the Plan), an immediate lump sum distribution of such excess shall be payable in the following order of priority: (a) to the Participant's surviving child or children in equal shares, (b) the estate of the last to die of the surviving children, (c) to the Participant's Beneficiary, (d) the estate of the Participant's Beneficiary, or (e) the estate of the Participant.

## Article 9. Administration of the Plan

### 9.01 Appointment of Administrative Committee

The general administration of the Plan and the responsibility for carrying out the provisions of the Plan shall be placed in the Administrative Committee appointed by the President of the Company to serve at the pleasure of the President. The Administrative Committee shall be composed of at least 3 members. Any person appointed a member of the Administrative Committee shall signify his acceptance by filing written acceptance with the President of the Company. Any member of the Administrative Committee may resign by delivering his written resignation to the President of the Company.

### 9.02 Duties of Administrative Committee

The members of the Administrative Committee (i) shall elect a chairperson from their number and a secretary who may be, but need not be, one of the members of the Administrative Committee; (ii) may appoint from their number such subcommittees with such powers as they shall determine; (iii) may authorize one or more of their number or any agent to execute or deliver any instrument or make any payment on their behalf; (iv) may retain counsel, employ agents and provide for such clerical, accounting, actuarial and consulting services as they may require in carrying out the provisions of the Plan; and (v) may allocate among themselves or delegate to other persons all or such portion of their duties under the Plan, other than those granted to the Trustee under the trust instrument adopted for use in implementing the Plan, as they, in their sole discretion, shall decide.

### 9.03 Meetings

The Administrative Committee shall hold meetings upon such notice, at such place or places, and at such time or times as the members of the Administrative Committee may from time to time determine.

### 9.04 Action of Majority

Any act which the Plan authorizes or requires of the Administrative Committee shall be done by a majority of its members. The action of that majority expressed from time to time by a vote at a meeting or in writing without a meeting shall constitute the action of the Administrative Committee and shall have the same effect for all purposes as if assented to by all members of the Administrative Committee at the time in office.

### 9.05 Compensation and Bonding

No member of the Administrative Committee shall receive any compensation from the Plan for his services as such. The Company shall purchase such bonds as may be required under ERISA.

### 9.06 Establishment of Rules

Subject to the limitations of the Plan, the Administrative Committee shall prescribe such forms, make such rules, regulations, interpretations and computations, and shall take such other action to administer the Plan, as it may deem appropriate. In administering the Plan, the Administrative Committee shall act in a uniform and nondiscriminatory manner and in full accordance with any and all laws applicable to the Plan.

### 9.07 Manner of Administering

The Administrative Committee shall have the sole and complete discretion to interpret and administer the terms of the Plan and to determine eligibility for benefits and the amount of any such benefits pursuant to the terms of the Plan, and in so doing the Administrative Committee may correct defects, supply omissions and reconcile inconsistencies to the extent necessary to effectuate the Plan, and such actions shall be binding and conclusive on all persons.

### 9.08 Prudent Conduct

The members of the Administrative Committee shall use that degree of care, skill, prudence and diligence that a prudent person acting in a like capacity and familiar with such matters would use in a similar situation.

#### 9.09 Service In More Than One Fiduciary Capacity

Any individual, entity or group of persons may serve in more than one fiduciary capacity with respect to the Plan and/or the funds of the Plan.

#### 9.10 Limitation of Liability

The Employer, the members of the Board of Directors, the members of the Administrative Committee, and any officer, employee or agent of the Employer shall not incur any liability individually or on behalf of any other individuals or on behalf of the Employer for any act, or failure to act, made in good faith in relation to the Plan or the funds of the Plan. However, this limitation shall not act to relieve any such individual or the Employer from a responsibility or liability for any fiduciary responsibility, obligation or duty under Part 4, Title I of ERISA.

#### 9.11 Indemnification

The members of the Administrative Committee, members of the Board of Directors, officers, employees and agents of the Employer shall be indemnified against any and all liabilities arising by reason of any act, or failure to act, in relation to the Plan or the funds of the Plan, including, without limitation, expenses reasonably incurred in the defense of any claim relating to the Plan or the funds of the Plan, and amounts paid in any compromise or settlement relating to the Plan or the funds of the Plan, except for willful and intentional actions or failures to act. The foregoing indemnification shall be from the funds of the Plan to the extent of those funds and to the extent permitted under applicable law; otherwise from the assets of the Employer.

#### 9.12 Expenses of Administration

All expenses that arise in connection with the administration of the Plan, including but not limited to the compensation of the Trustee, administrative expenses and proper charges and disbursements of the Trustee and compensation and other expenses and charges of any enrolled actuary, counsel, accountant, specialist, or other person who has been retained by the Administrative Committee in connection with the administration thereof, shall be paid from the Trust to the extent not paid by the Employer.

#### 9.13 Claims and Review Procedures

(a) Applications for benefits and inquiries concerning the Plan (or concerning present or future rights to benefits under the Plan) shall be submitted to the Administrative Committee in writing. An application for benefits shall be submitted on the prescribed form and shall be signed by the applicant.

(b) In the event that an application for benefits is denied in whole or in part, the Administrative Committee shall notify the applicant in writing of the denial and of the right to review of the denial. The written notice shall set forth, in a manner calculated to be understood by the applicant, specific reasons for the denial, specific references to the provisions of the Plan on which the denial is based, a description of any information or material necessary for the applicant to perfect the application, an explanation of why the material is necessary, and an explanation of the review procedure under the Plan. The written notice shall be given to the applicant within a reasonable period of time (not more than 90 days) after the Administrative Committee receives the application, unless special circumstances require further time for processing and the applicant is advised of the extension. In no event shall the notice be given more than 180 days after the Administrative Committee receives the application.

(c) An applicant whose application for benefits was denied in whole or part, or the applicant's duly authorized representative, may appeal the denial by submitting to the Administrative Committee a request for a review of the application within 60 days after receiving written notice of the denial from the Administrative Committee. The Administrative Committee shall give the applicant or his representative an opportunity to review pertinent materials, other than legally privileged documents, in preparing the request for a review. The request for a review shall be in writing and addressed to the Administrative Committee. The request for a review shall set forth all of the grounds on which

it is based, all facts in support of the request and any other matters that the applicant deems pertinent. The Administrative Committee may require the applicant to submit such additional facts, documents or other materials as it may deem necessary or appropriate in making its review.

(d) The Administrative Committee shall act on each request for a review within 60 days after receipt, unless special circumstances require further time for processing and the applicant is advised of the extension. In no event shall the decision on review be rendered more than 120 days after the Administrative Committee receives the request for a review. The Administrative Committee shall give prompt written notice of its decision to the applicant. In the event that the Administrative Committee confirms the denial of the application for benefits in whole or in part, the notice shall set forth, in a manner calculated to be understood by the applicant, the specific reasons for the decision and specific references to the provisions of the Plan on which the decision is based.

(e) No legal action for benefits under the Plan shall be brought unless and until the claimant (i) has submitted a written application for benefits in accordance with paragraph (a), (ii) has been notified by the Administrative Committee that the application is denied, (iii) has filed a written request for a review of the application in accordance with paragraph (c) and (iv) has been notified in writing that the Administrative Committee has affirmed the denial of the application; provided, however, that legal action may be brought after the Administrative Committee has failed to take any action on the claim within the time prescribed by paragraphs (b) and (d) above.

## Article 10. Management of Funds

### 10.01 The Trustee

All the funds of the Plan shall be held in the Trust by a Trustee appointed from time to time by the Company under a trust instrument adopted, or as amended, by the Company for use in providing the benefits of the Plan and paying its expenses not paid directly by an Employer. No Employer shall have any liability for the payment of benefits under the Plan nor for the administration of the Trust held by the Trustee.

### 10.02 Exclusive Benefit Rule

Except as otherwise provided in the Plan, no part of the corpus or income of the funds of the Plan shall be used for, or diverted to, purposes other than for the exclusive benefit of Participants and other persons entitled to benefits under the Plan, and paying Plan expenses not otherwise paid by the Employer, before the satisfaction of all liabilities with respect to them. No person shall have any interest in or right to any part of the earnings of the Trust, or any right in, or to, any part of the assets held under the Plan, except as and to the extent expressly provided in the Plan.

### 10.03 Appointment of Investment Manager

The Company, in its sole discretion, shall determine the investment policy for the Plan. However, the Company may, in its sole discretion, appoint one or more Investment Managers to manage the assets of the Plan (including the power to acquire and dispose of all or part of such assets) as the Company shall designate. In that event, the authority over and responsibility for the management of the assets so designated shall be the sole responsibility of that Investment Manager.

## Article 11. Amendment, Merger and Termination

### 11.01 Amendment of the Plan

The Company, by action of its Board of Directors, may at any time and from time to time, and retroactively if deemed necessary or appropriate, amend in whole or in part any or all of the provisions of

the Plan. However, no amendment shall make it possible for any part of the funds of the Plan to be used for, or diverted to, purposes other than for the exclusive benefit of persons entitled to benefits under the Plan, before the satisfaction of all liabilities with respect to them. No amendment shall be made which has the effect of decreasing the Accrued Pension of any Participant or of reducing the nonforfeitable percentage of the Accrued Pension of a Participant below the nonforfeitable percentage computed under the Plan as in effect on the date on which the amendment is adopted or, if later, the date on which the amendment becomes effective. No amendment shall be made which affects the rights, duties or responsibilities of the Trustee unless the Trustee provides written consent to such amendment.

#### 11.02 Merger or Consolidation

The Company may, in its sole discretion, merge this Plan with another qualified plan, subject to any applicable legal requirements. However, the Plan may not be merged or consolidated with, and its assets or liabilities may not be transferred to, any other plan unless each person entitled to benefits under the Plan would, if the resulting plan were then terminated, receive a benefit immediately after the merger, consolidation, or transfer which is equal to or greater than the benefit he would have been entitled to receive immediately before the merger, consolidation, or transfer if the Plan had then terminated.

#### 11.03 Additional Participating Employers

(a) If any company is now or becomes a subsidiary or associated company of an Employer, the Company may include the employees of that company as participants in the Plan upon appropriate action by that company necessary to adopt the Plan. In that event, or if any persons become Employees of an Employer as the result of merger or consolidation or as the result of acquisition of all or part of the assets or business of another company, the Company shall determine to what extent, if any, credit and benefits shall be granted for previous service with the subsidiary, associated or other company, but subject to the continued qualification of the trust for the Plan as tax-exempt under the Code.

(b) Any subsidiary or associated company may terminate its participation in the Plan upon appropriate action by it. In that event, the Company may, in its sole discretion (i) retain all or a portion of the Participants in the employ of that associated company as terminated participants in the Plan or (ii) direct that the Trustee segregate the funds of the Plan held on account of all or a portion of the Participants in the employ of that associated company, and direct that the segregated assets be spun off into a separate plan to be administered by the associated company.

#### 11.04 Termination of the Plan

The Company, by action of its Board of Directors, may terminate the Plan for any reason at any time. In case of termination of the Plan, the rights of Participants to their Accrued Pensions as of the date of the termination, to the extent then funded or protected by law, if greater, shall be nonforfeitable. The funds of the Plan shall be used for the exclusive benefit of persons entitled to benefits under the Plan as of the date of termination, except as provided in Section 3.06. However, any funds not required to satisfy all liabilities of the Plan for benefits because of erroneous actuarial computation shall be returned to the Company. The Administrative Committee shall determine on the basis of actuarial valuation the share of the funds of the Plan allocable to each person entitled to benefits under the Plan in accordance with Section 4044 of ERISA, or corresponding provision of any applicable law in effect at the time. In the event of a partial termination of the Plan, the provisions of this Section 11.04 shall be applicable to the Participants affected by that partial termination.

### Article 12. General Provisions

#### 12.01 Nonalienation; Qualified Domestic Relations Orders

(a) Except as required by any applicable law, no benefit under the Plan shall in any manner be anticipated, assigned or alienated, and any attempt to do so shall be void. However, payment shall be made in accordance with the provisions of any Qualified Domestic Relations Order.



(b) An immediate lump sum payment, which is the Actuarial Equivalent of the series of payments provided for in a Qualified Domestic Relations Order, shall be made in lieu of the series of payments if the value of the lump sum payment is \$3,500 or less.

#### 12.02 Conditions of Employment Not Affected by Plan

The establishment of the Plan shall not confer any legal rights upon any Employee or other person for a continuation of employment, nor shall it interfere with the right of the Employer (which right is hereby reserved) to discharge any Employee and to treat him without regard to the effect which that treatment might have upon him as a Participant or potential Participant of the Plan.

#### 12.03 Facility of Payment

(a) If the Administrative Committee finds that a Participant or other person entitled to a benefit is unable to care for his affairs because of illness or accident, the Administrative Committee may direct that any benefit due him, unless a claim has been made for the benefit by a duly appointed legal representative, be paid to his Spouse, a child, a parent or other blood relative, or to a person with whom he resides. Any payment so made shall be a complete discharge of the liabilities of the Plan for that benefit.

(b) If the Administrative Committee finds that a Participant or other person entitled to a benefit is a minor, the Administrative Committee may direct that any benefit due him, unless a claim has been made for the benefit by a duly appointed legal representative, be paid in the following order of preference: (i) to the minor's custodial parent(s); (ii) if no custodial parent of the minor is then living, to a custodian selected by the Administrative Committee to hold the funds for the minor under the Uniform Transfers or Gifts to Minors Act in effect in the jurisdiction in which the minor resides; (iii) if the Administrative Committee decides not to select a custodian pursuant to subparagraph (ii), to the duly appointed and currently acting guardian of the estate of the minor; or (iv) if no guardian of the estate of the minor is duly appointed or currently acting within 60 days of the date the amount becomes payable, to the court having jurisdiction over the estate of the minor.

#### 12.04 Information

(a) Each Participant, Beneficiary or other person entitled to a benefit, before any benefit shall be payable to him or on his account under the Plan, shall file with the Administrative Committee the information that it shall require to establish his rights and benefits under the Plan.

(b) If a Participant in his application for retirement income, or in response to any request by the Employer or Administrative Committee for information, makes any statement which is erroneous or omits any material fact or fails before receiving his first payment to correct any information that he previously incorrectly furnished to the Employer or the Administrative Committee for its records, the amount of his Pension shall be adjusted on the basis of the current facts, and the amount of any overpayment or underpayment made to the Participant shall be deducted from, or added to, his next succeeding payments as the Administrative Committee shall direct.

#### 12.05 (Reserved)

#### 12.06 Proof of Death and Right of Beneficiary or Other Person

The Administrative Committee may require and rely upon such proof of death and such evidence of the right of any Beneficiary or other person to receive the value of the Plan benefits of a deceased Participant as the Administrative Committee may deem proper, and its determination of death and of the right of that Beneficiary or other person to receive payment shall be conclusive.

#### 12.07 Failure to Locate Recipient

In the event that the Administrative Committee is unable to locate a Participant or Beneficiary who is entitled to payment under the Plan

within 7 years from the date such payment was to have been made, the amount to which such Participant or Beneficiary was entitled shall be declared a forfeiture and shall be used to reduce future Employer contributions to the Plan. If the Participant or Beneficiary is later located, the benefit which was previously forfeited hereunder shall be restored by means of an additional Employer contribution to the Plan, if necessary.

12.08 Action by the Board of Directors

Any action required or permitted to be taken by the Board of Directors under the Plan shall be by resolution adopted by the Board of Directors at a meeting held either in person or by telephone or other electronic means, or by unanimous written consent in lieu of a meeting. The Board of Directors may, in its discretion, appoint the Executive Committee or another Committee to take those actions on its behalf which are the responsibility of the Board of Directors in accordance with the terms of the Plan.

12.09 Construction

(a) The Plan shall be construed, regulated and administered pursuant to the laws of the State of California, except where ERISA controls.

(b) If any provision of this instrument is held by a court of competent jurisdiction to be invalid or unenforceable, the remaining provisions hereof shall continue to be fully effective.

(c) The use of the masculine pronoun in this Plan shall include the feminine pronoun wherever appropriate, and vice versa.

(d) The use of the singular form of a word in this Plan shall include the plural form wherever appropriate, and vice versa.

(e) The titles and headings of the Articles and Sections in this Plan are for convenience only. In the case of ambiguity or inconsistency, the text rather than the titles or headings shall control.

Execution of the Plan

The Farmer Bros. Co. Retirement Plan is hereby executed this 27th day of February, 2002.

/s/ John E. Simmons

\_\_\_\_\_  
(Signature)

Treasurer

\_\_\_\_\_  
(Title)

Appendix A. Maximum Annual Benefit Limitation and Maximum Annual Additions Limitation

Section 6.01 of the Plan shall be construed in accordance with this Appendix A. Unless the context clearly requires otherwise, words and phrases used in this Appendix A shall have the same meanings that are assigned to them under the Plan.

The Plan Year shall be considered a "limitation year" for purposes of this Appendix A and Section 415 of the Code.

A.01 Definitions

The following words and phrases, when used in this Appendix A with an initial capital letter, shall have the following meanings, unless the context clearly indicates otherwise:

"Annual Additions" on behalf of a Participant under the Plan or any other qualified plan maintained by the Employer or an Affiliated Employer for the Plan Year shall not include transfers to the Plan from any other qualified plan but shall include:

(a) The total contributions made on behalf of the Participant by the Employer and all Affiliated Employers under any qualified Defined Contribution Plan,

(b) With respect to limitation years beginning before 1987, the lesser of the part of the Participant's contributions in excess of 6% of his Section 415 Compensation or one-half of his total contributions to any qualified Defined Contribution Plan maintained by the Employer or an Affiliated Employer,

(c) With respect to Limitation Years beginning after 1986, all of the Participant's contributions to any qualified Defined Contribution Plan maintained by the Employer or an Affiliated Employer,

(d) Forfeitures, if applicable, that have been allocated on behalf of the Participant under any qualified Defined Contribution Plan maintained by the Employer or an Affiliated Employer,

(e) Voluntary or mandatory contributions made by the Participant under this Plan or another qualified Defined Benefit Plan maintained by the Employer or an Affiliated Employer, and

(f) Contributions made on behalf of the Participant to an "individual medical benefit account" under a pension or annuity plan maintained by the Employer or an Affiliated Employer, as described, and to the extent required, under Section 415(1) of the Code.

"Defined Benefit Plan" means any qualified pension plan which is not a Defined Contribution Plan; however, in the case of a Defined Benefit Plan which provides a benefit which is based partly on the balance of the separate account of a participant, that plan shall be treated as a Defined Contribution Plan to the extent benefits are based on the separate account of a participant and as a Defined Benefit Plan with respect to the remaining portion of the benefits under the plan.

"Defined Benefit Plan Fraction" for any limitation year is a fraction -

(a) The numerator of which is the projected annual benefit of the Participant (determined as of the close of the limitation year) under all Defined Benefit Plans maintained by the Employer or an Affiliated Employer; and

(b) The denominator of which is the lesser of (i) or (ii) below:

(i) The product of 1.25 multiplied by the defined benefit plan dollar limitation under Section 415(b)(1)(A) of the Code (automatically adjusted each year as described in Section A.02(d)) in effect for such limitation year; or

(ii) The product of 1.4 multiplied by an amount that is 100% of the Participant's average Section 415 Compensation for the three consecutive years in which his Section 415 Compensation was the highest.

"Defined Contribution Plan" means any qualified pension plan which provides for an individual account for each participant and for benefits based solely upon the amount contributed to the participant's account, and any income, expenses, gains and losses, and any forfeitures of accounts of other participants which may be allocated to that participant's accounts, subject to the limitations described in the definition of "Defined Benefit Plan" above.

"Defined Contribution Plan Fraction" for any limitation year is a fraction --

(a) The numerator of which is the sum of the Annual Additions made by the Employer or an Affiliated Employer on behalf of the Participant for such limitation year and all prior limitation years; and

(b) The denominator of which is the sum of the lesser of (i) or (ii) below determined for such limitation year and for each prior year of service with the Employer or an Affiliated Employer:

(i) The product of 1.25 multiplied by the defined contribution plan dollar limitation under Section 415(c)(1)(A) of the Code (automatically adjusted every year as described in Section A.02(d)); or

(ii) The product of 1.4 multiplied by an amount equal to 25% of the Participant's Section 415 Compensation for such year.

At the direction of the Administrative Committee, the portion of the denominator of that fraction with respect to limitation years ending before 1983 shall be computed as the denominator for the limitation year ending in 1982, as determined under the law as then in effect, multiplied by a fraction the numerator of which is the lesser of:

(A) \$51,875; or

(B) 1.4 multiplied by 25% of the Participant's Section 415 Compensation for the limitation year ending in 1981;

and the denominator of which is the lesser of:

(A) \$41,500; or

(B) 25% of the Participant's Section 415 Compensation for that limitation year.

"Section 415 Compensation" means wages, salaries, fees for professional services, and other amounts received (without regard to whether or not an amount is paid in cash) for personal services actually rendered in the course of employment with the Employer or an Affiliated Employer to the extent that the amounts are includible in gross income (including, but not limited to, commissions paid salespersons, compensation for services on the basis of a percentage of profits, commissions on insurance premiums, tips, bonuses, fringe benefits, reimbursements, and expense allowances), and excluding:

(a) Contributions made by the Employer or an Affiliated Employer on behalf of the Participant to the Plan or any other plan of deferred compensation maintained by the Employer or an Affiliated Employer;

(b) Amounts realized from the exercise of a non-qualified stock option;

(c) Amounts realized when restricted stock is no longer subject to substantial risk of forfeiture;

(d) Amounts realized from the disposition of stock acquired under a qualified stock option; and

(e) Other amounts that receive special tax benefits.

Effective January 1, 1998, Section 415 Compensation also includes any pre-tax contributions pursuant to a salary reduction agreement and which is not includible in the gross income of the Employee under Sections 125, 401(k), 402(g)(3), 402(h)(1)(B) or 403(b) of the Code. On or after January 1, 2001, Code Section 132(f) transportation benefits are also included in determining Section 415 Compensation.

"Social Security Retirement Age" means age 65 with respect to a Participant who was born before January 1, 1938; age 66 with respect to a Participant who was born after December 31, 1937, and before January 1, 1955; and age 67 with respect to a Participant who was born after December 31, 1954.

#### A.02 Adjustments to Maximum Annual Benefit Limitation

(a) The maximum annual benefit limitation described in Section 6.01(a) shall be subject to the following adjustments:

(i) Less than 10 Years of Participation. If the Participant has not been a Participant in the Plan for at least 10 years, the maximum annual benefit limitation in Section 6.01(a)(i) shall be multiplied by the ratio that the number of years of his participation in the Plan bears to 10.

(ii) Less than 10 Years of Vesting Service. If the Participant has not completed 10 Years of Vesting Service, the maximum annual benefit limitation in Section 6.01(a)(ii) shall be multiplied by the ratio that the number of his Years of Vesting Service bears to 10.

(iii) Payment Before Age 62. If the benefit begins before the Participant attains age 62, the maximum annual benefit limitation in Section 6.01(a)(i) shall be equal to the lesser of the Actuarial Equivalent of the maximum annual benefit limitation at age 62 (as determined in accordance with Section A.02(a)(iv) below) calculated using the following:

(i) The early retirement factors prescribed in the Plan (or in the absence of prescribed factors, the mortality table and interest rate prescribed in the definition of Actuarial Equivalent); or

(ii) The IRS Mortality Table and an interest rate equal to 5%. Notwithstanding the foregoing, the mortality decrement shall be applied only on a post-retirement basis where the Plan benefits are not subject to forfeiture upon the Participant's death prior to his Annuity Starting Date.

(iv) Payment After Age 62 And Before Social Security Retirement Age. If the benefit begins before the Participant's Social Security Retirement Age but on or after the date he attains age 62, the maximum annual benefit limitation in Section 6.01(a)(i) shall be reduced by 5/9 of one percent for each of the first 36 months plus 5/12 of one percent for each additional month by which the Participant is younger than the Social Security Retirement Age at the date his benefit begins.

(v) Payment After Social Security Retirement Age. If the benefit begins after the Participant's Social Security Retirement Age, the maximum annual benefit limitation in Section 6.01(a)(i) shall be equal to the lesser of the Actuarial Equivalent of the maximum annual benefit limitation at the Participant's Social Security Retirement Age calculated using:

(i) The deferred retirement factors prescribed in the Plan (or in the absence of prescribed factors, the

mortality table and interest rate prescribed in the definition of Actuarial Equivalent); or

(ii) The IRS Mortality Table and an interest rate equal to 5%. Notwithstanding the foregoing, the mortality decrement shall be applied only on a post-retirement basis where the Plan benefits are not subject to forfeiture upon the Participant's death prior to his Annuity Starting Date.

(b) The limitations in Section 6.01 shall not apply to any Participant who has not at any time participated in any Defined Contribution Plan maintained by the Employer or an Affiliated Employer if the Participant's total annual retirement benefit payable under the Plan and all other Defined Benefit Plans maintained by the Employer or an Affiliated Employer does not exceed \$10,000.

(c) A Participant's benefit shall be subject to the following adjustments before the application of the maximum annual benefit limitation in Section 6.01(a) and, as so modified, shall be subject to such limitation:

(i) If the Participant's benefit is payable as a joint and survivor annuity with his Spouse as the Beneficiary, the modification of the benefit for that form of payment shall be made before the application of the maximum limitation in Section 6.01(a) and, as so modified, shall be subject to the limitation.

(ii) If the Participant's benefit is payable in a form that is neither described in Section A.01(c)(i) nor a straight life annuity, the Participant's benefit shall be converted to a straight life benefit before the application of the maximum benefit limitation in Section 6.01(a)(i) and, as so modified, shall be subject to such limitation. For purposes of the subsection, the straight life benefit shall be equal to the greater of the Actuarial Equivalent of the benefit otherwise payable to the Participant' calculated using:

(A) The optional benefit factors prescribed in the Plan (or in the absence of prescribed factors, the mortality table and interest rate prescribed in the definition of Actuarial Equivalent); or

(B) The IRS Mortality Table and an interest rate equal to 5%, or, if the form of benefit is subject to Section 417(e)(3) of the Code, an interest rate equal to the IRS Interest Rate.

(d) As of January 1 of each calendar year commencing on or after January 1, 1988, the dollar limitation as determined by the Commissioner of the Internal Revenue Service for that calendar year shall become effective as the maximum annual benefit limitation in Section 6.01(a)(i) during the limitation year ending within that calendar year.

#### A.03 Maximum Annual Additions Limitation

If a Participant's Annual Additions for any Plan Year would otherwise exceed the maximum Annual Additions limitation set for in Section 6.01(b), the excess Annual Additions for such Plan Year shall be reduced by reducing the contributions made on behalf of the Participant to the Defined Contribution Plans maintained by the Employer or an Affiliated Employer during such Plan Year in the manner and priority set forth in such plans.

#### A.04 Participant in a Defined Contribution Plan

This Section is repealed for Plan Years beginning January 1, 2000 and thereafter.

(a) If a Participant under this Plan has at any time participated in a Defined Contribution Plan maintained by the Employer or an Affiliated Employer, and if Annual Additions have been made on behalf of the Participant under such Defined Contribution Plan, the sum of the Participant's Defined Benefit Plan Fraction and Defined Contribution Plan Fraction shall not exceed 1.0.

(b) In the event the sum of a Participant's Defined Benefit Plan Fraction and Defined Contribution Plan Fraction exceeds 1.0, his benefits under, and contributions to, all plans shall be accomplished by first reducing the benefits otherwise payable to the Participant under this Plan or any other Defined Benefit Plan in which the Participant participates (in such priority as shall be determined by the Administrative Committee for this Plan and the administrators of such other plans), and second by reducing the contributions made on behalf of the Participant to Defined Contribution Plans in which the Participant participates in the manner and priority set forth in such plans. The necessary reductions may, however, be made in a different manner and priority pursuant to the agreement of the Administrative Committee for this Plan and the administrators of all other plans in which the Participant participates.

#### A.05 Preservation of Current Accrued Pension

Notwithstanding anything to the contrary contained in this Appendix A, a Participant's annual benefit payable under the Plan, prior to any reduction required by operation of Section A.04, shall in no event be less than:

(a) The benefit that the Participant had accrued under the Plan as of the end of the Plan Year beginning in 1982, with no changes in the terms and conditions of the Plan on or after July 1, 1982, taken into account in determining that benefit; or

(b) The benefit that the Participant had accrued under the Plan as of the end of the Plan Year beginning in 1986, with no changes in the terms and conditions of the Plan after May 5, 1986, taken into account in determining that benefit.

#### Appendix B. Top-Heavy Provisions

Section 6.02 of the Plan shall be construed in accordance with this Appendix B. Unless the context clearly requires otherwise, words and phrases used in this Appendix B shall have the same meanings that are assigned to them under the Plan.

#### B.01 General Definitions

The following words and phrases, when used in this Appendix B with an initial capital letter, shall have the following meanings, unless the context clearly indicates otherwise:

"Applicable Determination Date" means the last day of the later of the first Plan Year or the preceding Plan Year (where two or more plans are aggregated and they do not have the same Plan Year, the Applicable Determination Date for each plan shall be such date for each plan which falls within the same calendar year).

"Applicable Valuation Date" means the valuation date coincident with or immediately preceding the last day of the first Plan Year or the preceding Plan Year, whichever is applicable.

"Average Remuneration" means the average annual Remuneration of a Participant for the five consecutive years of Benefit Service after December 31, 1983, during which he receives the greatest aggregate Remuneration from the Employer or an Affiliated Employer, excluding any Remuneration for service after the last Plan Year with respect to which the Plan is top-heavy.

"Key Employee" means an Employee who is in a category of Employees determined in accordance with the provisions of Sections 416(i)(1) and (5) of the Code and any regulations thereunder, and where applicable, on the basis of the Employee's Remuneration from the Employer or an Affiliated Employer.

"Non-Key Employee" means any Employee who is not a Key Employee.

"Permissive Aggregation Group" means each qualified plan in the Required Aggregation Group and any other qualified plan(s) of the Employer or an Affiliated Employer in which all Participants are Non-Key Employees if the resulting aggregation group continues to meet the requirements of Sections 401(a)(4) and 410 of the Code.

"Remuneration" means "Section 415 Compensation" (as defined in Appendix

A), except that Remuneration for purposes of this Appendix B shall not exceed the Maximum Compensation Limitation for any Plan Year.

"Required Aggregation Group" means any other qualified plan(s) of the Employer or an Affiliated Employer in which there are Participants who are Key Employees or which enable(s) the Plan to meet the requirements of Sections 401(a)(4) and 410 of the Code.

"Top-Heavy Ratio" means the ratio of (a) the present value of the Accrued Pensions under the Plan for Key Employees to (b) the present value of the Accrued Pensions under the Plan for all Key Employees and Non-Key Employees. The Top-Heavy Ratio shall be determined as of the Applicable Valuation Date in accordance with Sections 416(g)(3) and (4) of the Code utilizing the Plan's actuarial funding assumptions. For purposes of determining the Top-Heavy Ratio:

(a) The present value of Accrued Pensions under the Plan shall be combined with the present value of accrued pensions or account balances under each other qualified plan in the Required Aggregation Group and, in the discretion of the Administrative Committee, may be combined with the present value of accrued pensions or account balances under any other qualified plan in the Permissive Aggregation Group;

(b) The present value of accrued pensions or account balances of all Non-Key Employees who were Key Employees during any prior Plan Year shall not be taken into account;

(c) Distributions made during the five-year period ending on the Applicable Determination Date shall be taken into account; and

(d) The present value of accrued pensions or account balances of Participants who have not performed services for the Employer or an Affiliated Employer during the five-year period ending on the Applicable Determination Date shall not be taken into account.

#### B.02 Top-Heavy Definition

The Plan shall be "top-heavy" with respect to any Plan Year if, as of the Applicable Determination Date, the Top-Heavy Ratio exceeds 60%.

#### B.03 Provisions Applicable When The Plan Is Top-Heavy

(a) The following provisions shall be applicable to Participants for any Plan Year with respect to which the Plan is top-heavy:

(i) The Accrued Pension of a Participant who is a Non-Key Employee shall not be less than 2% of his Average Remuneration multiplied by the number of years of his Benefit Service, not in excess of 10, during the Plan Years after 1983 for which the Plan is top-heavy. That minimum benefit shall be payable at a Participant's Normal Retirement Date. If payments commence at a time other than the Participant's Normal Retirement Date, the minimum Accrued Pension shall be the Actuarial Equivalent of that minimum benefit.

(ii) A Participant shall vest in his Accrued Pension Derived from Employer Contributions in accordance with the following schedule in lieu of the provisions of Section 4.01(b):

Years of Vesting Service	
Vesting Percentage	
Less than 2	0%
2 but less than 3	20%
3 but less than 4	40%
4 but less than 5	60%
5 or more	100%

However, in no event shall the Participant's vested percentage in his Accrued Pension Derived from Employer Contributions determined under this Section B.03(a)(ii) be less than the Participant's vested percentage determined under Section 4.01(b).

(iii) The 1.25 multiplier in the definitions of "Defined Benefit Plan Fraction" and "Defined Contribution Plan Fraction" in Section A.01 of Appendix A shall be reduced to 1.0, and the



\$51,875 dollar amount in the definition of "Defined Contribution Plan Fraction" in Section A.01 of Appendix A shall be reduced to \$41,500.

(b) If the Plan is top-heavy with respect to a Plan Year and ceases to be top-heavy for a subsequent Plan Year, the following provisions shall be applicable:

(i) The Accrued Pension in any such subsequent Plan Year shall not be less than the minimum Accrued Pension provided in Section B.03(a)(i) computed as of the end of the most recent Plan Year for which the Plan was top-heavy.

(ii) If a Participant has completed three Years of Vesting Service on or before the last day of the most recent Plan Year for which the Plan was top-heavy, the vesting schedule set forth in Section B.03(a)(ii) shall continue to be applicable.

(iii) If a Participant has completed at least two, but less than three, Years of Vesting Service on or before the last day of the most recent Plan Year for which the Plan was top-heavy, the vesting provisions of Section 4.01(b) shall again be applicable; provided however, that in no event shall the vested percentage of a Participant's Accrued Pension Derived from Employer Contributions be less than the percentage determined under Section B.03(a)(ii) as of the last day of the most recent Plan Year for which the Plan was top-heavy.

#### Appendix C. Limitation Concerning Highly Compensated Employees or Former Highly Compensated Employees (Effective January 1, 1994)

Beginning January 1, 1994, the provisions of this Appendix C shall apply (a) in the event the Plan is terminated, to any Participant who is a Highly Compensated Employee or former Highly Compensated Employee of the Employer or an Affiliated Employer, and (b) in any other event, to any Participant who is one of the 25 highest compensated employees or former highest compensated employees of the Employer or Affiliated Employer with the greatest compensation in any Plan Year.

##### C.01 Restrictions

The amount of the annual payments to any one of the Participants to whom this Appendix C applies shall not be greater than the sum of:

(a) An amount equal to the payments that would be made on behalf of the Participant under a single life annuity that is the Actuarial Equivalent of the sum of the Participant's Accrued Pension and other benefits under the Plan (other than a social security supplement), and

(b) The amount of the payments the Participant is entitled to receive, if any, under a social security supplement.

##### C.02 Limitation on Restrictions

(a) If, after payment of benefits to any one of the Participants to whom this Appendix C applies, the value of Plan assets equals or exceeds 110% of the value of current liabilities (as that term is defined in Section 412(l)(7) of the Code) of the Plan, the provisions of Section C.01 shall not be applicable to the payment of benefits to such Participant.

(b) If the value of the Accrued Pension and other benefits of any one of the Participants to whom this Appendix C applies is less than 1% of the value of current liabilities (as that term is defined in Section 412(l)(7) of the Code) of the Plan, the provisions of Section C.01 shall not be applicable to the payment of benefits to such Participant.

(c) If the Actuarial Equivalent of the Accrued Pension and other benefits of any one of the Participants to whom this Appendix C applies does not exceed \$5,000 (\$3,500 prior to August 5, 1997), the provisions of Section C.01 shall not be applicable to the payment of benefits to such Participant.

(d) To the extent permitted by law, if any Participant to whom this Appendix C applies elects to receive a lump sum payment in lieu of his benefit and the provisions of Section C.01 are not met with respect to such Participant, the Participant shall be entitled to receive his benefit in full provided he (i) agrees to repay to the Plan any portion of the lump sum payment which would be restricted by operation of the provisions of Section C.01 and (ii) provides adequate security to guarantee that repayment in accordance with rules established by the Internal Revenue Service.

(e) In the event the Plan is terminated, the restrictions of this Appendix C shall not be applicable if the benefits payable to any Highly Compensated Employee and any former Highly Compensated Employee are limited to a benefit that is nondiscriminatory under Section 401(a)(4) of the Code.

(f) If it is subsequently determined by statute, court decision acquiesced in by the Commissioner of Internal Revenue, or ruling by the Commissioner of Internal Revenue, that the provisions of this Appendix C are no longer necessary to qualify the Plan under the Code, this Appendix C shall be ineffective without the necessity of further amendment to the Plan.

Appendix D. Limitation Concerning Highly Compensated Employees or Former Highly Compensated Employees (Effective January 1, 1989, Through December 31, 1993)

For the period beginning January 1, 1989, and ending December 31, 1993, the provisions of this Appendix D shall apply to any Participant who is one of the 25 highest paid Employees of the Employer on any Commencement Date and whose anticipated annual Pension provided under the Plan at Normal Retirement Date exceeds \$1,500. "Commencement Date" means the Effective Date of the Plan or the effective date of any amendment to the Plan which increases the benefits.

(a) If the Plan is terminated during the first 10 years after a Commencement Date, the amount of the Pension provided under the Plan for any one of the Participants to whom this Appendix D applies shall not be greater than the amount of Pension that can be provided by the largest of the following amounts:

(i) The Employer's contributions (or funds attributable to those contributions) which would have been applied to provide the Pension if the Plan as in effect on the date before that Commencement Date had been continued without change;

(ii) \$20,000;

(iii) The sum of (A) the Employer's contributions (or funds attributable to those contributions) which would have been applied to provide benefits for the Employee if the Plan had been terminated on the day before that Commencement Date, plus (b) an amount computed by multiplying the smaller of \$10,000 or 20 percent of the average annual remuneration of that Employee during the last five years of service, by the number of years since that Commencement Date; or

(iv) The present value of the maximum benefit guaranteed by the Pension Benefit Guaranty Corporation (PBGC), as described in Section 4022(b)(3)(B) of ERISA, determined on the basis of the actuarial assumptions promulgated by the PBGC applicable as of the date of termination of the Plan or the date Pension payments commence, whichever is earlier.

(b) Any excess reserves arising by application of the provisions of paragraph (a) above shall be used and applied as provided in the Plan for the benefit of the other persons entitled to benefits under the Plan. However, if sufficient funds are available to provide in full for the Pensions accrued for all other persons entitled to benefits under the Plan to the date of termination of the Plan, those excess reserves shall first be used and applied to provide the accrued Pensions of the Participants whose Pensions have been restricted by operation of the provisions of this Appendix D.



FARMER BROS. CO.  
EMPLOYEE STOCK OWNERSHIP PLAN

Effective January 1, 2000

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FARMER BROS. CO.  
EMPLOYEE STOCK OWNERSHIP PLAN

ARTICLE 1. DEFINITIONS

1.01 "Account" means the Account established for a Member pursuant to Section 9.03 into which shall be credited the contributions made on a Member's behalf, Company Stock released from the Suspense Account for the Member, and earnings on those contributions and that Company Stock.

1.02 "Affiliate" means any company which is a member of a controlled group of corporations (as defined in Section 414(b) of the Code) which also includes as a member the Company; any trade, or business under common control (as defined in Section 414(c) of the Code) with the Company; any organization (whether or not incorporated) which is a member of an affiliated service group (as defined in Section 414(m) of the Code) which includes the Company; and any other entity required to be aggregated with the Company pursuant to regulations under Section 414(o) of the Code. Notwithstanding the foregoing, for purposes of Sections 1.27 and 3.03, the definitions in Sections 414(b) and (c) of the Code shall be modified by substituting the phrase "more than 50 percent" for the phrase "at least 80 percent" each place it appears in Section 1563(a)(1) of the Code.

1.03 "Annual Dollar Limit" means \$150,000, as adjusted from time to time for cost of living in accordance with Section 401(a)(17)(B) of the Code.

1.04 "Annuity Starting Date" means the first day of the first period for which an amount is paid following a Member's retirement or other termination of employment.

1.05 "Beneficiary" means any person, persons or entity designated by a Member to receive any benefits payable in the event of the Member's death. However, a married Member's spouse shall be the Member's Beneficiary unless or until he or she elects another Beneficiary with Spousal Consent. If no Beneficiary designation is in effect at the Member's death, or if no person, persons or entity so designated survives the Member, the Member's surviving spouse, if any, shall be deemed to be the Beneficiary; otherwise the Beneficiary shall be the personal representative of the estate of the Member.

1.06 "Board of Directors" means the Board of Directors of the Company or any authorized committee thereof.

1.07 "Break in Service" means an event affecting forfeitures, which shall occur when an Employee is credited with less than 500 Hours of Service in any Plan Year. However, if an employee is absent from work immediately following his or her active employment, irrespective of whether the employee's employment is terminated, because of the employee's pregnancy, the birth of the employee's child, the placement of a child with the employee in connection with the adoption of that child by the employee or for purposes of caring for that child for a period beginning immediately following that birth or placement, a Break in Service shall occur only if the Member does not return to work within one (1) year of the date he or she began his or her leave from active employment for the above-stated reasons. A Break in Service shall not occur during an approved leave of absence or during a period of military service that is included in the Employee's Vesting Service pursuant to Section 1.33.

1.08 "Code" means the Internal Revenue Code of 1986, as amended from time to time.

1.09 "Committee" means the persons named by the Board of Directors to administer and supervise the Plan as provided in Article 9.

1.10 "Company" means Farmer Bros. Co..

1.11 "Company Stock" means the shares of common stock of the Company or shares of preferred or preference stock of the Company that are convertible into such common stock provided that, in either event, such stock is an "employer security" within the meaning of Section 409(l) of the Code.

1.12 "Compensation" means wages as defined under Section 3401(a) of the Code (for purposes of income tax withholding at the source), but determined without regard to any rules under Section 3401(a) of the Code that limit the remuneration included in wages based on the nature or location of the employment or the services performed. However, notwithstanding the foregoing, for purposes of this Plan, Compensation shall: (a) include any salary deferral reductions pursuant to Section 401(k) of the Code or pursuant to a cafeteria plan as defined in Section 125 of the Code; (b) any imputed income for automobile allowance or company-paid life insurance for the Member (including amounts for which the Employer or Affiliated Employer is required to furnish a written statement pursuant to Section 6052 of the Code); (c) not exceed the maximum statutory Annual Dollar Limit.

1.13 "Disability" means total and permanent physical or mental disability, as determined under the Company's long-term disability program as in effect from time to time.

1.14 "Effective Date" means January 1, 2000.

1.15 "Eligible Employee" means an employee regularly employed by an Employer who receives stated compensation other than a pension, severance pay, retainer, or fee under contract; however, the term "Eligible Employee" excludes (a) any person who is included in a unit of employees covered by a collective bargaining agreement which does not provide for his or her membership in the Plan, (b) any non-resident alien with no US-source income. In addition, any person classified as an independent contractor or consultant by the Employer shall, during such period, be excluded from the definition of Eligible Employee, regardless of such person's reclassification for such period by the Internal Revenue Service for tax withholding purposes. The term "Employee" as used in this Plan means any individual who is employed by the Employer or an Affiliate as a common law employee of the Employer or Affiliate, regardless of whether the individual is an "Eligible Employee," and any Leased Employee.

1.16 "Employee" means an individual employed by an Employer or an Affiliate, or a Leased Employee.

1.17 "Employer" means the Company or any successor by merger, purchase or otherwise, with respect to its employees; or any other company participating in the Plan as provided in Section 12.03, with respect to its employees.

1.18 "Employer Contributions" means all amounts contributed pursuant to Section 3.01 of the Plan.

1.19 "Employment Commencement Date" means the first day of employment of an Employee by an Employer and the first day of reemployment of an Employee by an Employer following such Employee's Break in Service.

1.20 "ERISA" means the Employee Retirement Income Security Act of 1974, as amended from time to time.

1.21 "Financed Shares" means shares of Company Stock, whether allocated or unallocated, which have been purchased by means of an Exempt Loan.

1.22 "Hour of Service" means, with respect to any applicable computation period,

(a) each hour for which the employee is paid or entitled to payment for the performance of duties for the Employer or an Affiliate;

(b) each hour for which the employee is paid or entitled to payment by the Employer or an Affiliate on account of a period during which no duties are performed, whether or not the employment relationship has terminated, due to vacation, holiday, illness,

incapacity (including disability), layoff, jury duty, military duty or leave of absence, but not more than 501 hours for any single continuous period; and

(c) each hour for which back pay, irrespective of mitigation of damages, is either awarded or agreed to by the Employer or an Affiliate, excluding any hour credited under (a) or (b), which shall be credited to the computation period or periods to which the award, agreement or payment pertains rather than to the computation period in which the award, agreement or payment is made.

No hours shall be credited on account of any period during which the employee performs no duties and receives payment solely for the purpose of complying with unemployment compensation, workers' compensation or disability insurance laws. The Hours of Service credited shall be determined as required by Title 29 of the Code of Federal Regulations, Sections 2530.200b-2(b) and (c). Notwithstanding the forgoing, solely to the extent required by law, an employee who is absent from employment because of an authorized leave of absence under the Family and Medical Leave Act of 1993 shall receive credit for Hours of Service during such absence.

1.23 "Leased Employee" means any person performing services for the Employer or an Affiliate as a leased employee as defined in Section 414(n) of the Code. In the case of any person who is a Leased Employee before or after a period of service as an Eligible Employee, the entire period during which he or she has performed services as a Leased Employee shall be counted as service as an Eligible Employee for all purposes of the Plan, except that he or she shall not, by reason of that status, become a Member of the Plan.

1.24 "Member" means any person included in the membership of the Plan as provided in Article 2.

1.25 "Plan" means the Farmer Bros. Co. Employee Stock Ownership Plan, as set forth in this document or as amended from time to time.

1.26 "Plan Year" means the 12-month period beginning on any January 1.

1.27 "Retirement" means termination of employment from an Employer and all Affiliates after the earlier of (a) attainment of age 65 or (b) attainment of age 55 and completion of ten (10) years of Vesting Service.

1.28 "Severance Date" means the earlier of (a) the date an Employee quits, retires, is discharged or dies, or (b) the last day of an authorized leave of absence, or if later, the first anniversary of the date on which an Employee is first absent from service, with or without pay, for any reason such as vacation, sickness, disability, layoff or leave of absence.

1.29 "Suspense Account" means the account comprised of unallocated shares of Company Stock maintained in accordance with Section 5.03.

1.30 "Spousal Consent" means the written consent of a Member's spouse to the Member's designation of a specified Beneficiary. The spouse's consent shall be witnessed by a Plan representative or notary public. The consent of the spouse shall also acknowledge the effect on him or her of the Member's election. The requirement for spousal consent may be waived by the Committee if it believes there is no spouse, that the spouse cannot be located, that a legal separation has occurred, or because of such other circumstances as may be established by applicable law.

1.31 "Trust" or "Trust Fund" means the fund established by the Board of Directors as part of the Plan into which contributions are to be made and from which benefits are to be paid in accordance with the terms of the Plan.

1.32 "Trustee" means the trustee or trustees holding the funds of the Plan as provided in Article 10.

1.33 "Valuation Date" means the last business day of each calendar quarter.

1.34 "Vesting Service" means the summation of the Years of Service an Employee has been credited since the Employee's hire date. An Employee shall earn (1) Year of Service for each Plan Year during which he/she is credited with at least one thousand (1,000) Hours of Service.

Notwithstanding the forgoing, the following apply for purposes of crediting vesting within this section:

(a) If an Employee is absent from the service of the Employer or any Affiliate because of service in the Armed Forces of the United States and he or she returns to service with the Employer, or an Affiliate, having applied to return while his or her reemployment rights were protected by law, the absence shall be included in his or her Vesting Service;

(b) If an Employee's employment terminates after he or she has vested in his or her Account pursuant to Section 6.01 and he or she is reemployed, his or her Vesting Service after reemployment shall be aggregated with his or her previous period or periods of Vesting Service;

(c) If an Employee terminates service before he or she has vested in his or her Account pursuant to Section 6.01 and he or she is reemployed after he or she has incurred a Break in Service, his or her Vesting Service after reemployment shall be aggregated with his or her previous period or periods of Vesting Service (other than Vesting Service not required to be aggregated pursuant to this paragraph (c) by reason of a prior termination of employment) if the date of such reemployment is prior to the date as of which such Employee had incurred five (5) consecutive Breaks in Service.

## ARTICLE 2. MEMBERSHIP

### 2.01 Membership

Each Eligible Employee shall become a Member on the Plan's Effective Date as long as he or she is at least age eighteen (18). Each other Eligible Employee shall be eligible to become a Member on the first day of the Plan Year coinciding with or immediately following the date he or she has attained his or her 18th birthday, provided he or she is an Eligible Employee.

### 2.02 Reemployment of Former Eligible Employees and Former Members

Any person reemployed by the Employer as an Eligible Employee, who was previously a Member or who was previously eligible to become a Member, shall become a Member immediately upon reemployment. Any person reemployed by the Employer as an Eligible Employee, who was not previously eligible to become a Member, shall become a Member upon completing the eligibility requirements described in Section 2.01.

### 2.03 Transferred Members

Notwithstanding any provision of the Plan to the contrary, a Member who remains in the employ of the Employer or an Affiliate but ceases to be an Eligible Employee shall continue to be a Member of the Plan but shall only be eligible to receive allocations of Employer Contributions with respect to Compensation.

### 2.04 Termination of Membership

A Member's membership shall terminate on his or her Severance Date unless he or she is entitled to benefits under the Plan, in which event his or her membership shall terminate when those benefits are distributed to him or her in full.

## ARTICLE 3. CONTRIBUTIONS

### 3.01 Employer Contributions

(a) The Employer may make Employer Contributions to the Plan on account of any Plan Year, in Company Stock or cash, in the manner and amount to be determined by the Board of Directors. Employer Contributions shall be made on behalf of each Member who (i) is an Eligible Employee on the last day of the Plan Year and who completed at least 1,000 Hours of Service during such Plan Year; and (ii) is an Eligible Employee who terminated employment during such Plan Year by reason of death, Disability, or Retirement. At the time of determining an Employer Contribution for a Plan Year, the Board of Directors may specify a target percentage of Compensation with respect to allocations for such Plan Year. In no event, however, shall the Employer Contributions for any Plan Year exceed the maximum amount deductible from the Employer's income for that Plan Year under Section 404(a)(3)(A) of the Code or any statute of similar import. The Employer Contributions shall be paid to the Fund no later than the time (including extensions) prescribed by law for the filing of the Employer's federal income tax return for the year for which the contributions are made.

(b) Except as provided in Section 5.04, shares of Company Stock released from the Suspense Account for that Plan Year and any Employer Contributions for that Plan Year not used to repay an Exempt Loan shall be allocated as of the last Valuation Date (or such earlier



Valuation Date as the Committee shall determine) in the Plan Year to the Accounts of Members on behalf of whom contributions were made for that Plan Year pursuant to paragraph (a), in the ratio that the Compensation each such Member bears to the total Compensation of all such Members for the Plan Year, subject to the limitations described in Section 3.03. In no event shall more than one-third of the Employer Contributions to the Plan be allocated to Members who are highly compensated employees as defined in Section 414(q) of the Code.

(c) Notwithstanding paragraphs (a) and (b) above, each Employer may make an additional Employer Contribution to the Plan, in Company Stock or cash, at a time and in an amount determined by the Board of Directors. Such contribution, or shares of Company Stock released from the Suspense Account by reason of the use of such contribution to repay an Exempt Loan, shall be allocated to the Accounts of Members who were entitled to an allocation under paragraph (b) for the preceding Plan Year and who terminated employment during the period beginning with the first day of the Plan Year in which such additional contribution is made and ending on a date specified by the Board of Directors at the time of determining the additional contribution, to such Members who have not terminated service in an amount which, when added to the initial allocation for the preceding Plan Year, results in a total allocation for such Plan Year equal to the target percentage of each such Member's Compensation for the preceding Plan Year which had been specified by the Board of Directors when determining the Employer Contribution under paragraph (a). Any allocation of an additional contribution made pursuant to this paragraph (c) shall be made as of the last Valuation Date in the Plan Year preceding the Plan Year in which such contribution is made unless otherwise specified by the Board of Directors, shall be subject to the limitation of Section 3.02, and shall comply with the last sentence of paragraph (b).

### 3.02 Member Contributions

No Member shall be required or permitted to make any contributions under this Plan.

### 3.03 Maximum Annual Additions

(a) The annual addition to a Member's Account for any Plan Year, which shall be considered the "limitation year" for purposes of Section 415 of the Code, when added to the Member's annual addition for that Plan Year under any other qualified defined contribution plan of the Employer or an Affiliate, shall not exceed an amount which is equal to the lesser of (i) 25 percent of his or her aggregate remuneration for that Plan Year or (ii) \$30,000, as adjusted pursuant to Section 415(d) of the Code.

(b) For purposes of this Section, the "annual addition" to a Member's Account under this Plan or any other qualified defined contribution plan (including a deemed qualified defined contribution plan under a qualified defined benefit plan) maintained by the Employer or an Affiliate shall be the sum of:

- (i) the total contributions made on the Member's behalf by the Employer and all Affiliates,
- (ii) all Member contributions, exclusive of any rollover contributions, and
- (iii) forfeitures,
- (iv) amounts described in Sections 415(l)(1) and 419A(d)(2) allocated to the Member;

(c) For purposes of this Section, the term "remuneration" with respect to any Member shall mean the wages, salaries and other amounts paid in respect of such Member by the Employer or an Affiliate for personal services actually rendered, and shall include amounts contributed by the Employer pursuant to a salary reduction agreement which are not includible in the gross income of the employee under Section 125, 402(g) or 457 of the Code, but shall exclude deferred compensation, stock options and other distributions which receive special tax benefits under the Code.

(d) In the event that the Committee determines that the allocation of a contribution would cause the restriction imposed by paragraph (a) to be exceeded, allocations shall be reduced in the following order, but only to the extent necessary to satisfy such restrictions:

- (i) first, the annual additions under any other qualified defined contribution plan maintained by an Employer or an Affiliate;
- (ii) second, the annual additions under this Plan.

(e) If the annual addition to a Member's Account for any Plan Year, prior to the application of the limitation set forth in paragraph (a) above, exceeds that limitation due to a reasonable error in

estimating a Member's annual compensation or in determining the amount of Employer Contributions that may be made with respect to a Member under Section 415 of the Code, or as the result of the allocation of forfeitures, the amount of contributions credited to the Member's Account in that Plan Year shall be adjusted to the extent necessary to satisfy that limitation in accordance with the following order of priority:

- (i) first, the annual additions under any other qualified defined contribution plan maintained by an Employer or an Affiliate;
- (ii) second, the annual additions under this Plan.

If it becomes necessary to make an adjustment in annual additions to a Member's Account under this Plan, either because of the limitations as applied to this Plan alone or as applied to this Plan in combination with another plan, the excess annual addition under this Plan with respect to the affected Member shall be reallocated proportionately in the same manner as Employer Contributions are allocated to the Accounts of other Members until the annual addition to the Account of each Member reaches the limits of Section 415 of the Code. If such limits are reached and there are remaining excess Employer Contributions, such contributions shall be placed in an unallocated Suspense Account and allocated in subsequent years before any Employer Contributions are made.

#### 3.04 Return of Contributions

(a) If all or part of the Employer's deductions for contributions to the Plan are disallowed by the Internal Revenue Service, the portion of the contributions to which that disallowance applies shall be returned to the Employer without interest but reduced by any investment loss attributable to those contributions, provided that the contribution is returned within one year after the disallowance of deduction. For this purpose, all contributions made by the Employer are expressly declared to be conditioned upon their deductibility under Section 404 of the Code.

(b) The Employer may recover without interest the amount of its contributions to the Plan made on account of a mistake of fact, reduced by any investment loss attributable to those contributions, if recovery is made within one year after the date of those contributions.

### ARTICLE 4. VALUATION OF THE ACCOUNTS

#### 4.01 Investment of the Trust Fund

(a) Except to the extent used to repay an Exempt Loan, Employer Contributions to the Plan shall be invested in shares of Company Stock. Consistent with the Plan's status as an employee stock ownership plan under Section 4975(e)(7) of the Code, the Trustee may keep such amounts of cash, securities or other property as it, in its sole discretion, shall deem necessary or advisable as part of the Trust Fund, all within the limitations specified in the trust agreement.

(b) Dividends, interest, and other distributions received on the assets held by the Trustee in respect to the Trust Fund shall be reinvested in the Trust Fund, except as otherwise may be provided in Article 5 with respect to dividends on Company Stock.

#### 4.02 Valuation of the Trust Fund

The Trustee shall value the Trust Fund at least annually. On each Valuation Date there shall be allocated to the Account of each Member his or her proportionate share of the increase or decrease in the fair market value of his or her Account in the Trust Fund. Whenever an event requires a determination of the value of the Member's Account, the value shall be computed as of the Valuation Date coincident with or immediately following the date of determination, subject to the provisions of Section 4.03.

#### 4.03 Right to Change Procedures

The Committee reserves the right to change from time to time the procedures used in valuing the Account or crediting (or debiting) the Account if it determines, after due deliberation and upon the advice of counsel and/or the current recordkeeper, that such an action is justified in that it results in a more accurate reflection of the fair market value of assets. In the event of a conflict between the provisions of this Article and such new administrative procedures, those new administrative procedures shall prevail.

#### 4.04 Statement of Account

At least once a year, each Member shall be furnished with a statement setting forth the value of his or her Account and the Vested Portion

of his or her Account.

#### 4.05 Plan Expenses

To the extent the Company does not choose to pay for them, all routine Plan administrative expenses for such services as account recordkeeping, required audits and governmental filings shall be paid by the Plan.

### ARTICLE 5. ACQUISITION OF COMPANY STOCK WITH PROCEEDS OF AN EXEMPT LOAN

#### 5.01 Purchase of Company Stock

(a) The Plan is an employee stock ownership plan (an "ESOP"), which is designed to invest primarily in qualified employer securities. The Board of Directors, in its discretion, may direct the Trustee to acquire Company Stock with the proceeds of an Exempt Loan.

(b) Company Stock acquired by the Trustee hereunder may be purchased on an established securities market, from the Company or from any other person or entity. However, Company Stock acquired from a "disqualified person," as defined in Section 4975(e)(2) of the Code, may not be purchased at a price in excess of "adequate consideration," as defined in Section 3(18) of ERISA.

#### 5.02 Exempt Loan

An Exempt Loan shall be used primarily for the benefit of Members and their Beneficiaries, shall be for a specific term, shall bear a reasonable rate of interest, and shall not be payable on demand, except in the event of default. In the event of default, the value of Plan assets transferred in satisfaction of the Exempt Loan shall not exceed the amount of default. An Exempt Loan may be secured by a collateral pledge of the Company Stock acquired with the proceeds of such loan, contributions (other than contributions of Company Stock) that are made under the ESOP to meet its obligations under the Exempt Loan and earnings attributable to such collateral and the investment of such contributions, but no other assets of the Trust may be pledged as collateral for the Exempt Loan and no lender shall have recourse against any assets of the Trust, except to the extent permitted under Reg. 54.4975-7(b)(5). Any pledge of Company Stock shall provide for the release of shares so pledged on a pro rata basis as principal and interest on the Exempt Loan are repaid by the Trustee; provided however, that an alternative method of releasing such stock from encumbrance may be utilized if permitted by applicable regulations under Section 4975 of the Code and the Committee adopts such method. Such stock shall be allocated as provided in Section 3.01(b).

#### 5.03 Suspense Account; Dividends on Unallocated Stock

(a) Company Stock acquired with the proceeds of an Exempt Loan shall be held in the Suspense Account and shall be allocated to the Members' Accounts based on the release of Company Stock from the Suspense Account. During the term of the Exempt Loan, a number of shares of Company Stock shall be released per Plan Year equal to the number of shares in the Suspense Account multiplied by a fraction, the numerator of which shall be the amount of principal and interest paid by the Trustee on the Exempt Loan for the Plan Year, and the denominator of which shall be the sum of the numerator and the aggregate principal and interest to be paid by the Trustee on the Exempt Loan for all future Plan Years; provided however, that an alternative method of releasing such stock from encumbrance may be utilized if permitted by applicable regulations under Section 4975 of the Code and the Committee adopts such method. For this purpose, the number of future years under the Exempt Loan must be definitely ascertainable and must be determined without taking into account any possible extensions or renewal periods. If the interest rate under the Exempt Loan is variable, the interest to be paid in future years shall be computed by using the interest rate applicable as of the end of the calendar year. Shares may also be released from the Suspense Account more frequently than annually, provided in such event that the total number of shares of Company Stock released during a Plan Year shall not be less than the number of shares that would have been released from the Suspense Account during such Plan Year if such release had occurred on an annual basis.

(b) Any cash dividends received by the Trustee on shares of Company Stock held in the Suspense Account shall be applied to the payment of any outstanding obligations of the Trust under any Exempt Loan (and shall be invested in an interest bearing or other fixed income investment pending such payment) unless in the sole discretion of the Committee, the Trustee is directed to use such dividends to buy additional shares of Company Stock. Any shares of Company Stock released from

the Suspense Account due to application of such dividends to the repayment of an Exempt Loan or purchased using such dividends shall be allocated to Members' Accounts on the basis set forth in Section 3.01(b).

#### 5.04 Dividends on Allocated Shares

Unless, in the sole discretion of the Committee, the Trustee is directed that dividends that are payable with respect to Company Stock that is allocated to a Member's Account may be (a) accumulated in the Member's Account and used to buy additional Company Stock, (b) paid directly to the Member in cash (to the extent such direct payment may be effectuated), or (c) paid to the Trust and distributed by the Trustee in cash to the Member not later than 90 days after the close of the Plan Year in which paid to the Trust, then such dividends shall be applied to the payment of outstanding obligations of the Trust under any Exempt Loan; provided however, that this provision shall only be effective if Company Stock with a fair market value not less than the amount of dividends so applied is allocated to the Member's Account for the Plan Year in which the dividends were paid to the Trust. The excess, if any, of the fair market value of Company Stock released from the Suspense Account by reason of the application of dividends described in this Section 5.04 over the fair market value of Company Stock allocated to a Member's Account pursuant to the proviso in the immediately preceding sentence shall be allocated among Members' Accounts on the basis set forth in Section 3.01(b).

### ARTICLE 6. VESTED PORTION OF ACCOUNTS

#### 6.01 Vesting Schedule

(a) A Member shall be vested in, and have a nonforfeitable right to, his or her Account upon completion of five years of Vesting Service

(b) Notwithstanding the foregoing, a Member shall be 100 percent vested in, and have a nonforfeitable right to, his or her Account upon death, Disability, or the later of the attainment of his or her 55th birthday or the tenth anniversary of the date he or she becomes a Member.

#### 6.02 Disposition of Forfeitures

Upon termination of employment of a Member who was not vested in his or her Account, his or her Account shall be forfeited. The Member shall be deemed to have received a distribution of the zero vested benefit upon his or her termination of employment. If the former Member is reemployed by the Employer or an Affiliate before incurring a period of Break in Service of five years, his or her Account shall be restored. The Committee shall direct the Trustee to apply any amounts forfeited pursuant to this Section to (a) restore amounts previously forfeited by the Member but required to be reinstated upon resumption of employment, (b) reduce Employer contributions, or (c) reallocate to Members in the same manner as contributions under Section 3.01(b). If forfeitures arising during any Plan Year are insufficient to restore forfeited amounts to the Accounts of Members pursuant to this Section 6.02, the Employer shall contribute the balance required for that purpose.

### ARTICLE 7. DISTRIBUTION AND TRANSFERS OF ACCOUNT

#### 7.01 Eligibility

(a) Upon a Member's termination of employment, the vested portion of his or her Account, as determined under Article 6, shall be distributed as provided in this Article.

(b) An eligible Member may, in accordance with Section 7.04, request a transfer or distribution, whichever is applicable, from his or her Account, whether or not he or she has terminated employment.

#### 7.02 Time of Distribution

(a) Except as otherwise provided in this Article, distribution of the vested portion of a Member's Account shall commence as soon as administratively practicable, but no more than ninety (90) days, following the later of (i) the last day of the Plan Year in which a Member incurs a Break in Service or (ii) the Member's 65th birthday (but not more than ninety (90) days after the close of the Plan Year in which the later of (b)(i) or (b)(ii) occurs).

(b) A Member whose employment is terminated for any reason shall be entitled, upon written request, in accordance with procedures established by the Committee, to receive distribution of the entire vested interest in the Member's Account in accordance with either this Section 7.02 or Section 7.06. If the value of the vested

portion of a Member's Account exceeds \$5,000 and he or she does not consent in writing within 60 days (or such other period prescribed by the Committee) of his or her Severance Date to an immediate distribution to be made as soon thereafter as administratively practicable, distribution of the vested interest in the Member's Account shall be made as soon as practicable following the Valuation Date coincident with or immediately following the earliest of:

- (i) receipt of the Committee at least sixty (60) days (or such other period prescribed by the Committee) prior to such Valuation Date of the Member's written request for payment;
- (ii) the Member's attainment of age 65; or
- (iii) the Member's death.

In the event an allocation of Employer Contributions and/or forfeitures is made to the Member's Account pursuant to Article 3 or Article 6 following the date on which a distribution is made hereunder, distribution of such contributions and/or forfeitures shall be made to the Member or Beneficiary in a single sum as soon as practicable following the date on which such allocation is made.

(c) In the case of the death of a Member before the distribution of his or her Accounts, the Vested Portion of his or her Accounts shall be distributed to the Member's Beneficiary as soon as administratively practicable following the Valuation Date coincident with or next following the Member's date of death.

(d) The amount of a distribution made pursuant to this Section 7.02 shall be determined as of the applicable Valuation Date preceding the actual date of payment.

#### 7.03 Form and Manner of Distribution

(a) Distributions shall be paid in a single sum consisting of shares of Company Stock or cash, at the election of the Member or his or her Beneficiary. Unless the Member or Beneficiary elects to receive the distribution in Company Stock, such distribution shall be paid entirely in cash. If the distribution is made in Company Stock, any unpaid dividends which may be due and any balance in the Account representing fractional shares will be paid in cash. If the distribution is to be made in cash, the Trustee will, as soon as practicable after the Valuation Date following its receipt of notice of such distribution, sell the shares held in the Member's Account. Such Member or Beneficiary shall thereafter receive, entirely in cash, the proceeds of such sale, plus an additional cash amount representing fractional shares and any dividends that may be due.

(b) Shares of Company Stock distributed to Members pursuant to Section 7.03(a) that at the time of such distribution are not readily tradable on an established market shall be subject to a put option which shall permit the Member to sell such stock to the Company at any time during two option periods at the fair market value of such shares (as of the most recent Valuation Date). The first period shall be for at least 60 days beginning on the date of distribution.

The second period shall be for at least 60 days beginning on the first Valuation Date in the calendar year following the year in which the distribution was made. The Company or the Committee may direct the Trustee to purchase shares tendered to the Company under a put option. Payment for any shares of stock sold under a put option shall be made in a lump sum or in substantially equal annual installments over a period not exceeding five years, with interest payable at a reasonable rate (as determined by the Committee). Except as may be permitted under applicable law or regulations, the rights of a distributee of Company Stock under this Section 7.02(b) shall survive the repayment of any relevant Exempt Loan, the termination of the Plan, and any amendment of the Plan.

(c) Notwithstanding the preceding and at the discretion of the Committee, any portion of a Member's vested Account which consists of financed shares shall not be distributed until any outstanding Exempt Loan has been completely repaid.

#### 7.04 Diversification of Account

(a) Each eligible Member (including each former Employee of an Employer) may make an annual election to transfer his or her Account to a plan designated for such purpose by the Committee. The election to effect such transfer shall be granted with respect to a period of six Plan Years ("Election Period") commencing with the Plan Year in which occurs the later of the Member's attainment of age 55 or the Member's completion of ten years of participation in the Plan. For each Plan Year within the Member's Election Period a Member may elect, within 90 days of the close of such Plan Year, to transfer all or a portion of his or her Account which is subject to this Section 7.04

("Diversification Amount"). The amount in the Account subject to this Section 7.04 shall be the excess of (i) over (ii) as follows:

(i) 25% of the sum of (A) the balance of the Member's Account, determined as of the close of such Plan Year, and (B) the distributions received by and transfers made as result of his or her prior elections (provided that "50%" shall be substituted for "25%" for his or her final election within the Election Period), minus

(ii) the distribution received by and transfers made by the Member pursuant to his or her prior elections.

(b) Notwithstanding section 7.04(a) above, the Committee may allow Members the following diversification options in lieu of transfer to another plan:

(i) Transfer the Diversification Amount to an individual retirement account (IRA);

(ii) Reallocate, at the discretion of the Member, the Diversification Amount among at least three (3) alternate investment options as chosen by the Committee for this purpose; or

(iii) Distribute the Diversification Amount in a single lump sum payment directly to the Member.

(c) If a Member elects to receive or have transferred an amount described in paragraph (a) or (b) above, such distribution or transfer shall be made within 90 days after the close of the applicable annual Election Period.

#### 7.05 Age 70.5 Required Distribution

(a) Notwithstanding any provision of the Plan to the contrary, if a Member is a 5-percent owner (as defined in Section 416(i) of the Code), distribution of the Member's Account shall begin no later than the April 1 following the calendar year in which he or she attains age 70.5. No minimum distribution payments will be made to a Member under the provisions of Section 401(a)(9) of the Code, if the Member is not a 5-percent owner as defined above. However, if a Member who is not a 5-percent owner (as defined in Section 416(i) of the Code) attains age 70.5 prior to January 1, 2000 and remains in service after the April 1 following the calendar year in which he or she or she attains age 70.5, he or she may elect to have the provisions of paragraph (b) apply as if the Member was a 5-percent owner. Such election shall be made in accordance with such administrative procedures as the Committee shall prescribe.

(b) In the event a Member is required to begin receiving payments while in service under the provisions of paragraph (a) above, the Member may elect to receive payments while in service in accordance with option (i) or (ii), as follows:

(i) A Member may receive one lump sum payment on or before the Member's required beginning date equal to his or her entire Account balance and annual lump sum payments thereafter of amounts accrued during each calendar year; or

(ii) A Member may receive annual payments of the minimum amount necessary to satisfy the minimum distribution requirements of Section 401(a)(9) of the Code. Such minimum amount will be determined on the basis of the joint life expectancy of the Member and his or her Beneficiary. Such life expectancy will be recalculated once each year; however, the life expectancy of the Beneficiary will not be recalculated if the Beneficiary is not the Member's spouse.

An election under this Section shall be made by a Member by giving written notice to the Committee within the 90 day period prior to his or her required beginning date. The commencement of payments under this Section shall not constitute an Annuity Starting Date for purposes of Sections 72, 401(a)(11) and 417 of the Code. Upon the Member's subsequent termination of employment, payment of the Member's Account shall be made in accordance with the provisions of Section 7.02. In the event a Member fails to make an election under this Section, payment shall be made in accordance with clause (ii) above.

#### 7.06 Small Benefits

Notwithstanding any provision of the Plan to the contrary, a lump sum payment shall be made in lieu of all vested benefits if the value of the Vested Portion of the Member's Account as of his or her termination of employment amounts to \$5,000 or less. The lump sum payment shall automatically be made as soon as administratively practicable following the Member's termination of employment but not later than ninety (90) days after the Plan Year end in which he or she incurs a Break in Service.

**7.07 Status of Account Pending Distribution**

Until completely distributed under Section 7.03 or 7.05, the Account of a Member who is entitled to a distribution shall continue to be invested as part of the funds of the Plan.

**7.08 Proof of Death and Right of Beneficiary or Other Person**

The Committee may require and rely upon such proof of death and such evidence of the right of any Beneficiary or other person to receive the value of the Account of a deceased Member as the Committee may deem proper and its determination of the right of that Beneficiary or other person to receive payment shall be conclusive.

**7.09 Distribution Limitation**

Notwithstanding any other provision of this Article 7, all distributions from this Plan shall conform to the regulations issued under Section 401(a)(9) of the Code, including the incidental death benefit provisions of Section 401(a)(9)(G) of the Code. Further, such regulations shall override any Plan provision that is inconsistent with Section 401(a)(9) of the Code.

**7.10 Direct Rollover of Certain Distributions**

Notwithstanding any provision of the Plan to the contrary that would otherwise limit a distributee's election under this Section, a distributee may elect, at the time and in the manner prescribed by the Committee, to have any portion of an eligible rollover distribution paid directly to an eligible retirement plan specified by the distributee in a direct rollover. The following definitions apply to the terms used in this Section:

(a) "Eligible rollover distribution" means any distribution of all or any portion of the balance to the credit of the distributee, except that an eligible rollover distribution does not include any distribution that is one of a series of substantially equal periodic payments (not less frequently than annually) made for the life (or life expectancy) of the distributee or the joint lives (or joint life expectancies) of the distributee and the distributee's designated beneficiary, or for a specified period of ten years or more, any distribution to the extent such distribution is required under Section 401(a)(9) of the Code, and the portion of any distribution that is not includible in gross income (determined without regard to the exclusion for net unrealized appreciation with respect to employer securities);

(b) "Eligible retirement plan" means an individual retirement account described in Section 408(a) of the Code, an individual retirement annuity described in Section 408(b) of the Code, an annuity plan described in Section 403(a) of the Code, or a qualified trust described in Section 401(a) of the Code, that accepts the distributee's eligible rollover distribution. However, in the case of an eligible rollover distribution to the surviving spouse, an eligible retirement plan is an individual retirement account or individual retirement annuity;

(c) "Distributee" means an employee or former employee. In addition, the employee's or former employee's surviving spouse and the employee's or former employee's spouse or former spouse who is the alternate payee under a qualified domestic relations order as defined in Section 414(p) of the Code, are distributees with regard to the interest of the spouse or former spouse; and

(d) "Direct rollover" means a payment by the Plan to the eligible retirement plan specified by the distributee.

**7.11 Waiver of Notice Period**

Except as provided in the following sentence, if the value of the vested portion of a Member's Account exceeds \$5,000, an election by the Member to receive a distribution prior to age 65 shall not be valid unless the written election is made (a) after the Member has received the notice required under Section 1.411(a)-11(c) of the Income Tax Regulations and (b) within a reasonable time before the effective date of the commencement of the distribution as prescribed by said regulations. If such distribution is one to which Sections 401(a)(11) and 417 of the Code do not apply, such distribution may commence less than 30 days after the notice required under Section 1.411(a)-11(c) of the Income Tax Regulations is given, provided that:

(i) the Committee clearly informs the Member that he or she has a right to a period of at least 30 days after receiving the notice to consider the decision of whether or not to elect a distribution (and, if applicable, a particular distribution option), and

(ii) the Member, after receiving the notice under Sections 411 and 417, affirmatively elects a distribution.

## ARTICLE 8. VOTING

### 8.01 Voting Company Stock

(a) Notwithstanding any other provision of this Plan to the contrary, if any, but subject to the provisions of this Article, the Trustee shall have no discretion or authority to vote Company Stock held in the trust by the Trustee on any matter presented for a vote by the stockholders of the Company except in accordance with timely directions received by the Trustee from Members who have Company Stock allocated to their Accounts under the Plan. Each Member who has allocated Company Stock shall, as the named fiduciary for this purpose, direct the Trustee with respect to the vote of the Company Stock allocated to the Member's Account and the Trustee shall follow the directions of those Members who provide timely instructions to the Trustee.

(b) With respect to Company Stock held in the Trust by the Trustee but not allocated to the Accounts of Members the Trustee, subject to Section 9.02, shall have no authority or discretion to vote such Company Stock on any matter presented for a vote by the stockholders of the Company, except in accordance with timely directions received by the Trustee from the Committee. In addition, with respect to Company Stock allocated to the Accounts of Members for which no instructions are received, the Trustee shall vote any such Company Stock in accordance with timely direction received by the Trustee from the Committee upon a demonstration of prior notice having been made to the Members to the effect that any allocated Company Stock for which no instructions are given by the Members shall be voted by the Committee.

(c) In the event a court of competent jurisdiction shall issue any order or any opinion to the Plan, the Company or the Trustee, which shall, in the opinion of counsel to the Company or the Trustee, invalidate under ERISA, in all circumstances or in any particular circumstances, any provision or provisions of this Section 8.01 regarding the manner in which Company Stock held in the Trust shall be voted or cause any such provisions or provision to conflict with ERISA, then, upon notice thereof to the Company or the Trustee, as the case may be, such invalid or conflicting provisions of this Section 8.01 shall be given no further force or effect. In such circumstances the Trustee shall nevertheless have no discretion to vote allocated shares of Company Stock held in the Trust unless required under such order or opinion but shall follow instructions received from Members and not invalidated.

(d) In the event that any option, right, warrant, or similar property derived from or attributable to the ownership of the Company Stock allocated to Members shall be granted, distributed, or otherwise issued which is and shall become exercisable, each Member (or Beneficiary) shall be entitled to direct the Trustee, in writing, to sell, exercise, distribute, or retain any such option, right, warrant, or similar property. The securities acquired by the Trustee upon such exercise shall be held in a special account or accounts. For all Plan purposes, all options, rights, warrants, or similar property described in this paragraph (d) of Section 8.01 hereof, shall be treated as income added to the appropriate Accounts of Members (or Beneficiaries). If, within a reasonable period of time after the form soliciting direction from a Member (or Beneficiary), has been sent, no written directions shall have been received by the Trustee from such Member (or Beneficiary), the Trustee shall, in its sole discretion, sell, exercise, or retain and keep unproductive of income such option, right, warrant, or similar property for which no response has been received from such Member (or Beneficiary) and also for options, rights, warrants, or similar property derived from, or attributable to, the ownership of Company Stock not yet allocated to any Member's (or Beneficiary's) Account.

(e) The Trustee shall, in accordance with timely directions received by the Trustee from the Committee in its sole discretion, sell, exercise, or retain and keep unproductive of income such option, right, warrant, or similar property attributable to unallocated Company Stock held in the Suspense Account.

### 8.02 Shareholder Communication

Notwithstanding anything to the contrary in this Article 8, the Company shall make any and all communications or distributions required under the Shareholder Communications Act of 1985 and any rules thereunder.



## ARTICLE 9. ADMINISTRATION OF PLAN

### 9.01 Appointment of Committee

The general administration of the Plan, including without limitation, voting rights described in Article 8, and the responsibility for carrying out the provisions of the Plan shall be placed in a Committee of not less than three persons appointed from time to time by the Board of Directors to serve at the pleasure of the Board of Directors. Any person who is appointed a member of the Committee shall signify his or her acceptance by filing written acceptance with the Board of Directors and the Secretary of the Committee. Any member of the Committee may resign by delivering his or her written resignation to the Board of Directors and the Secretary of the Committee.

### 9.02 Duties of Committee

The Committee shall elect a chairman from their number and a secretary who may be but need not be one of the members of the Committee; may appoint from their number such subcommittees with such powers as they shall determine; may authorize one or more of their number or any agent to execute or deliver any instrument or make any payment on their behalf; may retain counsel, employ agents and provide for such clerical, accounting, and consulting services as they may require in carrying out the provisions of the Plan; may instruct the Trustee to vote unallocated shares held in the Suspense Account at the Committee's discretion; and may allocate among themselves or delegate to other persons all or such portion of their duties under the Plan, other than those granted to the Trustee under the trust agreement adopted for use in implementing the Plan, as they, in their sole discretion, shall decide. The Board of Directors, in its sole and absolute discretion, may delegate any or all of the duties of the Committee to the Trustee as it may determine from time to time, upon the Trustee's acceptance of such duties.

### 9.03 Individual Account

The Committee shall maintain, or cause to be maintained, records showing the individual balances in each Member's Account. However, maintenance of those records and Accounts shall not require any segregation of the funds of the Plan.

### 9.04 Meetings

The Committee shall hold meetings upon such notice, at such place or places, and at such time or times as it may from time to time determine.

### 9.05 Action of Majority

Any act which the Plan authorizes or requires the Committee to do may be done by a majority of its members. The action of that majority expressed from time to time by a vote at a meeting or in writing without a meeting shall constitute the action of the Committee and shall have the same effect for all purposes as if assented to by all members of the Committee at the time in office.

### 9.06 Compensation and Bonding

No member of the Committee shall receive any compensation from the Plan for his or her services as such. Except as may otherwise be required by law, no bond or other security need be required of any member in that capacity in any jurisdiction.

### 9.07 Establishment of Rules

Subject to the limitations of the Plan, the Committee from time to time shall establish rules for the administration of the Plan and the transaction of its business. The Committee shall have discretionary authority to construe and interpret the Plan (including, but not limited to, determination of an individual's eligibility for Plan participation, the right and amount of any benefit payable under the Plan and the date on which any individual ceases to be a Member). The determination of the Committee as to the interpretation of the Plan or any disputed question shall be conclusive and final to the extent permitted by applicable law.

### 9.08 Prudent Conduct

The Committee shall use that degree of care, skill, prudence and diligence that a prudent man acting in a like capacity and familiar with such matters would use in his conduct of a similar situation.

### 9.09 Service in More Than One Fiduciary Capacity

Any individual, entity or group of persons may serve in more than one fiduciary capacity with respect to the Plan and/or the funds of the Plan.

### 9.10 Limitation of Liability

The Employer, the Board of Directors, the directors of an Employer, the Committee, and any officer, employee or agent of the Employer shall not incur any liability individually or on behalf of any other individuals or on behalf of the Employer for any act or failure to act, made in good faith in relation to the Plan or the funds of the Plan. However, this limitation shall not act to relieve any such individual or the Employer from a responsibility or liability for any fiduciary responsibility, obligation or duty under Part 4, Title I of ERISA.

#### 9.11 Indemnification

The Committee, the Board of Directors, and the officers, employees and agents of the Employer shall be indemnified against any and all liabilities arising by reason of any act, or failure to act, in relation to the Plan or the funds of the Plan, including, without limitation, expenses reasonably incurred in the defense of any claim relating to the Plan or the funds of the Plan, and amounts paid in any compromise or settlement relating to the Plan or the funds of the Plan, except for actions or failures to act made in bad faith. The foregoing indemnification shall be from the funds of the Plan to the extent of those funds and to the extent permitted under applicable law; otherwise from the assets of the Employer.

#### 9.12 Named Fiduciary

For purposes of ERISA, the Committee shall be the named fiduciary of the Plan except or until otherwise determined by the Board of Directors.

#### 9.13 Claims Procedure

The claims procedure hereunder shall be as provided herein:

(a) Claim. A Member or Beneficiary or other person who believes that he or she is being denied a benefit to which he or she

(b) is entitled (hereinafter referred to as "Claimant") may file a written request for such benefit with the Committee setting forth his claim.

(b) Response to Claim. The Committee shall respond within ninety (90) days of receipt of the claim. However, upon written notification to the Claimant, the response period may be extended for an additional ninety (90) days for reasonable cause. If the claim is denied in whole or in part, the Claimant shall be provided with a written opinion using nontechnical language setting forth:

(i) The specific reason or reasons for the denial;  
(ii) The specific references to pertinent Plan provisions on which the denial is based;

(iii) A description of any additional material or information necessary for the Claimant to perfect the claim and an explanation of why such material or such information is necessary;

(iv) Appropriate information as to the steps to be taken if the Claimant wishes to submit the claim for review; and

(v) The time limits for requesting a review.

(c) Request for Review. Within sixty (60) days after the receipt by the Claimant of the written opinion described above, the Claimant may request in writing that the Committee review the determination.

The Claimant or his duly authorized representative may review the pertinent documents and submit issues and comments in writing for consideration by the Committee. If the Claimant does not request a review of the determination within such sixty (60) day period, he shall be barred from challenging the determination.

(d) Review and Decision. The Committee shall review the determination within sixty (60) days after receipt of a Claimant's request for review; provided, however, that for reasonable cause such period may be extended to no more than one hundred twenty (120) days. After considering all materials presented by the Claimant, the Committee will render a written opinion, written in a manner calculated to be understood by the Claimant setting forth the specific reasons for the decision and containing specific references to the pertinent Plan provisions on which the decision is based.

#### 9.14 Committee's Decision Final

Subject to applicable law, any interpretation of the provisions of the Plan and any decision on any matter within the discretion of the Committee made by the Committee in good faith shall be binding on all persons. A misstatement or other mistake of fact shall be corrected when it becomes known and the Committee shall make such adjustment on account thereof as it considers equitable and practicable.

## ARTICLE 10. MANAGEMENT OF FUNDS

### 10.01 Trust Agreement

All the funds of the Plan shall be held by a Trustee appointed from time to time by the Board of Directors under a trust agreement adopted, or as amended, by the Board of Directors for use in providing the benefits of the Plan and paying its expenses not paid directly by the Employer. The Employer shall have no liability for the payment of benefits under the Plan nor for the administration of the funds paid over to the Trustee.

### 10.02 Exclusive Benefit Rule

Except as otherwise provided in the Plan, no part of the corpus or income of the funds of the Plan shall be used for, or diverted to, purposes other than for the exclusive benefit of Members and other persons entitled to benefits under the Plan and paying the expenses of the Plan not paid directly by the Employer. No person shall have any interest in, or right to, any part of the earnings of the funds of the Plan, or any right in, or to, any part of the assets held under the Plan, except as and to the extent expressly provided in the Plan.

## ARTICLE 11. GENERAL PROVISIONS

### 11.01 Nonalienation

(a) Except as required by any applicable law or by paragraph (c), no benefit under the Plan shall in any manner be anticipated, assigned or alienated, and any attempt to do so shall be void. However, payment shall be made in accordance with the provisions of any judgment, decree, or order which:

- (i) creates for, or assigns to, a spouse, former spouse, child or other dependent of a Member the right to receive all or a portion of the Member's benefits under the Plan for the purpose of providing child support, alimony payments or marital property rights to that spouse, child or dependent,
- (ii) is made pursuant to a State domestic relations law,
- (iii) does not require the Plan to provide any type of benefit, or any option, not otherwise provided under the Plan, and
- (iv) otherwise meets the requirements of Section 206(d) of ERISA, as amended, as a "qualified domestic relations order", as determined by the Committee.

(b) Notwithstanding anything herein to the contrary, if the amount payable to the alternate payee under the qualified domestic relations order is less than \$5,000, such amount shall be paid in one lump sum as soon as practicable following the qualification of the order. If the amount exceeds \$5,000, it may be paid as soon as practicable following the qualification of the order if the qualified domestic relations order so provides and the alternate payee consents thereto; otherwise it may not be payable before the earlier of (i) the Member's termination of employment or (ii) the Member's attainment of age 50.

(c) A Member's benefit under the Plan shall be offset or reduced by the amount the Member is required to pay to the Plan under the circumstances set forth in Section 401(a)(13)(C) of the Code.

### 11.02 Conditions of Employment Not Affected by Plan

The establishment of the Plan shall not confer any legal rights upon any Eligible Employee or other person for a continuation of employment, nor shall it interfere with the rights of the Employer to discharge any Eligible Employee and to treat him or her without regard to the effect which that treatment might have upon him or her as a Member or potential Member of the Plan.

### 11.03 Facility of Payment

If the Committee shall find that a Member or other person entitled to a benefit is unable to care for his or her affairs because of illness or accident or because he or she is a minor, the Committee may direct that any benefit due him or her, unless claim shall have been made for the benefit by a duly appointed legal representative, be paid to his or her spouse, a child, a parent or other blood relative, or to a person with whom he or she resides. Any payment so made shall be a complete discharge of the liabilities of the Plan for that benefit.

### 11.04 Erroneous Allocation

Notwithstanding any provision of the Plan to the contrary, if a Member's Account is credited with an erroneous amount due to a mistake in fact or law, the Committee shall adjust such Account in such equitable manner as it deems appropriate to correct the

erroneous allocation.

#### 11.05 Information

Each Member, Beneficiary or other person entitled to a benefit, before any benefit shall be payable to him or her or on his or her account under the Plan, shall file with the Committee the information that it shall require to establish his or her rights and benefits under the Plan.

#### 11.06 Top-Heavy Provisions

(a) The following definitions apply to the terms used in this Section:

(i) "applicable determination date" means the last day of the preceding Plan Year;

(ii) "top-heavy ratio" means the ratio of (A) the value of the aggregate of the Account under the Plan for key employees to (B) the value of the aggregate of the Account under the Plan for all key employees and non-key employees;

(iii) "key employee" means an employee who is in a category of employees determined in accordance with the provisions of Sections 416(i)(1) and (5) of the Code and any regulations thereunder, and where applicable, on the basis of the Employee's Statutory Compensation from the Employer or an Affiliate;

(iv) "non-key employee" means any Employee who is not a key employee;

(v) "applicable Valuation Date" means the Valuation Date coincident with or immediately preceding the last day of the preceding Plan Year;

(vi) "required aggregation group" means any other qualified plan(s) of the Employer or an Affiliate in which there are members who are key employees or which enable(s) the Plan to meet the requirements of Section 401(a)(4) or 410 of the Code; and

(vii) "permissive aggregation group" means each plan in the required aggregation group and any other qualified plan(s) of the Employer or an Affiliate in which all members are non-key employees, if the resulting aggregation group continues to meet the requirements of Sections 401(a)(4) and 410 of the Code.

(b) For purposes of this Section, the Plan shall be "top-heavy" with respect to any Plan Year if as of the applicable determination date the top-heavy ratio exceeds 60 percent. The top-heavy ratio shall be determined as of the applicable Valuation Date in accordance with Sections 416(g)(3) and (4) of the Code and Article 5 of this Plan, and shall take into account any contributions made after the applicable Valuation Date but before the last day of the Plan Year in which the applicable Valuation Date occurs. For purposes of determining whether the Plan is top-heavy, the account balances under the Plan will be combined with the account balances or the present value of accrued benefits under each other plan in the required aggregation group, and in the Employer's discretion, may be combined with the account balances or the present value of accrued benefits under any other qualified plan in the permissive aggregation group. Distributions made with respect to a Member under the Plan during the five-year period ending on the applicable determination date shall be taken into account for purposes of determining the top-heavy ratio; distributions under plans that terminated within such five-year period shall also be taken into account, if any such plan contained key employees and therefore would have been part of the required aggregation group.

(c) The following provisions shall be applicable to Members for any Plan Year with respect to which the Plan is top-heavy:

(i) In lieu of the vesting requirements specified in Section 6.01, a Member shall be vested in, and have a nonforfeitable right to, his or her Account in accordance with the following schedule:

Nonforfeitable Years of Vesting Service	Percentage
less than 2 years	0%
2 years	20
3 years	40
4 years	60
5 or more years	100

provided that in no event shall the vested portion of his or her Account be less than the vested portion determined under Section 6.01.

(ii) An additional Employer contribution shall be allocated on behalf of each Member (and each Eligible Employee eligible to

become a Member) who is a non-key employee, and who has not separated from service as of the last day of the Plan Year, to the extent that the contributions made on his or her behalf under Section 3.01 for the Plan Year would otherwise be less than 3 percent of his or her remuneration. However, if the greatest percentage of remuneration contributed on behalf of a key employee under Section 3.01 for the Plan Year would be less than 3 percent, that lesser percentage shall be substituted for "3 percent" in the preceding sentence. Notwithstanding the foregoing provisions of this subparagraph (ii), no minimum contribution shall be made under this Plan with respect to a Member (or an Employee eligible to become a Member) if the required minimum benefit under Section 416(c)(1) of the Code is provided to him or her by any other qualified pension plan of the Employer or an Affiliate. For the purposes of this subparagraph (ii), remuneration has the same meaning as set forth in Section 3.03(c).

(d) If the Plan is top-heavy with respect to a Plan Year and ceases to be top-heavy for a subsequent Plan Year, the following provisions shall be applicable:

(i) If a Member has completed at least three years of Vesting Service on or before the last day of the most recent Plan Year for which the Plan was top-heavy, the vesting schedule set forth in paragraph (b)(i) shall continue to be applicable.

(ii) If a Member has completed at least two, but less than three, years of Vesting Service on or before the last day of the most recent Plan Year for which the Plan was top-heavy, the vesting provisions of Section 6.01 shall again be applicable; provided, however, that in no event shall the vested percentage of a Member's Account be less than the percentage determined under paragraph (b)(i) above as of the last day of the most recent Plan Year for which the Plan was top-heavy.

#### 11.07 Prevention of Escheat

If the Committee cannot ascertain the whereabouts of any person to whom a payment is due under the Plan, the Committee may, no earlier than three years from the date such payment is due, mail a notice of such due and owing payment to the last known address of such person, as shown on the records of the Committee or the Employer. If such person has not made written claim therefor within three months of the date of the mailing, the Committee may, if it so elects and upon receiving advice from counsel to the Plan, direct that such payment and all remaining payments otherwise due such person be canceled on the records of the Plan and the amount thereof applied to reduce the contributions of the Employer. Upon such cancellation, the Plan and the Trust shall have no further liability therefor except that, in the event such person or his or her beneficiary later notifies the Committee of his or her whereabouts and requests the payment or payments due to him or her under the Plan, the amount so applied shall be paid to him or her in accordance with the provisions of the Plan.

#### 11.08 Written Elections

Any elections, notifications or designations made by a Member pursuant to the provisions of the Plan shall be made in writing and filed with the Committee in a time and manner determined by the Committee under rules uniformly applicable to all employees similarly situated. The Committee reserves the right to change from time to time the time and manner for making notifications, elections or designations by Members under the Plan if it determines after due deliberation that such action is justified in that it improves the administration of the Plan. In the event of a conflict between the provisions for making an election, notification or designation set forth in the Plan and such new administrative procedures, those new administrative procedures shall prevail.

#### 11.09 Construction

(a) The Plan shall be construed, regulated and administered under ERISA and the laws of the State of California, except where ERISA controls.

(b) The titles and headings of the Articles and Sections in this Plan are for convenience only. In the case of ambiguity or inconsistency, the text rather than the titles or headings shall control.

### ARTICLE 12. AMENDMENT, MERGER AND TERMINATION

#### 12.01 Amendment of Plan

The Board of Directors reserves the right at any time and from time to time, and retroactively if deemed necessary or appropriate, to amend in whole or in part any or all of the provisions of the Plan.

The Committee may amend the Plan, provided such amendments would not significantly increase the cost of the Plan, change the level of benefits provided under the Plan or modify the underlying policy reflected by the Plan and provided, further, that notwithstanding the above, the Committee may adopt any amendment necessary to maintain the Plan's qualified status under the applicable provisions of the Code. However, no amendment shall make it possible for any part of the funds of the Plan to be used for, or diverted to, purposes other than for the exclusive benefit of persons entitled to benefits under the Plan. No amendment shall be made which has the effect of decreasing the balance of the Account of any Member or of reducing the nonforfeitable percentage of the balance of the Account of a Member below the nonforfeitable percentage computed under the Plan as in effect on the date on which the amendment is adopted, or if later, the date on which the amendment becomes effective. Any action to amend the Plan by the Board of Directors shall be taken in such manner as may be permitted under the by-laws of the Company, and any action to amend the Plan by the Committee shall be taken at a meeting held in person or by telephone or other electronic means or by unanimous written consent in lieu of a meeting.

#### 12.02 Merger, Consolidation or Transfer

The Plan may not be merged or consolidated with, and its assets or liabilities may not be transferred to, any other plan unless each person entitled to benefits under the Plan would, if the resulting plan were then terminated, receive a benefit immediately after the merger, consolidation, or transfer which is equal to or greater than the benefit he or she would have been entitled to receive immediately before the merger, consolidation, or transfer if the Plan had then terminated.

#### 12.03 Additional Participating Employers

(a) If any company is or becomes an Affiliate, the Board of Directors may include the employees of that Affiliate in the membership of the Plan upon appropriate action by that Affiliate necessary to adopt the Plan unless the Board of Directors or its delegate provides otherwise. In that event, or if any persons become Eligible Employees of an Employer as the result of merger or consolidation or as the result of acquisition of all or part of the assets or business of another company, the Board of Directors shall determine to what extent, if any, previous service with the Affiliate shall be recognized under the Plan, but subject to the continued qualification of the trust for the Plan as tax-exempt under the Code.

(b) Any Affiliate may terminate its participation in the Plan upon appropriate action by it. In that event the funds of the Plan held on account of Members in the employ of that Affiliate, and any unpaid balances of the Account of all Members who have separated from the employ of that Affiliate, shall be determined by the Committee. Those funds shall be distributed as provided in Section 12.04 if the Plan should be terminated, or shall be segregated by the Trustee as a separate trust, pursuant to certification to the Trustee by the Committee, continuing the Plan as a separate plan for the employees of that Affiliate under which the board of directors of that Affiliate shall succeed to all the powers and duties of the Board of Directors, including the appointment of the members of the Committee.

#### 12.04 Termination of Plan

The Board of Directors, by action taken at a meeting held in person or by telephone or other electronic means, or by unanimous written consent in lieu of a meeting, may terminate the Plan or completely discontinue contributions under the Plan for any reason at any time.

In case of termination or partial termination of the Plan, or complete discontinuance of Employer contributions to the Plan, the rights of affected Members to their Account under the Plan as of the date of the termination or discontinuance shall be nonforfeitable. In the event of the Plan's termination, the total amount in each Member's Account shall be distributed to him or her if permitted by law or continued in trust for his or her benefit, as the Committee shall direct.

Farmer Bros Co.  
Subsidiaries:

FBC Finance Co., a California corporation.  
20333 S. Normandie Avenue  
Torrance, CA 90502

Farmer Bros Co.

Offices Warehouses and Plants:

The Corporation, Farmer Bros. Co., headquartered in Torrance, California, roasts and packages coffee, processes spices and other restaurant supplies at that location, and manufactures a complete line of coffee-brewing equipment at its Brewmatic Division plant in Los Angeles. The Corporation's primary business is conducted through its internal divisions: Restaurant and Institutional Sales Division, Brewmatic Division, Spice Products Division and Custom Coffee Plan Division; and one subsidiary, FBC Finance Company.

Executive Offices:

Farmer Bros. Co.  
20333 South Normandie Avenue, Torrance, California  
Restaurant and Institutional Sales Division  
20401 South Normandie Avenue, Torrance, California  
Brewmatic Company Division  
20333 South Normandie Avenue, Torrance, California  
Spice Products Company Division  
20333 South Normandie Avenue, Torrance, California  
Custom Coffee Plan Division  
20333 South Normandie Avenue, Torrance, California  
FBC Finance Co.  
20333 South Normandie Avenue, Torrance, California

RESTAURANT AND INSTITUTIONAL SALES BRANCHES

Arizona

FLAGSTAFF  
2385 N. Walgreen Street  
Lake Havasu  
1880 Commander Dr., Suite C  
PHOENIX  
1060 W. Alameda Dr.  
Tempe  
TUCSON  
3818 South Evans Blvd.  
YUMA  
3320 E. Gila Ridge Rd.

Arkansas

FAYETTEVILLE  
3901-D Kelly  
Springdale  
LITTLE ROCK  
7630 Hardin Drive  
North Little Rock

California

BAKERSFIELD  
1135 W. Columbus  
BISHOP  
324 E. Clarke Street  
Castroville  
11460 Commercial Parkway  
CHICO  
252 East Avenue, Suite F  
EUREKA  
1825 3rd Street  
FRESNO  
4576 N. Bendel  
LANCASTER  
42138 7th Street West  
OAKLAND  
9844 Kitty Lane  
Emeryville  
PALM SPRINGS  
72205 Corporate Way



Thousand Palms  
REDDING  
5601 Cedar Rd. - E  
Resident Branch  
RIVERSIDE  
12101 Madera Way  
SACRAMENTO  
2450 Boatman Ave.  
SAN DIEGO7855 Ostrow St., B  
SAN GABRIEL  
859 Meridian St.  
Duarte  
SAN JOSE  
1462 Seareel Pl.  
SAN LUIS OBISPO  
3415 Miguelito Ct.  
SANTA Ana  
3921 W. Segerstrom Ave.  
SANTA ROSA  
470 E. Todd Rd.  
STOCKTON  
4243 Arch Road  
TORRANCE  
20401 S. Normandie Ave.  
VALLEY  
9373 Remick Ave.  
Arleta  
VENTURA  
1350 Stellar Dr.  
Oxnard  
VICTORVILLE  
17190 Yuma ST.  
Victorville

#### Colorado

COLORADO SPRINGS  
337 Manitou Ave.  
Manitou Springs  
DENVER  
5595 Joliet Street  
FORT COLLINS  
4500 Innovation Drive  
GRAND JUNCTION  
2848 Chipeta Ave., #B

#### Idaho

BOISE  
1625 South Curtis  
IDAHO FALLS  
805 S. Saturn Ave.  
TWIN FALLS  
445 5th Ave. W  
Resident Branch

#### Illinois

CHICAGO  
31W280 Diehl Rd., Unit 103  
Naperville  
MOLINE  
2950 38th Avenue  
SPRINGFIELD  
3430 C Constitution Dr.  
Indiana  
EVANSVILLE  
1905 N. Kentucky Ave.  
INDIANAPOLIS  
1123 Country Club Rd.

#### Iowa

DES MOINES  
1662 N.E. 55th Ave.  
OMAHA  
3217 Nebraska Ave.  
Council Bluffs  
Kansas  
WICHITA  
2355 S. Edwards,

Suite B

Minnesota

DULUTH  
4314 Enterprise Cr.  
MINNEAPOLIS  
3074 84th Lane N E  
Blaine

Missouri

COLUMBIA  
4881 B I-70 Drive SW  
KANSAS CITY  
9 N.E. Skyline Dr.  
Lee's Summit  
SPRINGFIELD  
450 M S. Union  
ST. LOUIS  
12832 Pennridge Dr.

Montana

BILLINGS  
2625 Enterprise  
Ave.  
GREAT FALLS  
2600 16th St. N.E.  
Black Eagle  
MISSOULA  
2751 Charlo St.  
Nebraska  
NORTH PLATTE  
601 Sioux Meadow

Nevada

ELKO  
460 S. A Street  
LAS VEGAS  
3417 Losee Rd.  
CARSON CITY  
3880 Technology Way

New Mexico

ALBUQUERQUE  
5911 Office Blvd.  
FARMINGTON  
1414 Schofield Lane  
Resident Branch  
ROSWELL  
710 East College

North Dakota

BISMARCK  
3800 Commerce  
Drive, Suite C  
FARGO  
710 38th St. N.W.  
Unit C

Oklahoma

OKLAHOMA CITY  
4611 S.W. 20th St.  
TULSA  
804 S. 8th St.  
Broken Arrow

Oregon

BEND  
20409 N. W. Cady  
Way  
Resident Branch  
EUGENE  
2545-F Prairie Rd.  
MEDFORD

777 East Vilas Rd.  
Central Point  
PORTLAND  
7515 N.E. 33rd Dr.  
SALEM  
3790-G Silverton Rd. NE

South Dakota

RAPID CITY  
2030 Creek Dr.  
SIOUX FALLS  
2405 W. 5th St.

Tennessee

MEMPHIS  
5753 E. Shelby Dr., Ste 1  
NASHVILLE  
1330 Foster Ave.

Texas

AMARILLO  
1415 S. Johnson  
St.  
AUSTIN  
2004 Lamar Dr.  
Round Rock  
CORPUS CHRISTI  
3909 Wow Road  
DALLAS/FT. WORTH  
744 Avenue H East  
Arlington  
EL PASO  
1325 Don Haskins Dr.  
HOUSTON  
6638 Rupley Circle  
LUBBOCK  
1608 D No. University  
Resident Branch  
McALLEN  
1312 E. Laurel  
ODESSA  
2017 W. 7th  
SAN ANTONIO  
4930 Center Park  
WICHITA FALLS  
1404 Beverly Drive

Utah

SALT LAKE CITY  
2230 So. 2000 West

Washington

SEATTLE  
8660 Willows Rd.  
Redmond  
SPOKANE  
E. 10915  
Montgomery Dr.  
TACOMA  
9412 Front Street  
Lakewood  
YAKIMA  
2301 S. 18th  
Street  
Union Gap

Wisconsin

GREEN BAY  
1227 S. Maple Ave.  
LA CROSSE  
1232 Clinton St.  
MADISON  
1017 Jonathan Dr.  
MILWAUKEE  
W. 182 S8335-A Racine Ave.

Muskego

Wyoming

CASPER  
2170 N. Old Salt  
Creek Hwy.

Custom Coffee Plan BRANCHES:

California

North Hollywood  
7419 Bellaire Ave.  
San Diego  
7855-A Ostrow St.  
San Leandro  
3041 Teagarden  
Torrance  
20333 S. Normandie Ave.

Colorado

Denver  
5595 Joliet  
Street, #B

Texas

Arlington  
722 Avenue H East  
Houston  
11519 South  
Petropark Drive