

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
FORM 10-Q

(Mark One)

☒ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
For the quarterly period ended March 31, 2020

OR

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
For the transition period from to

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

Delaware  
(State of Incorporation)  
1912 Farmer Brothers Drive, Northlake, Texas 76262  
(Address of Principal Executive Offices; Zip Code)  
888 998-2468  
(Registrant's Telephone Number, Including Area Code)

95-0725980  
(I.R.S. Employer Identification No.)

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

Title of Each Class	Trading Symbol(s)	Name of Each Exchange on Which Registered
Common Stock, \$1.00 par value	FARM	NASDAQ Global Select Market

None  
(Former Name, Former Address and Former Fiscal Year, if Changed Since Last Report)

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ NO ☐

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

Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input checked="" type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>
		Emerging growth company	<input type="checkbox"/>

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).  
YES ☐ NO ☒

As of April 30, 2020, the registrant had 17,335,720 shares outstanding of its common stock, par value \$1.00 per share, which is the registrant's only class of common stock.

# TABLE OF CONTENTS

	Page
<u>PART I – FINANCIAL INFORMATION (UNAUDITED)</u>	
<u>Item 1. Financial Statements</u>	<u>1</u>
<u>Condensed Consolidated Balance Sheets at March 31, 2020 and June 30, 2019</u>	<u>1</u>
<u>Condensed Consolidated Statements of Operations for the Three and Nine Months Ended March 31, 2020 and 2019</u>	<u>2</u>
<u>Condensed Consolidated Statements of Comprehensive Loss for the Three and Nine Months Ended March 31, 2020 and 2019</u>	<u>3</u>
<u>Condensed Consolidated Statements of Stockholders' Equity for the Three and Nine Months Ended March 31, 2020 and 2019</u>	<u>4</u>
<u>Condensed Consolidated Statements of Cash Flows for the Nine Months Ended March 31, 2020 and 2019</u>	<u>6</u>
<u>Notes to Condensed Consolidated Financial Statements</u>	<u>8</u>
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>37</u>
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	<u>53</u>
<u>Item 4. Controls and Procedures</u>	<u>54</u>
<u>PART II – OTHER INFORMATION</u>	
<u>Item 1. Legal Proceedings</u>	<u>55</u>
<u>Item 1A. Risk Factors</u>	<u>55</u>
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>58</u>
<u>Item 3. Defaults Upon Senior Securities</u>	<u>58</u>
<u>Item 4. Mine Safety Disclosures</u>	<u>58</u>
<u>Item 5. Other Information</u>	<u>58</u>
<u>Item 6. Exhibits</u>	<u>59</u>
<u>SIGNATURES</u>	<u>60</u>

**PART I - FINANCIAL INFORMATION (UNAUDITED)**
**Item 1. Financial Statements**

**FARMER BROS. CO.**  
**CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)**  
(In thousands, except share and per share data)

	March 31, 2020	June 30, 2019
<b>ASSETS</b>		
<b>Current assets:</b>		
Cash and cash equivalents	\$ 26,389	\$ 6,983
Accounts receivable, net	50,889	55,155
Inventories	85,934	87,910
Income tax receivable	1,020	1,191
Short-term derivative assets	2,833	1,865
Prepaid expenses	6,230	6,804
Total current assets	173,295	159,908
Property, plant and equipment, net	169,361	189,458
Goodwill	—	36,224
Intangible assets, net	21,264	28,878
Other assets	9,144	9,468
Long-term derivatives assets	470	674
Right-of-use operating lease assets	21,789	—
Total assets	\$ 395,323	\$ 424,610
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>Current liabilities:</b>		
Accounts payable	59,577	72,771
Accrued payroll expenses	14,329	14,518
Operating leases liabilities - current	6,031	—
Short-term derivative liabilities	1,401	1,474
Other current liabilities	6,476	7,309
Total current liabilities	87,814	96,072
Long-term borrowings under revolving credit facility	80,000	92,000
Accrued pension liabilities	45,145	47,216
Accrued postretirement benefits	9,065	23,024
Accrued workers' compensation liabilities	5,000	4,747
Operating lease liabilities - noncurrent	16,010	—
Other long-term liabilities	4,553	4,057
Total liabilities	\$ 247,587	\$ 267,116
<b>Commitments and contingencies</b>		
<b>Stockholders' equity:</b>		
Preferred stock, \$1.00 par value, 500,000 shares authorized; Series A Convertible Participating Cumulative Perpetual Preferred Stock, 21,000 shares authorized; 14,700 shares issued and outstanding as of March 31, 2020 and June 30, 2019; liquidation preference of \$16,038 and \$15,624 as of March 31, 2020 and June 30, 2019, respectively	15	15
Common stock, \$1.00 par value, 25,000,000 shares authorized; 17,231,473 and 17,042,132 shares issued and outstanding as of March 31, 2020 and June 30, 2019, respectively	17,234	17,042
Additional paid-in capital	61,027	57,912
Retained earnings	118,394	146,177
Accumulated other comprehensive loss	(48,934)	(63,652)
Total stockholders' equity	\$ 147,736	\$ 157,494
Total liabilities and stockholders' equity	\$ 395,323	\$ 424,610

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

**FARMER BROS. CO.**  
**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)**  
(In thousands, except share and per share data)

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2020	2019	2020	2019
Net sales	\$ 129,139	\$ 146,679	\$ 420,237	\$ 453,892
Cost of goods sold	91,190	106,779	297,662	312,513
Gross profit	37,949	39,900	122,575	141,379
Selling expenses	31,968	34,422	100,488	111,323
General and administrative expenses	8,833	11,306	32,839	32,063
Restructuring and other transition expenses	—	26	—	4,700
Net losses (gains) from sales of assets	287	248	(23,375)	971
Impairment of goodwill and intangible assets	42,030	—	42,030	—
Operating expenses	83,118	46,002	151,982	149,057
Loss from operations	(45,169)	(6,102)	(29,407)	(7,678)
Other (expense) income:				
Interest expense	(2,478)	(2,981)	(7,885)	(9,165)
Postretirement benefits curtailment and pension settlement charge	5,760	—	5,760	(10,948)
Other, net	1,076	495	2,941	2,105
Total other income (expense)	4,358	(2,486)	816	(18,008)
Loss before taxes	(40,811)	(8,588)	(28,591)	(25,686)
Income tax (benefit) expense	(1,034)	43,161	(1,222)	39,149
Net loss	(39,777)	(51,749)	(27,369)	(64,835)
Less: Cumulative preferred dividends, undeclared and unpaid	139	134	414	400
Net loss available to common stockholders	\$ (39,916)	\$ (51,883)	\$ (27,783)	\$ (65,235)
Net loss available to common stockholders per common share—basic	\$ (2.32)	\$ (3.05)	\$ (1.62)	\$ (3.84)
Net loss available to common stockholders per common share—diluted	\$ (2.32)	\$ (3.05)	\$ (1.62)	\$ (3.84)
Weighted average common shares outstanding—basic	17,230,879	17,003,206	17,161,477	16,982,247
Weighted average common shares outstanding—diluted	17,230,879	17,003,206	17,161,477	16,982,247

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

**FARMER BROS. CO.**  
**CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS (UNAUDITED)**  
(In thousands)

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2020	2019	2020	2019
Net loss	\$ (39,777)	\$ (51,749)	\$ (27,369)	\$ (64,835)
Other comprehensive (loss) income, net of tax:				
Unrealized losses on derivative instruments designated as cash flow hedges, net of tax	(7,680)	(5,905)	(285)	(11,254)
Losses on derivative instruments designated as cash flow hedges reclassified to cost of goods sold and interest expense, net of tax	2,042	3,201	9,290	6,311
Change in retiree benefit obligations, net of tax	1,416	(1,943)	1,416	(7,594)
Postretirement benefits curtailment and pension settlement charge, net of taxes	4,296	2,801	4,296	10,948
Total comprehensive loss, net of tax	<u>\$ (39,703)</u>	<u>\$ (53,595)</u>	<u>\$ (12,652)</u>	<u>\$ (66,424)</u>

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

**FARMER BROS. CO.**  
**CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (UNAUDITED)**  
(In thousands, except share and per share data)

	Preferred Shares	Preferred Stock Amount	Common Shares	Common Stock Amount	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
<b>Balance at June 30, 2019</b>	<b>14,700</b>	<b>\$ 15</b>	<b>17,042,132</b>	<b>\$ 17,042</b>	<b>\$ 57,912</b>	<b>\$ 146,177</b>	<b>\$ (63,652)</b>	<b>\$ 157,494</b>
Net income	—	—	—	—	—	4,654	—	4,654
Net reclassification of unrealized losses on cash flow hedges, net of taxes	—	—	—	—	—	—	(1,301)	(1,301)
ESOP compensation expense, including reclassifications	—	—	52,534	53	807	—	—	860
Share-based compensation	—	—	—	—	(1)	—	—	(1)
Issuance of common stock and stock option exercises	—	—	532	—	—	—	—	—
Cumulative preferred dividends, undeclared and unpaid	—	—	—	—	—	(137)	—	(137)
<b>Balance at September 30, 2019</b>	<b>14,700</b>	<b>\$ 15</b>	<b>17,095,198</b>	<b>\$ 17,095</b>	<b>\$ 58,718</b>	<b>\$ 150,694</b>	<b>\$ (64,953)</b>	<b>\$ 161,569</b>
Net income	—	—	—	—	—	7,754	—	7,754
Net reclassification of unrealized losses on cash flow hedges, net of taxes	—	—	—	—	—	—	15,945	15,945
ESOP compensation expense, including reclassifications	—	—	55,623	56	525	—	—	581
Share-based compensation	—	—	—	—	319	—	—	319
Issuance of common stock and stock option exercises	—	—	26,627	29	101	—	—	130
Cumulative preferred dividends, undeclared and unpaid	—	—	—	—	—	(138)	—	(138)
<b>Balance at December 31, 2019</b>	<b>14,700</b>	<b>\$ 15</b>	<b>17,177,448</b>	<b>\$ 17,180</b>	<b>\$ 59,663</b>	<b>\$ 158,310</b>	<b>\$ (49,008)</b>	<b>\$ 186,160</b>
Net loss	—	—	—	—	—	(39,777)	—	(39,777)
Net reclassification of unrealized gains on cash flow hedges, net of taxes	—	—	—	—	—	—	(5,638)	(5,638)
Postretirement benefits curtailment, net of taxes	—	—	—	—	—	—	4,296	4,296
Change in retiree benefit obligations, net of taxes	—	—	—	—	—	—	1,416	1,416
ESOP compensation expense, including reclassifications	—	—	54,025	54	854	—	—	908
Share-based compensation	—	—	—	—	510	—	—	510
Cumulative preferred dividends, undeclared and unpaid	—	—	—	—	—	(139)	—	(139)
<b>Balance at March 31, 2020</b>	<b>14,700</b>	<b>15</b>	<b>17,231,473</b>	<b>17,234</b>	<b>61,027</b>	<b>118,394</b>	<b>(48,934)</b>	<b>147,736</b>

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

**FARMER BROS. CO.**  
**CONDENSED STATEMENTS OF STOCKHOLDERS' EQUITY (UNAUDITED) (Continued)**  
(In thousands, except share and per share data)

	Preferred Shares	Preferred Stock Amount	Common Shares	Common Stock Amount	Additional Paid-in Capital	Retained Earnings	Unearned ESOP Shares	Accumulated Other Comprehensive Income (Loss)	Total
<b>Balance at June 30, 2018</b>	<b>14,700</b>	<b>\$ 15</b>	<b>16,951,659</b>	<b>\$ 16,952</b>	<b>\$ 55,965</b>	<b>\$ 220,307</b>	<b>\$ (2,145)</b>	<b>\$ (62,039)</b>	<b>\$ 229,055</b>
Net loss	—	—	—	—	—	(2,986)	—	—	(2,986)
Net reclassification of unrealized losses on cash flow hedges, net of taxes	—	—	—	—	—	—	—	(4,637)	(4,637)
ESOP compensation expense, including reclassifications	—	—	—	—	529	—	—	—	529
Share-based compensation	—	—	—	—	433	—	—	—	433
Issuance of common stock and stock option exercises	—	—	26,042	26	300	—	—	—	326
Cumulative preferred dividends, undeclared and unpaid	—	—	—	—	—	(132)	—	—	(132)
<b>Balance at September 30, 2018</b>	<b>14,700</b>	<b>15</b>	<b>16,977,701</b>	<b>16,978</b>	<b>57,227</b>	<b>217,189</b>	<b>(2,145)</b>	<b>(66,676)</b>	<b>222,588</b>
Net loss	—	—	—	—	—	(10,100)	—	—	(10,100)
Net reclassification of unrealized gains on cash flow hedges, net of taxes	—	—	—	—	—	—	—	2,398	2,398
Pension settlement charge, net of taxes	—	—	—	—	—	—	—	8,147	8,147
Change in retiree benefit obligations, net of taxes	—	—	—	—	—	—	—	(5,651)	(5,651)
ESOP compensation expense, including reclassifications	—	—	—	—	(1,740)	—	2,145	—	405
Share-based compensation	—	—	16,266	16	474	—	—	—	490
Issuance of common stock and stock option exercises	—	—	8,562	9	173	—	—	—	182
Cumulative preferred dividends, undeclared and unpaid	—	—	—	—	—	(134)	—	—	(134)
<b>Balance at December 31, 2018</b>	<b>14,700</b>	<b>\$ 15</b>	<b>17,002,529</b>	<b>\$ 17,003</b>	<b>\$ 56,134</b>	<b>\$ 206,955</b>	<b>\$ —</b>	<b>\$ (61,782)</b>	<b>\$ 218,325</b>
Net loss	—	—	—	—	—	(51,749)	—	—	(51,749)
Net reclassification of unrealized losses on cash flow hedges, net of taxes	—	—	—	—	—	—	—	(2,705)	(2,705)
Pension settlement charge, net of taxes	—	—	—	—	—	—	—	2,801	2,801
Change in retiree benefit obligations, net of taxes	—	—	—	—	—	—	—	(1,943)	(1,943)
ESOP compensation expense, including reclassifications	—	—	—	—	700	—	—	—	700
Share-based compensation	—	—	2,032	2	487	—	—	—	489
Cumulative preferred dividends, undeclared and unpaid	—	—	—	—	—	(134)	—	—	(134)
<b>Balance at March 31, 2019</b>	<b>14,700</b>	<b>\$ 15</b>	<b>17,004,561</b>	<b>\$ 17,005</b>	<b>\$ 57,321</b>	<b>\$ 155,072</b>	<b>\$ —</b>	<b>\$ (63,629)</b>	<b>\$ 165,784</b>

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

**FARMER BROS. CO.**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)**  
(In thousands)

	Nine Months Ended March 31,	
	2020	2019
Cash flows from operating activities:		
Net loss	\$ (27,369)	\$ (64,835)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	22,544	23,230
Restructuring and other transition expenses, net of payments	—	1,886
Deferred income taxes	—	40,078
Impairment of goodwill and intangible assets	42,030	—
Postretirement benefits curtailment and pension settlement charge	(5,760)	10,948
Net (gains) losses from sales of assets	(23,375)	971
Net losses on derivative instruments	9,830	9,228
Other adjustments	3,698	4,981
Change in operating assets and liabilities:		
Accounts receivable	3,745	(7,651)
Inventories	1,004	3,937
Derivative assets/liabilities, net	(2,472)	(13,229)
Other assets	1,510	180
Accounts payable	(13,194)	8,466
Accrued expenses and other liabilities	(4,126)	(10,690)
Net cash provided by operating activities	\$ 8,065	\$ 7,500
Cash flows from investing activities:		
Purchases of property, plant and equipment	(13,114)	(30,393)
Proceeds from sales of property, plant and equipment	36,733	143
Net cash provided (used) in investing activities	\$ 23,619	\$ (30,250)
Cash flows from financing activities:		
Proceeds from revolving credit facility	\$ 48,000	\$ 50,642
Repayments on revolving credit facility	(60,000)	(17,417)
Payments of finance lease obligations	(40)	(185)
Payment of financing costs	(367)	(1,041)
Proceeds from stock option exercises	129	507
Net cash (used) provided by financing activities	\$ (12,278)	\$ 32,506
Net increase in cash and cash equivalents	\$ 19,406	\$ 9,756
Cash and cash equivalents at beginning of period	6,983	2,438
Cash and cash equivalents at end of period	\$ 26,389	\$ 12,194

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

**FARMER BROS. CO.**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED) - (continued)**  
(In thousands)

	Nine Months Ended March 31,	
	2020	2019
Supplemental disclosure of non-cash investing and financing activities:		
Non-cash additions to property, plant and equipment	\$ 1,130	\$ 739
Non-cash portion of earnout receivable recognized—spice assets sale	\$ —	\$ 592
Non-cash portion of earnout payable recognized—West Coast Coffee acquisition	\$ —	\$ 1,000
Non-cash issuance of 401-K common stock	\$ 163	\$ —
Non-cash - Boyd Coffee post-closing working capital adjustment	\$ —	\$ 2,277
Cumulative preferred dividends, undeclared and unpaid	\$ 414	\$ 400

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

**FARMER BROS. CO.**  
**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**Note 1. Introduction and Basis of Presentation**

Farmer Bros. Co., a Delaware corporation (including its consolidated subsidiaries unless the context otherwise requires, the “Company”), is a national coffee roaster, wholesaler and distributor of coffee, tea, and culinary products.

***Basis of Presentation***

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States (“GAAP”) for complete consolidated financial statements. In the opinion of management, all adjustments considered necessary for a fair presentation of the interim financial data have been included. Operating results for the three and nine months ended March 31, 2020 are not necessarily indicative of the results that may be expected for the fiscal year ending June 30, 2020. Events occurring subsequent to March 31, 2020 have been evaluated for potential recognition or disclosure in the unaudited condensed consolidated financial statements for the three and nine months ended March 31, 2020.

The accompanying unaudited condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and related notes included in the Company’s Annual Report on Form 10-K for the fiscal year ended June 30, 2019, filed with the Securities and Exchange Commission (the “SEC”) on September 11, 2019 (the “2019 Form 10-K”).

*Going Concern* - The accompanying unaudited condensed consolidated financial statements are prepared in accordance with generally accepted accounting principles applicable to a going concern, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business.

As of March 31, 2020, the Company had \$26.4 million of cash on hand and was in compliance with financial covenants under its Amended Revolving Facility. In April 2020, the Company borrowed an additional \$42.0 million under its Amended Revolving Facility as a proactive measure to increase its cash position and preserve financial flexibility in light of the current uncertainty in the global markets resulting from the COVID-19 pandemic.

The COVID-19 pandemic and the related restrictive measures such as travel bans, quarantines, shelter-in-place orders, and shutdowns as well as changes in recent consumer behavior, have had an adverse impact on certain of the Company’s Direct-store- delivery (“DSD”) customers, particularly restaurants, hotels, casinos and coffeehouses. Many of these customers have been forced to close or curtail operations, and are purchasing at reduced volumes, if at all. As a result, sales from the Company’s DSD customers have declined between 65% to 70% from pre COVID-19 average sales and there is uncertainty regarding the rate at which these customers will resume operations and purchases as the restrictive measures are lifted. As a result, the Company is projecting potential violations of its financial covenants under the Amended Revolving Facility beginning June 30, 2020, which would place it in an event of default. The occurrence of a default would permit the Company’s lenders to declare as due all amounts outstanding under its Amended Credit Facility which total \$122.0 million as of May 7, 2020, and currently mature on November 6, 2023. The Company does not have sufficient cash on hand or available liquidity that can be utilized to repay the total outstanding debt in the event of default. These conditions and events raise substantial doubt about the Company’s ability to continue as a going concern.

In response to these conditions and to maintain operating results and liquidity, the Company has reduced discretionary expenses, aggressively reduced capital expenditures, and closely and proactively managed its inventory purchases, while prioritizing investments in e-commerce initiatives and serving current Direct Ship customers’ needs. Additionally, the Company has continued to focus on the rebalancing of volume across its manufacturing network, bringing additional production into its Northlake, Texas facility to generate additional savings. The Company has already taken the following actions, among others:

- reduced headcount and furloughed a significant percentage of the remaining employees;
- eliminated fiscal third quarter 2020 cash compensation for its Board of Directors;
- temporarily decreased executive leadership, corporate team members’ and all exempt employees’ (except route sales representatives) base salaries by 15%;
- reduced discretionary spending, including a moratorium on all travel;
- reduced fiscal year ending 2020 management incentive bonus program;

- reduced plant production costs in two of its plants;
- suspended 401(k) cash matching for all eligible employees;
- reduced capital expenditures while also closely managing inventory and other spending;
- implemented cost controls throughout its coffee brewing equipment (“CBE”) program service network;
- instituted cost savings to reduce its selling, general and administrative expenses;
- reduced its DSD supply chain network costs by reducing freight, and fleet, and consolidating routes; and
- commenced negotiations with certain landlords on rent, operating expenses and leases.

The Company expects these actions will improve its cost structure to mitigate the impact of the COVID-19 pandemic on its operating results and liquidity. In addition, the Company is currently pursuing with its lenders a waiver agreement or forbearance arrangement related to projected covenant violations under its Amended Revolving Facility. The Company obtained an amendment from its lenders in March 2020, and based on the current debt market environment and other factors, management believes that a waiver or forbearance will be approved to avoid acceleration of its debt. As a result, the Company has concluded that management’s plans are probable of being achieved to alleviate substantial doubt about the Company’s ability to continue as a going concern.

#### ***Principles of Consolidation***

The condensed consolidated financial statements include the accounts of the Company and its direct and indirect wholly owned subsidiaries FBC Finance Company, a California corporation, Coffee Bean Holding Co., Inc., a Delaware corporation, the parent company of Coffee Bean International, Inc., an Oregon corporation (“CBI”), China Mist Brands, Inc., a Delaware corporation, Boyd Assets Co., a Delaware corporation, and Coffee Bean International LLC, a Delaware limited liability company. All inter-company balances and transactions have been eliminated.

#### ***Use of Estimates***

The preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the amounts reported in the condensed consolidated financial statements and accompanying notes. The Company reviews its estimates on an ongoing basis using currently available information. Changes in facts and circumstances may result in revised estimates and actual results may differ from those estimates.

## Note 2. Summary of Significant Accounting Policies

For a detailed discussion about the Company's significant accounting policies, see Note 2, "*Summary of Significant Accounting Policies*," in the Notes to Consolidated Financial Statements in the 2019 Form 10-K.

During the three and nine months ended March 31, 2020, other than as set forth below and the adoption of Financial Accounting Standards Board Accounting ("FASB") Standards Update ("ASU") ASU No. 2016-02, "Leases (Topic 842)" ("ASU 2016-02"), there were no significant updates made to the Company's significant accounting policies.

### ***Concentration of Credit Risk***

At March 31, 2020 and June 30, 2019, the financial instruments which potentially expose the Company to concentration of credit risk consist of cash in financial institutions (in excess of federally insured limits), derivative instruments and trade receivables.

The Company does not have any credit-risk related contingent features that would require it to post additional collateral in support of its net derivative liability positions. At March 31, 2020 and June 30, 2019, none of the cash in the Company's coffee-related derivative margin accounts was restricted. Further changes in commodity prices and the number of coffee-related derivative instruments held, could have a significant impact on cash deposit requirements under certain of the Company's broker and counterparty agreements.

Approximately 40% and 28% of the Company's trade accounts receivable balance was with five customers at March 31, 2020 and June 30, 2019, respectively. The Company estimates its maximum credit risk for accounts receivable at the amount recorded on the balance sheet. The trade accounts receivables are generally short-term and all probable bad debt losses have been appropriately considered in establishing the allowance for doubtful accounts.

### ***Adoption of ASC 842 - Leases***

Effective July 1, 2019, the Company adopted the FASB Topic 842 ("ASC 842"), *Leases*. The Company adopted ASC 842 under the modified retrospective approach using the practical expedient; therefore, the presentation of prior year periods has not been adjusted. No cumulative effect of initially adopting ASC 842 as an adjustment to the opening balance of components of equity as of July 1, 2019 was necessary. The adoption of ASC 842 resulted in the recording of Operating lease right-of-use assets and Operating lease liabilities of \$16.3 million, as of July 1, 2019. The adoption of ASC 842 had no impact on retained earnings. See [Note 3](#) for detail discussions on the adoption of ASC 842.

Right-of-use lease assets represent the Company's right to use an underlying asset for the lease term and lease liabilities represent the Company's obligation to make lease payments arising from the lease. Operating lease right-of-use assets and liabilities are recognized at commencement date based on the present value of lease payments over the lease term. As most of the Company's leases do not provide an implicit rate, the Company uses its incremental borrowing rate based on the information available at commencement date in determining the present value of lease payments. The Company uses the implicit rate when readily determinable. Lease terms may include options to extend or terminate the lease when it is reasonably certain that the company will exercise that option. Lease expense is primarily recognized on a straight-line basis over the lease term. The Company has lease agreements with lease and non-lease components, which are combined for certain assets classes.

**Recent Accounting Pronouncements**

The Company considers the applicability and impact of all ASUs issued. ASUs not listed below were assessed and either determined to be not applicable or expected to have minimal impact on its condensed consolidated financial statements.

The following table provides a brief description of the applicable recent ASUs issued by the FASB:

Standard	Description	Effective Date	Effect on the Financial Statements or Other Significant Matters
In March 2020, the FASB issued ASU No. 2020-04, "Facilitation of the Effect of Reference Rate Reform on Financial Reporting" ("ASU 2020-04")	The London Interbank Offered Rate (LIBOR) is set to expire at the end of 2021. Contracts affected by the rate change would be required to be modified. Under current U.S. GAAP, those modifications would have to be evaluated to determine whether they result in new contracts or continuation of the existing contracts. ASU 2020-04 provides temporary optional expedients and exceptions for applying U.S. GAAP to contracts, hedging relationships, and other transactions affected by the transition from LIBOR to alternative reference rate.	Issuance date of March 12, 2020 through December 31, 2022.	The Company is currently evaluating the impact ASU 2020-04 will have on its consolidated financial statements.
In August 2018, the FASB issued ASU No. 2018-15, "Intangibles—Goodwill and Other—Internal-Use Software (Subtopic 350-40): Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract" ("ASU 2018-15").	ASU 2018-15 aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software.	Annual periods beginning after December 15, 2019, and interim periods within those fiscal years. Early adoption is permitted, including adoption in any interim period.	Effective for the Company beginning July 1, 2020. The Company is currently evaluating the impact ASU 2018-15 will have on its consolidated financial statements.
In August 2018, the FASB issued ASU No. 2018-14, "Compensation—Retirement Benefits—Defined Benefit Plans—General (Subtopic 715-20): Disclosure Framework—Changes to the Disclosure Requirements for Defined Benefit Plans" ("ASU 2018-14").	ASU 2018-14 modifies the disclosure requirements for employers that sponsor defined benefit pension or other postretirement plans by removing disclosures that no longer are considered cost beneficial, clarifying the specific requirements of disclosures and adding disclosure requirements identified as relevant.	Annual periods beginning after December 15, 2020. Early adoption is permitted.	Effective for the Company beginning July 1, 2021. The Company is currently evaluating the impact ASU 2018-14 will have on its consolidated financial statements.
In February 2018, the FASB issued ASU No. 2018-02, "Income Statement—Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income" ("ASU 2018-02").	ASU 2018-02 provides entities an option to reclassify certain stranded tax effects resulting from the tax reform from accumulated other comprehensive income to retained earnings.	The guidance in ASU 2018-02 is effective for annual periods beginning after December 15, 2018, and interim periods within those fiscal years, and should be applied either in the period of adoption or retrospectively.	The Company did not elect the option to reclassify certain stranded tax effects resulting from the tax reform from accumulated other comprehensive income to retained earnings.
In January 2017, the FASB issued ASU No. 2017-04, "Intangibles—Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment" ("ASU 2017-04").	The amendments in ASU 2017-04 address concerns regarding the cost and complexity of the two-step goodwill impairment test, and remove the second step of the test. An entity will apply a one-step quantitative test and record the amount of goodwill impairment as the excess of a reporting unit's carrying amount over its fair value, not to exceed the total amount of goodwill allocated to the reporting unit. ASU 2017-04 does not amend the optional qualitative assessment of goodwill impairment.	Annual and interim goodwill impairment tests in fiscal years beginning after December 15, 2019.	The Company adopted the new guidance effective January 1, 2020, on a prospective basis, which did not require the Company to adjust comparative periods. Adoption of ASU 2017-04 did not have a material impact on the results of operations, financial position or cash flows of the Company.
In June 2016, the FASB issued ASU 2016-13, Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments. Since that date, the FASB has issued additional ASUs clarifying certain aspects of ASU 2016-13.	The objective of the guidance in ASU 2016-13 is to allow entities to recognize estimated credit losses in the period that the change in valuation occurs. The amendments in ASU 2016-13 requires an entity to present financial assets measured on an amortized cost basis on the balance sheet net of an allowance for credit losses. The model requires an estimate of the credit losses expected over the life of an exposure or pool of exposures. The income statement will reflect the measurement of credit losses for newly recognized financial assets, as well as the expected increases or decreases of expected credit losses that have taken place during the period.	Annual reporting periods beginning after December 15, 2019 and interim periods within those reporting periods.	Effective for the Company beginning July 1, 2020. The Company is currently evaluating the impact of adoption on its financial statements and related disclosures, but does not anticipate a material impact to the consolidated financial statements.

Standard	Description	Effective Date	Effect on the Financial Statements or Other Significant Matters
In February 2016, the FASB issued ASU 2016-02, Leases. Since that date, the FASB has issued additional ASUs clarifying certain aspects of ASU 2016-02.	ASU 2016-02 requires a lessee to recognize in the statement of financial position a liability to make lease payments and a right-of-use asset representing its right to use the underlying asset for the lease term for both finance and operating leases. Subsequent guidance issued after February 2016 did not change the core principle of ASU 2016-02.	Annual periods beginning after December 15, 2018, and interim periods within those annual periods. Early application is permitted.	The Company adopted the new guidance effective July 1, 2019, using the modified retrospective transition method, which did not require the Company to adjust comparative periods. See <a href="#">Note 3</a> for the applicable disclosure of ASU 2016-02 adoption. .

**Note 3. Leases**

The Company makes a determination if an arrangement constitutes a lease at inception, and categorizes the lease as either an operating or finance lease. Operating leases are included in right-of-use operating lease assets and operating lease liabilities in the Company's Condensed Consolidated Balance Sheets. Finance leases are included in property, plant and equipment, net and other long-term liabilities in the Condensed Consolidated Balance Sheets. Leases with an initial term of 12 months or less are not recorded on the Condensed Consolidated Balance Sheets.

The Company has entered into leases for building facilities, vehicles and other equipment. The Company's leases have remaining contractual terms of up to 10 years, some of which have options to extend the lease for up to 10 years. For purposes of calculating operating lease liabilities, lease terms are deemed not to include options to extend the lease termination until it is reasonably certain that the Company will exercise that option. The Company's lease agreements do not contain any material residual value guarantees or material restrictive covenants.

Supplemental unaudited consolidated balance sheet information related to leases is as follows:

	Classification	March 31, 2020
<b>(In thousands)</b>		
Operating lease assets	Right-of-use operating lease assets	\$ 21,789
Finance lease assets	Property, plant and equipment, net	22
<b>Total lease assets</b>		<b>\$ 21,811</b>
Operating lease liabilities - current	Operating lease liabilities - current	\$ 6,031
Operating lease liabilities - noncurrent	Operating lease liabilities - noncurrent	16,010
Finance lease liabilities	Other long-term liabilities	22
<b>Total lease liabilities</b>		<b>\$ 22,063</b>

The components of lease expense are as follows:

	Classification	Three Months Ended March 31, 2020	Nine Months Ended March 31, 2020
<b>(In thousands)</b>			
Operating lease expense	General and administrative expenses and cost of goods sold	\$ 1,497	\$ 3,858
Finance lease expense:			
Amortization of finance lease assets	General and administrative expenses	13	39
Interest on finance lease liabilities	Interest expense	—	1
<b>Total lease expense</b>		<b>\$ 1,510</b>	<b>\$ 3,898</b>

(In thousands)	March 31, 2020	
	Operating Leases	Finance Leases
<i>Maturities of lease liabilities are as follows:</i>		
2020	\$ 1,532	\$ 13
2021	5,764	9
2022	4,357	—
2023	3,711	—
2024	3,375	—
Thereafter	6,272	—
Total lease payments	25,011	22
Less: interest	(2,970)	—
<b>Total lease obligations</b>	<b>\$ 22,041</b>	<b>\$ 22</b>

*Lease term and discount rate:*

	March 31, 2020
Weighted-average remaining lease terms (in years):	
Operating lease	8.5
Finance lease	0.4
Weighted-average discount rate:	
Operating lease	4.50%
Finance lease	4.50%

*Other Information:*

	Nine Months Ended March 31, 2020
Cash paid for amounts included in the measurement of lease liabilities:	
Operating cash flows from operating leases	\$ 3,585
Operating cash flows from finance leases	\$ 1
Financing cash flows from finance leases	\$ 38
Leased assets obtained in exchange for new finance lease liabilities	\$ —
Leased assets obtained in exchange for new operating lease liabilities	\$ —

***Disclosures related to periods prior to adoption of ASU 2016-02***

Rent expense paid for the fiscal year ended June 30, 2019 was \$6.4 million.

The minimum annual payments under operating and capital leases as of June 30, 2019 are as follows:

<b>(In thousands)</b>	<b>Operating Lease Obligations</b>	<b>Capital Lease Obligations</b>
<b>Year Ended June 30,</b>		
2020	\$ 4,434	\$ 36
2021	3,238	1
2022	2,472	—
2023	2,131	—
2024	2,025	—
Thereafter	4,389	—
Total minimum lease payments	<u>\$ 18,689</u>	<u>37</u>
Less: imputed interest (0.82% to 10.66%)		(2)
Present value of future minimum lease payments		<u>35</u>
Less: current portion		(34)
Long-term capital lease obligations		<u>\$ 1</u>

Note 4. Derivative Instruments

Derivative Instruments Held

Coffee-Related Derivative Instruments

The Company is exposed to commodity price risk associated with its price to fixed green coffee purchase contracts, which are described further in [Note 2](#) to the consolidated financial statements in the 2019 Form 10-K. The Company utilizes forward and option contracts to manage exposure to the variability in expected future cash flows from forecasted purchases of green coffee attributable to commodity price risk. Certain of these coffee-related derivative instruments utilized for risk management purposes have been designated as cash flow hedges, while other coffee-related derivative instruments have not been designated as cash flow hedges or do not qualify for hedge accounting despite hedging the Company’s future cash flows on an economic basis.

The following table summarizes the notional volumes for the coffee-related derivative instruments held by the Company at March 31, 2020 and June 30, 2019:

<u>(In thousands)</u>	<u>March 31, 2020</u>	<u>June 30, 2019</u>
Derivative instruments designated as cash flow hedges:		
Long coffee pounds	33,900	42,113
Derivative instruments not designated as cash flow hedges:		
Long coffee pounds	4,911	6,070
Total	38,811	48,183

Coffee-related derivative instruments designated as cash flow hedges outstanding as of March 31, 2020 will expire within 21 months. At March 31, 2020 and June 30, 2019 approximately 87%, respectively, of the Company's outstanding coffee-related derivative instruments were designated as cash flow hedges.

Interest Rate Swap Derivative Instruments

Pursuant to an International Swap Dealers Association, Inc. Master Agreement (“ISDA”) which was effective March 20, 2019, the Company on March 27, 2019, entered into an interest rate swap transaction utilizing a notional amount of \$80.0 million, with an effective date of April 11, 2019 and a maturity date of October 11, 2023 (the “Rate Swap”). In December 2019, the Company amended the notional amount to \$65.0 million. The Rate Swap is intended to manage the Company’s interest rate risk on its floating-rate indebtedness under the Company’s revolving credit facility. Under the terms of the Rate Swap, the Company receives 1-month LIBOR, subject to a 0% floor, and makes payments based on a fixed rate of 2.1975%. The Company’s obligations under the ISDA are secured by the collateral which secures the loans under the revolving credit facility on a pari passu and pro rata basis with the principal of such loans. The Company has designated the Rate Swap derivative instruments as a cash flow hedge.

**Effect of Derivative Instruments on the Financial Statements**

**Balance Sheets**

Fair values of derivative instruments on the Company's condensed consolidated balance sheets:

	Derivative Instruments Designated as Cash Flow Hedges		Derivative Instruments Not Designated as Accounting Hedges	
	March 31, 2020	June 30, 2019	March 31, 2020	June 30, 2019
<b>(In thousands)</b>				
<b>Financial Statement Location:</b>				
Short-term derivative assets:				
Coffee-related derivative instruments(1)	\$ 2,208	\$ 1,254	\$ 625	\$ 611
Long-term derivative assets:				
Coffee-related derivative instruments (2)	\$ 470	\$ 671	\$ —	\$ 3
Short-term derivative liabilities:				
Coffee-related derivative instruments (3)	\$ 257	\$ 1,114	\$ 38	\$ 114
Interest rate swap derivative instruments (3)	\$ 1,106	\$ 246	\$ —	\$ —
Long-term derivative liabilities:				
Coffee-related derivative instruments (4)	\$ 3	\$ 13	\$ —	\$ —
Interest rate swap derivative instruments (4)	\$ 2,745	\$ 1,599	\$ —	\$ —

(1) Included in "Short-term derivative assets" on the Company's condensed consolidated balance sheets.

(2) Included in "Long-term derivative assets" on the Company's condensed consolidated balance sheets.

(3) Included in "Short-term liabilities" on the Company's condensed consolidated balance sheets.

(4) Included in "Other long-term liabilities" on the Company's condensed consolidated balance sheets.

**Statements of Operations**

The following table presents pretax net gains and losses for the Company's derivative instruments designated as cash flow hedges, as recognized in "AOCI," "Cost of goods sold" and "Other, net".

<b>(In thousands)</b>	Three Months Ended March 31,		Nine Months Ended March 31,		Financial Statement Classification
	2020	2019	2020	2019	
Net losses recognized in AOCI - Interest rate swap	\$ (2,542)	\$ (78)	\$ (2,590)	\$ (78)	AOCI
Net losses recognized from AOCI to earnings - Interest rate swap	\$ (83)	\$ —	\$ (115)	\$ —	Interest Expense
Net losses reclassified from AOCI to earnings for partial unwind of interest swap - Interest rate swap (1)	\$ —	\$ —	\$ (407)	\$ —	Interest Expense
Net (losses) gains recognized in AOCI - Coffee-related	\$ (5,681)	\$ (3,988)	\$ 1,750	\$ (11,176)	AOCI
Net losses recognized in earnings - Coffee - related	\$ (1,976)	\$ (2,131)	\$ (8,898)	\$ (6,310)	Cost of goods sold

(1) The \$407 thousand of realized loss was due to partial unwinding of interest rate swap resulting from the amendment of the notional amount from \$80 million to \$65 million.

For the three and nine months ended March 31, 2020 and 2019, there were no gains or losses recognized in earnings as a result of excluding amounts from the assessment of hedge effectiveness.

Net losses (gains) on derivative instruments in the Company's condensed consolidated statements of cash flows also include net losses (gains) on coffee-related derivative instruments designated as cash flow hedges reclassified to cost of goods sold from AOCI in the three and nine months ended March 31, 2020 and 2019. Gains and losses on derivative instruments not designated as accounting hedges are included in "Other, net" in the Company's condensed consolidated statements of operations

and in “Net losses (gains) on derivative instruments and investments” in the Company’s condensed consolidated statements of cash flows.

Net gains and losses recorded in “Other, net” are as follows:

(In thousands)	Three Months Ended March 31,		Nine Months Ended March 31,	
	2020	2019	2020	2019
Net losses on coffee-related derivative instruments(1)	\$ (308)	\$ (893)	\$ (932)	\$ (2,918)
Non-operating pension and other postretirement benefit (2)	1,248	1,394	3,744	4,921
Other gains (losses), net	136	(6)	129	102
Other, net	\$ 1,076	\$ 495	\$ 2,941	\$ 2,105

(1) Excludes net gains and losses on coffee-related derivative instruments designated as cash flow hedges recorded in cost of goods sold in the three and nine months ended March 31, 2020 and 2019.

(2) Presented in accordance with ASU 2017-07.

#### Offsetting of Derivative Assets and Liabilities

The Company has agreements in place that allow for the financial right of offset for derivative assets and liabilities at settlement or in the event of default under the agreements. Additionally, under certain coffee derivative agreements, the Company maintains accounts with its counterparties to facilitate financial derivative transactions in support of its risk management activities.

The following table presents the Company’s net exposure from its offsetting derivative asset and liability positions, as well as cash collateral on deposit with its counterparties as of the reporting dates indicated:

(In thousands)		Gross Amount Reported on Balance Sheet	Netting Adjustments	Cash Collateral Posted	Net Exposure
March 31, 2020	Derivative Assets	\$ 3,303	\$ (298)	\$ —	\$ 3,005
	Derivative Liabilities	\$ 4,149	\$ (298)	\$ —	\$ 3,851
June 30, 2019	Derivative Assets	\$ 2,539	\$ (698)	\$ —	\$ 1,841
	Derivative Liabilities	\$ 3,086	\$ (698)	\$ —	\$ 2,388

#### Cash Flow Hedges

Changes in the fair value of the Company’s coffee-related derivative instruments designated as cash flow hedges are deferred in AOCI and subsequently reclassified into cost of goods sold in the same period or periods in which the hedged forecasted purchases affect earnings, or when it is probable that the hedged forecasted transaction will not occur by the end of the originally specified time period. Based on recorded values at March 31, 2020, \$3.6 million of net gains on coffee-related derivative instruments designated as a cash flow hedge are expected to be reclassified into cost of goods sold within the next twelve months. These recorded values are based on market prices of the commodities as of March 31, 2020.

Changes in the fair value of the Company’s interest rate swap derivative instruments designated as a cash flow hedge are deferred in AOCI and subsequently reclassified into interest expense in the period or periods when the hedged transaction affects earnings or when it is probable that the hedged forecasted transaction will not occur by the end of the originally specified time period. As of March 31, 2020, \$1.1 million of net losses on interest rate swap derivative instruments designated as a cash flow hedge are expected to be reclassified into interest expense within the next twelve months assuming no significant changes in the LIBOR rates. Due to LIBOR volatility, actual gains or losses realized within the next twelve months will likely differ from these values.

## Note 5. Fair Value Measurements

Assets and liabilities measured and recorded at fair value on a recurring basis were as follows:

<u>(In thousands)</u>	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
<u>March 31, 2020</u>				
Derivative instruments designated as cash flow hedges:				
Coffee-related derivative assets (1)	\$ 2,678	\$ —	\$ 2,678	\$ —
Coffee-related derivative liabilities (1)	\$ 260	\$ —	\$ 260	\$ —
Interest rate swap derivative liabilities (2)	\$ 3,851	\$ —	\$ 3,851	\$ —
Derivative instruments not designated as accounting hedges:				
Coffee-related derivative assets(1)	\$ 625	\$ —	\$ 625	\$ —
Coffee-related derivative liabilities(1)	\$ 38	\$ —	\$ 38	\$ —

<u>(In thousands)</u>	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
<u>June 30, 2019</u>				
Derivative instruments designated as cash flow hedges:				
Coffee-related derivative assets (1)	\$ 1,925	\$ —	\$ 1,925	\$ —
Coffee-related derivative liabilities (1)	\$ 1,127	\$ —	\$ 1,127	\$ —
Interest rate swap derivative liabilities (2)	\$ 1,845	\$ —	\$ 1,845	\$ —
Derivative instruments not designated as accounting hedges:				
Coffee-related derivative assets (1)	\$ 614	\$ —	\$ 614	\$ —
Coffee-related derivative liabilities (1)	\$ 114	\$ —	\$ 114	\$ —

(1) The Company's coffee-related derivative instruments are traded over-the-counter and, therefore, classified as Level 2.

(2) The Company's interest rate swap derivative instrument are model-derived valuations with directly or indirectly observable significant inputs such as interest rate and, therefore, classified as Level 2.

## Note 6. Accounts Receivable, Net

<u>(In thousands)</u>	<u>March 31, 2020</u>	<u>June 30, 2019</u>
Trade receivables	\$ 49,328	\$ 53,593
Other receivables(1)	2,266	2,886
Allowance for doubtful accounts	(705)	(1,324)
Accounts receivable, net	<u>\$ 50,889</u>	<u>\$ 55,155</u>

(1) Includes vendor rebates and other non-trade receivables.

The \$0.6 million decrease in the allowance for doubtful accounts during the nine months ended March 31, 2020 was due to improvement of the Company's accounts receivable aging balance.

**Note 7. Inventories**

<b>(In thousands)</b>	<b>March 31, 2020</b>	<b>June 30, 2019</b>
Coffee		
Processed	\$ 24,568	\$ 25,769
Unprocessed	36,905	33,259
Total	\$ 61,473	\$ 59,028
Tea and culinary products		
Processed	\$ 17,737	\$ 21,767
Unprocessed	68	74
Total	\$ 17,805	\$ 21,841
Coffee brewing equipment parts	\$ 6,656	\$ 7,041
Total inventories	\$ 85,934	\$ 87,910

In addition to product cost, inventory costs include expenditures such as direct labor and certain supply, freight, warehousing, overhead variances, purchase price variance and other expenses incurred in bringing the inventory to its existing condition and location. The “Unprocessed” inventory values as stated in the above table represent the value of raw materials and the “Processed” inventory values represent all other products consisting primarily of finished goods.

**Note 8. Property, Plant and Equipment**

<b>(In thousands)</b>	<b>March 31, 2020</b>	<b>June 30, 2019</b>
Buildings and facilities (1)	\$ 99,225	\$ 107,915
Machinery, vehicles and equipment (1)	243,141	249,477
Capitalized software	29,227	27,666
Office furniture and equipment	14,121	14,035
	\$ 385,714	\$ 399,093
Accumulated depreciation	(229,493)	(225,826)
Land (1)	13,140	16,191
Property, plant and equipment, net	\$ 169,361	\$ 189,458

(1) Decrease as of March 31, 2020 is due to the sale of assets. See Note 21 for details.

***Coffee Brewing Equipment (“CBE”) and Service***

Capitalized CBE included in machinery and equipment above are:

<b>(In thousands)</b>	<b>March 31, 2020</b>	<b>June 30, 2019</b>
Coffee Brewing Equipment	\$ 102,423	\$ 106,593
Accumulated depreciation	(69,094)	(70,202)
Coffee Brewing Equipment, net	\$ 33,329	\$ 36,391

Depreciation expense related to capitalized CBE and other CBE related expenses (excluding CBE depreciation) provided to customers and reported in cost of goods sold were as follows:

(In thousands)	Three Months Ended March 31,		Nine Months Ended March 31,	
	2020	2019	2020	2019
Depreciation expense	\$ 2,359	\$ 2,269	\$ 7,239	\$ 6,665
Other CBE expenses	\$ 7,821	\$ 10,458	\$ 23,778	\$ 27,375

Other expenses related to CBE provided to customers, such as the cost of servicing that equipment (including service employees' salaries, cost of transportation and the cost of supplies and parts), are considered directly attributable to the generation of revenues from the customers. Therefore, these costs are included in cost of goods sold.

#### Note 9. Goodwill and Intangible Assets

The carrying value of goodwill was fully impaired and written down to zero at March 31, 2020. See below. The carrying value of goodwill at June 30, 2019 was \$36.2 million.

The following is a summary of the Company's amortized and unamortized intangible assets other than goodwill:

(In thousands)	Weighted Average Amortization Period as of March 31, 2020	March 31, 2020				June 30, 2019			
		Gross Carrying Amount	Accumulated Amortization	Impairment	Net	Gross Carrying Amount	Accumulated Amortization	Net	
Amortized intangible assets:									
Customer relationships	7.2	\$ 33,003	\$ (16,943)	\$ —	\$ 16,060	\$ 33,003	\$ (15,291)	\$ 17,712	
Non-compete agreements	2.0	220	(151)	—	69	220	(122)	98	
Recipes	3.7	930	(453)	—	477	930	(354)	576	
Trade name/brand name	4.3	510	(374)	—	136	510	(346)	164	
Total amortized intangible assets		\$ 34,663	\$ (17,921)	\$ —	\$ 16,742	\$ 34,663	\$ (16,113)	\$ 18,550	
Unamortized intangible assets:									
Trademarks, trade names and brand name with indefinite lives		\$ 10,328	\$ —	\$ (5,806)	\$ 4,522	\$ 10,328	\$ —	\$ 10,328	
Total unamortized intangible assets		\$ 10,328	\$ —	\$ (5,806)	\$ 4,522	\$ 10,328	\$ —	\$ 10,328	
Total intangible assets		\$ 44,991	\$ (17,921)	\$ (5,806)	\$ 21,264	\$ 44,991	\$ (16,113)	\$ 28,878	

Aggregate amortization expense for the three months ended March 31, 2020 and 2019 was \$0.6 million and \$0.7 million, respectively. Aggregate amortization expense for the nine months ended March 31, 2020 and 2019 was \$1.8 million and \$2.0 million, respectively.

The Company tests goodwill and indefinite-lived intangible assets for impairment annually, as of January 31, or when events or changes in circumstances would indicate that more likely than not the fair values may be below the carrying amounts of the assets. The Company also assessed the recoverability of certain finite-lived intangible assets. Additionally, for the nine months ended March 31, 2020, the changes in the business environment and the general economic outlook as a result of the COVID-19 pandemic have negatively impacted the fair value of these assets.

As a result of these tests for impairment, the Company recorded \$36.2 million and \$5.8 million, respectively, of impairments to goodwill and indefinite-lived intangibles for the three and nine months ended March 31, 2020. No impairment was recorded for the finite-lived intangibles for the three and nine months ended March 31, 2020.

**Note 10. Employee Benefit Plans**

**Single Employer Pension Plans**

Effective June 30, 2011, the Company amended its defined benefit pension plans, freezing the benefit for all participants. As of the effective date, participants do not accrue any benefits under the plans, and new hires are not eligible to participate in the plans.

The net periodic benefit cost for the defined benefit pension plans is as follows:

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2020	2019	2020	2019
<b>(In thousands)</b>				
Service cost	\$ —	\$ —	\$ —	\$ —
Interest cost	1,059	1,173	3,177	4,025
Expected return on plan assets	(1,102)	(1,126)	(3,305)	(4,096)
Amortization of net loss(1)	370	380	1,109	1,120
Pension settlement charge	—	—	—	10,948
Net periodic benefit cost	<u>\$ 327</u>	<u>\$ 427</u>	<u>\$ 981</u>	<u>\$ 11,997</u>

(1) These amounts represent the estimated portion of the net loss in AOCI that is expected to be recognized as a component of net periodic benefit cost over the current fiscal year.

**Weighted-Average Assumptions Used to Determine Net Periodic Benefit Cost**

	March 31, 2020	June 30, 2019
Discount rate	3.45%	4.05%
Expected long-term return on plan assets	6.75%	6.75%

**Multiemployer Pension Plans**

The Company participates in two multiemployer defined benefit pension plans that are union sponsored and collectively bargained for the benefit of certain employees subject to collective bargaining agreements, of which the Western Conference of Teamsters Pension Plan ("WCTPP") is individually significant. The Company makes contributions to these plans generally based on the number of hours worked by the participants in accordance with the provisions of negotiated labor contracts.

Contributions made by the Company to the multiemployer pension plans were as follows:

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2020	2019	2020	2019
<b>(In thousands)</b>				
Contributions	\$ 240	\$ 585	\$ 1,120	\$ 1,364

Outstanding balance of settlement obligations of the Company to certain multiemployer pension plans are as follows:

<b>(In thousands)</b>	March 31, 2020	June 30, 2019
WCT Pension Trust (1)	\$ —	\$ 1,487
Local 807 Pension Fund (2)	\$ 182	\$ 182

(1) Initial liability amount of \$3.4 million, including interest, commencing in September 10, 2018, payable in 17 monthly installments of \$190,507 followed by a final monthly installment of \$153,822 in February 2020.

(2) Lump sum cash settlement payment of \$3.0 million plus two remaining installment payments of \$91,000 due on or before October 1, 2034 and on or before January 1, 2035. As of March 31, 2020, the Company has paid the Local 807 Pension Fund \$3.0 million and has accrued \$0.2 million within "Accrued pension liabilities" on the Company's condensed consolidated balance sheet.

#### ***Multiemployer Plans Other Than Pension Plans***

The Company participates in nine multiemployer defined contribution plans other than pension plans that provide medical, vision, dental and disability benefits for active, union-represented employees subject to collective bargaining agreements. The plans are subject to the provisions of the Employee Retirement Income Security Act of 1974, and provide that participating employers make monthly contributions to the plans in an amount as specified in the collective bargaining agreements. Also, the plans provide that participants make self-payments to the plans, the amounts of which are negotiated through the collective bargaining process. The Company's participation in these plans is governed by collective bargaining agreements which expire on or before June 30, 2022.

#### ***401(k) Plan***

The Company's 401(k) Plan is available to all eligible employees. Participants in the 401(k) Plan may choose to contribute a percentage of their annual pay subject to the maximum contribution allowed by the Internal Revenue Service. The Company recorded matching contributions of \$0.5 million and \$0.7 million in operating expenses in the three months ended March 31, 2020 and 2019, respectively. The Company recorded matching contributions of \$1.9 million and \$1.6 million in operating expenses in the nine months ended March 31, 2020 and 2019, respectively. Effective March 31, 2020, the Company temporarily suspended its 401K matching program in response to the COVID-19 pandemic.

Additionally, the Company makes an annual safe harbor non-elective contribution of shares of the Company's common stock equal to 4% of each eligible participant's annual plan compensation. During the three and nine months ended March 31, 2020, the Company contributed a total of 104,247 and 213,896 shares of the Company's common stock with a value of \$0.9 million and \$2.3 million, respectively, to eligible participants' annual plan compensation. During the three and nine months ended March 31, 2019, the Company contributed a total of 37,571 shares of the Company's common stock with a value of \$0.7 million to eligible participants' annual plan compensation.

#### ***Postretirement Benefits***

##### ***Retiree Medical Plan and Death Benefit***

On March 23, 2020, the Company announced a plan to amend and terminate the postretirement medical benefit plan that covers qualified non-union retirees and certain qualified union retirees ("Retiree Medical Plan") effective January 1, 2021. The plan provides medical, dental and vision coverage for retirees under age 65 and medical coverage only for retirees age 65 and above. Under this postretirement plan, the Company's contributions toward premiums for retiree medical, dental and vision coverage for participants and dependents are scaled based on length of service, with greater Company contributions for retirees with greater length of service, subject to a maximum monthly Company contribution. The Company's retiree medical, dental and vision plan was unfunded and its liability was calculated using an assumed discount rate.

The Company's communication of its intention to amend and terminate the Retiree Medical Plan triggered re-measurement and curtailment of the plan. As a result, the re-measurement generated a prior service credit of \$13.4 million to be amortized over the remaining nine months of the plan, and a revised net periodic postretirement benefit credit for the fourth quarter of fiscal 2020 of \$7.2 million. Also, the Company recognized a one-time non-cash curtailment credit of \$5.8 million for the three and nine months ended March 31, 2020.

The Company continues to provide a postretirement death benefit ("Death Benefit") to certain of its employees and retirees, subject, in the case of current employees, to continued employment with the Company until retirement and certain other conditions related to the manner of employment termination and manner of death.

The following table shows the components of net periodic postretirement benefit cost (credit) for the Retiree Medical Plan and Death Benefit for the three and nine months ended March 31, 2020 and 2019. Net periodic postretirement benefit cost was based on employee census information and asset information as of June 30, 2019.

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2020	2019	2020	2019
<b>(In thousands)</b>				
<b>Components of Net Periodic Postretirement Benefit Cost (Credit):</b>				
Service cost	\$ 147	\$ 133	\$ 441	\$ 399
Interest cost	214	222	641	666
Amortization of net gain	(125)	(209)	(374)	(627)
Curtailment credit - Retiree Medical	(5,750)	—	(5,750)	—
Amortization of prior service credit	(395)	(439)	(1,186)	(1,317)
Net periodic postretirement benefit credit	<u>\$ (5,909)</u>	<u>\$ (293)</u>	<u>\$ (6,228)</u>	<u>\$ (879)</u>

Weighted-Average Assumptions Used to Determine Net Periodic Postretirement Benefit Cost

	Fiscal	
	2020	2019
Retiree Medical Plan discount rate	3.44%	4.25%
Death Benefit discount rate	3.64%	4.25%

**Note 11. Debt Obligations**

The following table summarizes the Company's debt obligations:

(In thousands)	Debt Origination Date	Maturity	Original Borrowing Amount	March 31, 2020		June 30, 2019	
				Carrying Value	Weighted Average Interest Rate	Carrying Value	Weighted Average Interest Rate
Credit Facility	Revolver	11/6/2023	N/A	\$ 80,000	4.45%	\$ 92,000	3.98%

In March 2020, pursuant to Amendment No. 2 to Amended and Restated Credit Agreement (the "Second Amendment") the Company amended its existing senior secured revolving credit facility (such facility as amended to date, including pursuant to the Second Amendment, the "Amended Revolving Facility") with Bank of America, N.A, Citibank, N.A., JPMorgan Chase Bank, N.A., PNC Bank, National Association, Regions Bank, and SunTrust Bank. The Second Amendment, among other things: (i) decreased the size of the revolving credit facility to \$125.0 million from \$150.0 million; (ii) made certain adjustments to the commitment fee rates and interest rates; (iii) increased the maximum total net leverage ratio financial covenant until the quarter ending December 31, 2021; (iv) added a minimum EBITDA financial covenant until the quarter ending December 31, 2021; (v) amended the definitions of "EBITDA" and "Permitted Acquisition"; (vi) removed the accordion feature; (vii) removed the Company's option to request and agree to an extension of the maturity date with individual lenders; (viii) provided for a mortgage on certain of the Company's real property; (ix) provides for the revolving commitments to be reduced upon the occurrence of certain asset dispositions and incurrences of other indebtedness; (x) added a monthly reporting requirement; and (xi) modified certain of the Company's covenant-related baskets.

The Amended Revolving Facility otherwise retained many of its previous terms, including the sublimit on letters of credit and swingline loans of \$15.0 million each. The commitment fee is based on a leverage grid and ranges from 0.20% to 0.50%. Borrowings under the Amended Revolving Facility bear interest on base rate loans based on a leverage grid with a range of PRIME + 0.50% to 2.50%, and on Eurodollar loans based on a leverage grid with a range of Adjusted LIBO Rate + 1.50% to 3.50%. Effective March 27, 2019, the Company entered into a rate swap agreement and in December 2019 amended the agreement to reduce the notional amount. The impact of the amendment for the nine months ended March 31, 2020, was \$0.4 million of realized loss due to the partial unwinding of interest rate swap resulting from the amendment of the notional amount from \$80.0 million to \$65.0 million. See Note 4 for details.

Under the Amended Revolving Facility, the Company is subject to a variety of affirmative and negative covenants of types customary in a senior secured lending facility, including financial covenants relating to leverage, interest expense coverage and (until the quarter ending December 31, 2021) minimum adjusted EBITDA. The Company is allowed to pay dividends, provided, among other things, a total net leverage ratio is met, and no default exists or has occurred and is continuing as of the date of any such payment and after giving effect thereto. The Amended Revolving Facility has no scheduled payback required on the principal prior to the maturity date on November 6, 2023.

At March 31, 2020, the Company was in compliance with all of the covenants under the Amended Revolving Facility. See [Note 1](#), "Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity, Capital Resources and Financial Condition" on consideration of future debt covenants compliance.

**Note 12. Employee Stock Ownership Plan**

The Company’s ESOP was established in 2000. As of December 31, 2018, the Company froze the ESOP such that (i) no employees of the Company may commence participation in the ESOP on or after December 31, 2018; (ii) no Company contributions will be made to the ESOP with respect to services performed or compensation received after December 31, 2018; and (iii) the ESOP accounts of all individuals who are actively employed by the Company and participating in the ESOP on December 31, 2018 will be fully vested as of such date. Additionally, the Administrative Committee, with the consent of the Board of Directors, designated certain employees who were terminated in connection with certain reductions-in-force in 2018 to be fully vested in their ESOP accounts as of their severance dates.

Shares are held by the plan trustee for allocation among 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.

	March 31, 2020	June 30, 2019
Allocated shares	1,191,754	1,393,530
Committed to be released shares	—	—
Unallocated shares	—	—
Total ESOP shares	1,191,754	1,393,530
<b>(In thousands)</b>		
Fair value of ESOP shares	\$ 8,295	\$ 22,812

**Note 13. Share-based Compensation**

***Farmer Bros. Co. Long-Term Incentive Plan***

As of March 31, 2020, there were 544,857 shares available under the 2017 Plan including shares that were forfeited under the Prior Plans for future issuance. As of March 31, 2020, there were 300,000 shares available under the 2020 Inducement Plan of which 88,495 were issued on April 1, 2020.

***Non-qualified stock options with time-based vesting ("NQOs")***

One-third of the total number of shares subject to each stock option vest ratably on each of the first three anniversaries of the grant date, contingent on continued employment, and subject to accelerated vesting in certain circumstances.

Following are the assumptions used in the Black-Scholes valuation model for NQOs granted during the nine months ended March 31, 2020:

	Nine Months Ended March 31, 2020
Weighted average fair value of NQOs	\$ 4.68
Risk-free interest rate	1.7%
Dividend yield	—%
Average expected term	4.6 years
Expected stock price volatility	35.4%

The following table summarizes NQO activity for the nine months ended March 31, 2020:

	Number of NQOs	Weighted Average Exercise Price (\$)	Weighted Average Remaining Life (Years)	Aggregate Intrinsic Value (\$ in thousands)
<b>Outstanding NQOs:</b>				
Outstanding at June 30, 2019	198,049	27.35	5.25	40
Granted	447,973	14.44	—	—
Exercised	(10,360)	12.48	—	28
Forfeited	(112,624)	26.55	—	—
Expired	(37,342)	31.43	—	—
Outstanding at March 31, 2020	485,696	15.63	6.42	—
Exercisable at March 31, 2020	20,702	28.16	4.97	—

The weighted-average grant-date fair value of options granted during the nine months ended March 31, 2020 was \$4.68. The aggregate intrinsic values outstanding at the end of period in the table above represent the total pretax intrinsic values, based on the Company's closing stock price of \$6.96 at March 31, 2020 and \$16.37 at June 28, 2019, representing the last trading day of the respective periods, which would have been received by NQO holders had all award holders exercised their NQOs that were in-the-money as of those dates. The aggregate intrinsic value of NQO exercises in the nine months ended March 31, 2020 represents the difference between the exercise price and the value of the Company's common stock at the time of exercise. NQOs outstanding that are expected to vest are net of estimated forfeitures.

The Company received \$0.1 million and \$0.3 million in proceeds from exercises of vested NQOs during the nine months ended March 31, 2020 and 2019, respectively.

At March 31, 2020 and June 30, 2019, respectively, there were \$1.9 million and \$1.1 million of unrecognized NQO compensation cost. The unrecognized NQO compensation cost at March 31, 2020 is expected to be recognized over the weighted average period of 2.5 years. Total compensation expense for NQOs was \$167.3 thousand and \$185.8 thousand for the three months ended March 31, 2020 and 2019, respectively. Total compensation expense for NQOs was \$444.9 thousand and \$454.8 thousand for the nine months ended March 31, 2020 and 2019, respectively.

**Non-qualified stock options with performance-based and time-based vesting (“PNQs”)**

The following table summarizes PNQ activity for the nine months ended March 31, 2020:

	Number of PNQs	Weighted Average Exercise Price (\$)	Weighted Average Remaining Life (Years)	Aggregate Intrinsic Value (\$ in thousands)
<b>Outstanding PNQs:</b>				
Outstanding at June 30, 2019	229,961	26.21	1.23	—
Granted	—	—	—	—
Exercised	—	—	—	—
Forfeited	(6,212)	32.85	—	—
Expired	(210,119)	25.86	—	—
Outstanding at March 31, 2020	13,630	28.60	2.61	—
Exercisable at March 31, 2020	8,822	26.89	2.23	—

The aggregate intrinsic values outstanding at the end of each fiscal period in the table above represent the total pretax intrinsic values, based on the Company’s closing stock price of \$6.96 at March 31, 2020 and \$16.37 at June 28, 2019, representing the last trading day of the respective fiscal periods, which would have been received by PNQ holders had all award holders exercised their PNQs that were in-the-money as of those dates. The aggregate intrinsic value of PNQ exercises in the nine months ended March 31, 2020 represents the difference between the exercise price and the value of the Company’s common stock at the time of exercise. PNQs outstanding that are expected to vest are net of estimated forfeitures.

There were no options exercised during the nine months ended March 31, 2020. The Company received \$0.1 million in proceeds from exercises of vested PNQs during the nine months ended March 31, 2019.

At March 31, 2020 and June 30, 2019, there were zero and \$39.7 thousand, respectively, of unrecognized PNQ compensation cost. Total compensation expense related to PNQs in the three months ended March 31, 2020 and 2019 were zero and \$56.1 thousand, respectively. Total compensation expense related to PNQs in the nine months ended March 31, 2020 and 2019 were \$18.3 thousand and \$324.5 thousand, respectively.

**Restricted Stock**

The following table summarizes restricted stock activity for the nine months ended March 31, 2020:

	Shares Awarded	Weighted Average Grant Date Fair Value (\$)
<b>Outstanding and Nonvested Restricted Stock Awards:</b>		
Outstanding and nonvested at June 30, 2019	32,056	21.10
Granted	83,692	15.26
Vested/Released	(18,298)	23.98
Cancelled/Forfeited	(10,809)	20.37
Outstanding and nonvested at March 31, 2020	86,641	15.53

The total grant-date fair value of restricted stock granted during the nine months ended March 31, 2020 was \$1.3 million.

At March 31, 2020 and June 30, 2019, there were \$0.8 million and \$0.4 million, respectively, of unrecognized compensation cost related to restricted stock. The unrecognized compensation cost related to restricted stock at March 31, 2020 is expected to be recognized over the weighted average period of 0.7 years. Total compensation expense for restricted stock were \$0.3 million and \$0.1 million, respectively, in the three months ended March 31, 2020 and 2019. Total compensation expense for restricted stock in the nine months ended March 31, 2020 and 2019 were \$0.7 million and \$0.3 million, respectively.

**Performance-Based Restricted Stock Units (“PBRsUs”)**

The following table summarizes PBRsU activity for the nine months ended March 31, 2020:

	PBRsUs Awarded(1)	Weighted Average Grant Date Fair Value (\$)
<b>Outstanding and Nonvested PBRsUs:</b>		
Outstanding and nonvested at June 30, 2019	51,237	27.69
Granted(1)	81,236	14.46
Vested/Released	—	—
Cancelled/Forfeited	(38,262)	27.38
Outstanding and nonvested at March 31, 2020	94,211	16.41

(1) The target number of PBRsUs is presented in the table. Under the terms of the awards, the recipient may earn between 0% and 200% of the target number of PBRsUs depending on the extent to which the Company meets or exceeds the achievement of the applicable financial performance goals.

The total grant-date fair value of PBRsUs granted during the nine months ended March 31, 2020 was \$1.2 million.

At March 31, 2020 and June 30, 2019, there were \$0.6 million and \$0.3 million, respectively, of unrecognized PBRsU compensation cost. The unrecognized PBRsU compensation cost at March 31, 2020 is expected to be recognized over the weighted average period of 2.4 years. Total compensation expense for PBRsUs were \$17.9 thousand and \$149.0 thousand, respectively, for the three months ended March 31, 2020 and 2019. Total compensation expense for PBRsUs were \$0.1 million and \$0.3 million, respectively, for the nine months ended March 31, 2020 and 2019.

**Performance Cash Awards (“PCAs”)**

In November 2019, the Company granted PCAs under the 2017 Plan to certain employees. The PCAs cliff vest on the third anniversary of the date of grant based on the Company’s achievement of certain financial performance goals for the performance period July 1, 2019 through June 30, 2022, subject to certain continued employment conditions and subject to acceleration provisions of the 2017 Plan. At the end of the three-year performance period, the amount of PCAs that actually vest will be 0% to 200% of the target amount, depending on the extent to which the Company meets or exceeds the achievement of those financial performance goals measured over the full three-year performance period.

The PCAs are measured initially based on a fixed amount of the awards at the date of grant and are required to be re-measured based on the probability of achieving the performance conditions at each reporting date until settlement. Compensation expense for PCAs is recognized over the applicable performance periods. The Company records a liability equal to the cost of PCAs for which achievement of the performance condition is deemed probable. As of March 31, 2020, the Company had recognized accrued liabilities of \$46.5 thousand.

At March 31, 2020, there was \$0.4 million of unrecognized PCA compensation cost. The unrecognized PCA compensation cost at March 31, 2020 is expected to be recognized over the weighted average period of 2.6 years. Total compensation expense for PCAs was \$29.7 thousand and \$46.5 thousand for the three and nine months ended March 31, 2020, respectively.

#### Note 14. Other Current Liabilities

Other current liabilities consist of the following:

(In thousands)	March 31, 2020	June 30, 2019
Accrued postretirement benefits	\$ 890	\$ 1,068
Accrued workers' compensation liabilities	1,702	1,495
Cumulative preferred dividends, undeclared and unpaid (4)	1,337	305
Earnout payable (1)	—	1,000
Working capital dispute payable(2)	354	354
Other (3)	2,193	3,087
Other current liabilities	<u>\$ 6,476</u>	<u>\$ 7,309</u>

(1) Represents estimated fair value of earnout payable in connection with the Company's acquisition of substantially all of the assets of West Coast Coffee completed on February 7, 2017.

(2) Represents accrued expenses related to working capital disputes in connection with the Company's acquisition of Boyd Coffee on October 2, 2017.

(3) Includes accrued property taxes, sales and use taxes and insurance liabilities.

(4) Per the agreement, all the cumulative preferred dividends, undeclared and unpaid are now payable. Therefore, the previously accrued long-term portion has been reclassified to current liabilities.

#### Note 15. Other Long-Term Liabilities

Other long-term liabilities include the following:

(In thousands)	March 31, 2020	June 30, 2019
Finance lease liabilities	\$ 22	\$ 32
Derivative liabilities—noncurrent	2,747	1,612
Performance Cash Awards Liability	46	—
Cumulative preferred dividends, undeclared and unpaid—noncurrent	—	618
Deferred income taxes and other liabilities(1)	1,738	1,795
Other long-term liabilities	<u>\$ 4,553</u>	<u>\$ 4,057</u>

(1) Includes deferred tax liabilities that have an indefinite reversal pattern.

#### Note 16. Income Taxes

The income tax expense (benefit) and the related effective tax rates are as follows (in thousands, except effective tax rate):

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2020	2019	2020	2019
Income tax (benefit) expense	\$ (1,034)	\$ 43,161	\$ (1,222)	\$ 39,149
Effective tax rate	2.5%	(502.7)%	4.3%	(152.4)%

The higher effective tax rate is primarily due to the previously recorded valuation allowance and change in the Company's estimated deferred tax liability. The Company's interim tax provision is determined using an estimated annual effective tax rate and adjusted for discrete taxable events that may occur during the quarter. The Company recognizes the effects of tax legislation in the period in which the law is enacted. Deferred tax assets and liabilities are remeasured using enacted tax rates expected to apply to taxable income in the years the Company estimates the related temporary differences to reverse. The Company evaluates its deferred tax assets quarterly to determine if a valuation allowance is required. In making such assessment, significant weight is given to evidence that can be objectively verified, such as recent operating results, and less consideration is given to less objective indicators such as future income projections.

The Company files its tax returns as prescribed by the tax laws of the jurisdictions in which it operates. In the normal course of business, the Company is subject to examination by U.S. federal, state and local tax authorities. With limited exceptions, as of March 31, 2020 and June 30, 2019, the Company is no longer subject to income tax audits by taxing authorities for any years prior to 2016. Although the outcome of tax audits is always uncertain, the Company does not believe the outcome of any future audit will have a material adverse effect on the Company's condensed consolidated financial statements.

**Note 17. Net Income (loss) Per Common Share**

Basic net income (loss) per common share is calculated by dividing net income (loss) attributable to the Company by the weighted average number of common shares outstanding during the periods presented. Diluted net income (loss) per common share is calculated by dividing diluted net income (loss) attributable to the Company by the weighted average number of common shares outstanding adjusted to include the effect, if dilutive, of the exercise of in-the-money stock options, unvested performance-based restricted stock units, and shares of Series A Preferred Stock, as converted, during the periods presented. The calculation of dilutive shares outstanding excludes out-of-the-money stock options (i.e., such option's exercise prices were greater than the average market price of our common shares for the period) and unvested performance-based restricted stock units because their inclusion would have been anti-dilutive.

The following table presents the computation of basic and diluted earnings (loss) per common share:

(In thousands, except share and per share amounts)	Three Months Ended March 31,		Nine Months Ended March 31,	
	2020	2019	2020	2019
Undistributed net loss available to common stockholders	\$ (39,790)	\$ (51,828)	\$ (27,692)	\$ (65,177)
Undistributed net loss available to nonvested restricted stockholders and holders of convertible preferred stock	(126)	(55)	(91)	(58)
Net loss available to common stockholders—basic	<u>\$ (39,916)</u>	<u>\$ (51,883)</u>	<u>\$ (27,783)</u>	<u>\$ (65,235)</u>
Weighted average common shares outstanding—basic	17,230,879	17,003,206	17,161,477	16,982,247
Effect of dilutive securities:				
Shares issuable under stock options	—	—	—	—
Shares issuable under PBRsUs	—	—	—	—
Weighted average common shares outstanding—diluted	<u>17,230,879</u>	<u>17,003,206</u>	<u>17,161,477</u>	<u>16,982,247</u>
Net loss per common share available to common stockholders—basic	<u>\$ (2.32)</u>	<u>\$ (3.05)</u>	<u>\$ (1.62)</u>	<u>\$ (3.84)</u>
Net loss per common share available to common stockholders—diluted	<u>\$ (2.32)</u>	<u>\$ (3.05)</u>	<u>\$ (1.62)</u>	<u>\$ (3.84)</u>

The following table summarizes anti-dilutive securities excluded from the computation of diluted net income (loss) per common share for the periods indicated:

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2020	2019	2020	2019
Shares issuable under stock options	485,513	269,872	327,192	211,594
Shares issuable under convertible preferred stock	418,531	404,197	418,531	404,197
Shares issuable under PBRsUs	98,946	91,697	75,926	65,971

**Note 18. Preferred Stock**

The Company is authorized to issue 500,000 shares of preferred stock at a par value of \$1.00, including 21,000 authorized shares of Series A Preferred Stock.

On October 2, 2017, the Company issued 14,700 shares of Series A Preferred Stock in connection with the Boyd Coffee acquisition. At March 31, 2020, Series A Preferred Stock consisted of the following:

(In thousands, except share and per share amounts)

Shares Authorized	Shares Issued and Outstanding	Stated Value per Share	Carrying Value	Cumulative Preferred Dividends, Undeclared and Unpaid	Liquidation Preference
21,000	14,700	\$ 1,091	\$ 16,038	\$ 1,338	\$ 16,038

**Note 19. Revenue Recognition**

The Company's primary sources of revenue are sales of coffee, tea and culinary products. The Company recognizes revenue when control of the promised good or service is transferred to the customer and in amounts that the Company expects to collect. The timing of revenue recognition takes into consideration the various shipping terms applicable to the Company's sales.

The Company delivers products to customers primarily through two methods, Direct-store-delivery ("DSD") to the Company's customers at their place of business and direct ship from the Company's warehouse to the customer's warehouse or facility. Each delivery or shipment made to a third party customer is to satisfy a performance obligation. Performance obligations generally occur at a point in time and are satisfied when control of the goods passes to the customer. The Company is entitled to collection of the sales price under normal credit terms in the regions in which it operates.

The Company disaggregates net sales from contracts with customers based on the characteristics of the products sold:

(In thousands)	Three Months Ended March 31,			
	2020		2019	
	\$	% of total	\$	% of total
<b>Net Sales by Product Category:</b>				
Coffee (Roasted)	\$ 84,300	65.3%	\$ 93,211	63.5%
Coffee (Frozen Liquid)	7,044	5.5%	8,267	5.6%
Tea (Iced & Hot)	6,701	5.2%	8,320	5.7%
Culinary	12,954	9.9%	15,990	11.0%
Spice	5,262	4.1%	5,736	3.9%
Other beverages(1)	12,290	9.5%	14,405	9.8%
Net sales by product category	128,551	99.5%	145,929	99.5%
Fuel surcharge	588	0.5%	750	0.5%
Net sales	\$ 129,139	100.0%	\$ 146,679	100%

(1) Includes all beverages other than roasted coffee, frozen liquid coffee, and iced and hot tea, including cappuccino, cocoa, granitas, and concentrated and ready-to drink cold brew and iced coffee.

(In thousands)	Nine Months Ended March 31,			
	2020		2019	
	\$	% of total	\$	% of total
<b>Net Sales by Product Category:</b>				
Coffee (Roasted)	\$ 267,847	63.7%	\$ 287,851	63.4%
Coffee (Frozen Liquid)	23,528	5.6%	26,141	5.8%
Tea (Iced & Hot)	21,969	5.2%	25,876	5.7%
Culinary	42,315	10.1%	48,779	10.8%
Spice	17,594	4.2%	17,895	3.9%
Other beverages(1)	42,322	10.1%	44,946	9.9%
Other revenues(2)	2,701	0.6%	—	—%
Net sales by product category	418,276	99.5%	451,488	99.5%
Fuel surcharge	1,961	0.5%	2,404	0.5%
Net sales	\$ 420,237	100.0%	\$ 453,892	100.0%

(1) Includes all beverages other than roasted coffee, frozen liquid coffee, and iced and hot tea, including cappuccino, cocoa, granitas, and concentrated and ready-to drink cold brew and iced coffee.

(2) Represents revenues for certain transition services related to the sale of the Company's office coffee assets.

The Company does not have any material contract assets and liabilities as of March 31, 2020. Receivables from contracts with customers are included in "Accounts receivable, net" on the Company's condensed consolidated balance sheets. At March 31, 2020 and June 30, 2019, "Accounts receivable, net" included, \$49.3 million and \$53.6 million, respectively, in receivables from contracts with customers.

## Note 20. Commitments and Contingencies

For a detailed discussion about the Company's commitments and contingencies, see Note 22, "Commitments and Contingencies" in the Notes to Consolidated Financial Statements in the 2019 Form 10-K. During the nine months ended March 31, 2020, other than the following, or as otherwise disclosed in these footnotes in the current Form 10-Q, there were no material changes in the Company's commitments and contingencies.

### Purchase Commitments

As of March 31, 2020, the Company had committed to purchase green coffee inventory totaling \$61.2 million under fixed-price contracts, \$4.5 million in other inventory under non-cancelable purchase orders and \$7.2 million in other purchases under non-cancelable purchase orders.

### Legal Proceedings

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

On August 31, 2012, CERT filed an amendment to a private enforcement action adding a number of companies as defendants, including the Company's subsidiary, Coffee Bean International, Inc., which sell coffee in California under the State of California's Safe Drinking Water and Toxic Enforcement Act of 1986 ("Prop 65"). The suit alleges that the defendants have failed to issue clear and reasonable warnings in accordance with Prop 65 that the coffee they produce, distribute, and sell contains acrylamide. This lawsuit was filed in Los Angeles Superior Court (the "Court"). CERT alleges that the Company and the other defendants failed to provide warnings for their coffee products of exposure to the chemical acrylamide as required under Prop 65. Plaintiff seeks equitable relief, including providing warnings to consumers of coffee products, as well as civil penalties in the amount of the statutory maximum of \$2,500.00 per day per violation of Prop 65. The Plaintiff asserts that every consumed cup of coffee, absent a compliant warning, is equivalent to a violation under Prop 65.

The Company, as part of a joint defense group (“JDG”) organized to defend against the lawsuit, disputes the claims of CERT. Acrylamide is not added to coffee but is present in all coffee in small amounts (parts per billion) as a byproduct of the coffee bean roasting process. Acrylamide is produced naturally in connection with the heating of many foods, especially starchy foods, and is believed to be caused by the Maillard reaction, though it has also been found in unheated foods such as olives. With respect to coffee, acrylamide is produced when coffee beans are heated during the roasting process—it is the roasting itself that produces the acrylamide. While there has been a significant amount of research concerning proposals for treatments and other processes aimed at reducing acrylamide content of different types of foods, to our knowledge there is currently no known strategy for reducing acrylamide in coffee without negatively impacting the sensorial properties of the product.

The Company has asserted multiple affirmative defenses. Trial of the first phase of the case commenced on September 8, 2014, and was limited to three affirmative defenses shared by all defendants. On September 1, 2015, the trial court issued a final ruling adverse to defendants on all Phase 1 defenses. Trial of the second phase of the case commenced in the fall of 2017. On May 7, 2018, the trial court issued a ruling adverse to defendants on the Phase 2 defense, the Company's last remaining defense to liability. On June 22, 2018, the California Office of Environmental Health Hazard Assessment (OEHHA) proposed a new regulation clarifying that cancer warnings are not required for coffee under Proposition 65. The case was set to proceed to a third phase trial on damages, remedies and attorneys' fees on October 15, 2018. However, on October 12, 2018, the California Court of Appeal granted the “defendants” request for a stay of the Phase 3 trial.

On June 3, 2019, the Office of Administrative Law (OAL) approved the coffee exemption regulation. The regulation became effective on October 1, 2019. On June 24, 2019, the Court of Appeal lifted the stay of the litigation. A status conference was held on July 11, 2019. The Court granted the JDG's motion for leave to amend its answers to add the coffee exemption regulation as a defense. Concurrently, the Court denied CERT's motion to add OEHHA as a party but granted CERT's motions to complete the administrative record with respect to the exemption and to undertake certain third party discovery. A status conference was held November 12, 2019 to discuss discovery issues and dispositive motions. Plaintiff's motion to compel OEHHA to add documents to the rulemaking file for the new coffee exemption regulation was denied. CERT continues to pursue third-party discovery with plans to file motions to compel appearances of proposed deponents. These motions, along with CERT's eight summary judgment motions, were heard at a January 21, 2020 hearing where the Court denied several of CERT's discovery requests. The JDG's reply in support of its motion for summary judgment was due to the Court on the March 16, 2020. The Court delayed the March hearing on the motions until May 11, 2020 due to the COVID 19 pandemic's impact and closure of courts. The parties' reply papers are now due May 6.

Subsequent to the hearing on January 21, 2020, Plaintiff issued broad discovery against each of the defendants in hopes of opening up a third round of discovery. The discovery focuses on “additives to” and “flavorings” in coffee. The JDG is currently working to respond to those discovery requests.

At this time, the Company is not able to predict the probability of the outcome or estimate of loss, if any, related to this matter.

The Company is a party to various other 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 21. Sales of Assets**

***Sale of Office Coffee Assets***

In order to focus on its core product offerings, in July 2019, the Company completed the sale of certain assets associated with its office coffee customers for \$9.3 million in cash paid at the time of closing plus an earnout of up to an additional \$2.3 million if revenue expectations were achieved during test periods scheduled to occur at various branches at various times and concluded by early third quarter of fiscal year 2020. The earnout of up to an additional \$2.3 million was not paid to the Company because the revenue expectations were not achieved. The Company recognized a net gain on the asset sales of \$7.2 million during the nine months ended March 31, 2020. The sale of office coffee assets did not represent a strategic shift for the Company and did not have a material impact on the Company's results of operations because the Company has signed a supply agreement to provide certain coffee products to the assets purchaser.

***Sale of Branch Properties***

During the nine months ended March 31, 2020, the Company completed the sale of seven branch properties and entered into two operating lease agreements with the purchasers of two of the branch properties as detailed in the following table:

(In thousands)							
Name of Branch Property	Date Sold	Sales Price	Net Proceed	Gain (loss)	Long-Term Leaseback	Lease Term	Monthly Base Rent
Seattle, Washington	8/28/2019	\$ 7,900	\$ 7,300	\$ 6,800	No	N/A	N/A
Indianapolis, Indiana	11/19/2019	\$ 250	\$ 186	\$ (173)	No	N/A	N/A
Hayward, California(1)	12/23/2019	\$ 7,050	\$ 6,569	\$ 2,016	Yes	5 years	\$ 28
Denver, Colorado(1)	12/31/2019	\$ 2,300	\$ 2,075	\$ 1,989	Yes	7 years	\$ 17
Casper, Wyoming	12/31/2019	\$ 385	\$ 355	\$ 304	No	N/A	N/A
Tempe, Arizona	1/28/2020	\$ 1,150	\$ 1,077	\$ 841	No	N/A	N/A
Great Falls, Montana	2/28/2020	\$ 385	\$ 356	\$ 283	No	N/A	N/A

(1) Has an option to renew the lease for additional five years.

***Sale leaseback of Houston Facility***

In November 2019, the Company completed the sale of its Houston, Texas manufacturing facility and warehouse (the "Property") for an aggregate purchase price, exclusive of closing costs, of \$10.0 million. Cash proceeds from the sale of the Property were \$9.0 million. The Company recognized a net gain on the Property sale of \$7.3 million during the nine months ended March 31, 2020. The Property did not meet the accounting guidance criteria to be classified as discontinued operations.

Following the close of the sale of the Property, the Company and the purchaser of the Property entered into a three-year leaseback agreement with respect to the Property for a base rent of \$50,000 per month. The Company may terminate the leaseback no earlier than the first day of the eighteenth full calendar month of the term providing at least nine months' notice. The purchaser of the Property does not have any material relationship with the Company or its subsidiaries.

**Note 22. Subsequent Events**

The Company evaluated all events or transactions that occurred after March 31, 2020 through the date the condensed consolidated financial statements were issued. During this period the Company had the following material subsequent events that require disclosure:

None.

## Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations

Certain statements contained in this Quarterly Report on Form 10-Q are not based on historical fact and are forward-looking statements within the meaning of federal securities laws and regulations. These statements are based on management’s current expectations, assumptions, estimates and observations of future events and include any statements that do not directly relate to any historical or current fact; actual results may differ materially due in part to the risk factors set forth in Part I, Item 1A of our Annual Report on Form 10-K for the fiscal year ended June 30, 2019 filed with the Securities and Exchange Commission (the “SEC”) on September 11, 2019 (the “2019 Form 10-K”) and Part II, Item 1A of this report. These forward-looking statements can be identified by the use of words like “anticipates,” “estimates,” “projects,” “expects,” “plans,” “believes,” “intends,” “will,” “could,” “assumes” and other words of similar meaning. Owing to the uncertainties inherent in forward-looking statements, actual results could differ materially from those set forth in forward-looking statements. We intend these forward-looking statements to speak only at the time of this report and do not undertake to update or revise these statements as more information becomes available except as required under federal securities laws and the rules and regulations of the SEC. Factors that could cause actual results to differ materially from those in forward-looking statements include, but are not limited to, duration of the COVID-19 pandemic’s disruption to the Company’s business and customers, levels of consumer confidence in national and local economic business conditions, the duration and magnitude of the pandemic’s impact on unemployment rates, the success of the Company’s strategy to recover from the effects of the pandemic, the success of the Company’s turnaround strategy, the five key initiatives, the impact of capital improvement projects, the adequacy and availability of capital resources to fund the Company’s existing and planned business operations and the Company’s capital expenditure requirements, the relative effectiveness of compensation-based employee incentives in causing improvements in Company performance, the capacity to meet the demands of our large national account customers, the extent of execution of plans for the growth of Company business and achievement of financial metrics related to those plans, the success of the Company to retain and/or attract qualified employees, the success of the Company’s adaptation to technology and new commerce channels, the effect of the capital markets as well as other external factors on stockholder value, fluctuations in availability and cost of green coffee, competition, organizational changes, the effectiveness of our hedging strategies in reducing price and interest rate risk, changes in consumer preferences, our ability to provide sustainability in ways that do not materially impair profitability, changes in the strength of the economy, business conditions in the coffee industry and food industry in general, our continued success in attracting new customers, variances from budgeted sales mix and growth rates, weather and special or unusual events, as well as other risks described in this report and other factors described from time to time in our filings with the SEC. The results of operations for the three and nine months ended March 31, 2020 are not necessarily indicative of the results that may be expected for any future period.

### Our Business

We are a national coffee roaster, wholesaler and distributor of coffee, tea and culinary products manufactured under supply agreements, under our owned brands, as well as under private labels on behalf of certain customers. We were founded in 1912, incorporated in California in 1923, and reincorporated in Delaware in 2004. In fiscal 2017, we completed the relocation of our corporate headquarters from Torrance, California to Northlake, Texas. We operate in one business segment.

We serve a wide variety of customers, from small independent restaurants and foodservice operators to large institutional buyers like restaurants, department and convenience store chains, hotels, casinos, healthcare facilities, and gourmet coffee houses, as well as grocery chains with private brand and consumer-branded coffee and tea products, and foodservice distributors. Through our sustainability, stewardship, environmental efforts, and leadership we are not only committed to serving the finest products available, considering the cost needs of the customer, but also insist on their sustainable cultivation, manufacture and distribution whenever possible.

Our product categories consist of a robust line of roast and ground coffee, including organic, Direct Trade, Project D.I.R.E.C.T. and other sustainably-produced offerings; frozen liquid coffee; flavored and unflavored iced and hot teas; culinary products including gelatins and puddings, soup bases, dressings, gravy and sauce mixes, pancake and biscuit mixes, jellies and preserves, and coffee-related products such as coffee filters, sugar and creamers; spices; and other beverages including cappuccino, cocoa, granitas, and concentrated and ready-to-drink cold brew and iced coffee. We offer a comprehensive approach to our customers by providing not only a breadth of high-quality products, but also value added services such as market insight, beverage planning, and equipment placement and service.

We operate production facilities in Northlake, Texas; Houston, Texas; Portland, Oregon; and Hillsboro, Oregon. Distribution takes place out of the Northlake facility, Texas, the Portland and Hillsboro facilities, as well as separate distribution centers in Northlake, Illinois and Moonachie, New Jersey. Our products reach our customers primarily in the following ways:

through our nationwide Direct-store-delivery (“DSD”) network of approximately 260 delivery routes and 100 branch warehouses as of March 31, 2020, or direct-shipped via common carriers or third-party distributors. DSD sales are made “off-truck” to our customers at their places of business. We operate a large fleet of trucks and other vehicles to distribute and deliver our products, and we rely on third-party logistics service providers for our long-haul distribution.

### ***Impact of the COVID-19 Pandemic on Our Business***

The COVID-19 pandemic has significantly impacted our financial position, results of operations, cash flows and liquidity as the spread of the pandemic and resulting governmental actions have decreased the demand for our products, most notably throughout our DSD network, which has had a material impact on our revenues during the quarter ended March 31, 2020, and will have a material impact on our revenues in future periods. Our DSD customers consist of small independent restaurants, foodservice operators, large institutional buyers, and convenience store chains, hotels, casinos, healthcare facilities, and foodservice distributors. Some customers have either limited operations, or have closed their doors in compliance with the restrictive measures enacted by federal, states and local governments restrictions on social distancing. Thus, our DSD sales channel weekly revenue from these customers during this pandemic period have declined by 65% to 70% from the pre COVID-19 pandemic weeks. Even though we have proactively responded with new concepts such as, warehouse and pop-up sales, and accelerated our roastery direct and e-commerce initiatives, we do not expect these efforts to be able to offset the material decline in DSD revenue.

Therefore, we have instituted certain initiatives to reduce operating expenses and capital expenditures to help mitigate the significant negative impact of our DSD revenue decline. Specifically, we have, among other things;

- reduced headcount and furloughed significant percentage of the remaining employees;
- eliminated fiscal third quarter 2020 cash compensation for our Board of Directors;
- temporarily decreased executive leadership, corporate team member's and all exempt employees (except route sales representatives) base salaries by instituting a 15% reduction;
- reduced discretionary spending, including a moratorium on all travel;
- reduced fiscal year ending 2020 management incentive bonus program;
- reduced plant production costs in two of our plants;
- suspended 401k cash matching for all eligible employees;
- reduced capital expenditures while also closely managing inventory and other spending;
- implemented cost controls throughout our coffee brewing equipment (“CBE”) program service network;
- instituted cost savings to reduce our general and administrative expenses;
- reduced our DSD supply chain network costs by reducing freight and fleet, and consolidating routes; and
- commenced negotiations with landlords on rent, operating expenses and leases.

We expect the above initiatives to result in significant monthly costs savings during the duration of the initiatives. The duration of the initiatives will depend on the length of the COVID-19 pandemic related impacts on our business and the method of ramp up of DSD after the COVID-19 pandemic.

On the other hand, our Direct Ship sales channel, which includes our retail business and key grocery stores under their private labels, as well as third party e-commerce platforms, have seen significant increases in demand due to the COVID-19 pandemic as the general public has self-quarantined in their residences and purchased more of their food and beverage items from retail and grocery outlets.

The magnitude of the COVID-19 pandemic, including the extent of the uncertain economic conditions resulting in weaker demand for our products, our financial position, results of operations and liquidity, which could be material, cannot be reasonably estimated at this time due to the rapid development and fluidity of the situation. It will be determined by the duration of the pandemic, its geographic spread, business disruptions and the overall impact on the global economy. Nevertheless, despite the uncertainty of the COVID-19 pandemic situation, we expect our results of operations to be adversely affected for the remaining part of our fiscal year ending June 30, 2020, and at least the first half of our fiscal year ending June 30, 2021. However, we expect that most of our revenue will recover slowly as the local and national governments eases social distancing restrictions; but there can be no assurance that we will be successful in returning to the pre COVID-19 pandemic levels of revenue or profitability.

For other impacts of the COVID-19 pandemic, please see *Liquidity section and Risk Factors described in Part II, Item 1A of this report*.

## Summary Overview of Three Months Ended March 31, 2020 Results of Operations

During the three months ended March 31, 2020, we experienced sales declines in our DSD and direct ship sales channels compared to the prior year period.

Similar to what we experienced in the past few quarters, our DSD network continued to be negatively impacted by higher customer attrition, partially offset by sales to new customers. In addition, our DSD sales network was negatively impacted by the sale of our office coffee business in July 2019 and the COVID-19 pandemic. The impact of the COVID-19 pandemic on DSD revenues in the last two weeks of March 2020 was approximately 65% to 70% decline from the pre-COVID pandemic sales run rates as the customer base had either limited operations, or had closed their doors in compliance with the federal, states and local governments restrictions on social distancing. The largest DSD revenue declines were from restaurants, hotels and casino channels, while demand from healthcare and C-stores channels were impacted less. Our direct ship channel sales were impacted by lower coffee volumes and changes in coffee prices for our cost plus customers offset by slightly favorable customer mix shift.

During the three months ended March 31, 2020, despite the decline in DSD volumes from the COVID-19 pandemic, gross margins increased by 2.2% to 29.4% from 27.2% compared to the same prior period mostly due to lower freight costs, lower CBE costs, improved production variances and lower reserves for slow moving inventories.

Operating expenses increased by \$37.1 million over the prior year quarter driven by impairment of goodwill and intangible assets of \$42.0 million, partially offset by a \$2.5 million decrease in selling expenses and a \$2.5 million decrease in general and administrative expenses. Impairment of goodwill and intangible assets of \$42.0 million in the three months ended March 31, 2020, was primarily associated with the results of our annual impairment test as of January 31, 2020, adjusted further by the impact of the COVID-19 pandemic that had a negative impact on the fair value of our assets. Operating expenses benefited from a COVID-19 pandemic related one-time credit for employee incentive cost due to the reversal of management incentive bonus accrual, partially offset by the COVID-19 pandemic related severance costs during the three months ended March 31, 2020.

During the three months ended March 31, 2020, we completed the sale of two branch properties for an aggregate sale price of \$1.6 million. Net cash proceeds from these assets sales were \$1.5 million. We recognized a net gain on these asset sales of \$1.1 million during three months ended March 31, 2020. The proceeds from the sales gave us increased liquidity and flexibility.

Our capital expenditures for the nine months ended March 31, 2020 were \$13.1 million, representing lower maintenance capital spend of \$10.6 million, a 56.9% reduction compared to the prior year period. These spending reductions were driven by several key initiatives put in place, including a focus on refurbished CBE equipment to drive cost savings, and reductions in purchase of machinery and equipment for the Northlake, Texas plant expansion.

As of March 31, 2020, the outstanding debt on our revolver was \$80.0 million, an increase of \$10.0 million since December 31, 2019 and a decrease of \$12.0 million since June 30, 2019. Additionally, our cash increased to \$26.4 million as of March 31, 2020, compared to \$7.0 million as of June 30, 2019. These improvements in our liquidity provide additional financial and operational flexibility during the COVID-19 pandemic.

## Results of Operations

### Financial Data Highlights (in thousands, except per share data and percentages)

	Three Months Ended March 31,		Favorable (Unfavorable)		Nine Months Ended March 31,		Favorable (Unfavorable)	
	2020	2019	Change	% Change	2020	2019	Change	% Change
<b>Income Statement Data:</b>								
Net sales	\$ 129,139	\$ 146,679	\$ (17,540)	(12.0)%	\$ 420,237	\$ 453,892	\$ (33,655)	(7.4)%
Gross margin	29.4 %	27.2%	2.2 %	NM	29.2 %	31.1%	(1.9)%	NM
Operating expenses as a % of sales	64.4 %	31.4%	(33.0)%	NM	36.2 %	32.8%	(3.4)%	NM
Loss from operations	\$ (45,169)	\$ (6,102)	\$ (39,067)	NM	\$ (29,407)	\$ (7,678)	\$ (21,729)	NM
Net loss	\$ (39,777)	\$ (51,749)	\$ 11,972	NM	\$ (27,369)	\$ (64,835)	\$ 37,466	57.8 %
Net loss available to common stockholders per common share—basic	\$ (2.32)	\$ (3.05)	\$ 0.73	NM	\$ (1.62)	\$ (3.84)	\$ 2.22	NM
Net loss available to common stockholders per common share—diluted	\$ (2.32)	\$ (3.05)	\$ 0.73	NM	\$ (1.62)	\$ (3.84)	\$ 2.22	NM
<b>Operating Data:</b>								
Coffee pounds	25,678	27,873	(2,195)	(7.9)%	80,995	80,719	276	0.3 %
EBITDA(1)	\$ (32,272)	\$ 639	\$ (32,911)	NM	\$ (1,980)	\$ 2,109	\$ (4,089)	NM
EBITDA Margin(1)	(25.0)%	0.4%	(25.4)%	NM	(0.5)%	0.5%	(1.0)%	NM
Adjusted EBITDA(1)	\$ 6,563	\$ 4,535	\$ 2,028	44.7 %	\$ 18,028	\$ 27,945	\$ (9,917)	(35.5)%
Adjusted EBITDA Margin(1)	5.1 %	3.1%	2.0 %	NM	4.3 %	6.2%	(1.9)%	NM
<b>Percentage of Total Net Sales By Product Category:</b>								
Coffee (Roasted)	65.3 %	63.5%	1.8 %	2.8 %	63.7 %	63.4%	0.3 %	0.5 %
Coffee (Frozen Liquid)	5.5 %	5.6%	(0.1)%	(1.8)%	5.6 %	5.8%	(0.2)%	(3.4)%
Tea (Iced & Hot)	5.2 %	5.7%	(0.5)%	(8.8)%	5.2 %	5.7%	(0.5)%	(8.8)%
Culinary	9.9 %	11.0%	(1.1)%	(10.0)%	10.1 %	10.8%	(0.7)%	(6.5)%
Spice	4.1 %	3.9%	0.2 %	5.1 %	4.2 %	3.9%	0.3 %	7.7 %
Other beverages(2)	9.5 %	9.8%	(0.3)%	(3.1)%	10.1 %	9.9%	0.2 %	2.0 %
Other revenues(3)	— %	—%	— %	NM	0.6 %	—%	0.6 %	NM
Net sales by product category	99.5 %	99.5%	— %	NM	99.5 %	99.5%	(0.6)%	NM
Fuel Surcharge	0.5 %	0.5%	— %	NM	0.5 %	0.5%	— %	NM
<b>Total</b>	<b>100.0 %</b>	<b>100.0%</b>	<b>— %</b>	<b>NM</b>	<b>100.0 %</b>	<b>100.0%</b>	<b>(0.6)%</b>	<b>— %</b>
<b>Other data:</b>								
Capital expenditures related to maintenance	\$ 3,163	\$ 4,434	\$ (1,271)	(28.7)%	\$ 10,622	\$ 17,001	\$ (6,379)	(37.5)%
Total capital expenditures	\$ 4,107	\$ 7,273	\$ (3,166)	(43.5)%	\$ 13,114	\$ 30,393	\$ (17,279)	(56.9)%
Depreciation and amortization expense	\$ 7,333	\$ 7,600	\$ (267)	(3.5)%	\$ 22,544	\$ 23,230	\$ (686)	(3.0)%

NM - Not Meaningful

(1) EBITDA, EBITDA Margin, Adjusted EBITDA and Adjusted EBITDA Margin are non-GAAP financial measures. See “Non-GAAP Financial Measures” below for a reconciliation of these non-GAAP measures to their corresponding GAAP measures.

(2) Includes all beverages other than roasted coffee, frozen liquid coffee, and iced and hot tea, including cappuccino, cocoa, granitas, and concentrated and ready-to-drink cold brew and iced coffee.

(3) Represents revenues for certain transition services related to the sale of our office coffee assets.

The following table sets forth information regarding our condensed consolidated results of operations for the three and nine months ended March 31, 2020 and 2019 (in thousands, except percentages):

	Three Months Ended March 31,		Favorable (Unfavorable)		Nine Months Ended March 31,		Favorable (Unfavorable)	
	2020	2019	Change	% Change	2020	2019	Change	% Change
Net sales	\$ 129,139	\$ 146,679	\$ (17,540)	(12.0)%	\$ 420,237	\$ 453,892	\$ (33,655)	(7.4)%
Cost of goods sold	91,190	106,779	15,589	14.6 %	297,662	312,513	14,851	4.8 %
Gross profit	37,949	39,900	(1,951)	(4.9)%	122,575	141,379	(18,804)	(13.3)%
Selling expenses	31,968	34,422	2,454	7.1 %	100,488	111,323	10,835	9.7 %
General and administrative expenses	8,833	11,306	2,473	21.9 %	32,839	32,063	(776)	(2.4)%
Restructuring and other transition expenses	—	26	26	100.0 %	—	4,700	4,700	100.0 %
Net losses (gains) from sales of assets	287	248	(39)	15.7 %	(23,375)	971	24,346	NM
Impairment of goodwill and intangible assets	42,030	—	(42,030)	— %	42,030	—	(42,030)	— %
Operating expenses	83,118	46,002	(37,116)	(80.7)%	151,982	149,057	(2,925)	(2.0)%
Loss from operations	(45,169)	(6,102)	(39,067)	NM	(29,407)	(7,678)	(21,729)	(283.0)%
Other (expense) income:								
Interest expense	(2,478)	(2,981)	503	16.9 %	(7,885)	(9,165)	1,280	14.0 %
Postretirement benefits curtailment and pension settlement charge	5,760	—	5,760	NM	5,760	(10,948)	16,708	(152.6)%
Other, net	1,076	495	581	117.4 %	2,941	2,105	836	39.7 %
Total other income (expense)	4,358	(2,486)	6,844	275.3 %	816	(18,008)	18,824	(104.5)%
Loss before taxes	(40,811)	(8,588)	(32,223)	(375.2)%	(28,591)	(25,686)	(2,905)	(11.3)%
Income tax (benefit) expense	(1,034)	43,161	44,195	(102.4)%	(1,222)	39,149	40,371	103.1 %
Net loss	\$ (39,777)	\$ (51,749)	11,972	23.1 %	\$ (27,369)	\$ (64,835)	37,466	57.8 %
Less: Cumulative preferred dividends, undeclared and unpaid	139	134	(5)	(3.7)%	414	400	(14)	(3.5)%
Net loss available to common stockholders	<u>\$ (39,916)</u>	<u>\$ (51,883)</u>	11,967	23.1 %	<u>\$ (27,783)</u>	<u>\$ (65,235)</u>	37,452	57.4 %

NM - Not Meaningful

**Three and Nine Months Ended March 31, 2020 Compared to Three and Nine Months Ended March 31, 2019**

**Net Sales**

The following table presents changes in units sold, unit price and net sales by product category in the three and nine months ended March 31, 2020 compared to the same periods in the prior fiscal year (in thousands, except unit price and percentages):

	Three Months Ended March 31,		Favorable (Unfavorable)		Nine Months Ended March 31,		Favorable (Unfavorable)	
	2020	2019	Change	% Change	2020	2019	Change	% Change
<b>Units sold</b>								
Coffee (Roasted)	20,542	22,298	(1,756)	(7.9)%	64,796	64,575	221	0.3 %
Coffee (Frozen Liquid)	83	101	(18)	(17.8)%	281	336	(55)	(16.4)%
Tea (Iced & Hot)	650	740	(90)	(12.2)%	1,998	2,097	(99)	(4.7)%
Culinary	1,584	1,986	(402)	(20.2)%	5,376	6,186	(810)	(13.1)%
Spice	140	162	(22)	(13.6)%	479	552	(73)	(13.2)%
Other beverages(1)	828	1,100	(272)	(24.7)%	3,225	4,009	(784)	(19.6)%
Total	23,827	26,387	(2,560)	(9.7)%	76,155	77,755	(1,600)	(2.1)%
<b>Unit Price</b>								
Coffee (Roasted)	\$ 4.10	\$ 4.18	\$ (0.08)	(1.9)%	\$ 4.16	\$ 4.46	\$ (0.30)	(6.7)%
Coffee (Frozen Liquid)	\$ 84.87	\$ 81.85	\$ 3.02	3.7 %	\$ 83.73	\$ 77.80	\$ 5.93	7.6 %
Tea (Iced & Hot)	\$ 10.31	\$ 11.24	\$ (0.93)	(8.3)%	\$ 11.00	\$ 12.34	\$ (1.34)	(10.9)%
Culinary	\$ 8.18	\$ 8.05	\$ 0.13	1.6 %	\$ 8.02	\$ 7.89	\$ 0.13	1.6 %
Spice	\$ 37.59	\$ 35.39	\$ 2.20	6.2 %	\$ 36.73	\$ 32.42	\$ 4.31	13.3 %
Other beverages(1)	\$ 14.84	\$ 13.10	\$ 1.74	13.3 %	\$ 13.23	\$ 11.21	\$ 2.02	18.0 %
Average unit price	\$ 5.40	\$ 5.53	\$ (0.13)	(2.4)%	\$ 5.49	\$ 5.81	\$ (0.32)	(5.5)%
<b>Total Net Sales By Product Category(2)</b>								
Coffee (Roasted)	\$ 84,300	\$ 93,211	\$ (8,911)	(9.6)%	\$ 269,367	\$ 287,851	\$ (18,484)	(6.4)%
Coffee (Frozen Liquid)	7,044	8,267	(1,223)	(14.8)%	23,528	26,141	(2,613)	(10.0)%
Tea (Iced & Hot)	6,701	8,320	(1,619)	(19.5)%	21,969	25,876	(3,907)	(15.1)%
Culinary	12,954	15,990	(3,036)	(19.0)%	43,099	48,779	(5,680)	(11.6)%
Spice	5,262	5,736	(474)	(8.3)%	17,594	17,895	(301)	(1.7)%
Other beverages(1)	12,290	14,405	(2,115)	(14.7)%	42,681	44,946	(2,265)	(5.0)%
Net sales by product category	\$ 128,551	\$ 145,929	\$ (17,378)	(11.9)%	\$ 418,238	\$ 451,488	\$ (33,250)	(7.4)%
Fuel Surcharge	588	750	(162)	(21.6)%	1,999	2,404	(405)	(16.8)%
Total	\$ 129,139	\$ 146,679	\$ (17,540)	(12.0)%	\$ 420,237	\$ 453,892	\$ (33,655)	(7.4)%

(1) Includes all beverages other than roasted coffee, frozen liquid coffee, and iced and hot tea, including cappuccino, cocoa, granitas, and concentrated and ready-to-drink cold brew and iced coffee.

(2) Certain transition service revenues related to the sale of our office coffee assets are not separately presented. The amounts are included in each of the product categories.

Net sales in the three months ended March 31, 2020 decreased \$17.5 million, or 12.0%, to \$129.1 million from \$146.7 million in the three months ended March 31, 2019. The decline in net sales was primarily due to a decline in revenues and volume of green coffee processed and sold through our DSD network, a decrease in net sales from tea and culinary products, and the impact of changes in coffee prices for our cost plus customers. Sales through our DSD network were impacted by the sale of our office coffee business in July of 2019, net customer attrition and the impact of the COVID-19 pandemic in the latter part of the quarter. Our direct ship sales declined slightly compared to the prior year period driven by lower coffee volumes and changes in coffee prices for our cost plus customers offset by slightly favorable customer mix shift. Net sales in the three months ended March 31, 2020 included \$2.6 million in price decreases to customers utilizing commodity-based pricing arrangements, where the changes in the green coffee commodity costs are passed on to the customer, as compared to \$2.1 million in price decreases to customers utilizing such arrangements in the three months ended March 31, 2019. In the next quarter ending June 30, 2020, we expect a material decline in revenue due to the impact of the COVID-19 pandemic on our DSD customers.

Net sales in the nine months ended March 31, 2020 decreased \$33.7 million, or 7.4%, to \$420.2 million from \$453.9 million in the nine months ended March 31, 2019. The decline in net sales was primarily due to a decline in revenues and volume of green coffee processed and sold through our DSD network, a decrease in net sales from tea and culinary products, unfavorable customer mix within our direct ship sales, non-recurring sales of industrial soup based products associated with the Boyd's acquisition which we stopped selling last year, and the impact of changes in coffee prices for our cost plus customers. Sales through our DSD network were impacted by the sale of our office coffee business in July of 2019, higher customer attrition, impact of the COVID-19 pandemic in the latter part of March 2020 and lower inventory fill rates associated with downtime at our Houston plant during the earlier part of the current period. Net sales in the nine months ended March 31, 2020 included \$7.6 million in price decreases to customers utilizing commodity-based pricing arrangements, where the changes in the green coffee commodity costs are passed on to the customer, as compared to \$5.1 million in price decreases to customers utilizing such arrangements in the nine months ended March 31, 2019.

The following table presents the effect of changes in unit sales, unit pricing and product mix in the three and nine months ended March 31, 2020 compared to the same periods in the prior fiscal year (in millions):

	Three Months Ended March 31, 2020 vs. 2019	% of Total Mix Change	Nine Months Ended March 31, 2020 vs. 2019	% of Total Mix Change
Effect of change in unit sales	\$ (13.8)	(78.9)%	\$ (8.8)	(26.1)%
Effect of pricing and product mix changes	(3.7)	(21.1)%	(24.9)	(73.9)%
Total decrease in net sales	<u>\$ (17.5)</u>	<u>(100.0)%</u>	<u>\$ (33.7)</u>	<u>(100.0)%</u>

Unit sales decreased 9.7% and average unit price declined by 2.4% in the three months ended March 31, 2020 as compared to the same period in the prior fiscal year, resulting in a decrease in net sales of 12.0%. Unit sales decreased 2.1% and average unit price decreased by 5.5% in the nine months ended March 31, 2020 as compared to the same period in the prior fiscal year, resulting in a decrease in net sales of 7.4%. Average unit price decreased during three and nine months ended March 31, 2020 due to a higher mix of product sold via direct ship versus DSD network, as direct ship has a lower average unit price. There were no new product category introductions in the three and nine months ended March 31, 2020 or 2019, which had a material impact on our net sales.

### **Gross Profit**

Gross profit in the three months ended March 31, 2020 decreased \$2.0 million, or 4.9%, to \$37.9 million from \$39.9 million in the three months ended March 31, 2019. Gross margin increased to 29.4% in the three months ended March 31, 2020 from 27.2% in the three months ended March 31, 2019. Gross profit in the nine months ended March 31, 2020 decreased \$18.8 million, or 13.3%, to \$122.6 million from \$141.4 million in the nine months ended March 31, 2019. Gross margin decreased to 29.2% in the nine months ended March 31, 2020 from 31.1% in the nine ended March 31, 2019.

The decrease in gross profit in the three and nine months ended March 31, 2020 was primarily driven by lower net sales of \$17.5 million and \$33.7 million, respectively, partially offset by lower costs of goods sold. Gross margin for the three months

ended March 31, 2020 was positively impacted by lower freight costs, lower CBE costs, improved production variances and lower reserves for slow moving inventories. Gross margin during the nine months ended March 31, 2020 was negatively impacted by unfavorable customer mix and higher reserves for slow moving inventories, partially offset by lower freight costs, lower CBE costs, improved production variances and the impact of changes in coffee prices during the nine months ended March 31, 2020. In the next quarter ending June 30, 2020, we expect a material decline in our margin due to customer mix and the impact of the COVID-19 pandemic on DSD customers.

### ***Operating Expenses***

In the three months ended March 31, 2020, operating expenses increased \$37.1 million, or 80.7%, to \$83.1 million, or 64.4% of net sales, from \$46.0 million, or 31.4% of net sales, in the three months ended March 31, 2019, due to impairments of goodwill and intangible assets of \$42.0 million, partially offset by a \$2.5 million decrease in selling expenses and a \$2.5 million decrease in general and administrative expenses.

The decrease in selling expenses was primarily driven by efficiencies realized from DSD route optimization, lower DSD sales commissions and lower travel expenses. The decrease in general and administrative expenses was associated primarily with reductions in third party costs, the absence of Boyd Coffee integration costs and one-time credit for employee incentive cost due to the reversal of management incentive bonus accrual, partially offset by the COVID-19 pandemic related severance costs during the three months ended March 31, 2020.

Impairment of goodwill and intangible assets of \$42.0 million in the three and nine months ended March 31, 2020, was primarily associated with our annual impairment test as of January 31, 2020, adjusted further by the impact of the COVID-19 pandemic that had a negative impact on the fair value of the assets. See [Note 9, Goodwill and Intangible Assets](#), of the Notes to Unaudited Condensed Consolidated Financial Statements included in Part I, Item 1 of this report.

In the nine months ended March 31, 2020, operating expenses increased \$2.9 million, or 2.0%, to \$152.0 million, or 36.2% of net sales, from \$149.1 million, or 32.8% of net sales, in the nine months ended March 31, 2019, primarily due to impairment write-down of goodwill and intangible assets of \$42.0 million and a \$0.8 million increase in general and administrative expenses, partially offset by a \$24.3 million increase in net gains from sales of assets, a \$10.8 million decrease in selling expenses and the absence of \$4.7 million in restructuring and other transition expenses.

The decrease in selling expenses was primarily due to headcount reductions, the conclusion of Boyd Coffee integration at the beginning of October 2018 and other efficiencies realized from DSD route optimization. The increase in general and administrative expenses was associated primarily with severance costs, employee incentive and benefit costs and proxy contest expenses incurred during the nine months ended March 31, 2020.

Net gains from sales of assets in the nine months ended March 31, 2020 were primarily associated with the sales of the Houston Property, the office coffee assets and seven branch properties of \$7.3 million, \$7.2 million and \$12.3 million, respectively.

### ***Total Other Income (Expense)***

Total other income (expense) in the three months ended March 31, 2020 was \$4.4 million of income compared to \$2.5 million of expense in the three months ended March 31, 2019. Total other expense in the nine months ended March 31, 2020 was \$0.8 million of income compared to \$18.0 million of expense in the nine months ended March 31, 2019. The change in total other income (expense) in the three and nine months ended March 31, 2020 was primarily a result of;

- postretirement medical curtailment gains in the current period;
- pension settlement charge in prior period;
- reduced employee postretirement benefit gains;
- lower interest expense; and
- lower net losses on coffee-related derivative instruments in the three and nine months ended March 31, 2020.

In March 2020, we announced the termination of our postretirement medical benefit plan effective January 1, 2021. The announcement triggered a re-measurement, and resulted in curtailment gains of \$5.8 million in the three and nine months ended March 31, 2020. The pension settlement charge incurred in the nine months ended March 31, 2019 of \$10.9 million was due to the termination of the Farmer Bros. Co. Pension Plan for Salaried Employees effective December 1, 2018.

Interest expense in the three months ended March 31, 2020 decreased \$0.5 million to \$2.5 million from \$3.0 million in the prior year period. Interest expense in the nine months ended March 31, 2020 decreased \$1.3 million to \$7.9 million from \$9.2 million in the prior year period. The decrease in interest expense in the three and nine months ended March 31, 2020 was principally due to lower pension interest expense and lower borrowings on our credit facility. This was partially offset in the nine months ended March 31, 2020 by a \$0.4 million of realized loss from the partial unwinding of our interest rate swap notional amount from \$80.0 million to \$65.0 million.

Other, net in the three months ended March 31, 2020 increased by \$0.6 million to \$1.1 million compared to \$0.5 million in the prior year period. Other, net in the nine months ended March 31, 2020 increased by \$0.8 million to \$2.9 million compared to \$2.1 million in the prior year period. The increase in Other, net was primarily a result of lower mark-to-market net losses on coffee-related derivative instruments not designated as accounting hedges in the three and nine months ended March 31, 2020 compared same prior year period.

#### ***Income Taxes***

In the three and nine months ended March 31, 2020, we recorded income tax benefit of \$1.0 million and \$1.2 million, respectively, compared to income expense of \$43.2 million and \$39.1 million in the three and nine months ended March 31, 2019, respectively. The tax benefit is primarily due to the previously recorded valuation allowance and change in our estimated deferred tax liability during the three and nine months ended March 31, 2020 as compared to the prior year period. See [Note 16. Income Taxes](#), of the Notes to Unaudited Condensed Consolidated Financial Statements included in Part I, Item 1 of this report.

## Non-GAAP Financial Measures

In addition to net (loss) income determined in accordance with U.S. generally accepted accounting principles (“GAAP”), we use the following non-GAAP financial measures in assessing our operating performance:

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

- income taxes;
- interest expense; and
- depreciation and amortization expense.

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

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

- income taxes;
- interest expense;
- (loss) income from short-term investments;
- depreciation and amortization expense;
- ESOP and share-based compensation expense;
- non-cash impairment losses;
- non-cash pension withdrawal expense;
- restructuring and other transition expenses;
- severance costs;
- proxy related expenses;
- non-recurring costs associated with the COVID-19 pandemic;
- net gains and losses from sales of assets;
- non-cash pension and postretirement benefits; and
- acquisition and integration costs.

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

Restructuring and other transition expenses are expenses that are directly attributable to (i) employee retention and separation benefits, pension withdrawal expense, facility-related costs and other related costs such as travel, legal, consulting and other professional services; and (ii) severance, prorated bonuses for bonus eligible employees, contractual termination payments and outplacement services, and other related costs, including legal, recruiting, consulting, other professional services, and travel.

For purposes of calculating EBITDA and EBITDA Margin and Adjusted EBITDA and Adjusted EBITDA Margin, we have excluded the impact of interest expense resulting from the adoption of ASU 2017-07, non-cash pretax pension and postretirement benefits resulting from the amendment and termination of the Farmer Bros. pension and postretirement benefits plans and severance because these items are not reflective of our ongoing operating results.

We believe these non-GAAP financial measures provide a useful measure of the Company’s operating results, a meaningful comparison with historical results and with the results of other companies, and insight into the Company’s ongoing operating performance. Further, management utilizes these measures, in addition to GAAP measures, when evaluating and comparing the Company’s operating performance against internal financial forecasts and budgets.

We believe that EBITDA facilitates operating performance comparisons from period to period by isolating the effects of certain items that vary from period to period without any correlation to core operating performance or that vary widely among similar companies. These potential differences may be caused by variations in capital structures (affecting interest expense), tax positions (such as the impact on periods or companies of changes in effective tax rates or net operating losses) and the age and book depreciation of facilities and equipment (affecting relative depreciation expense). We also present EBITDA and EBITDA Margin because (i) we believe that these measures are frequently used by securities analysts, investors and other interested parties to evaluate companies in our industry, (ii) we believe that investors will find these measures useful in assessing

our ability to service or incur indebtedness, and (iii) we use these measures internally as benchmarks to compare our performance to that of our competitors.

EBITDA, EBITDA Margin, Adjusted EBITDA and Adjusted EBITDA Margin, as defined by us, may not be comparable to similarly titled measures reported by other companies. We do not intend for non-GAAP financial measures to be considered in isolation or as a substitute for other measures prepared in accordance with GAAP.

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

(In thousands)	Three Months Ended March 31,		Nine Months Ended March 31,	
	2020	2019	2020	2019
Net loss, as reported	\$ (39,777)	\$ (51,749)	\$ (27,369)	\$ (64,835)
Income tax (benefit) expense	(1,034)	43,161	(1,222)	39,149
Interest expense (1)	1,206	1,627	4,067	4,565
Depreciation and amortization expense	7,333	7,600	22,544	23,230
EBITDA	<u>\$ (32,272)</u>	<u>\$ 639</u>	<u>\$ (1,980)</u>	<u>\$ 2,109</u>
EBITDA Margin	(25.0)%	0.4%	(0.5)%	0.5%

(1) Excludes interest expense related to pension plans and postretirement benefits.

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

(In thousands)	Three Months Ended March 31,		Nine Months Ended March 31,	
	2020	2019	2020	2019
Net loss, as reported	\$ (39,777)	\$ (51,749)	\$ (27,369)	\$ (64,835)
Income tax (benefit) expense	(1,034)	43,161	(1,222)	39,149
Interest expense(1)	1,206	1,627	4,067	4,565
Depreciation and amortization expense	7,333	7,600	22,544	23,230
ESOP and share-based compensation expense	1,418	1,238	3,197	3,095
Restructuring and other transition expenses(2)	—	26	—	4,700
Net losses (gains) from sales of other assets	287	248	(23,375)	971
Impairment of goodwill and intangible assets	42,030	—	42,030	—
Non-recurring costs associated with the COVID-19 pandemic	129	—	129	—
Proxy contest-related expenses	204	—	463	—
Acquisition and integration costs	—	2,384	—	6,122
Postretirement benefits curtailment and pension settlement charge	(5,760)	—	(5,760)	10,948
Severance	527	—	3,324	—
Adjusted EBITDA	<u>\$ 6,563</u>	<u>\$ 4,535</u>	<u>\$ 18,028</u>	<u>\$ 27,945</u>
Adjusted EBITDA Margin	5.1%	3.1%	4.3%	6.2%

(1) Excludes interest expense related to pension plans and postretirement benefits.

(2) The nine months ended March 31, 2019, includes \$3.4 million, including interest, assessed by the WC Pension Trust representing the Company's share of the Western Conference of Teamsters Pension Plan ("WCTPP") unfunded benefits due to the Company's partial withdrawal from the WCTPP as a result of employment actions taken by the Company in 2016 in connection with the Corporate Relocation Plan.

## Liquidity, Capital Resources and Financial Condition

The following table summarizes our debt obligations:

(In thousands)	Debt Origination Date	Maturity	Original Borrowing Amount	March 31, 2020		June 30, 2019	
				Carrying Value	Weighted Average Interest Rate	Carrying Value	Weighted Average Interest Rate
Credit Facility	Revolver	11/6/2023	N/A	\$ 80,000	4.45%	\$ 92,000	3.98%

### Revolving Credit Facility

In March 2020, pursuant to Amendment No. 2 to Amended and Restated Credit Agreement (the “Second Amendment”) we amended our existing senior secured revolving credit facility (such facility as amended to date, including pursuant to the Second Amendment, the “Amended Revolving Facility”) with Bank of America, N.A., Citibank, N.A., JPMorgan Chase Bank, N.A., PNC Bank, National Association, Regions Bank, and SunTrust Bank. The Amended Revolving Facility, amongst other things (described in more detail above) decreased the size of the revolving credit facility to \$125.0 million from \$150.0 million but retained most of its previous terms including the sublimit on letters of credit and swingline loans of \$15.0 million each. The commitment fee is based on a leverage grid and ranges from 0.20% to 0.50%. Borrowings under the Amended Revolving Facility bear interest on base rate loans based on a leverage grid with a range of PRIME + 0.50% to 2.50%, and on Eurodollar loans based on a leverage grid with a range of Adjusted LIBO Rate + 1.50% to 3.50%. Effective March 27, 2019, we entered into an interest rate swap to manage our interest rate risk on our floating-rate indebtedness. See [Note 4](#) for details.

Under the Amended Revolving Facility, we are subject to a variety of affirmative and negative covenants of types customary in a senior secured lending facility, including financial covenants relating to leverage, interest expense coverage and (until the quarter ending December 31, 2021) minimum adjusted EBITDA. We are allowed to pay dividends, provided, among other things, a total net leverage ratio is met, and no default exists or has occurred and is continuing as of the date of any such payment and after giving effect thereto. The Amended Revolving Facility has no scheduled payback required on the principal prior to the maturity date on November 6, 2023.

At April 30, 2020, we had outstanding borrowings of \$122.0 million and utilized \$2.3 million of the letters of credit sublimit under the Amended Revolving Facility. The amount available to borrow is subject to compliance with the applicable financial covenants set out under the Amended Revolving Facility (described in more detail below).

### Liquidity

We generally finance our operations through cash flows from operations and borrowings under our Amended Revolving facility described above. In fiscal 2018, we filed a shelf registration statement with the SEC which allows us to issue unspecified amounts of common stock, preferred stock, depository shares, warrants for the purchase of shares of common stock or preferred stock, purchase contracts for the purchase of equity securities, currencies or commodities, and units consisting of any combination of any of the foregoing securities, in one or more series, from time to time and in one or more offerings up to a total dollar amount of \$250.0 million. In light of our financial position, operating performance and current economic conditions, including the state of the global capital markets, there can be no assurance as to whether or when we will be able to raise capital by issuing securities pursuant to our effective shelf registration statement or otherwise.

The Amended Revolving Facility includes financial covenants with respect to leverage and interest expense that are tested each fiscal quarter. The ratio of consolidated total indebtedness (net of unrestricted cash up to \$7.5 million) to adjusted EBITDA (as defined in the Amended Revolving Facility) must not exceed 4.0 to 1.0 at June 30, 2020, 4.75 to 1.0 at September 30, 2020, 5.25 to 1.0 at December 31, 2020, 5.75 to 1.0 at March 31, 2021, 5.25 to 1.0 at June 30, 2021, 4.75 to 1.0 at September 30, 2021, 4.25 to 1.0 at December 31, 2021 and 3.5 to 1.0 thereafter. Additionally, the Amended Revolving Facility requires that, as at each fiscal quarter end commencing June 30, 2020 and ending December 31, 2021, adjusted EBITDA (as defined in the Amended Revolving Facility) must not be less than the applicable amount set out in the Amended Revolving Facility. The ratio of adjusted EBITDA (as defined in the Amended Revolving Facility) to consolidated interest expense must not be less than 3.0 to 1.0.

At March 31, 2020, we had \$26.4 million in cash and cash equivalents and none of the cash in our coffee-related derivative margin accounts was restricted.

#### ***Impact of COVID-19 on Our Liquidity***

As of March 31, 2020, were in compliance with our covenants under the Amended Revolving Facility. In April 2020, we borrowed an additional \$42.0 million under our Amended Revolving Facility. We increased our borrowings as a proactive measure to increase our cash position and preserve financial flexibility in light of the current uncertainty in the global markets resulting from the COVID-19 pandemic. However, our liquidity position continues to deteriorate as our revenues from operating activities decline due to the impacts from the COVID-19 pandemic.

This COVID-19 pandemic and related restrictive measures such as travel bans, quarantines, shelter-in-place orders, and shutdowns as well as changes in recent consumer behavior, have had an adverse impact on certain of our DSD customers, particularly restaurants, hotels, casinos and coffeehouses. Many of these customers have been forced to close or curtail operations, and are purchasing at reduced volumes, if at all. We are unable to predict the rate at which these customers will resume operations and purchases as the restrictive measures are lifted. As a result, sales from our DSD customers have declined between 65% to 70% from pre COVID-19 average sales. We do not expect to see a meaningful improvement in our operating results until federal, state and local government authorities ease the restrictive measures.

Due to these factors, the degree to which the COVID-19 pandemic impacts our results will depend on future developments, which are highly uncertain and cannot be predicted with confidence, including, but not limited to, the duration and spread of the pandemic, its severity, the actions to contain the pandemic or treat its impact, and how quickly and to what extent normal economic and operating conditions can resume, as well as our effectiveness on serving our customer base and acquiring new customers. Therefore, with the uncertainty around the duration and breadth of the COVID-19 pandemic, the ultimate impact on our business, financial condition or operating results cannot be reasonably estimated at this time.

Absent a significant recovery and our ability to successfully scale operations and production accordingly, we are projecting potential violations of our financial covenants under the Amended Revolving Facility as of June 30, 2020, which would place us in an event of default. The occurrence of a default would permit our lenders to declare as due all amounts outstanding under our Amended Credit Facility which total \$122.0 million as of May 7, 2020. We do not have sufficient cash on hand or available liquidity that can be utilized to repay the total outstanding debt in the event of a default. In addition, the occurrence of a default could cause cross defaults and accelerations under our other indebtedness.

Due to these factors, we have modified our business practices. To navigate through this period of uncertainty, we have reduced discretionary expenses, aggressively reduced capital expenditures, closely and proactively managed our inventory purchases, while prioritizing investments in e-commerce initiatives and serving current Direct Ship customers' needs. Additionally, we also continue to be focused on the rebalancing of volume across our manufacturing network, bringing additional production into our Northlake, Texas facility to generate additional savings. Among others things, we have already taken the following actions:

- reduced headcount and furloughed a significant percentage of the remaining employees;
- eliminated fiscal third quarter 2020 cash compensation for our Board of Directors;
- temporarily decreased executive leadership, corporate team members' and all exempt employees' (except route sales representatives) base salaries by 15%;
- reduced discretionary spending, including a moratorium on all travel;
- reduced fiscal year ending 2020 management incentive bonus program;
- reduced plant production costs in two of our plants;
- suspended 401(k) cash matching for all eligible employees;
- reduced capital expenditures while also closely managing inventory and other spending;
- implemented cost controls throughout our coffee brewing equipment ("CBE") program service network;
- instituted cost savings to reduce our selling, general and administrative expenses;
- reduced our DSD supply chain network costs by reducing freight, and fleet, and consolidating routes; and
- commenced negotiations with certain landlords on rent, operating expenses and leases.

We expect these actions will improve our cost structure to mitigate the impact of the COVID-19 pandemic on our operating results and liquidity, however we cannot make assurances that these actions will be successful. Absent other actions, we would likely default under our Amended Revolving Facility as discussed above. As a result, we are exploring several different

opportunities and access to various capital markets to provide additional near-term liquidity. These options, among others, include:

- apply for the Main Street Lending program of the CARES Act;
- unlock liquidity of certain of our real estate assets through sale leaseback or sale of excess real estate;
- seek additional financing in the debt or equity markets; or
- refinance or restructure all or a portion of our indebtedness.

We are currently pursuing with our lenders a waiver agreement or forbearance arrangement related to projected covenant violations under our Amended Revolving Facility. We obtained an amendment from our lenders in March 2020, and based on the current debt market environment and other factors, management believes that a waiver or forbearance will be approved to avoid acceleration of our debt. We believe one or more of these options, along with the actions already taken to modify our business practices and reduce costs, will provide us the liquidity and flexibility we need to continue to operate and meet our obligations as they come due for the next 12 months. However, there can be no assurance that we will be able to execute on one or more of the above options, that our cost saving measures will be effective or that we will be able to avoid a breach of the covenants in our Amended Revolving Facility and related event of default and acceleration of our debt.

## Cash Flows

The significant captions and amounts from our condensed consolidated statements of cash flows are summarized below:

	Nine Months Ended March 31,	
	2020	2019
<b>Condensed Consolidated Statements of cash flows data (in thousands)</b>		
Net cash provided by operating activities	\$ 8,065	\$ 7,500
Net cash provided (used) in investing activities	23,619	(30,250)
Net cash (used) provided by financing activities	(12,278)	32,506
<b>Net increase in cash and cash equivalents</b>	<b>\$ 19,406</b>	<b>\$ 9,756</b>

### Operating Activities

Net cash provided by operating activities were \$8.1 million and \$7.5 million, respectively, in the nine months ended March 31, 2020 and 2019. The \$0.6 million increase in cash provided was primarily attributable to a lower use of cash for working capital during the current fiscal period. Working capital during the nine months ended March 31, 2020 was impacted by, among other items, lower inventory levels and improvement in trade accounts receivable collections, partially offset by a decline in outstanding accounts payable balance.

### Investing Activities

Net cash provided by investing activities during the nine months ended March 31, 2020 was \$23.6 million as compared to net cash used of \$30.3 million in the nine months ended March 31, 2019. The \$53.9 million increase in cash provided from investment activities was principally due to the sales of assets during the current period resulting in net cash proceeds of \$36.7 million. In addition, cash used for purchases of property, plant and equipment decreased \$17.3 million primarily due purchase of machinery and equipment for the Northlake, Texas plant expansion in fiscal 2019, and lower coffee brewing equipment purchases in the current year period as we focus on refurbished CBE equipment to drive cost savings.

### Financing Activities

Net cash used in financing activities in the nine months ended March 31, 2020 was \$12.3 million as compared to net cash provided of \$32.5 million in the nine months ended March 31, 2019, a change of \$44.8 million. Net cash used in financing activities in the nine months ended March 31, 2020 included \$12.0 million in net payments under our Revolving Facility compared to \$33.2 million in net borrowings in the nine months ended March 31, 2019.

### Capital Expenditures

For the three and nine months ended March 31, 2020 and 2019, our capital expenditures paid were as follows:

(In thousands)	Three Months Ended March 31,		Nine Months Ended March 31,	
	2020	2019	2020	2019
<b>Maintenance:</b>				
Coffee brewing equipment	\$ 2,159	\$ 3,538	\$ 6,294	\$ 12,460
Building and facilities	—	35	133	50
Vehicles, machinery and equipment	408	464	1,444	2,187
IT, software, office furniture and equipment	596	397	2,751	2,304
Capital expenditures, maintenance	\$ 3,163	\$ 4,434	\$ 10,622	\$ 17,001
<b>Expansion Project:</b>				
Machinery and equipment	\$ 828	\$ 2,839	\$ 2,376	\$ 13,392
IT equipment	\$ 116	\$ —	\$ 116	\$ —
Capital expenditures, Expansion Project	\$ 944	\$ 2,839	\$ 2,492	\$ 13,392
<b>Total capital expenditures</b>	<b>\$ 4,107</b>	<b>\$ 7,273</b>	<b>\$ 13,114</b>	<b>\$ 30,393</b>

In fiscal year 2020, we anticipate paying between \$11.0 million to \$14.0 million in maintenance capital expenditures. We expect to finance these expenditures through cash flows from operations and borrowings under our Revolving Facility.

Depreciation and amortization expenses were \$7.3 million and \$7.6 million in the three months ended March 31, 2020 and 2019, respectively. Depreciation and amortization expense were \$22.5 million and \$23.2 million in the nine months ended March 31, 2020 and 2019, respectively. We anticipate our depreciation and amortization expense will be approximately \$7.2 million to \$7.5 million per quarter in the remainder of fiscal year 2020 based on our existing fixed asset commitments and the useful lives of our intangible assets.

### Commitments and Contingencies

As of March 31, 2020, we had committed to purchase green coffee inventory totaling \$61.2 million under fixed-price contracts, \$4.5 million in other inventory under non-cancelable purchase orders and \$7.2 million in other purchases under non-cancelable purchase orders.

### Critical Accounting Policies and Estimates

We prepare our consolidated financial statements in accordance with GAAP. In applying many of these accounting principles, we need to make assumptions, estimates or judgments that affect the reported amounts of assets, liabilities, revenues and expenses in our consolidated financial statements. We base our estimates and judgments on historical experience and other assumptions that we believe are reasonable under the circumstances. These assumptions, estimates or judgments, however, are both subjective and subject to change, and actual results may differ from our assumptions and estimates. If actual amounts are ultimately different from our estimates, the revisions are included in our results of operations for the period in which the actual amounts become known. For a summary of our significant accounting policies, see [Note 2, Summary of Significant Accounting Policies](#), of the Notes to Unaudited Condensed Consolidated Financial Statements included in Part I, Item 1 of this report and in our 2019 Form 10-K. For a summary of our critical accounting estimates, please see "Management's Discussion and Analysis of Financial Condition and Results of Operations—Critical Accounting Policies and Estimates" in our 2019 Form 10-K.

### Recent Accounting Pronouncements

See [Note 2, Summary of Significant Accounting Policies](#), of the Notes to Unaudited Condensed Consolidated Financial Statements included in Part I, Item 1 of this report and in our 2019 Form 10-K. For a summary of our critical accounting estimates, please see "Management's Discussion and Analysis of Financial Condition and Results of Operations—Critical Accounting Policies and Estimates" in our 2019 Form 10-K.

### Off-Balance Sheet Arrangements

We have no off-balance sheet arrangements.

**Item 3. Quantitative and Qualitative Disclosures About Market Risk**

**Interest Rate Risk**

At March 31, 2020, under our amended credit facility, we were eligible to borrow up to a total of \$125.0 million, subject to compliance with applicable financial covenants under the Amended Revolving Facility as described above and had outstanding borrowings of \$80.0 million and utilized \$2.3 million of the letters of credit sublimit. As a result of the interest rate swap, only \$15.0 million was subject to interest rate variability. The weighted average interest rate on our outstanding borrowings subject to interest rate variability under the Revolving Facility at March 31, 2020 was 4.45%.

The following table demonstrates the impact of interest rate changes on our annual interest expense on outstanding borrowings subject to interest rate variability under the Revolving Facility based on the weighted average interest rate on the outstanding borrowings as of March 31, 2020:

<b>(In thousands)</b>	<b>Principal</b>	<b>Interest Rate</b>	<b>Annual Interest Expense</b>
–150 basis points	\$15,000	2.95%	\$ 443
–100 basis points	\$15,000	3.45%	\$ 518
Unchanged	\$15,000	4.45%	\$ 668
+100 basis points	\$15,000	5.45%	\$ 818
+150 basis points	\$15,000	5.95%	\$ 893

**Commodity Price Risk**

We are exposed to commodity price risk arising from changes in the market price of green coffee. We value green coffee inventory on the FIFO basis. In the normal course of business we hold a large green coffee inventory and enter into forward commodity purchase agreements with suppliers. We are subject to price risk resulting from the volatility of green coffee prices. Due to competition and market conditions, volatile price increases cannot always be passed on to our customers. See [Note 4, Derivative Instruments](#), of the Notes to the Unaudited Condensed Consolidated Financial Statements for further discussions of our derivative instruments.

The following table summarizes the potential impact as of March 31, 2020 to net loss and AOCI from a hypothetical 10% change in coffee commodity prices. The information provided below relates only to the coffee-related derivative instruments and does not include, when applicable, the corresponding changes in the underlying hedged items:

<b>(In thousands)</b>	<b>Increase (Decrease) to Net Loss</b>		<b>Increase (Decrease) to AOCI</b>	
	<b>10% Increase in Underlying Rate</b>	<b>10% Decrease in Underlying Rate</b>	<b>10% Increase in Underlying Rate</b>	<b>10% Decrease in Underlying Rate</b>
Coffee-related derivative instruments(1)	\$ 596	\$ (596)	\$ 4,155	\$ (4,155)

(1) The Company's purchase contracts that qualify as normal purchases include green coffee purchase commitments for which the price has been locked in as of March 31, 2020. These contracts are not included in the sensitivity analysis above as the underlying price has been fixed.

**Item 4. Controls and Procedures**

***Disclosure Controls and Procedures***

Disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) promulgated under the Securities Exchange Act of 1934, as amended (the “Exchange Act”), are controls and other procedures that are designed to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the rules and forms of the SEC. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information we are required to disclose in the reports that we file or submit under the Exchange Act is accumulated and communicated to our management, including our principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosures.

As of March 31, 2020, our management, with the participation of our Chief Executive Officer (principal executive officer) and Chief Financial Officer (principal financial and accounting officer), carried out an evaluation of the effectiveness of our disclosure controls and procedures pursuant to Rule 13a-15(e) promulgated under the Exchange Act. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective.

***Changes in Internal Control Over Financial Reporting***

Management has determined that there has been no change in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) promulgated under the Exchange Act) during our fiscal quarter ended March 31, 2020 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

## PART II - OTHER INFORMATION

### Item 1. Legal Proceedings

The information set forth in [Note 20](#), *Commitments and Contingencies*, of the Notes to Unaudited Condensed Consolidated Financial Statements included in Part I, Item 1 of this Form 10-Q is incorporated herein by reference.

### Item 1A. Risk Factors

For a discussion of our other potential risks and uncertainties, see the information under “Item 1A. Risk Factors” in our Annual Report on Form 10-K for the year ended June 30, 2019, which is accessible on the SEC’s website at [www.sec.gov](http://www.sec.gov). During the nine months ended March 31, 2020, other than the following, there have been no material changes to the risk factors disclosed in our 2019 Form 10-K.

*The recent novel coronavirus (“COVID-19”) pandemic could materially adversely affect our financial condition and results of operations.*

In late 2019, a novel strain of coronavirus (“COVID-19” or the “virus”) emerged in China and has spread worldwide. The measure to contain the spread of the virus is adversely affecting our business and those of our customers. The outbreak has resulted in federal, state and local government authorities implementing numerous restrictive measures to attempt to contain the virus, including travel bans and restrictions, quarantines, shelter-in-place orders, and shutdowns. These measures have impacted our workforce and operations, the operations of our customers, and those of our respective vendors and suppliers. There is considerable uncertainty regarding how such measures and potential future measures will affect our manufacturing, sales and distribution operations, and how similar limitations will affect our customers, vendors and suppliers. Restrictions or disruptions of transportation could limit our capacity to meet customer demand and have a material adverse effect on our financial condition and results of operations.

The COVID-19 pandemic has significantly increased economic uncertainty. It is likely that the current pandemic, or a future recurrence of COVID-19, will cause continued economic slowdown, and it is likely to cause a global recession. The spread of COVID-19 has caused us to modify our business practices (including practices related to employee travel, work locations, and physical participation in meetings, events and conferences), and we may take further actions as may be required by government authorities, or that we determine are in the best interests of our employees, customers, vendors and suppliers. There is no certainty that such measures will be sufficient to mitigate the risks posed by the virus, and our ability to perform critical functions could be harmed.

The COVID-19 pandemic and the related restrictive measures and changes in recent consumer behavior have had an adverse impact on certain of our DSD customers, particularly restaurants, hotels, casinos and coffeehouses. Many of these customers have been forced to close or curtail operations and are purchasing at reduced volumes if at all. We are unable to predict the rate at which these customers will resume operations and purchases as restrictive measures are lifted. Certain of these customers may be unable to resume operations or satisfy their outstanding obligations, which may adversely impact our receivables. The ability of our customers to resume operations will largely depend on the behavior of end consumers and the ability of our customers to respond to those habits. Our success will depend on our ability to scale operations and production in line with purchases by our customers, acquire additional customers as operators resume operations, delivery flexibly through various methods and manage accounts receivable. We have adjusted our operations to address current demand. Our success will depend on our ability and effectiveness in identifying and addressing our customers’ future needs in light of the COVID-19 pandemic. At this time, it is difficult to predict the full extent and timing of the impact that the COVID-19 pandemic will have on our customer base.

While most participants in our supply chain are considered an “essential businesses” and permitted to continue operations, the COVID-19 pandemic has created uncertainty within certain supply chains due to restrictions in movement and shortages in shipping containers, including potential delays in transportation and labor shortages for upcoming harvests in Central and South America. Globally, roasters and coffee importers have stocked up on green coffee and, those increased purchases, may increase green coffee prices in the near term.

Our success largely depends on the efforts and abilities of our team members. In response to the pandemic and resulting decrease in sales, we have eliminated and furloughed positions, implemented temporary reductions in base salary of exempt

team members, and suspended 401(k) matching cash contributions. The Company's executive leadership has taken a voluntary 15% reduction in base salary and Farmer Brothers' Board of Directors will forego its cash compensation for the third quarter 2020. We are unable to predict the duration of these actions at this time. If we are unable to regain sales to bring back team members before others, we may lose talent to other employers, including competitors. If we are not able to effectively retain our talent, our ability to achieve certain strategic objectives may be adversely affected, which may impact our financial condition and results of operations. Further, any unplanned turnover or failure to develop or implement an adequate succession plan for our senior management and other key employees, could deplete our institutional knowledge base, erode our competitive advantage, and negatively affect our business, financial condition and results of operations.

We continue to assess the impact of the COVID-19 pandemic and will continue to take appropriate actions to support the business and address the needs of its customers during and after the COVID-19 pandemic. The Company is working to evaluate any relief available through the Coronavirus Aid, Relief, and Economic Security Act ("CARES Act") and other government programs, including through industry associations, as well as any other efforts to support the food industry as a pillar of critical infrastructure.

The degree to which the COVID-19 pandemic impacts our results will depend on future developments, which are highly uncertain and cannot be predicted with confidence, including, but not limited to, the duration and spread of the outbreak, its severity, the actions to contain the virus or treat its impact, and how quickly and to what extent normal economic and operating conditions can resume and our effectiveness on serving our customer base and acquiring new customers. With the uncertainty around the duration and breadth of the COVID-19 pandemic, the ultimate impact on our business, financial condition or operating results cannot be reasonably estimated at this time.

***Our liquidity has been adversely affected as a result of our operating performance in recent periods, as well as the COVID-19 pandemic, and may be further materially adversely affected by constraints in the capital and credit markets and limitations under our financing arrangements.***

We need sufficient sources of liquidity to fund our working capital requirements, service our outstanding indebtedness and finance business opportunities. Without sufficient liquidity, we could be forced to curtail our operations, or we may not be able to pursue business opportunities. The principal sources of our liquidity are funds generated from operating activities, available cash, and our credit facility. In recent periods, significant acquisition costs, large capital investments along with the underperformance of our business has resulted in a decrease in funds from operating activities, which has weakened our liquidity position. Since March 2020, the impact of the COVID-19 pandemic and related federal, state, and local restrictive measures have had an adverse impact on certain of our DSD customers, particularly restaurants, hotels, casinos and coffeehouses.

Should our operating performance continue to deteriorate or COVID-19 pandemic persist or recur in the near term, we will have less cash inflows from operations available to meet our financial obligations or to fund our other liquidity needs. In addition, if such deterioration were to lead to the closure of leased facilities, we would need to fund the costs of terminating those leases. If we are unable to generate sufficient cash flows from operations in the future to satisfy these financial obligations, we may be required to, among other things:

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

Given the recent impact from the COVID-19 pandemic, we intend to apply for the Main Street Lending program of the recently passed CARES Act. At this time, we are awaiting further information around the structure of the program and are unable to predict the timing of receipt or amount of funds available to us under such programs.

Such measures might not be sufficient to enable us to satisfy our financial obligations or to fund our other liquidity needs, and could impede the implementation of our business strategy, prevent us from entering into transactions that would otherwise benefit our business and/or have a material adverse effect on our financial condition and results of operations. In addition, any such financing, refinancing or sale of assets might not be available on economically favorable terms or at all. Our ability to obtain additional financing or refinance our indebtedness would depend upon, among other things, our financial condition at the time, and the liquidity of the overall capital markets and the state of the economy. Furthermore, any refinancing of our existing debt could be at higher interest rates and may require compliance with more onerous covenants, which could further restrict our business operations. In addition, if our lenders experience difficulties that render them unable to fund future draws on the credit facility, we may not be able to access all or a portion of these funds, which could adversely affect our ability to

operate our business and pursue our business strategies. In addition, covenants in our debt agreements could restrict or delay our ability to respond to business opportunities, or in the event of a failure to comply with such covenants, could result in an event of default, which if not cured or waived, could have a material adverse effect on us.

***An increase in our debt leverage could adversely affect our liquidity and results of operations.***

As of March 31, 2020 and June 30, 2019, we had outstanding borrowings under our credit facility of \$80.0 million and \$92.0 million, respectively, with excess availability of \$45.0 million and \$55.7 million, respectively subject to covenant compliance. We may incur significant indebtedness in the future, including through additional borrowings under the credit facility, through the issuance of debt securities, or otherwise.

Our present indebtedness and any future borrowings could have adverse consequences, including:

- requiring a substantial portion of our cash flow from operations to make payments on our indebtedness;
- reducing the cash flow available or limiting our ability to borrow additional funds, to pay dividends, to fund capital expenditures and other corporate purposes and to pursue our business strategies;
- limiting our flexibility in planning for, or reacting to, changes in our businesses and the industries in which we operate;
- increasing our vulnerability to general adverse economic and industry conditions; and
- placing us at a competitive disadvantage compared to our competitors that have less debt.

To the extent we become more leveraged, we face an increased likelihood that one or more of the risks described above would materialize.

Our credit facility also contains financial covenants relating to the maintenance of a maximum total net leverage ratio, a minimum interest expense coverage ratio and, until December 31, 2021, minimum adjusted EBITDA levels. Our ability to meet those covenants may be affected by events beyond our control, such as COVID-19, and there can be no assurance that we will meet those covenants. The breach of any of these covenants could result in a default under the credit facility.

In addition, if we are unable to make payments as they come due or comply with the restrictions and covenants under the credit facility or any other agreements governing our indebtedness, there could be a default under the terms of such agreements. In such event, or if we are otherwise in default under the credit facility or any such other agreements, the lenders could terminate their commitments to lend and/or accelerate the loans and declare all amounts borrowed due and payable. Furthermore, our lenders under the credit facility could foreclose on their security interests in our assets. If any of those events occur, our assets might not be sufficient to repay in full all of our outstanding indebtedness and we may be unable to find alternative financing on acceptable terms or at all. Failure to maintain existing or secure new financing could have a material adverse effect on our liquidity and financial position.

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**

None

**Item 3. Defaults Upon Senior Securities**

None

**Item 4. Mine Safety Disclosures**

Not applicable

**Item 5. Other Information**

None

**Item 6. Exhibits**

Exhibit No.	Description
3.1	<a href="#"><u>Amended and Restated Certificate of Incorporation of Farmer Bros. Co. (filed as Exhibit 3.1 to the Company's Annual Report on Form 10-K filed with the SEC on September 11, 2019 and incorporated herein by reference).</u></a>
3.2*	<a href="#"><u>Certificate of Amendment of Amended and Restated Certificate of Incorporation of Farmer Bros. Co.</u></a>
3.3	<a href="#"><u>Amended and Restated Bylaws, adopted as of October 14, 2018 (filed as Exhibit 3.3 to the Company's Quarterly Report on Form 10-Q for the quarter ended December 31, 2018, filed with the SEC on February 11, 2019 and incorporated herein by reference).</u></a>
10.59*	<a href="#"><u>Form of Indemnification Agreement for Directors and Officers of the Company, as adopted on December 8, 2017 (with updated schedule of indemnitees attached).</u></a>
10.60*	<a href="#"><u>Form of Change in Control Severance Agreement for Executive Officers of the Company (with updated schedule of executive officers attached).</u></a>
10.63	<a href="#"><u>Amendment No. 2 to Amended and Restated Credit Agreement, dated as of March 5, 2020, by and among Farmer Bros. Co., a Delaware corporation, the financial institutions party thereto, and JPMorgan Chase Bank, N.A., as Administrative Agent (filed as Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the SEC on March 11, 2020 and incorporated herein by reference).</u></a>
10.64#	<a href="#"><u>Farmer Bros. Co. 2020 Inducement Incentive Plan (filed as Exhibit 10.3 to the Company's Current Report on Form 8-K filed with the SEC on March 16, 2020 and incorporated herein by reference).</u></a>
10.65#	<a href="#"><u>Form of Farmer Bros. Co. 2020 Inducement Incentive Plan Stock Option Award Agreement (filed as Exhibit 10.4 to the Company's Current Report on Form 8-K filed with the SEC on March 16, 2020 and incorporated herein by reference).</u></a>
31.1*	<a href="#"><u>Principal Executive Officer Certification Pursuant to Securities Exchange Act Rules 13a-14 and 15d-14 as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</u></a>
31.2*	<a href="#"><u>Principal Financial and Accounting Officer Certification Pursuant to Securities Exchange Act Rules 13a-14 and 15d-14 as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</u></a>
32.1**	<a href="#"><u>Principal Executive Officer Certification Pursuant to 18 U.S.C. Section 1350 as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</u></a>
32.2**	<a href="#"><u>Principal Financial and Accounting Officer Certification Pursuant to 18 U.S.C. Section 1350 as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</u></a>
101.INS**	XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.
101.SCH**	Inline XBRL Taxonomy Extension Schema Document.
101.CAL**	Inline XBRL Taxonomy Extension Calculation Linkbase Document.
101.DEF**	Inline XBRL Taxonomy Extension Definition Linkbase Document.
101.LAB**	Inline XBRL Taxonomy Extension Label Linkbase Document.
101.PRE**	Inline XBRL Taxonomy Extension Presentation Linkbase Document.
104**	Cover Page Interactive Data File - the cover page interactive data file does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.

# Management contract or compensatory plan or arrangement

\* Filed herewith

\*\* Furnished, not filed, herewith

**SIGNATURES**

Pursuant to the requirements 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/ Deverl Maserang  
**Deverl Maserang**  
**President and Chief Executive Officer**  
**(principal executive officer)**  
**May 7, 2020**

By: \_\_\_\_\_  
/s/ Scott R. Drake  
**Scott R. Drake**  
**Chief Financial Officer**  
**(principal financial officer)**  
**May 7, 2020**

# Delaware

The First State

Page 1

I, JEFFREY W. BULLOCK, SECRETARY OF STATE OF THE STATE OF  
DELAWARE, DO HEREBY CERTIFY THE ATTACHED IS A TRUE AND CORRECT  
COPY OF THE CERTIFICATE OF AMENDMENT OF "FARMER BROS. CO.",  
FILED IN THIS OFFICE ON THE TWENTIETH DAY OF MARCH, A.D. 2020,  
AT 4:21 O`CLOCK P.M.

A FILED COPY OF THIS CERTIFICATE HAS BEEN FORWARDED TO THE  
KENT COUNTY RECORDER OF DEEDS.



3742785 8100  
SR# 20202288407

You may verify this certificate online at [corp.delaware.gov/authver.shtml](http://corp.delaware.gov/authver.shtml)

A handwritten signature in black ink, appearing to read "JWB", is written over a horizontal line. Below the line, the text "Jeffrey W. Bullock, Secretary of State" is printed.

Jeffrey W. Bullock, Secretary of State

Authentication: 202632236  
Date: 03-20-20

**CERTIFICATE OF AMENDMENT  
OF  
AMENDED AND RESTATED CERTIFICATE OF INCORPORATION  
OF  
FARMER BROS. CO.**

Pursuant to Section 242 of the  
General Corporation Law of the State of Delaware

Farmer Bros. Co., a corporation duly organized and existing under the General Corporation Law of the State of Delaware (the "Corporation"), does hereby certify that:

1. The Amended and Restated Certificate of Incorporation of the Corporation is hereby amended by deleting Section (c) of Article FIFTH, and inserting the following in lieu thereof:

"(c) Commencing at the annual meeting of stockholders to be held in 2020 (each annual meeting of stockholders, an "Annual Meeting"), the directors of the Corporation shall be elected annually and shall hold office until the next Annual Meeting and until his or her successor shall be elected and qualified, or his or her death, resignation, retirement, disqualification or removal from office. Notwithstanding the foregoing, any director in office at the 2020 Annual Meeting whose term expires at the 2021 Annual Meeting or the 2022 Annual Meeting (each such director, a "Continuing Classified Director"), shall continue to hold office until the end of the term for which such director was elected and until his or her successor shall be elected and qualified, or his or her death, resignation, retirement, disqualification or removal from office.

In the event of any increase or decrease in the authorized number of directors, each Continuing Classified Director then serving shall nevertheless continue as a Continuing Classified Director until the expiration of his or her term or his or her death, resignation, retirement, disqualification or removal from office. In no event shall a decrease in the number of directors remove or shorten the term of any incumbent director."

2. The Amended and Restated Certificate of Incorporation of the Corporation is hereby amended by deleting Section (d) of Article FIFTH, and inserting the following in lieu thereof:

"(d) A director shall hold office until the annual meeting for the year in which his or her term expires and until his or her successor shall be elected and shall qualify, subject, however, to prior death, resignation, retirement, disqualification or removal from office. Notwithstanding the foregoing, any director elected to fill a vacancy caused by the death, resignation, retirement, disqualification or removal of a Continuing Classified Director shall hold office until the Annual Meeting at which the term of such Continuing Classified Director would have

expired and until his or her successor shall be elected and qualified, or until his or her earlier death, resignation, retirement, disqualification or removal.”

3. The Amended and Restated Certificate of Incorporation of the Corporation is hereby amended by deleting Section (e) of Article FIFTH, and inserting the following in lieu thereof:

“(e) Subject to the terms of any one or more classes or series of Preferred Stock, any vacancy on the Board of Directors that results from an increase in the number of directors may be filled by a majority of the Board of Directors then in office, provided that a quorum is present, and any other vacancy occurring on the Board of Directors may be filled by a majority of the Board of Directors then in office, even if less than a quorum, or by a sole remaining director. Any director of any class elected to fill a vacancy resulting from an increase in the number of directors of such class shall hold office for a term that shall coincide with the remaining term of that class. Any director elected to fill a vacancy not resulting from an increase in the number of directors shall have the same remaining term as that of his predecessor. Subject to the rights, if any, of the holders of shares of Preferred Stock then outstanding, any or all of the directors of the Corporation may be removed from office at any time, but only for cause and only by the affirmative vote of the holders of at least a majority of the voting power of the Corporation’s then outstanding capital stock entitled to vote generally in the election of directors. Notwithstanding the foregoing, whenever the holders of any one or more classes or series of Preferred Stock issued by the Corporation shall have the right, voting separately by class or series, to elect directors at an annual or special meeting of stockholders, the election, term of office, filling of vacancies and other features of such directorships shall be governed by the terms of this Certificate of Incorporation applicable thereto, and such directors so elected shall not be divided into classes unless expressly provided by such terms.”

4. The foregoing amendments were duly adopted in accordance with the provisions of Section 242 of the General Corporation Law of the State of Delaware.

IN WITNESS WHEREOF, the undersigned has executed this Certificate of Amendment to the Amended and Restated Certificate of Incorporation on this 20th day of March, 2020.

/s/ Jennifer H. Brown

\_\_\_\_\_  
Name: Jennifer H. Brown

Title: Secretary



**FORM OF  
INDEMNIFICATION AGREEMENT**

THIS INDEMNIFICATION AGREEMENT (this “Agreement”) is made and entered into as of \_\_\_\_\_, by and between Farmer Bros. Co., a Delaware corporation (the “Company”), and \_\_\_\_\_ (“Indemnitee”).

**RECITALS**

WHEREAS, highly competent persons have become more reluctant to serve publicly-held corporations as directors, officers or in other capacities unless they are provided with adequate protection through insurance or adequate indemnification against inordinate risks of claims and actions against them arising out of their service to and activities on behalf of the corporation;

WHEREAS, the Board of Directors of the Company (the “Board”) has determined that, in order to attract and retain qualified individuals, the Company will attempt to maintain on an ongoing basis, at its sole expense, liability insurance to protect persons serving the Company and its subsidiaries from certain liabilities. Although the furnishing of such insurance has been a customary and widespread practice among United States-based corporations and other business enterprises, the Company believes that, given current market conditions and trends, such insurance may be available to it in the future only at higher premiums and with more exclusions. At the same time, directors, officers and other persons in service to corporations or business enterprises are being increasingly subjected to expensive and time-consuming litigation relating to, among other things, matters that traditionally would have been brought only against the Company or business enterprise itself. The Certificate of Incorporation (the “Charter”) and the Bylaws of the Company require indemnification of the officers and directors of the Company. Indemnitee may also be entitled to indemnification pursuant to applicable provisions of the Delaware General Corporation Law (the “DGCL”). The Charter, the Bylaws and the DGCL expressly provide that the indemnification provisions set forth therein are not exclusive, and thereby contemplate that contracts may be entered into between the Company and members of the board of directors, officers and other persons with respect to indemnification;

WHEREAS, the uncertainties relating to such insurance and to indemnification have increased the difficulty of attracting and retaining such persons;

WHEREAS, the Board has determined that the increased difficulty in attracting and retaining such persons is detrimental to the best interests of the Company’s stockholders and that the Company should act to assure such persons that there will be increased certainty of such protection in the future;

WHEREAS, it is reasonable, prudent and necessary for the Company contractually to obligate itself to indemnify, and to advance expenses on behalf of, such persons to the fullest extent permitted by applicable law so that they will serve or continue to serve the Company free from undue concern that they will not be so indemnified;

WHEREAS, this Agreement is a supplement to and in furtherance of the Charter, the Bylaws of the Company and any resolutions adopted pursuant thereto, and shall not be deemed a substitute therefor, nor diminish or abrogate any rights of Indemnitee thereunder; and

WHEREAS, Indemnitee does not regard the protection available under the Company’s Charter, Bylaws and insurance as adequate in the present circumstances, and may not be willing to serve as an officer or director without adequate protection, and the Company desires Indemnitee to serve in such capacity. Indemnitee is willing to serve,

continue to serve and to take on additional service for or on behalf of the Company on the condition that he or she be so indemnified;

NOW, THEREFORE, in consideration of the premises and the covenants contained herein and Indemnitee's agreement to serve as a director or officer after the date hereof, the Company and Indemnitee do hereby covenant and agree as follows:

1. Definitions. As used in this Agreement:

(a) References to "agent" shall mean any person who is or was a director, officer, or employee of the Company or a Subsidiary of the Company or other person authorized by the Company to act for the Company, to include such person serving in such capacity as a director, officer, employee, fiduciary or other official of another corporation, partnership, limited liability company, joint venture, trust or other enterprise at the request of, for the convenience of, or to represent the interests of the Company or a Subsidiary of the Company.

(b) The terms "Beneficial Owner" and "Beneficial Ownership" shall have the meanings set forth in Rule 13d-3 promulgated under the Exchange Act as in effect on the date hereof.

(c) A "Change in Control" shall be deemed to occur upon the earliest to occur after the date of this Agreement of any of the following events:

(i) Acquisition of Stock by Third Party. Any Person is or becomes the Beneficial Owner, directly or indirectly, of securities of the Company representing fifteen percent (15%) or more of the combined voting power of the Company's then outstanding securities entitled to vote generally in the election of directors, unless (1) the change in the relative Beneficial Ownership of the Company's securities by any Person results solely from a reduction in the aggregate number of outstanding shares of securities entitled to vote generally in the election of directors, or (2) such acquisition was approved in advance by the Continuing Directors and such acquisition would not constitute a Change in Control under part (iii) of this definition;

(ii) Change in Board of Directors. Individuals who, as of the date hereof, constitute the Board, and any new director whose election by the Board or nomination for election by the Company's stockholders was approved by a vote of at least two thirds of the directors then still in office who were directors on the date hereof or whose election for nomination for election was previously so approved (collectively, the "Continuing Directors"), cease for any reason to constitute at least a majority of the members of the Board;

(iii) Corporate Transactions. The effective date of a reorganization, merger or consolidation of the Company (a "Business Combination"), in each case, unless, following such Business Combination: (1) all or substantially all of the individuals and entities who were the Beneficial Owners of securities entitled to vote generally in the election of directors immediately prior to such Business Combination beneficially own, directly or indirectly, more than 51% of the combined voting power of the then outstanding securities of the Company entitled to vote generally in the election of directors resulting from such Business Combination (including, without limitation, a corporation which as a result of such transaction owns the Company or all or substantially all of the Company's assets either directly or through one or more Subsidiaries) in substantially the same proportions as their ownership, immediately prior to such Business Combination, of the securities entitled to vote generally in the election of directors; (2) no Person (excluding any corporation resulting from such Business Combination) is the Beneficial Owner, directly or indirectly, of 15% or more of the combined voting power of the then outstanding securities entitled to vote generally in the election of directors of such corporation except to the extent that such ownership existed prior to the Business Combination; and (3) at least a majority of the Board of Directors of the corporation resulting from such Business Combination were Continuing Directors at the time of the execution of the initial agreement, or of the action of the Board of Directors, providing for such Business Combination;

(iv) Liquidation. The approval by the stockholders of the Company of a complete liquidation of the Company or an agreement or series of agreements for the sale or disposition by the Company of all

or substantially all of the Company's assets (or, if such approval is not required, the decision by the Board to proceed with such a liquidation, sale, or disposition in one transaction or a series of related transactions); or

(v) Other Events. There occurs any other event of a nature that would be required to be reported in response to Item 6(e) of Schedule 14A of Regulation 14A (or a response to any similar item on any similar schedule or form) promulgated under the Exchange Act, whether or not the Company is then subject to such reporting requirement.

(d) "Corporate Status" describes the status of a person who is or was a director, officer, trustee, general partner, managing member, fiduciary, employee or agent of the Company or of any other Enterprise which such person is or was serving at the request of the Company. References to "serving at the request of the Company" shall include, without limitation, any service as a director, officer, employee or agent of the Company or any other Enterprise that imposes duties on, or involves services by, such director, officer, employee or agent with respect to an employee benefit plan, its participants or beneficiaries, including as a deemed fiduciary thereto.

(e) "Delaware Court" shall mean the Court of Chancery of the State of Delaware.

(f) "Disinterested Director" shall mean a director of the Company who is not and was not a party to the Proceeding in respect of which indemnification is sought by Indemnitee.

(g) "Enterprise" shall mean the Company and any other corporation, constituent corporation (including any constituent of a constituent) absorbed in a consolidation or merger to which the Company (or any of its wholly owned subsidiaries) is a party, limited liability company, partnership, joint venture, trust, employee benefit plan or other enterprise of which Indemnitee is or was serving at the request of the Company as a director, officer, trustee, general partner, managing member, fiduciary, employee or agent.

(h) "Exchange Act" shall mean the Securities Exchange Act of 1934, as amended.

(i) "Expenses" shall include all direct and indirect costs, fees and expenses of any type or nature whatsoever, including, without limitation, attorneys' fees and costs, retainers, court costs, transcript costs, fees and disbursements of experts, witness fees, fees and disbursements of private investigators and professional advisors, travel expenses, duplicating costs, printing and binding costs, telephone and fax transmission charges, postage, delivery service fees, secretarial services, reasonable compensation for time spent by Indemnitee for which he is not otherwise compensated for by the Company or any third party, and all other disbursements or expenses in connection with prosecuting, defending, preparing to prosecute or defend, investigating, being or preparing to be a witness in, or otherwise participating in, a Proceeding or enforcing a right to indemnification under this Agreement. Expenses also shall include Expenses incurred in connection with any appeal resulting from any Proceeding, including without limitation the premium, security for, and other costs relating to any cost bond, supersedeas bond, or other appeal bond or its equivalent. Expenses, however, shall not include amounts paid in settlement by Indemnitee or the amount of judgments or fines against Indemnitee.

(j) "Independent Counsel" shall mean a law firm or a member of a law firm that is experienced in matters of corporation law and neither presently is, nor in the past five years has been, retained to represent: (i) the Company or Indemnitee in any matter material to either such party (other than with respect to matters concerning Indemnitee under this Agreement, or of other indemnitees under similar indemnification agreements); or (ii) any other party to the Proceeding giving rise to a claim for indemnification hereunder. Notwithstanding the foregoing, the term "Independent Counsel" shall not include any person who, under the applicable standards of professional conduct then prevailing, would have a conflict of interest in representing either the Company or Indemnitee in an action to determine Indemnitee's rights under this Agreement. The Company agrees to pay the reasonable fees of the Independent Counsel referred to above and to fully indemnify such counsel against any and all Expenses, claims, liabilities and damages arising out of or relating to this Agreement or its engagement pursuant hereto.

(k) References to "fines" shall include any excise tax assessed on Indemnitee with respect to any employee benefit plan; references to "serving at the request of the Company" shall include any service as a director,

officer, employee, agent or fiduciary of the Company which imposes duties on, or involves services by, such director, officer, employee, agent or fiduciary with respect to an employee benefit plan, its participants or beneficiaries (including as a deemed fiduciary thereto); and if Indemnitee acted in good faith and in a manner Indemnitee reasonably believed to be in the best interests of the participants and beneficiaries of an employee benefit plan, Indemnitee shall be deemed to have acted in a manner “not opposed to the best interests of the Company,” as referred to in this Agreement.

(l) The term “Person” shall have the meaning as set forth in Sections 13(d) and 14(d) of the Exchange Act as in effect on the date hereof; provided, however, that “Person” shall exclude: (i) the Company; (ii) any Subsidiary of the Company; (iii) any employee benefit plan of the Company including, without limitation, the Company’s Employee Stock Ownership Plan, or of any Subsidiary of the Company, or any Person or entity organized, appointed or established by the Company for or pursuant to the terms of any such plan; (iv) a corporation owned directly or indirectly by the stockholders of the Company in substantially the same proportions as their ownership of stock of the Company; and (v) Roy F. Farmer and Emily Farmer (both deceased) and their descendants (collectively, “Farmer Family Members”), the estates of Farmer Family Members and the personal representatives thereof, and trusts, partnerships and other entities created by or for the benefit of Farmer Family Members and the trustees, partners and members thereof.

(m) A “Potential Change in Control” shall be deemed to have occurred if: (i) the Company enters into an agreement or arrangement, the consummation of which would result in the occurrence of a Change in Control; (ii) any Person or the Company publicly announces an intention to take or consider taking actions which if consummated would constitute a Change in Control; (iii) any Person who becomes the Beneficial Owner, directly or indirectly, of securities of the Company representing 5% or more of the combined voting power of the Company’s then outstanding securities entitled to vote generally in the election of directors increases its Beneficial Ownership of such securities by 5% or more over the percentage so owned by such Person on the date hereof; or (iv) the Board adopts a resolution to the effect that, for purposes of this Agreement, a Potential Change in Control has occurred.

(n) The term “Proceeding” shall include any threatened, pending or completed action, suit, arbitration, alternate dispute resolution mechanism, investigation, inquiry, administrative hearing or any other actual, threatened or completed proceeding, in each case whether formal or informal, whether brought in the right of the Company or otherwise and whether of a civil (including intentional or unintentional tort claims), criminal, administrative or investigative nature, in which Indemnitee was, is or will be involved as a party or otherwise (including, without limitation, as a witness, even if neither Indemnitee nor the Company is named as a party to such Proceeding) by reason of the fact that Indemnitee is or was a director or officer of the Company, by reason of any action (or failure to act) taken by him or of any action (or failure to act) on his part while acting as a director or officer of the Company, or by reason of the fact that he is or was serving at the request of the Company as a director, officer, trustee, general partner, managing member, fiduciary, employee or agent of any other Enterprise, in each case whether or not serving in such capacity at the time any liability or expense is incurred for which indemnification, reimbursement, or advancement of expenses can be provided under this Agreement.

(o) The term “Subsidiary,” with respect to any Person, shall mean any corporation or other entity of which a majority of the voting power of the voting equity securities or equity interest is owned, directly or indirectly, by that Person.

2. Agreement To Serve. Indemnitee agrees to serve and/or continue to serve as an agent of the Company, at its will (or under separate agreement, if such agreement exists), in the capacity Indemnitee currently serves as an agent of the Company; provided, however, that nothing contained in this Agreement is intended to or shall (i) restrict the ability of Indemnitee to resign at any time and for any reason from any current or future position or positions, (ii) create any right to continued employment of Indemnitee in any current or future position or positions, or (iii) restrict the ability of the Company to terminate the employment or agency of Indemnitee at any time and for any reason (subject to compliance with the terms of any employment or other applicable agreement to which the Company (or any of its Subsidiaries) and Indemnitee are parties).

3. Indemnification in Third-Party Proceedings. The Company shall indemnify and hold harmless Indemnitee in accordance with the provisions of this Section 3 if, by reason of his Corporate Status, Indemnitee was,

is, or is threatened to be made, a party to or a participant (as a witness or otherwise) in any Proceeding, other than a Proceeding by or in the right of the Company to procure a judgment in its favor. Pursuant to this Section 3, Indemnatee shall be indemnified against all Expenses, judgments, penalties, fines and amounts paid in settlement (including all interest, assessments and other charges paid or payable in connection with or in respect of such Expenses, judgments, fines, penalties and amounts paid in settlement) actually and reasonably incurred by Indemnatee or on his behalf in connection with such Proceeding or any claim, issue or matter therein, if Indemnatee acted in good faith and in a manner he reasonably believed to be in or not opposed to the best interests of the Company and, in the case of a criminal Proceeding, had no reasonable cause to believe that his conduct was unlawful.

4. Indemnification in Proceedings by or in the Right of the Company. The Company shall indemnify and hold harmless Indemnatee in accordance with the provisions of this Section 4 if, by reason of his Corporate Status, Indemnatee was, is, or is threatened to be made, a party to or a participant (as a witness or otherwise) in any Proceeding brought by or in the right of the Company to procure a judgment in its favor. Pursuant to this Section 4, Indemnatee shall be indemnified against all Expenses actually and reasonably incurred by Indemnatee or on his behalf in connection with such Proceeding or any claim, issue or matter therein, if Indemnatee acted in good faith and in a manner he reasonably believed to be in or not opposed to the best interests of the Company. Notwithstanding the foregoing, no indemnification shall be made under this Section 4 in respect of any claim, issue or matter as to which Indemnatee shall have been finally adjudged by a court to be liable to the Company, unless and only to the extent that any court in which the Proceeding was brought or the Delaware Court shall determine upon application that, despite the adjudication of liability but in view of all the circumstances of the case, Indemnatee is fairly and reasonably entitled to indemnification for such Expenses as the court shall deem proper.

5. Indemnification for Expenses of a Party Who is Wholly or Partly Successful. Notwithstanding any other provisions of this Agreement, to the extent that Indemnatee is, by reason of his Corporate Status, a party to (or a participant in) and is successful, on the merits or otherwise, in any Proceeding or in defense of any claim, issue or matter therein, in whole or in part, the Company shall indemnify and hold harmless Indemnatee against all Expenses actually and reasonably incurred by him or on his behalf in connection therewith. If Indemnatee is not wholly successful in such Proceeding but is successful, on the merits or otherwise, as to one or more but less than all claims, issues or matters in such Proceeding, the Company shall indemnify and hold harmless Indemnatee against all Expenses actually and reasonably incurred by him or on his behalf in connection with each successfully resolved claim, issue or matter. If Indemnatee is not wholly successful in such Proceeding, the Company also shall indemnify and hold harmless Indemnatee against all Expenses reasonably incurred in connection with a claim, issue or matter related to any claim, issue or matter on which Indemnatee was successful. For these purposes and without limitation, Indemnatee will be deemed to have been "successful on the merits" in circumstances including but not limited to the termination of any Proceeding or of any claim, issue or matter therein, by the winning of a dismissal (with or without prejudice), motion for summary judgment, settlement (with or without court approval), or upon a plea of nolo contendere or its equivalent.

6. Indemnification for Expenses of a Witness. Notwithstanding any other provision of this Agreement, to the extent that Indemnatee is, by reason of his Corporate Status, a witness in any Proceeding to which Indemnatee is not a party, he shall be indemnified and held harmless against all Expenses actually and reasonably incurred by him or on his behalf in connection therewith.

7. Additional Indemnification

(a) Notwithstanding any limitation in Sections 3, 4 or 5, the Company shall indemnify and hold harmless Indemnatee if, by reason of his Corporate Status, Indemnatee is a party to or threatened to be made a party to or participant in any Proceeding (including a Proceeding by or in the right of the Company to procure a judgment in its favor) against all Expenses, judgments, fines, penalties and amounts paid in settlement (including all interest, assessments and other charges paid or payable in connection with or in respect of such Expenses, judgments, fines, penalties and amounts paid in settlement) actually and reasonably incurred by Indemnatee in connection with the Proceeding. No indemnity shall be made under this Section 7(a) on account of Indemnatee's conduct which constitutes a breach of Indemnatee's duty of loyalty to the Company or its stockholders or is an act or omission not in good faith or which involves intentional misconduct or a knowing violation of the law.

(b) Notwithstanding any limitation in Sections 3, 4, 5 or 7(a), the Company shall indemnify and hold harmless Indemnitee if Indemnitee is a party to or threatened to be made a party to any Proceeding (including a Proceeding by or in the right of the Company to procure a judgment in its favor) against all Expenses, judgments, fines, penalties and amounts paid in settlement (including all interest, assessments and other charges paid or payable in connection with or in respect of such Expenses, judgments, fines, penalties and amounts paid in settlement) actually and reasonably incurred by Indemnitee in connection with the Proceeding.

#### 8. Contribution

(a) Whether or not the indemnification provided in Sections 3, 4, 5 and 7 hereof is available, in respect of any threatened, pending or completed action, suit or proceeding in which the Company is jointly liable with Indemnitee (or would be if joined in such action, suit or proceeding), the Company shall pay, in the first instance, the entire amount of any judgment or settlement of such action, suit or proceeding without requiring Indemnitee to contribute to such payment and the Company hereby waives and relinquishes any right of contribution it may have against Indemnitee. The Company shall not enter into any settlement of any action, suit or proceeding in which the Company is jointly liable with Indemnitee (or would be if joined in such action, suit or proceeding) unless such settlement provides for a full and final release of all claims asserted against Indemnitee.

(b) Without diminishing or impairing the obligations of the Company set forth in the preceding subparagraph, if, for any reason, Indemnitee shall elect or be required to pay all or any portion of any judgment or settlement in any threatened, pending or completed action, suit or proceeding in which the Company is jointly liable with Indemnitee (or would be if joined in such action, suit or proceeding), the Company shall contribute to the amount of expenses (including attorneys' fees), judgments, fines and amounts paid in settlement actually and reasonably incurred and paid or payable by Indemnitee in proportion to the relative benefits received by the Company and all officers, directors or employees of the Company, other than Indemnitee, who are jointly liable with Indemnitee (or would be if joined in such action, suit or proceeding), on the one hand, and Indemnitee, on the other hand, from the transaction from which such action, suit or proceeding arose; provided, however, that the proportion determined on the basis of relative benefit may, to the extent necessary to conform to law, be further adjusted by reference to the relative fault of the Company and all officers, directors or employees of the Company other than Indemnitee who are jointly liable with Indemnitee (or would be if joined in such action, suit or proceeding), on the one hand, and Indemnitee, on the other hand, in connection with the events that resulted in such expenses, judgments, fines or settlement amounts, as well as any other equitable considerations which the Law may require to be considered. The relative fault of the Company and all officers, directors or employees of the Company, other than Indemnitee, who are jointly liable with Indemnitee (or would be if joined in such action, suit or proceeding), on the one hand, and Indemnitee, on the other hand, shall be determined by reference to, among other things, the degree to which their actions were motivated by intent to gain personal profit or advantage, the degree to which their liability is primary or secondary and the degree to which their conduct is active or passive.

(c) The Company hereby agrees to fully indemnify and hold Indemnitee harmless from any claims of contribution which may be brought by officers, directors or employees of the Company, other than Indemnitee, who may be jointly liable with Indemnitee.

(d) To the fullest extent permissible under applicable law, if the indemnification provided for in this Agreement is unavailable to Indemnitee for any reason whatsoever, the Company, in lieu of indemnifying Indemnitee, shall contribute to the amount incurred by Indemnitee, whether for judgments, fines, penalties, excise taxes, amounts paid or to be paid in settlement and/or for Expenses, in connection with any claim relating to an indemnifiable event under this Agreement, in such proportion as is deemed fair and reasonable in light of all of the circumstances of such Proceeding in order to reflect (i) the relative benefits received by the Company and Indemnitee as a result of the event(s) and/or transaction(s) giving cause to such Proceeding; and/or (ii) the relative fault of the Company (and its directors, officers, employees and agents) and Indemnitee in connection with such event(s) and/or transaction(s).

9. Exclusions. Notwithstanding any provision in this Agreement, the Company shall not be obligated under this Agreement to make any indemnity in connection with any claim made against Indemnitee:

(a) for which payment has actually been received by or on behalf of Indemnitee under any Company-purchased insurance policy or other indemnity provision, except with respect to any excess beyond the amount actually received under any insurance policy, contract, agreement, other indemnity provision or otherwise;

(b) for an accounting of profits made from the purchase and sale (or sale and purchase) by Indemnitee of securities of the Company within the meaning of Section 16(b) of the Exchange Act or similar provisions of state statutory law or common law;

(c) except as otherwise provided in Sections 14(e) and (f) hereof, prior to a Change in Control, in connection with any Proceeding (or any part of any Proceeding) initiated by Indemnitee, including any Proceeding (or any part of any Proceeding) initiated by Indemnitee against the Company or its directors, officers, employees or other indemnitees, unless (i) the Board authorized the Proceeding (or any part of any Proceeding) prior to its initiation or (ii) the Company provides the indemnification, in its sole discretion, pursuant to the powers vested in the Company under applicable law;

(d) for any Expenses, judgments, liabilities, fines, penalties and amounts paid in settlement resulting from Indemnitee's conduct which is finally adjudged to have been willful misconduct, knowingly fraudulent or deliberately dishonest; or

(e) if a court of competent jurisdiction shall finally determine that any indemnification hereunder is unlawful.

10. Advances of Expenses; Defense of Claim; Information Sharing

(a) Notwithstanding any provision of this Agreement to the contrary, and to the fullest extent permitted by applicable law, the Company shall advance all Expenses incurred by or on behalf of Indemnitee (or reasonably expected by Indemnitee to be incurred by Indemnitee within three months) in connection with any Proceeding by reason of Indemnitee's Corporate Status within ten (10) days after the receipt by the Company of a statement or statements requesting such advances from time to time, whether prior to or after final disposition of any Proceeding; provided, however, that Indemnitee shall not be required to include in any such statement any information that would cause Indemnitee to waive any privilege provided by applicable law. Without limiting the generality or effect of the foregoing, within thirty (30) days after any request for Advances by Indemnitee, the Company shall, in accordance with such request (but without duplication), (i) pay such Expenses on behalf of Indemnitee, (b) advance to Indemnitee funds in an amount sufficient for Indemnitee to pay such Expenses, and/or (iii) to the extent that Indemnitee has already paid for Expenses, reimburse Indemnitee for such Expenses. Indemnitee's right to advances shall include all Expenses incurred through and including the final disposition of such Proceeding, including any appeal thereof. Advances shall be unsecured and interest free. Advances shall be made without regard to Indemnitee's ability to repay the Expenses and without regard to Indemnitee's ultimate entitlement to indemnification under the other provisions of this Agreement. Advances shall include any and all reasonable Expenses incurred pursuing a Proceeding to enforce this right of advancement, including Expenses incurred preparing and forwarding statements to the Company to support the advances claimed. The right to advances under this section shall in all events continue until final disposition of any Proceeding, including any appeal therein. The Company shall not seek from a court, or agree to, a "bar order" which would have the effect of prohibiting or limiting the Indemnitee's rights to receive advancement of expenses under this Agreement. Indemnitee shall qualify for advances, to the fullest extent permitted by applicable law, solely upon the execution and delivery to the Company of this Agreement, which shall constitute an undertaking providing that Indemnitee undertakes to the fullest extent permitted by law to repay the advance (without interest) if and to the extent that it is ultimately determined by a court of competent jurisdiction in a final judgment, not subject to further appeal, that Indemnitee is not entitled to be indemnified by the Company under the provisions of this Agreement or applicable law. No other form of undertaking shall be required other than the execution of this Agreement.

(b) With respect to any Proceeding as to which Indemnitee notifies the Company of the commencement thereof, the Company will be entitled to participate in the Proceeding at its own expense and except as otherwise provided below, to the extent the Company so wishes, it may assume the defense thereof with counsel

reasonably satisfactory to Indemnatee. After notice from the Company to Indemnatee of its election to assume the defense of any Proceeding, the Company shall not be liable to Indemnatee under this Agreement or otherwise for any Expenses subsequently incurred by Indemnatee in connection with the defense of such Proceeding other than reasonable costs of investigation or as otherwise provided below. Following any such assumption of defense by the Company, Indemnatee shall have the right to employ legal counsel in such Proceeding, but all Expenses related thereto incurred after notice from the Company of its assumption of the defense shall be at Indemnatee's expense unless: (i) the employment of legal counsel by Indemnatee has been authorized by the Company, (ii) Indemnatee has reasonably determined that there may be a conflict of interest between Indemnatee and the Company in the defense of the Proceeding, (iii) the fees and expenses are non-duplicative and reasonably incurred in connection with Indemnatee's role in the Proceeding despite the Company's assumption of the defense, (iv) after a Change in Control, the employment of counsel by Indemnatee has been approved by the Independent Counsel, or (v) the Company shall not in fact have employed counsel to assume the defense of such Proceeding, in each of which cases all Expenses of the Proceeding shall be borne by the Company. The Company shall not be entitled to assume the defense of any Proceeding brought by or on behalf of the Company, or as to which Indemnatee shall have made the determination provided for in (ii) above or under the circumstances provided for in (iii) and (iv) above. Indemnatee agrees that any such separate counsel retained by Indemnatee will be a member of any approved list of panel counsel under the Company's applicable directors' and officers' insurance policy, should the applicable policy provide for a panel of approved counsel and should such approve panel list comprise law firms with well-established reputations in the type of litigation at issue.

(c) The Company shall not settle any action, claim or Proceeding (in whole or in part) which would impose any Expense, judgment, fine, penalty or limitation on Indemnatee without Indemnatee's prior written consent.

(d) If Indemnatee is the subject of or is implicated in any way during an investigation, whether formal or informal, the Company shall share with Indemnatee any information it has turned over to any third parties concerning the investigation ("Shared Information"). By executing this Agreement, Indemnatee agrees that such Shared Information is material non-public information that Indemnatee is obligated to hold in confidence and may not disclose publicly; provided, however, that Indemnatee shall be permitted to use the Shared Information and to disclose Shared Information to Indemnatee's legal counsel solely in connection with defending Indemnatee from legal liability.

#### 11. Procedure for Notification and Application for Indemnification

(a) Indemnatee agrees to notify promptly the Company in writing upon being served with any summons, citation, subpoena, complaint, indictment, information or other document relating to any Proceeding or matter which may be subject to indemnification or advancement of Expenses covered hereunder. The failure of Indemnatee to so notify the Company shall not relieve the Company of any obligation which it may have to Indemnatee under this Agreement, or otherwise.

(b) Indemnatee may deliver to the Company a written application to indemnify and hold harmless Indemnatee in accordance with this Agreement. Such application(s) may be delivered from time to time and at such time(s) as Indemnatee deems appropriate in his sole discretion. Following such a written application for indemnification by Indemnatee, Indemnatee's entitlement to indemnification shall be determined according to Section 12(a) of this Agreement.

#### 12. Procedure Upon Application for Indemnification

(a) A determination, if required by applicable law, with respect to Indemnatee's entitlement to indemnification shall be made in the specific case by one of the following methods, which shall be at the election of the Board: (i) by a majority vote of the Disinterested Directors, even though less than a quorum of the Board or (ii) by Independent Counsel in a written opinion to the Board, a copy of which shall be delivered to Indemnatee. The Company promptly shall advise Indemnatee in writing with respect to any determination that Indemnatee is or is not entitled to indemnification, including a description of any reason or basis for which indemnification has been denied. If it is so determined that Indemnatee is entitled to indemnification, payment to Indemnatee shall be made within ten (10) days after such determination. Indemnatee shall reasonably cooperate with the person, persons or entity making such determination with respect to Indemnatee's entitlement to indemnification, including providing to such person, persons

or entity upon reasonable advance request any documentation or information which is not privileged or otherwise protected from disclosure and which is reasonably available to Indemnitee and reasonably necessary to such determination. Any costs or Expenses (including attorneys' fees and disbursements) incurred by Indemnitee in so cooperating with the person, persons or entity making such determination shall be borne by the Company (irrespective of the determination as to Indemnitee's entitlement to indemnification) and the Company hereby indemnifies and agrees to hold Indemnitee harmless therefrom.

(b) In the event the determination of entitlement to indemnification is to be made by Independent Counsel pursuant to Section 12(a) hereof, the Independent Counsel shall be selected as provided in this Section 12(b). The Independent Counsel shall be selected by the Board of Directors, and the Company shall give written notice to Indemnitee advising him of the identity of the Independent Counsel so selected and certifying that the Independent Counsel so selected meets the requirements of "Independent Counsel" as defined in Section 1 of this Agreement. Indemnitee may, within ten (10) days after such written notice of selection shall have been received, deliver to the Company a written objection to such selection; provided, however, that such objection may be asserted only on the ground that the Independent Counsel so selected does not meet the requirements of "Independent Counsel" as defined in Section 1 of this Agreement, and the objection shall set forth with particularity the factual basis of such assertion. Absent a proper and timely objection, the person so selected shall act as Independent Counsel. If such written objection is so made and substantiated, the Independent Counsel so selected may not serve as Independent Counsel unless and until such objection is withdrawn or a court of competent jurisdiction has determined that such objection is without merit. If, within twenty (20) days after submission by Indemnitee of a written request for indemnification pursuant to Section 11(b) hereof, no Independent Counsel shall have been selected and not objected to, either the Company or Indemnitee may petition the Delaware Court for resolution of any objection which shall have been made by Indemnitee to the Company's selection of Independent Counsel and/or for the appointment as Independent Counsel of a person selected by the Delaware Court, and the person with respect to whom all objections are so resolved or the person so appointed shall act as Independent Counsel under Section 12(a) hereof. Upon the due commencement of any judicial proceeding or arbitration pursuant to Section 14(a) of this Agreement, Independent Counsel shall be discharged and relieved of any further responsibility in such capacity (subject to the applicable standards of professional conduct then prevailing). The Company shall pay any and all reasonable fees and expenses of Independent Counsel incurred by such Independent Counsel in connection with acting pursuant to Section 12(a) hereof, regardless of the manner in which such Independent Counsel was selected or appointed.

13. Presumptions and Effect of Certain Proceedings

(a) In making a determination with respect to entitlement to indemnification hereunder, the person, persons or entity making such determination shall presume that Indemnitee is entitled to indemnification under this Agreement if Indemnitee has submitted a request for indemnification in accordance with Section 11(b) of this Agreement, and the Company shall have the burden of proof to overcome that presumption (by clear and convincing evidence) in connection with the making by any person, persons or entity of any determination contrary to that presumption. Neither the failure of the Company (including by its directors or Independent Counsel) to have made a determination prior to the commencement of any action pursuant to this Agreement that indemnification is proper in the circumstances because Indemnitee has met the applicable standard of conduct, nor an actual determination by the Company (including by its directors or Independent Counsel) that Indemnitee has not met such applicable standard of conduct, shall be a defense to the action or create a presumption that Indemnitee has not met the applicable standard of conduct.

(b) If the person, persons or entity empowered or selected under Section 12 of this Agreement to determine whether Indemnitee is entitled to indemnification shall not have made a determination within thirty (30) days after receipt by the Company of the request therefor, the requisite determination of entitlement to indemnification shall be deemed to have been made and Indemnitee shall be entitled to such indemnification, absent (i) a misstatement by Indemnitee of a material fact, or an omission of a material fact necessary to make Indemnitee's statement not materially misleading, in connection with the request for indemnification, or (ii) a final judicial determination that any or all such indemnification is expressly prohibited under applicable law; provided, however, that such 30-day period may be extended for a reasonable time, not to exceed an additional fifteen (15) days, if the person, persons or entity making the determination with respect to entitlement to indemnification in good faith requires such additional time for the obtaining or evaluating of documentation and/or information relating thereto.

(c) The termination of any Proceeding or of any claim, issue or matter therein, by judgment, order, settlement or conviction, or upon a plea of nolo contendere or its equivalent, shall not (except as otherwise expressly provided in this Agreement) of itself adversely affect the right of Indemnitee to indemnification or create a presumption that Indemnitee did not act in good faith and in a manner which he reasonably believed to be in or not opposed to the best interests of the Company or, with respect to any criminal Proceeding, that Indemnitee had reasonable cause to believe that his conduct was unlawful.

(d) For purposes of any determination of good faith, Indemnitee shall be deemed to have acted in good faith if Indemnitee's action is based on the records or books of account of the Enterprise, including financial statements, or on information supplied to Indemnitee by the officers of the Enterprise in the course of their duties, or on the advice of legal counsel for the Enterprise or on information or records given or reports made to the Enterprise by an independent certified public accountant or by an appraiser or other expert selected by the Enterprise. The provisions of this Section 13(d) shall not be deemed to be exclusive or to limit in any way the other circumstances in which Indemnitee may be deemed or found to have met the applicable standard of conduct set forth in this Agreement.

(e) The knowledge and/or actions, or failure to act, of any other director, officer, trustee, partner, managing member, fiduciary, agent or employee of the Enterprise shall not be imputed to Indemnitee for purposes of determining the right to indemnification under this Agreement.

#### 14. Remedies of Indemnitee

(a) In the event that (i) a determination is made pursuant to Section 12 of this Agreement that Indemnitee is not entitled to indemnification under this Agreement, (ii) advancement of Expenses, to the fullest extent permitted by applicable law, is not timely made pursuant to Section 10 of this Agreement, (iii) no determination of entitlement to indemnification shall have been made pursuant to Section 12(a) of this Agreement within thirty (30) days after receipt by the Company of the request for indemnification, (iv) payment of indemnification is not made pursuant to Section 5, 6, or the last sentence of Section 12(a) of this Agreement within ten (10) days after receipt by the Company of a written request therefor, (v) a contribution payment is not made in a timely manner pursuant to Section 8 of this Agreement, or (vi) payment of indemnification pursuant to Section 3 or 4 of this Agreement is not made within ten (10) days after a determination has been made that Indemnitee is entitled to indemnification, Indemnitee shall be entitled to an adjudication by the Delaware Court to such indemnification, contribution or advancement of Expenses. Alternatively, Indemnitee, at his option, may seek an award in arbitration to be conducted by a single arbitrator pursuant to the Commercial Arbitration Rules of the American Arbitration Association. Except as set forth herein, the provisions of Delaware law (without regard to its conflict of laws rules) shall apply to any such arbitration. The Company shall not oppose Indemnitee's right to seek any such adjudication or award in arbitration.

(b) In the event that a determination shall have been made pursuant to Section 12(a) of this Agreement that Indemnitee is not entitled to indemnification, any judicial proceeding or arbitration commenced pursuant to this Section 14 shall be conducted in all respects as a de novo trial, or arbitration, on the merits and Indemnitee shall not be prejudiced by reason of that adverse determination. In any judicial proceeding or arbitration commenced pursuant to this Section 14, Indemnitee shall be presumed to be entitled to indemnification under this Agreement and the Company shall have the burden of proving Indemnitee is not entitled to indemnification or advancement of Expenses, as the case may be, and the Company may not refer to or introduce into evidence any determination pursuant to Section 12(a) of this Agreement adverse to Indemnitee for any purpose. If Indemnitee commences a judicial proceeding or arbitration pursuant to this Section 14, Indemnitee shall not be required to reimburse the Company for any advances pursuant to Section 10 until a final determination is made with respect to Indemnitee's entitlement to indemnification (as to which all rights of appeal have been exhausted or lapsed).

(c) If a determination shall have been made pursuant to Section 12(a) of this Agreement that Indemnitee is entitled to indemnification, the Company shall be bound by such determination in any judicial proceeding or arbitration commenced pursuant to this Section 14, absent (i) a misstatement by Indemnitee of a material fact, or an omission of a material fact necessary to make Indemnitee's statement not materially misleading, in connection with the request for indemnification, or (ii) a prohibition of such indemnification under applicable law.

(d) The Company shall be precluded from asserting in any judicial proceeding or arbitration commenced pursuant to this Section 14 that the procedures and presumptions of this Agreement are not valid, binding and enforceable and shall stipulate in any such court or before any such arbitrator that the Company is bound by all the provisions of this Agreement.

(e) The Company shall indemnify and hold harmless Indemnitee to the fullest extent permitted by law against all Expenses and, if requested by Indemnitee, shall (within ten (10) days after the Company's receipt of such written request) advance to Indemnitee, to the fullest extent permitted by applicable law, such Expenses which are incurred by Indemnitee in connection with any judicial proceeding or arbitration brought by Indemnitee (i) to enforce his rights under, or to recover damages for breach of, this Agreement or any other indemnification, advancement or contribution agreement or provision of the Charter, or the Company's Bylaws now or hereafter in effect; or (ii) for recovery or advances under any insurance policy maintained by any person for the benefit of Indemnitee, regardless of whether Indemnitee ultimately is determined to be entitled to such indemnification, advance, contribution or insurance recovery, as the case may be.

(f) Interest shall be paid by the Company to Indemnitee at the legal rate under Delaware law for amounts which the Company indemnifies or is obliged to indemnify for the period commencing with the date on which Indemnitee requests indemnification, contribution, reimbursement or advancement of any Expenses and ending with the date on which such payment is made to Indemnitee by the Company.

15. Establishment of Trust. In the event of a Potential Change in Control, the Company shall, upon written request by Indemnitee, create a "Trust" for the benefit of Indemnitee and from time to time upon written request of Indemnitee shall fund such Trust in an amount sufficient to satisfy any and all Expenses reasonably anticipated at the time of each such request to be incurred in connection with investigating, preparing for, participating in or defending any Proceedings, and any and all judgments, fines, penalties and amounts paid in settlement (including all interest, assessments and other charges paid or payable in connection with or in respect of such judgments, fines penalties and amounts paid in settlement) in connection with any and all Proceedings from time to time actually paid or claimed, reasonably anticipated or proposed to be paid. The trustee of the Trust (the "Trustee") shall be a bank or trust company or other individual or entity chosen by Indemnitee and reasonably acceptable to the Company. Nothing in this Section 15 shall relieve the Company of any of its obligations under this Agreement. The amount or amounts to be deposited in the Trust pursuant to the foregoing funding obligation shall be determined by mutual agreement of Indemnitee and the Company or, if the Company and Indemnitee are unable to reach such an agreement, by Independent Counsel selected in accordance with Section 12(b) of this Agreement. The terms of the Trust shall provide that, except upon the consent of both Indemnitee and the Company, upon a Change in Control: (a) the Trust shall not be revoked or the principal thereof invaded, without the written consent of Indemnitee; (b) the Trustee shall advance, to the fullest extent permitted by applicable law, within two (2) business days of a request by Indemnitee and upon the execution and delivery to the Company of an undertaking providing that Indemnitee undertakes to repay the advance to the extent that it is ultimately determined that Indemnitee is not entitled to be indemnified by the Company, any and all Expenses to Indemnitee; (c) the Trust shall continue to be funded by the Company in accordance with the funding obligations set forth above; (d) the Trustee shall promptly pay to Indemnitee all amounts for which Indemnitee shall be entitled to indemnification pursuant to this Agreement or otherwise; and (e) all unexpended funds in such Trust shall revert to the Company upon mutual agreement by Indemnitee and the Company or, if Indemnitee and the Company are unable to reach such an agreement, by Independent Counsel selected in accordance with Section 12(b) of this Agreement, that Indemnitee has been fully indemnified under the terms of this Agreement. The Trust shall be governed by Delaware law (without regard to its conflicts of laws rules) and the Trustee shall consent to the exclusive jurisdiction of the Delaware Court in accordance with Section 23 of this Agreement.

16. Security. Notwithstanding anything herein to the contrary, to the extent requested by Indemnitee and approved by the Board, the Company may at any time and from time to time provide security to Indemnitee for the Company's obligations hereunder through an irrevocable bank line of credit, funded trust or other collateral. Any such security, once provided to Indemnitee, may not be revoked or released without the prior written consent of Indemnitee.

17. Non-Exclusivity; Survival of Rights; Insurance; Subrogation; Period of Limitations

(a) The rights of indemnification and to receive advancement of Expenses as provided by this Agreement shall not be deemed exclusive of any other rights to which Indemnitee may at any time be entitled under applicable law, the Charter, the Company's Bylaws, any agreement, a vote of stockholders or a resolution of directors, or otherwise. No amendment, alteration or repeal of this Agreement or of any provision hereof shall limit or restrict any right of Indemnitee under this Agreement in respect of any action taken or omitted by such Indemnitee in his Corporate Status prior to such amendment, alteration or repeal. To the extent that a change in applicable law, whether by statute or judicial decision, permits greater indemnification or advancement of Expenses than would be afforded currently under the Charter, the Company's Bylaws or this Agreement, it is the intent of the parties hereto that Indemnitee shall enjoy by this Agreement the greater benefits so afforded by such change. No right or remedy herein conferred is intended to be exclusive of any other right or remedy, and every other right and remedy shall be cumulative and in addition to every other right and remedy given hereunder or now or hereafter existing at law or in equity or otherwise. The assertion or employment of any right or remedy hereunder, or otherwise, shall not prevent the concurrent assertion or employment of any other right or remedy.

(b) The DGCL, the Charter and the Company's Bylaws permit the Company to purchase and maintain insurance or furnish similar protection or make other arrangements including, but not limited to, providing a trust fund, letter of credit, or surety bond ("Indemnification Arrangements") on behalf of Indemnitee against any liability asserted against him or incurred by or on behalf of him or in such capacity as a director, officer, employee or agent of the Company, or arising out of his status as such, whether or not the Company would have the power to indemnify him against such liability under the provisions of this Agreement or under the DGCL, as it may then be in effect. The purchase, establishment, and maintenance of any such Indemnification Arrangement shall not in any way limit or affect the rights and obligations of the Company or of Indemnitee under this Agreement except as expressly provided herein, and the execution and delivery of this Agreement by the Company and Indemnitee shall not in any way limit or affect the rights and obligations of the Company or the other party or parties thereto under any such Indemnification Arrangement.

(c) For the duration of Indemnitee's service at the request of the Company and thereafter for so long as Indemnitee shall be subject to being made a party to or participant in any Proceeding by reason of Indemnitee's current or former Corporate Status, the Company shall use commercially reasonable efforts (taking into account the scope and amount of coverage available relative to the cost thereof) to cause to be maintained in effect policies of directors' and officers' liability insurance providing coverage for directors and/or officers of the Company that is at least substantially comparable in scope and amount to that provided by the Company's current policies of directors' and officers' liability insurance. The minimum AM Best rating for the insurance carriers of such insurance policy shall be not less than A- VI.

(d) In the event of a Change in Control or the Company becoming insolvent-including, without limitation, being placed into receivership or entering the federal bankruptcy process and the like-the Company shall maintain in force any and all insurance policies then maintained by the Company in providing insurance-directors' and officers' liability, fiduciary, employment practices or otherwise-in respect of Indemnitee, for a period of six years thereafter (a "Tail Policy"). Such coverage shall be with the incumbent insurance carriers using the policies that were in place immediately prior to the consummation of the Change in Control (unless the incumbent carrier(s) will not offer such policies, in which case the Tail Policy shall be substantially comparable in scope and amount as the expiring policies, and the insurance carriers for the Tail Policy shall have an AM Best rating that is the same or better than the AM Best ratings of the expiring policies). Notwithstanding the foregoing, if the annual premium of any year of such Tail Policy or other continuing policies of insurance--directors' and officers' liability, fiduciary, employment practices or otherwise-would exceed 250% of the annual premium the Company paid for such insurance in its last full fiscal year prior to the reduction, termination, or expiration of such insurance or to such Change in Control (either case, a "Measuring Event"), the Company (or the acquiror or successor of the Company, as the case may be) will be deemed to have satisfied its obligations under this Section 17(d) by purchasing as much such insurance for such year as can be obtained for a premium equal to 250% of such annual premium the Company paid for such insurance prior to the Measuring Event. The insurance to be placed and serviced pursuant to this Section 17(d) shall be placed by the Company's insurance broker as of the time immediately prior to such Change in Control or insolvency event.

(e) To the extent that the Company maintains an insurance policy or policies providing liability insurance for directors, officers, trustees, partners, managing members, fiduciaries, employees, or agents of the Company or of any other Enterprise which such person serves at the request of the Company, Indemnatee shall be covered by such policy or policies in accordance with its or their terms to the maximum extent of the coverage available for any such director, officer, trustee, partner, managing member, fiduciary, employee or agent under such policy or policies. If, at the time the Company receives notice from any source of a Proceeding as to which Indemnatee is a party or a participant (as a witness or otherwise), the Company has director and officer liability insurance in effect, the Company shall give prompt notice of such Proceeding to the insurers in accordance with the procedures set forth in the respective policies. The Company will instruct the insurers and their brokers that they may communicate directly with Indemnatee regarding such matter. The Company shall thereafter take all necessary or desirable action to cause such insurers to pay, on behalf of Indemnatee, all amounts payable as a result of such Proceeding in accordance with the terms of such policies.

(f) In the event of any payment under this Agreement, the Company shall be subrogated to the extent of such payment to all of the rights of recovery of Indemnatee, who shall execute all papers required and take all action necessary to secure such rights, including execution of such documents as are necessary to enable the Company to bring suit to enforce such rights.

(g) The Company's obligation to indemnify or advance Expenses hereunder to Indemnatee who is or was serving at the request of the Company as a director, officer, trustee, partner, managing member, fiduciary, employee or agent of any other Enterprise shall be reduced by any amount Indemnatee has actually received as indemnification or advancement of expenses from such Enterprise.

(h) No legal action shall be brought and no cause of action shall be asserted by or in the right of the Company against Indemnatee, Indemnatee's estate, spouse, heirs, executors or personal or legal representatives after the expiration of two years from the date of accrual of such cause of action, and any claim or cause of action of the Company shall be extinguished and deemed released unless asserted by the timely filing of a legal action within such two-year period; provided, however, that if any shorter period of limitations is otherwise applicable to any such cause of action, such shorter period shall govern. Notwithstanding the foregoing; however, in a case where the Indemnatee fraudulently conceals the facts underlying such cause of action, no proceeding shall be brought and no cause of action shall be asserted after the expiration of one year from the earlier of (i) the date the Corporation or any subsidiary of the Corporation discovers such facts, or (ii) the date the Corporation or any subsidiary of the Corporation could have discovered such facts by the exercise of reasonable diligence. Any claim or cause of action of the Corporation or any subsidiary of the Corporation against the Indemnatee, including claims predicated upon the negligent act or omission of the Indemnatee, shall be extinguished and deemed released unless asserted by filing of a legal action within such period.

18. Duration of Agreement. All agreements and obligations of the Company contained herein shall continue during the period Indemnatee serves as a director or officer of the Company or as a director, officer, trustee, partner, managing member, fiduciary, employee or agent of any other corporation, partnership, joint venture, trust, employee benefit plan or other Enterprise which Indemnatee serves at the request of the Company and shall continue thereafter so long as Indemnatee may be subject to any possible Proceeding (including any rights of appeal thereto and any Proceeding commenced by Indemnatee pursuant to Section 14 of this Agreement) by reason of his Corporate Status, whether or not he is acting in any such capacity at the time any liability or expense is incurred for which indemnification can be provided under this Agreement.

19. Severability. If any provision or provisions of this Agreement shall be held to be invalid, illegal or unenforceable for any reason whatsoever: (a) the validity, legality and enforceability of the remaining provisions of this Agreement (including, without limitation, each portion of any Section, paragraph or sentence of this Agreement containing any such provision held to be invalid, illegal or unenforceable, that is not itself invalid, illegal or unenforceable) shall not in any way be affected or impaired thereby and shall remain enforceable to the fullest extent permitted by law; (b) such provision or provisions shall be deemed reformed to the extent necessary to conform to applicable law and to give the maximum effect to the intent of the parties hereto; and (c) to the fullest extent possible, the provisions of this Agreement (including, without limitation, each portion of any Section, paragraph or sentence of

this Agreement containing any such provision held to be invalid, illegal or unenforceable, that is not itself invalid, illegal or unenforceable) shall be construed so as to give effect to the intent manifested thereby.

20. Enforcement and Binding Effect

(a) The Company expressly confirms and agrees that it has entered into this Agreement and assumed the obligations imposed on it hereby in order to induce Indemnitee to serve as a director or officer of the Company and the Company acknowledges that Indemnitee is relying upon this Agreement in serving as a director or officer of the Company.

(b) Without limiting any of the rights of Indemnitee under the Charter or Bylaws of the Company as they may be amended from time to time, this Agreement constitutes the entire agreement between the parties hereto with respect to the subject matter hereof and supersedes all prior agreements and understandings, oral, written and implied, between the parties hereto with respect to the subject matter hereof. If the DGCL or any other applicable law is amended after the date hereof to permit the Company to indemnify Indemnitee for Expenses or liabilities, or to indemnify Indemnitee with respect to any action or Proceeding, not contemplated by this Agreement, then this Agreement (without any further action by either party hereto) shall automatically be deemed to be amended to require that the Company indemnify Indemnitee to the fullest extent permitted by the DGCL.

(c) The indemnification and advancement of expenses provided by or granted pursuant to this Agreement shall be binding upon and be enforceable by the parties hereto and their respective successors and assigns (including any direct or indirect successor by purchase, merger, consolidation or otherwise to all or substantially all of the business or assets of the Company), shall continue as to an Indemnitee who has ceased to be a director, officer, employee or agent of the Company or of any other Enterprise at the Company's request, and shall inure to the benefit of Indemnitee and his spouse, assigns, heirs, devisees, executors and administrators and other legal representatives.

(d) The Company shall require and cause any successor (whether direct or indirect by purchase, merger, consolidation or otherwise) to all, substantially all or a substantial part, of the business and/or assets of the Company, by written agreement in form and substance satisfactory to Indemnitee, expressly to assume and agree to perform this Agreement to the fullest extent permitted by law.

(e) The Company and Indemnitee agree herein that a monetary remedy for breach of this Agreement, at some later date, may be inadequate, impracticable and difficult of proof, and further agree that such breach may cause Indemnitee irreparable harm. Accordingly, the parties hereto agree that Indemnitee may enforce this Agreement by seeking injunctive relief and/or specific performance hereof, without any necessity of showing actual damage or irreparable harm and that by seeking injunctive relief and/or specific performance, Indemnitee shall not be precluded from seeking or obtaining any other relief to which he may be entitled. The Company and Indemnitee further agree that Indemnitee shall be entitled to such specific performance and injunctive relief, including temporary restraining orders, preliminary injunctions and permanent injunctions, without the necessity of posting bonds or other undertaking in connection therewith. The Company acknowledges that in the absence of a waiver, a bond or undertaking may be required of Indemnitee by the court, and the Company hereby waives any such requirement of such a bond or undertaking.

21. Modification and Waiver. No supplement, modification or amendment of this Agreement shall be binding unless executed in writing by the parties hereto. No waiver of any of the provisions of this Agreement shall be deemed or shall constitute a waiver of any other provisions of this Agreement nor shall any waiver constitute a continuing waiver.

22. Notices. All notices, requests, demands and other communications under this Agreement shall be in writing and shall be deemed to have been duly given (i) if delivered by hand and receipted for by the party to whom said notice or other communication shall have been directed, or (ii) mailed by certified or registered mail with postage prepaid, on the third (3rd) business day after the date on which it is so mailed:

(a) If to Indemnitee, at the address indicated on the signature page of this Agreement or such other address as Indemnitee shall provide in writing to the Company.

(b) If to the Company, to:

Farmer Bros. Co.  
1912 Farmer Brothers Drive  
Northlake, TX 76262  
Attention: Corporate Secretary

or to any other address as may have been furnished to Indemnitee in writing by the Company.

23. Applicable Law and Consent to Jurisdiction. This Agreement and the legal relations among the parties shall be governed by, and construed and enforced in accordance with, the laws of the State of Delaware, without regard to its conflict of laws rules. Except with respect to any arbitration commenced by Indemnitee pursuant to Section 14(a) of this Agreement, the Company and Indemnitee hereby irrevocably and unconditionally: (a) agree that any action or proceeding arising out of or in connection with this Agreement shall be brought only in the Delaware Court and not in any other state or federal court in the United States of America or any court in any other country; (b) consent to submit to the exclusive jurisdiction of the Delaware Court for purposes of any action or proceeding arising out of or in connection with this Agreement; (c) appoint irrevocably, to the extent such party is not a resident of the State of Delaware, RL&F Service Corp., One Rodney Square, 10th Floor, 10th and King Streets, P.O. Box 551, Wilmington, Delaware 19899 as its agent in the State of Delaware as such party's agent for acceptance of legal process in connection with any such action or proceeding against such party with the same legal force and validity as if served upon such party personally within the State of Delaware; (d) waive any objection to the laying of venue of any such action or proceeding in the Delaware Court; and (e) waive, and agree not to plead or to make, any claim that any such action or proceeding brought in the Delaware Court has been brought in an improper or inconvenient forum, or is subject (in whole or in part) to a jury trial.

24. Counterparts. This Agreement may be executed in one or more counterparts, each of which shall for all purposes be deemed to be an original but all of which together shall constitute one and the same Agreement. Only one such counterpart signed by the party against whom enforceability is sought needs to be produced to evidence the existence of this Agreement.

25. Miscellaneous. Use of the masculine pronoun shall be deemed to include usage of the feminine pronoun where appropriate. The headings of the paragraphs of this Agreement are inserted for convenience only and shall not be deemed to constitute part of this Agreement or to affect the construction thereof.

[SIGNATURE PAGE FOLLOWS]

IN WITNESS WHEREOF, the parties have caused this Agreement to be signed as of the day and year first above written.

FARMER BROS. CO.

By:  
Name:  
Title:

INDEMNITEE

Address:

SCHEDULE OF INDEMNITEES

Allison M. Boersma  
Jennifer H. Brown  
Randy E. Clark  
Scott R. Drake  
Dawn Garrison  
Ruben E. Inofuentes  
Ronald J. Friedman  
Stacy Loretz-Congdon  
Scott R. Lyon  
Charles F. Marcy  
D. Deverl Maserang II  
Christopher P. Mottern  
Nathalie Oetzel  
David W. Ritterbush  
Gabriela Villalobos  
Jerry Michael Walsh

**[FORM OF EXECUTIVE OFFICER]  
CHANGE IN CONTROL SEVERANCE AGREEMENT**

THIS CHANGE IN CONTROL SEVERANCE AGREEMENT (this “Agreement”), effective as of \_\_\_\_\_, \_\_\_\_ (the “Effective Date”), is made by and between FARMER BROS. CO., a Delaware corporation (the “Company”), and \_\_\_\_\_ (the “Executive”).

WHEREAS, the Company considers it essential to foster the continued employment of well qualified, senior executive management personnel; and

WHEREAS, the Company has determined that appropriate steps should be taken to foster such continued employment by setting forth the benefits and compensation to be awarded to such personnel in the event of a voluntary or involuntary termination within the meaning of this Agreement; and

WHEREAS, the Company further recognizes that the possibility of a Change in Control of the Company exists and that such possibility, and the uncertainty and questions that it may raise among executive management, may result in the departure or distraction of executive personnel to the detriment of the Company; and

WHEREAS, the Company has further determined that appropriate steps should be taken to reinforce and encourage the continued attention and dedication of members of the Company’s executive management, including the Executive, to their assigned duties without distraction in the face of potentially disturbing circumstances arising from the possibility of a Change in Control;

NOW, THEREFORE, in consideration of the premises and the mutual covenants herein contained, the Company and the Executive hereby agree as follows:

1. Term of Agreement. The term of this Agreement shall commence as of the date hereof and expire on the close of business on \_\_\_\_\_, 20\_\_\_\_; provided, however, that (i) commencing on January 1, \_\_\_\_\_ and each January 1 thereafter, the term of this Agreement will automatically be extended for an additional year unless, not later than September 30 of the immediately preceding year, the Company (provided no Change in Control has occurred and no Threatened Change in Control is pending) or the Executive shall have given notice that it or the Executive, as the case may be, does not wish to have the Term extended; (ii) if, prior to a Change in Control, the Executive ceases for any reason to be an employee of the Company, thereupon without further action the Term shall be deemed to have expired and this Agreement will immediately terminate and be of no further effect.

2. Definitions

(a) “Base Salary” shall mean the Executive’s salary, which excludes Bonuses, at the rate in effect when an event triggering benefits under Section 3 of this Agreement occurs.

(b) “Beneficial Owner” or “Beneficial Ownership” shall have the meaning ascribed to such term in Rule 13d-3 of the Exchange Act.

(c) “Board” or “Board of Directors” shall mean the Board of Directors of Farmer Bros. Co., or its successor.

(d) “Bonus(es)” shall mean current cash compensation over and above Base Salary whether awarded under the Company’s Incentive Compensation Plan or otherwise awarded.

(e) “Cause” shall mean:

(i) the Executive’s material fraud, malfeasance, or gross negligence, willful and material neglect of Executive’s employment duties or Executive’s willful and material misconduct with respect to business affairs of the Company or any subsidiary of the Company or

(ii) Executive’s conviction of or failure to contest prosecution for a felony or a crime involving moral turpitude.

A termination of Executive for “Cause” based on clause (i) of the preceding sentence can be made only by delivery to Executive of a resolution duly adopted by the affirmative vote of not less than three quarters of the Board then in office at a meeting of the Board called and held for such purpose, after reasonable notice to the Executive and an opportunity for the Executive, together with the Executive’s counsel (if the Executive chooses to have counsel present at such meeting), to be heard before the Board, finding that, in the good faith opinion of the Board, the Executive had committed an act constituting “Cause” as herein defined and specifying the particulars thereof in detail. Nothing herein will limit the right of the Executive or [his/her] beneficiaries to contest the validity or propriety of any such determination. A termination for Cause based on clause (ii) above shall take effect immediately upon giving of the termination notice. No act or omission shall be deemed “willful” if it was due primarily to an error in judgment or ordinary negligence.

(f) “Change in Control” shall mean:

(i) An acquisition by any Person (as such term is defined in Section 3(a)(9) of the Exchange Act and used in Sections 13(d) and 14(d) thereof, including a “group” as defined in Section 13(d) thereof) of Beneficial Ownership of the Shares then outstanding (the “Company Shares Outstanding”) or the voting securities of the Company then outstanding entitled to vote generally in the election of directors (the “Company Voting Securities Outstanding”), if such acquisition of Beneficial Ownership results in the Person beneficially owning (within the meaning of Rule 13d-3 promulgated under the Exchange Act) fifty percent (50%) or more of the Company Shares Outstanding or fifty percent (50%) or more of the combined voting power of the Company Voting Securities Outstanding; excluding, however, any such acquisition by a trustee or other fiduciary holding such Shares under one or more employee benefit plans maintained by the Company or any of its subsidiaries; or

(ii) The approval of the stockholders of the Company of a reorganization, merger, consolidation, complete liquidation, or dissolution of the Company, the sale or disposition of all or substantially all of the assets of the Company or any similar corporate transaction (in each case referred to in this Section 2(f) as a “Corporate Transaction”), other than a Corporate Transaction that would result in the outstanding common stock of the Company immediately prior thereto continuing to represent (either by remaining outstanding or by being converted into common stock of the surviving entity or a parent or affiliate thereof) at least fifty percent (50%) of the outstanding common stock of the Company or such surviving entity or parent or affiliate thereof immediately after such Corporate Transaction; provided, however, if the consummation of such Corporate Transaction is subject, at the time of such approval by stockholders, to the consent of any government or governmental agency, the Change in Control shall not occur until the obtaining of such consent (either explicitly or implicitly); or

(iii) A change in the composition of the Board such that the individuals who, as of the Effective Date, constitute the Board (such Board shall be hereinafter referred to as the “Incumbent Board”) cease for any reason to constitute at least a majority of the Board; provided, however, for purposes of this Section 2(f) that any individual who becomes a member of the Board subsequent to the Effective Date whose election, or nomination for election by the Company’s stockholders, was approved by a vote of at least a majority of those individuals who are members of the Board and who were also members of the Incumbent Board (or deemed to be such pursuant to this proviso) shall be considered as though such individual were a member of the Incumbent Board; but, provided, further, that any such individual whose initial assumption of office occurs as a result of either an actual or threatened election contest (as such terms are used in Rule 14a-11 of Regulation 14A promulgated under the Exchange Act, including any successor to such Rule), or other actual or threatened solicitation of proxies or consents by or on behalf of a Person other than the Board, shall not be so considered as a member of the Incumbent Board.

(g) “Code” shall mean the Internal Revenue Code of 1986, as amended from time to time.

(h) “Disability” shall mean the Executive’s inability as a result of physical or mental incapacity to substantially perform [his/her] duties for the Company on a full-time basis for a period of six (6) months.

(i) “Exchange Act” shall mean the Securities Exchange Act of 1934, as amended from time to time, or any successor act thereto.

(j) “Involuntary Termination” shall mean a termination of the Executive’s employment by the Company that occurs for reasons other than for Cause, Disability or death.

(k) “Threatened Change in Control” shall mean any bona fide pending tender offer for any class of the Company’s outstanding Shares, or any pending bona fide offer to acquire the Company by merger or consolidation, or any other pending action or plan to effect, or which would lead to, a Change in Control of the Company as determined by the Incumbent Board. A Threatened Change in Control Period shall commence on the first day the actions described in the preceding sentence become manifest and shall end when such actions are abandoned or the Change in Control occurs.

(l) “Shares” shall mean the shares of common stock of the Company.

(m) “Resignation for Good Reason” shall mean a termination of the Executive’s employment by the Executive due to:

- (i) a significant reduction of the Executive’s responsibilities, duties or authority;
- (ii) a material reduction in the Executive’s Base Salary; or
- (iii) a Company-required material relocation of the Executive’s principal place of employment;

provided, however, that any such condition shall not constitute “Good Reason” unless both (x) the Executive provides written notice to the Company describing the condition claimed to constitute Good Reason in reasonable detail within ninety (90) days of the initial existence of such condition, and (y) the Company fails to remedy such condition within thirty (30) days of receiving such written notice thereof; and provided, further, that in all events the termination of the Executive’s employment with the Company shall not be treated as a termination for “Good Reason” unless such termination occurs not more than one (1) year following the initial existence of the condition claimed to constitute “Good Reason.

3. Events That Trigger Benefits Under This Agreement. The Executive shall be eligible for the compensation and benefits described in Section 4 of this Agreement as follows:

(a) A Change in Control occurs and Executive’s employment is Involuntarily Terminated or terminated by Resignation for Good Reason within twenty-four (24) months following the occurrence of the Change in Control; or

(b) A Threatened Change in Control occurs and the Executive’s employment is Involuntarily Terminated or terminated by Resignation for Good Reason during the Threatened Change in Control Period.

4. Benefits Upon Termination. If the Executive becomes eligible for benefits under Section 3 above, the Company shall pay or provide to the Executive the following compensation and benefits:

(a) Salary. The Executive will receive as severance an amount equal to [his/her] Base Salary at the rate in effect on the date of termination for a period of twenty-four (24) months, such payment to be made in installments in accordance with the Company’s standard payroll practices, such installments to commence, subject to Section 9(j)(ii), in the month following the month in which the Executive’s Separation from Service occurs. The Executive shall also receive a payment equal to one hundred percent (100%) of the Executive’s target Bonus for the fiscal year in which the date of termination occurs (or, if no target Bonus has been assigned to the Executive as of the date of termination, the average Bonus paid by the Company to the Executive for the last three (3) completed fiscal years or for the number of completed fiscal years that Executive has been in the employ of the Company if fewer than three, prior to the termination date), such payment to be made, subject to Section 9(j)(ii), in a lump sum within thirty (30) days after the end of the Company’s fiscal year in which the Executive’s date of termination occurs. As used herein, a “Separation from Service” occurs when the Executive dies, retires, or otherwise has a termination of employment with the Company that constitutes a “separation from service” within the meaning of Treasury Regulation Section 1.409A-1(h)(1), without regard to the optional alternative definitions available thereunder.

(b) Qualified and Non-Qualified Plan Coverage. Subject to the eligibility provisions of the plans, the Executive shall continue to participate in the tax-qualified and non-qualified retirement, savings and employee stock ownership plans of the Company during the twenty four (24) month period following the Executive’s date of termination unless the Executive commences Employment prior to the end of the twenty four (24) month period, in which case, such participation shall end on the date of [his/her] new employment. The Executive shall inform the Company promptly upon commencing new employment.

(c) Health, Dental, and Life Insurance Coverage. The health, dental, and life insurance benefits coverage provided to the Executive at [his/her] date of termination shall be continued by the Company during the twenty-four (24) month period following the Executive’s date of termination unless the Executive commences employment prior to the end of the twenty four (24) month period and qualifies for substantially equivalent insurance benefits with the Executive’s new employer, in which case, such insurance coverages shall end on the date of qualification. The Executive shall inform the Company promptly of [his/her] qualification for any of such insurance coverages. The Company shall provide for such insurance coverages at its expense at the same level and in the same manner as if the Executive’s employment had not terminated (subject to the customary changes in such coverages if the Executive retires under a Company retirement plan, reaches age 65, or similar events and subject to Executive’s right to make any changes in such coverages that an active employee is permitted to make). Any additional coverages the Executive had at termination, including dependent coverage, will also be continued for such period on the same terms, to the extent permitted by the applicable policies or contracts. Any costs the Executive was paying for such coverages at the time of termination shall be paid by the Executive by separate check payable to the Company each month in advance. If the terms of any benefit plan referred to in this Section do not permit continued participation by the Executive, the Company will arrange for other coverage at its expense providing substantially similar benefits. If the Executive is covered by a split-dollar or similar life insurance program at the date of termination, [he/she] shall have the option in [his/her] sole discretion to have such policy transferred to him upon termination, provided that the Company is paid for its interest in the policy upon such transfer.

(d) Outplacement Services. The Company shall provide the Executive with outplacement services by a firm selected by the Executive, at the expense of the Company, in an amount up to \$25,000.

(e) No Mitigation Obligation. The Company hereby acknowledges that it will be difficult and may be impossible for the Executive to find reasonably comparable employment following termination of Executive’s employment by the Company and that the non-solicitation covenant contained in Section 6 may further limit the employment opportunities for the Executive. Accordingly, the payment of the compensation and benefits by the Company to the Executive in accordance with the terms of this Agreement is hereby acknowledged by the Company to be reasonable, and the Executive will not be required to mitigate the amount of any payment provided for this Agreement by seeking other employment or otherwise, nor will any profits, income, earnings or other benefits from any source whatsoever create any mitigation, offset, reduction or any other obligation on the part of the Executive hereunder or otherwise, except as expressly provided in the first sentence of Section 4(c).

5. Parachute Payments. Notwithstanding anything contained in this Agreement to the contrary, in the event that the compensation and benefits provided for in this Agreement to Executive together with all other payments and the value of any benefit received or to be received by Executive:

(a) constitute “parachute payments” within the meaning of Section 280G of the Code, and

(b) but for this Section, would be subject to the excise tax imposed by Section 4999 of the Code, the Executive’s compensation and benefits pursuant to the terms of this Agreement shall be payable either:

(i) in full, or

(ii) in such lesser amount which would result in no portion of such compensation and benefits being subject to excise tax under Section 4999 of the Code, whichever of the foregoing amounts, taking into account the applicable federal, state and local income taxes and the excise tax imposed by Section 4999, results in the receipt by Executive on an after-tax basis, of the greatest amount of compensation and benefits under this Agreement, notwithstanding that all or some portion of such compensation and benefits may be subject to the excise tax imposed under Section 4999 of the Code. Unless the Company and Executive otherwise agree in writing, any determination required under this Section 5 shall be made in writing by the Company’s independent public accountants serving immediately before the Change in Control (the “Accountants”), whose determination shall be conclusive and binding upon Executive and the Company for all purposes. For purposes of making the calculations required by this Section 5, the Accountants may make reasonable assumptions and approximations concerning applicable taxes and may rely on reasonable good faith interpretations concerning the applications

of Section 280G and 4999 of the Code. The Company shall cause the Accountants to provide detailed supporting calculations of its determination to Executive and the Company. Executive and the Company shall furnish to the Accountants such information and documents as the Accountants may reasonably request in order to make a determination under this Section. The Company shall bear all costs the Accountants may reasonably incur in connection with any calculations contemplated by this Section 5.

6. Obligation Not to Solicit

(a) Executive hereby agrees that while Executive is receiving compensation and benefits under this Agreement, Executive shall not in any manner attempt to induce or assist others to attempt to induce any officer, employee, customer or client of the Company to terminate its association with the Company, nor do anything directly or indirectly to interfere with the relationship between the Company and any such persons or concerns.

(b) In the event that the Executive engages in any activity in violation of Section 6(a), all compensation and benefits described in Section 4 shall immediately cease.

7. Confidentiality. The terms of this Agreement are to be of the highest confidentiality. In order to insure and maintain such confidentiality, it is agreed that neither party, including all persons and entities under a party’s control, shall, directly or indirectly, publicize or disclose to third persons the terms of this Agreement or the substance of negotiations with respect to it; provided, however, that nothing herein shall be construed to prevent disclosures which are reasonably necessary to enforce the terms of this Agreement or which are otherwise required by law to be made to governmental agencies or others; moreover, nothing herein shall be construed to prevent the parties hereto, or their attorneys, from making such disclosures for legitimate business purposes to their respective insurers, financial institutions, accountants and attorneys or, in the case of a corporation, limited liability company or partnership, to its respective officers, directors, employees, managers, members and agents or any of its respective subsidiaries, group or divisions, provided that each such recipient of such disclosures agrees to be bound by the requirements concerning disclosure of confidential information as set forth in this Paragraph 7. Further, nothing contained in this Agreement is intended to or shall be construed as prohibiting Executive from voluntarily communicating with the U.S. Securities and Exchange Commission (“Commission”) about possible violations of law or from accepting a Commission whistleblower award.

8. Settlement of Disputes: Arbitration

(a) All disputes arising under or in connection with this Agreement (including disputes over enforceability, interpretation, construction and breach of this Agreement), shall be submitted to binding arbitration in Tarrant County, Texas before an arbitrator selected by mutual agreement of the parties. If the parties are unable to agree mutually on an arbitrator within thirty (30) days after a written demand for arbitration is made, the matter shall be submitted to the American Arbitration Association (“AAA”) or successor organization for binding arbitration in Tarrant County, Texas by a single arbitrator who shall be a lawyer licensed to practice law in the state of Texas and Board Certified by the Texas Board of Legal Specialization in labor and employment law. The arbitrator shall be selected by AAA in an impartial manner determined by its rules. Except as may be otherwise provided herein, the arbitration shall be conducted under the Federal Arbitration Act and pursuant to the AAA’s Rules for the Resolution of Employment Disputes. The arbitration hearing shall be commenced within ninety (90) days of the appointment of the arbitrator, and a decision shall be rendered by the arbitrator within thirty (30) days of the conclusion of the hearing. The arbitrator shall award costs of the proceeding, including reasonable attorneys’ fees, to the party or parties determined to have substantially prevailed, but such award for attorneys’ fees shall not exceed One Hundred Thousand Dollars (\$100,000). Judgment on the award can be entered in a court of competent jurisdiction.

(b) The foregoing notwithstanding, if the amount in controversy exceeds \$200,000, exclusive of attorneys’ fees and costs, the matter shall be litigated in the court located in federal or state district courts located in Tarrant County, Texas as a regular civil action sitting without a jury (a jury being waived by all parties hereto). The prevailing party shall be entitled to receive its reasonable attorneys’ fees and costs from the other party, but such award for attorneys’ fees shall not exceed One Hundred Thousand Dollars (\$100,000).

9. Miscellaneous

(a) Notices. Any notice or other communication required or permitted under this Agreement shall be effective only if it is in writing and shall be deemed to have been duly given when delivered personally or seven days after mailing if mailed first class by registered or certified mail, postage prepaid, addressed as follows:

If to the Company:

Farmer Bros. Co  
1912 Farmer Brothers Drive  
Northlake, TX 76262  
Attn: Chief Executive Officer

with a copy to:

Farmer Bros. Co  
1912 Farmer Brothers Drive  
Northlake, TX 76262  
Attn: Legal Department

If to the Executive:

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

or to such other address as any party may designate by notice to the others.

(b) Assignment. This Agreement shall inure to the benefit of and shall be binding upon the parties hereto and their respective executors, administrators, heirs, personal representatives, and successors, but, except as hereinafter provided, neither this Agreement nor any right hereunder may be assigned or transferred by either party thereto, or by any beneficiary or any other person, nor be subject to alienation, anticipation, sale, pledge, encumbrance, execution, levy, or other legal process of any kind against the Executive, [his/her] beneficiary or any other person. Notwithstanding the foregoing, any person or business entity succeeding to substantially all of the business of the Company by purchase, merger, consolidation, sale of assets, or otherwise, shall be bound by and shall adopt and assume this Agreement and the Company shall cause the assumption of this Agreement by such successor. If Executive shall die while any amount would still be payable to Executive hereunder (other than amounts that, by their terms, terminate upon the death of Executive) if Executive had continued to live, all such amounts, unless otherwise provided herein, shall be paid in accordance with the terms of this Agreement to the executors, personal representatives or administrators of Executive’s estate.

(c) No Obligation to Fund. The agreement of the Company (or its successor) to make payments to the Executive hereunder shall represent solely the unsecured obligation of the Company (and its successor), except to the extent the Company (or its successors) in its sole discretion elects in whole or in part to fund its obligations under this Agreement pursuant to a trust arrangement or otherwise.

(d) Applicable Law. This Agreement was negotiated, entered into and is performable, in whole or in part, in Texas and therefore shall be governed by and construed and enforced in accordance with the laws of the State of Texas, without giving effect to conflict of law principles.

(e) Amendment. This Agreement may only be amended by a written instrument signed by the parties hereto, which makes specific reference to this Agreement.

(f) Severability. If any provision of this Agreement shall be held invalid or unenforceable by any court of competent jurisdiction, such holding shall not invalidate or render unenforceable any other provisions hereof.

(g) Withholding. The Company shall have the right to withhold any and all local, state and federal taxes which may be withheld in accordance with applicable law.

(h) Other Benefits. Nothing in this Agreement shall limit or replace the compensation or benefits payable to Executive, or otherwise adversely affect Executive’s rights, under any other benefit plan, program, or agreement to which Executive is a party.

(i) Employment Rights. Nothing expressed or implied in this Agreement will create any right or duty on the part of the Company or the Executive to have the Executive remain in the employment of the Company or any Subsidiary prior to or following any Change in Control. [The Company and Executive are parties to an Employment Agreement executed concurrently herewith. Except as provided in Section 11 of the Employment Agreement, the provisions of the Employment Agreement and this Agreement are cumulative.]

(j) Section 409A

(i) It is intended that any amounts payable under this Agreement shall either be exempt from or comply with Section 409A of the Code (including the Treasury regulations and other published guidance relating thereto) ("Code Section 409A") so as not to subject the Executive to payment of any additional tax, penalty or interest imposed under Code Section 409A. The provisions of this Agreement shall be construed and interpreted to avoid the imputation of any such additional tax, penalty or interest under Code Section 409A yet preserve (to the nearest extent reasonably possible) the intended benefit payable to the Executive.

(ii) Notwithstanding any provision of this Agreement to the contrary, if the Executive is a "specified employee" within the meaning of Treasury Regulation Section 1.409A-1(i) as of the date of the Executive's Separation from Service, the Executive shall not be entitled to any payment or benefit pursuant to Section 4 until the earlier of (i) the date which is six (6) months after the Executive's Separation from Service for any reason other than death, or (ii) the date of the Executive's death. Any amounts otherwise payable to the Executive upon or in the six (6) month period following the Executive's Separation from Service that are not so paid by reason of this Section 9(j)(ii) shall be paid (without interest) as soon as practicable (and in all events within thirty (30) days) after the date that is six (6) months after the Executive's Separation from Service (or, if earlier, as soon as practicable, and in all events within thirty (30) days, after the date of the Executive's death). The provisions of this Section 9(j)(ii) shall only apply if, and to the extent, required to avoid the imputation of any tax, penalty or interest pursuant to Code Section 409A.

(iii) To the extent that any benefits or reimbursements pursuant to Section 4(c) or Section 4(d) are taxable to the Executive, any reimbursement payment due to the Executive pursuant to any such provision shall be paid to the Executive on or before the last day of the Executive's taxable year following the taxable year in which the related expense was incurred. The benefits and reimbursements pursuant to such provisions are not subject to liquidation or exchange for another benefit and the amount of such benefits and reimbursements that the Executive receives in one taxable year shall not affect the amount of such benefits or reimbursements that the Executive receives in any other taxable year.

**[SIGNATURES FOLLOW]**

IN WITNESS WHEREOF, the Company has caused this Agreement to be executed on its behalf by its duly authorized officers and the Executive has hereunder set [his/her] hand, as of the date first above written.

**Company:** FARMER BROS. CO.,  
a Delaware corporation

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

**Executive:** \_\_\_\_\_  
[Name of Executive]

**SCHEDULE OF EXECUTIVE OFFICERS**

D. Deverl Maserang II  
Ruben E. Inofuentes  
Scott R. Drake

## Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Deverl Maserang certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Farmer Bros. Co.;
2. Based on my knowledge, this 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 report;
3. Based on my knowledge, the financial statements, and other financial information included in this 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 report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation;
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 7, 2020

/S/ DEVERL MASERANG

**Deverl Maserang**  
President and Chief Executive Officer  
(principal executive officer)

## Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Scott R. Drake, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Farmer Bros. Co.;
2. Based on my knowledge, this 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 report;
3. Based on my knowledge, the financial statements, and other financial information included in this 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 report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation;
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 7, 2020

/s/ SCOTT R. DRAKE

\_\_\_\_\_  
Scott R. Drake  
Chief Financial Officer  
(principal financial officer)

**Certification of Chief Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**

In connection with the Quarterly Report of Farmer Bros. Co. (the "Company") on Form 10-Q for the quarterly period ended March 31, 2020, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Deverl Maserang, President and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: May 7, 2020

/s/ DEVERL MASERANG

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**Deverl Maserang**  
President and Chief Executive Officer  
(principal executive officer)

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

**Certification of Principal Financial and Accounting Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**

In connection with the Quarterly Report of Farmer Bros. Co. (the "Company") on Form 10-Q for the quarterly period ended March 31, 2020 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Scott R. Drake, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operation of the Company.

Dated: May 7, 2020

/s/ SCOTT R. DRAKE

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Scott R. Drake  
Chief Financial Officer  
(principal financial officer)

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.