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

# FORM 10-Q

**(Mark One)**

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

**For the quarterly period ended September 30, 2009**

**OR**

o **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: 0-1375**

# FARMER BROS. CO.
(exact name of registrant as specified in its charter)

| | |
|---|---|
| **Delaware**<br>(State of Incorporation) | **95-0725980**<br>(I.R.S. Employer Identification No.) |
| **20333 South Normandie Avenue**<br>**Torrance, California**<br>(address of principal executive offices) | **90502**<br>(Zip Code) |

Registrant's telephone number, including area code: **(310) 787-5200**

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 x NO o

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

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

| | |
|---|---|
| Large accelerated file o | Accelerated filer x |
| Non-accelerated file o<br>(Do not check if a smaller reporting company) | Smaller reporting company o |

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

On November 5, 2009 the registrant had 16,123,580 shares outstanding of its common stock, par value $1.00 per share, which is the registrant's only class of common stock.



**FARMER BROS. CO.**
**FORM 10-Q QUARTERLY REPORT**

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**PART I - FINANCIAL INFORMATION**

**Item 1. Financial Statements**

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

| | September 30, 2009 (Unaudited) | June 30, 2009 |
|---|---|---|
| **ASSETS** | | |
| Current Assets: | | |
| Cash and cash equivalents | $ 1,396 | $ 20,038 |
| Short term investments | 50,710 | 42,926 |
| Accounts and notes receivable, net | 43,135 | 45,744 |
| Inventories | 79,274 | 68,961 |
| Income tax receivable | 3,751 | 4,163 |
| Deferred income taxes | 1,088 | 1,089 |
| Prepaid expenses | 2,210 | 3,625 |
| Total current assets | 181,564 | 186,546 |
| Property, plant and equipment, net | 115,202 | 112,063 |
| Goodwill and other intangible assets, net | 27,944 | 28,758 |
| Other assets | 1,745 | 1,758 |
| Deferred income taxes | 892 | 892 |
| Total assets | $ 327,347 | $ 330,017 |
| **LIABILITIES AND STOCKHOLDERS' EQUITY** | | |
| Current liabilities: | | |
| Accounts payable | $ 33,044 | $ 34,627 |
| Accrued payroll expenses | 16,202 | 13,121 |
| Short-term borrowings under revolving credit facility | 8,093 | 16,182 |
| Short-term obligations under capital leases | 822 | 908 |
| Deferred state taxes | 2,242 | 2,198 |
| Other | 9,343 | 9,421 |
| Total current liabilities | 69,746 | 76,457 |
| Accrued postretirement benefits | 18,206 | 18,259 |
| Long-term obligations under capital leases | 205 | 344 |
| Accrued pension liabilities | 40,785 | 38,468 |
| Total liabilities | 128,942 | 133,528 |
| Commitments and contingencies | | |
| Stockholders' equity: | | |
| Preferred stock, $1.00 par value, 500,000 shares authorized and none issued | — | — |
| Common stock, $1.00 par value, 25,000,000 shares authorized; 16,078,111 shares issued and outstanding | 16,078 | 16,078 |
| Additional paid-in capital | 31,337 | 31,135 |
| Retained earnings | 218,285 | 217,792 |

| | | |
|---|---|---|
| Unearned ESOP shares | (32,383) | (33,604) |
| Less accumulated comprehensive loss | (34,912) | (34,912) |
| Total stockholders' equity | 198,405 | 196,489 |
| Total liabilities and stockholders' equity | $ 327,347 | $ 330,017 |

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



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**FARMER BROS. CO.**
**CONSOLIDATED STATEMENTS OF OPERATIONS**
**(Dollars in thousands, except share and per share data)**
**(Unaudited)**

| | Three months ended September 30, 2009 | Three months ended September 30, 2008 |
|---|---|---|
| Net sales | $ 112,127 | $ 66,524 |
| Cost of goods sold | 57,823 | 35,573 |
| Gross profit | 54,304 | 30,951 |
| Selling expenses | 44,298 | 28,004 |
| General and administrative expenses | 12,505 | 7,202 |
| Operating expenses | 56,803 | 35,206 |
| Loss from operations | (2,499) | (4,255) |
| Other income (expense): | | |
| Dividend income | 679 | 1,047 |
| Interest income | 93 | 477 |
| Interest expense | (139) | — |
| Other, net income (expense) | 4,461 | (9,850) |
| Total other income (expense) | 5,094 | (8,326) |
| Income (loss) before taxes | 2,595 | (12,581) |
| Income tax expense (benefit) | 396 | (6,496) |
| Net income (loss) | $ 2,199 | $ (6,085) |
| Basic and diluted net income (loss) per share | $ 0.15 | $ (0.42) |
| Weighted average shares outstanding | 14,748,564 | 14,429,074 |
| Dividends declared per share | $ 0.115 | $ 0.115 |

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



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

| | Three months ended September 30, 2009 | Three months ended September 30, 2008 |
|---|---|---|
| Cash flows from operating activities: | | |
| Net income (loss) | $ 2,199 | $ (6,085) |
| Adjustments to reconcile net income (loss) to net cash (used in) provided by operating activities: | | |
| Depreciation and amortization | 5,875 | 3,406 |
| Deferred income taxes | 44 | (6,179) |
| Loss on sales of assets | — | 173 |
| ESOP and share based compensation expense | 1,572 | 1,273 |
| Net (gain) loss on investments | (4,229) | 9,871 |
| Gain on sales or property, plant and equipment | (21) | (8) |
| Change in operating assets and liabilities: | | |
| Short term investments | (3,555) | 53,031 |
| Accounts and notes receivable | 2,609 | (705) |
| Inventories | (10,313) | (3,117) |
| Income tax receivable | 412 | (292) |
| Prepaid expenses and other assets | 1,427 | 731 |
| Accounts payable | (1,330) | (1,049) |
| Accrued payroll expenses and other liabilities | 3,002 | 1,591 |
| Accrued postretirement benefits | (52) | 33 |

| | | |
|---|---|---|
| Other long-term liabilities | 2,178 | — |
| Total adjustments | (2,381) | 58,759 |
| Net cash (used in) provided by operating activities | (182) | 52,674 |
| Cash flows from investing activities: | | |
| Purchases of property, plant and equipment | (8,613) | (12,843) |
| Proceeds from sales of property, plant and equipment | 435 | — |
| Net cash used in investing activities | (8,178) | (12,843) |
| Cash flows from financing activities: | | |
| Repayments on revolving credit line, net | (8,267) | — |
| Payments on capital lease obligations | (160) | — |
| Dividends paid | (1,855) | (1,749) |
| Net cash used in financing activities | (10,282) | (1,749) |
| Net (decrease) increase in cash and cash equivalents | (18,642) | 38,082 |
| Cash and cash equivalents at beginning of period | 20,038 | 9,973 |
| Cash and cash equivalents at end of period | $ 1,396 | $ 48,055 |

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





**FARMER BROS. CO.**

**Notes to Consolidated Financial Statements**

**(Unaudited)**

## Note 1. Farmer Bros. Co. and Summary of Significant Accounting Policies

***The Company***

Farmer Bros. Co. is a manufacturer, wholesaler and distributor of coffee and non-coffee (“allied”) products to the institutional food service segment. The Company was incorporated in California in 1923, and reincorporated in Delaware in 2004.

***Basis of Presentation***

The accompanying unaudited 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 (consisting only of normal recurring accruals, unless otherwise indicated) considered necessary for a fair presentation of the interim financial data have been included. Operating results for the three months ended September 30, 2009 are not necessarily indicative of the results that may be expected for the fiscal year ending June 30, 2010.

These accompanying unaudited interim 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, as amended, for the fiscal year ended June 30, 2009, filed with the Securities and Exchange Commission (the “SEC”) on September 15, 2009.

The Company considered events through November 9, 2009, for purposes of determining whether any event warranted recognition or disclosure in its quarterly financial statements as of and for the three months ended September 30, 2009.

***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 consolidated financial statements and accompanying notes. Actual results may differ from those estimates.

***Reclassifications***

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

***Fair Value Measurements***

Effective July 1, 2009, the Company implemented the requirements of ASC 820-10 “Fair Value Measurements” of the Financial Accounting Standards Board (the “FASB”) Accounting Standards Codification (“ASC”) for its financial assets and liabilities. Fair value is the price that would be received to sell an asset, or paid to transfer a liability, in an orderly transaction between market participants. The Company maximizes the use of observable market inputs, minimizes the use of unobservable market inputs and discloses in the form of an outlined hierarchy the details of such fair value measurements.

See Note 3 for additional information.

***Coffee Brewing Equipment and Service***

The Company records expenses related to coffee brewing equipment provided to customers in cost of goods sold. These costs include depreciation on capitalized equipment and the cost of servicing that equipment (including service employees' salaries, cost of transportation and the cost of supplies and parts). Cost of coffee brewing equipment and service included in the accompanying financial statements for the fiscal quarters ended September 30, 2009 and 2008, is $5.5 million and $2.2 million, respectively. The Company capitalized coffee brewing equipment in the amounts of $4.2 million and $2.1 million during the three months ended September 30, 2009 and 2008, respectively. Depreciation expense related to capitalized coffee brewing equipment reported as cost of goods sold was $1.2 million and $0.1 million, in the fiscal quarters ended September 30, 2009 and 2008, respectively.

***Revenue Recognition***

Most products are sold and delivered to the Company's customers at their places of business by the Company's route sales employees. Revenue is recognized at the time the Company's sales representatives physically deliver products to customers and title passes or upon acceptance by the customer when shipped by third party delivery.

In connection with the acquisition of the DSD Coffee Business described in Note 2, the Company entered into an agreement with Sara Lee Corporation ("Sara Lee") pursuant to which the Company performs co-packing services for Sara Lee as Sara Lee's agent. The Company recognizes revenue from this arrangement on a net basis, net of direct costs of revenue. As of September 30, 2009, the Company had $6.1 million of receivables from Sara Lee related to this arrangement, which are included in "other receivables" (see Note 4).

***Net Income (Loss) Per Common Share***

Basic earnings (loss) per share ("EPS") is computed by dividing net income (loss) by the weighted average common shares outstanding, including unvested share payment awards that contain rights to receive non-forfeitable dividends but excluding unallocated shares held by the Company's Employee Stock Ownership Plan. Diluted EPS includes the effect of any potential shares outstanding, which for the Company consists of dilutive stock options. The (see Note 10) dilutive effect of stock options is calculated using the treasury stock method with an offset from expected proceeds upon exercise of the stock options and unrecognized compensation expense. For the three months ended September 30, 2009 and 2008 the Company had no dilutive shares. Accordingly, the accompanying unaudited consolidated financial statements present only basic EPS.

Effective July 1, 2009, the Company began using the "Two-Class Method" to compute EPS. The Two-Class Method considers restricted stock with a right to receive non-forfeitable dividends as participating securities and is included in the calculation of EPS. The effect for the three months ended September 30, 2009 and 2008 was not material.

***Dividends Declared***

The following dividends were declared in the first quarter of fiscal 2010 on the date indicated (in thousands, except per share amounts):

| | | Dividend amount | |
|---|---|---|---|
| **Record date** | **Payment date** | **Total** | **Per share** |
| October 23, 2009 | November 9, 2009 | $ 1,855 | $ 0.115 |

***Impairment of Goodwill and Intangible Assets***

The Company performs an annual goodwill and indefinite-lived intangible assets impairment test as of June 30 of each fiscal year. Goodwill and other indefinite lived intangible assets are not amortized but instead are reviewed for





impairment annually and on an interim basis if events or changes in circumstances between annual tests indicate that an asset might be impaired. Indefinite lived intangible assets are tested for impairment by comparing their fair values to their carrying values. Testing for impairment of goodwill is a two-step process. The first step requires the Company to compare the fair value of its reporting units to the carrying value of the net assets of the respective reporting units, including goodwill. If the fair value of the reporting unit is less than the carrying value, goodwill of the reporting unit is potentially impaired and the Company then completes step two to measure the impairment loss, if any. The second step requires the calculation of the implied fair value of goodwill by deducting the fair value of all tangible and intangible net assets of the reporting unit from the fair value of the reporting unit. If the implied fair value of goodwill is less than the carrying amount of goodwill, an impairment loss is recognized equal to the difference. In addition to an annual test, goodwill and indefinite lived intangible assets must also be tested on an interim basis if events or circumstances indicate that the estimated fair value of such assets has decreased below their carrying value. There were no such events or circumstances during the fiscal quarter ended September 30, 2009.

***Recently Adopted Accounting Standards***

Effective July 1, 2009, the FASB issued SFAS No. 168, "The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles — a replacement of FASB Statement No. 162" ("SFAS No. 168"). Under SFAS No. 168, the historical GAAP hierarchy was eliminated and the Accounting Standards Codification ("ASC") became the single official source of authoritative, non-governmental GAAP, other than guidance issued by the SEC. All other literature became non-authoritative. SFAS No. 168 became effective for financial statements issued for interim and annual periods ending after September 15, 2009. It has been codified within ASC 105, "Generally Accepted Accounting Principles" ("Topic 105"). The Company adopted Topic 105 on July 1, 2009. Since Topic 105 does not change GAAP, the standard did not impact the Company's financial statements.

In December 2008, the FASB issued FSP SFAS 132(R)-1, "Employers' Disclosures about Postretirement Benefit Plan Assets" ("FSP SFAS 132(R)-1"). FSP SFAS 132(R)-1 amends SFAS No. 132(R), "Employer's Disclosures about Pensions and Other Postretirement Benefits," to require additional disclosures about assets held in an employer's defined benefit pension or other postretirement plan. FSP SFAS 132(R)-1 is effective for fiscal years ending after December 15, 2009 and is effective for the Company in fiscal 2010. FSP SFAS 132(R)-1 was codified within Topic 715 "Compensation-Retirement Benefits."

In June 2008, the FASB issued FSP No. EITF 03-6-1, "Determining Whether Instruments Granted in Share Based Payment Transactions Are Participating Securities" ("FSP No. EITF 03-6-1"). FSP No. EITF 03-6-1 clarifies that share based payment awards that entitle their holders to receive non-forfeitable dividends before vesting should be considered participating securities and included in the calculation of basic EPS. The Company adopted FSP No. EITF 03-06-1 on July 1, 2009. Adoption of the standard did not have a material impact on the Company's consolidated financial statements. FSP No. EITF 03-6-1 was codified within ASC 260, "Earnings Per Share."

In April 2008, the FASB issued FSP No. FAS 142-3, "Determination of the Useful Life of Intangible Assets" ("FSP No. FAS 142-3"). FSP No. FAS 142-3 amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under SFAS No. 142, "Goodwill and Other Intangible Assets." The Company adopted FSP No. FAS 142-3 on July 1, 2009 on a prospective basis. Adoption of the standard did not have a material impact on the Company's consolidated financial statements. FSP No. FAS 142-3 was codified within ASC 275, "Risks and Uncertainties", and ASC 350, "Intangibles-Goodwill and Other."

In December 2007, the FASB issued SFAS No. 141 (Revised), "Business Combinations" ("SFAS 141(R)"), replacing SFAS No. 141, "Business Combinations" ("SFAS 141"), and SFAS No. 160, "Noncontrolling Interests in Consolidated Financial Statements—An Amendment of ARB No. 51" ("SFAS 160"). SFAS 141(R) retains the fundamental requirements of SFAS 141, broadens its scope by applying the acquisition method to all transactions and other events in which one entity obtains control over one or more other businesses, and requires, among other things, that assets acquired and liabilities assumed be measured at fair value as of the acquisition date, that liabilities related to contingent considerations be recognized at the acquisition date and re-measured at fair value in each subsequent reporting period, that acquisition related costs be expensed as incurred, and that income be recognized if the fair value of the net assets acquired exceeds the fair value of the consideration transferred. SFAS 160 establishes accounting and reporting standards for noncontrolling interests (i.e., minority interests) in a subsidiary, including changes in a parent's ownership interest in a subsidiary and requires, among other things, that noncontrolling interests in subsidiaries be classified as a separate component of equity. Except for the presentation and disclosure requirements of SFAS 160, which are to be applied retrospectively for all periods presented, SFAS 141(R) and SFAS



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160 are to be applied prospectively in financial statements issued for fiscal years beginning after December 15, 2008. SFAS 141(R) and SFAS 160 were effective for the Company beginning July 1, 2009. Although the accounting on future transactions is expected to be impacted, the Company did not have any material impact to its historical financial statements from the adoption of SFAS 141(R) and SFAS 160.

Additionally, for business combinations for which the acquisition date occurs prior to the effective date of SFAS 141(R), the acquirer is required to apply the requirements of ASC 740, "Income Taxes," as amended by SFAS 141(R), prospectively. After the effective date of SFAS 141(R), changes in the valuation allowance for acquired deferred tax assets and dispositions of uncertain income tax positions must be recognized as an adjustment to income tax expense, rather than through goodwill. The impact of the adoption of SFAS 141(R) on the Company's consolidated financial statements will largely be dependent on the size and nature of the business combinations completed after July 1, 2009. SFAS 141(R) was codified within Topic 805, "Business Combinations" ("Topic 805").

In April 2009, the FASB issued FSP No. 141R-1 "Accounting for Assets Acquired and Liabilities Assumed in a Business Combination That Arise from Contingencies" ("FSP No. 141R-1"). FSP No. 141R-1 amends the provisions in SFAS 141(R) for the initial recognition and measurement, subsequent measurement and accounting, and disclosures for assets and liabilities arising from contingencies in business combinations. FSP No. 141R-1 eliminates the distinction between contractual and non-contractual contingencies, including the initial recognition and measurement criteria in SFAS 141(R), and instead carries forward most of the provisions in SFAS 141(R) for acquired contingencies. FSP No. 141R-1 is effective for contingent assets and contingent liabilities acquired in business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. The Company adopted FSP141R-1 on July 1, 2009. Adoption of the standard did not have a material impact on the Company's consolidated financial statements. FSP No. 141R-1 was codified within Topic 805.

In April 2009, the FASB issued FSP No. 107-1 and Accounting Principles Board Opinion ("APB") No. 28-1, Interim Disclosures about Fair Value of Financial Instruments ("FSP FAS No. 107-1 and APB No. 28-1"). FSP FAS No. 107-1 and APB No. 28-1 amends SFAS No. 107, "Disclosures about Fair Value of Financial Instruments," to require disclosures about the fair value of financial instruments for interim reporting periods ending after June 15, 2009. The Company adopted FSP FAS No. 107-1 and APB No. 28-1 on July 1, 2009. Adoption of the standards did not have an impact on the Company's financial statement disclosures. FSP FAS No. 107-1 and APB No. 28-1 were codified within ASC 825, "Financial Instruments."

***New Accounting Pronouncements***

In June 2008, the FASB released a proposed SFAS, "Disclosure of Certain Loss Contingencies, an amendment of FASB Statements No. 5 and 141)" (the "Proposed Statement"), for a comment period that ended during August 2008. The Proposed Statement would (a) expand the population of loss contingencies that are required to be disclosed, (b) require disclosure of specific quantitative and qualitative information about those loss contingencies, (c) require a tabular reconciliation of recognized loss contingencies and (d) provide an exemption from disclosing certain required information if disclosing that information would be prejudicial to an entity's position in a dispute. The Proposed Statement would be effective for financial statements issued for fiscal years ending after December 15, 2008, and for interim and annual periods in subsequent fiscal years. When and if the Proposed Statement is approved in final form by the FASB, the Company will evaluate whether the adoption of the Proposed Statement will have any material impact on its financial position or results of operations. Following the effective date of the ASC, SFAS No. 5 was codified within Topic 450, "Contingencies."

In August 2009, the FASB issued ASU No. 2009-5, which amends ASC 820, "Fair Value Measurements and Disclosures" ("Topic 820") as it relates to the fair value measurement of liabilities. ASU No. 2009-5 provides clarification that in circumstances in which a quoted price in an active market for the identical liability is not available, an entity is required to measure fair value utilizing one or more of the following techniques: (1) a valuation technique that uses the quoted market price of an identical liability or similar liabilities when traded as assets; or (2) another valuation technique that is consistent with the principles of Topic 820, such as a present value technique. The Company will adopt ASU No. 2009-5 in the second quarter of fiscal 2010. The Company is evaluating the impact of ASU No. 2009-5 on the Company's consolidated financial statements.

**Note 2. Acquisition**

*Acquisition of DSD Coffee Business*

Effective as of February 28, 2009, the Company completed the acquisition from Sara Lee Corporation, a Maryland corporation ("Seller"), and Saramar, L.L.C., a Delaware limited liability company ("Saramar" and collectively with Seller, "Seller Parties") of certain assets used in connection with Seller Parties' direct store delivery coffee business in the United States (the "DSD Coffee Business"). The acquired business generally consists of manufacturing and selling coffee, tea and related products through a network of facilities and vehicles which was acquired to complement and expand the Company's previously existing operations. This business also includes the distribution, sale and service of brewed and liquid coffee equipment, as well as the right to distribute sauces and dressings to customers of the DSD Coffee Business. The results of operations of the DSD Coffee Business were included in the Company's consolidated financial statements beginning on March 1, 2009.

The assets purchased include, among other things, the following: (i) a manufacturing plant in Houston, Texas, a spice plant in Oklahoma City, Oklahoma, and a warehouse in Indianapolis, Indiana; (ii) 64 leased branch facilities in 31 states; (iii) a vehicle fleet consisting of 431 owned and leased vehicles; (iv) certain tangible personal property; (v) inventories of raw materials, work in process, finished goods and packaging; (vi) certain contracts, permits, books and records; (vii) prepaid expenses relating to the DSD Coffee Business; and (viii) all goodwill relating to the DSD Coffee Business. The Company also acquired Seller Parties' rights (including related goodwill) in the trademarks and trade names relating to the SUPERIOR®, MCGARVEY®, CAIN'S®, IRELAND®, JUSTIN LLOYD®, METROPOLITAN®, PREBICA®, WECHSLER®, WORLD'S FINEST® and CAFÉ ROYAL® brands.

Subject to certain post-closing adjustments relating to the amount of consumable inventory and prepaid expenses at closing, and after giving effect to certain reimbursement obligations of the parties relating to accounting costs, IT carve-out costs, and transfer taxes and fees, as well as real and personal property tax and utility prorations, the amount paid to Seller was $45.6 million, which consisted of $16.1 million of Company cash and proceeds of a bank loan of $29.5 million. The Company paid approximately $2.7 million of acquisition related expenses. At closing, the Company assumed certain liabilities, including obligations under contracts, environmental liabilities with respect to the transferred facilities, pension liabilities, advertising and trade promotion accruals, and accrued vacation as of the closing for hired personnel. As of September 30, 2009, these liabilities are estimated to be a total of $2.0 million consisting of $1.3 million for costs related to exiting certain acquired operations, $0.6 million for accrued vacation and $0.1 million in other estimated liabilities. Seller Parties retained all liabilities that were not specifically assumed by the Company. The Company re-financed and replaced certain leases relating to the DSD Coffee Business vehicles in the fourth quarter of fiscal 2009. Additionally, the Company assumed lease liabilities for sixty-four branch facility leases with lease terms that generally do not exceed three years.

In connection with the closing, Seller Parties and the Company entered into certain operational agreements, including trademark and formula license agreements, co-pack agreements, a liquid coffee distribution agreement, a transition services agreement, and a green coffee and tea purchase agreement. One of the co-pack agreements provides that Seller will manufacture branded products for the Company for a period of three years. Under this agreement the Company has agreed to purchase certain minimum product quantities from Seller subject to certain permitted reductions. The transition services agreement provides that Seller will perform a number of services for the Company on an interim basis, including distribution and warehousing of finished goods for up to six months and hosting, maintaining and supporting IT infrastructure and communications for up to eighteen months.

The accompanying consolidated financial statements do not include pro-forma historical information, as if the results of the DSD Coffee Business had been included from the beginning of the periods presented, since the use of forward-looking information would be necessary in order to meaningfully present the effects of the acquisition. Forward-looking information, rather than historical information, would be required since the DSD Coffee Business was operated as part of a larger business within Seller and there will be a different operating cost structure and different operations support under the Company's ownership. Net revenue of the DSD Coffee Business for the eight months ended February 28, 2009 (the effective date of the acquisition) was approximately $134 million, and approximately $228 million for the fiscal year ended June 30, 2008. Net revenue for the DSD Coffee Business for the three months ended September 30, 2009 was approximately $43.7 million. However, the Company has not provided forward-looking information with respect to incremental costs and expenses to be incurred because such information is not determinable.





The acquisition has been accounted for as an asset purchase. The total purchase price has been allocated to tangible and intangible assets based on their estimated fair values as of February 28, 2009 as determined by management based upon a third-party valuation. The purchase price allocation has not been finalized, since it is possible that certain adjustments may be made if additional facts or circumstances become known that impact the estimates. Revisions to the allocation, which may be significant, and relate primarily to exit activities, will be reported as changes to various assets and liabilities. The purchase price allocation is expected to be finalized during fiscal 2010.

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

| Fair Value of Assets Acquired | | | Estimated Useful Life (years) |
|---|---|---|---|
| Inventory | $ | 16,437 | |
| Prepaid expense | | 1,138 | |
| Current assets | | 17,575 | |
| Vehicles | | 1,044 | 5 |
| Machinery | | 10,954 | 3-5 |
| Property, plant & equipment | | 5,577 | 30 |
| Land | | 1,945 | |
| Fixed assets | | 19,520 | |
| Trademarks | | 2,115 | indefinite |
| Customer relationships | | 7,855 | 8 |

| | | |
|---|---|---|
| Distribution agreement | 2,493 | 10 |
| Co-pack agreement | 755 | 6 |
| Intangible assets | 13,218 | |
| Total assets acquired | 50,313 | |
| Liabilities | (2,026) | |
| Net assets acquired | $ 48,287 | |

Intangible assets consist of trademarks, customer relationships, and service agreements with a gross carrying value and accumulated amortization as of September 30, 2009 of $13.2 million and $0.8 million, respectively. The accumulated amortization represents aggregate amortization for the seven months ended September 30, 2009 from February 28, 2009, the date of acquisition. Estimated aggregate amortization of intangible assets for each of the following five years based on the estimated fair values of the intangible assets is expected to be approximately $1.4 million.

**Note 3. Investments and Derivative Instruments**

The Company purchases various derivative instruments as investments or to create economic hedges of its interest rate risk and commodity price risk. At September 30, 2009 and June 30, 2008, derivative instruments are not designated as accounting hedges. The fair value of derivative instruments is based upon broker quotes. The Company records unrealized gains and losses on trading securities and changes in the market value of certain coffee contracts meeting the definition of derivatives in “Other, net income (expense).”

The Company groups its assets and liabilities at fair value in three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value. These levels are:

- Level 1 — Valuation is based upon quoted prices for identical instruments traded in active markets.
- Level 2 — Valuation is based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market.
- Level 3 — Valuation is generated from model-based techniques that use significant assumptions not observable in the market. These unobservable assumptions reflect estimates of assumptions that market participants would use in pricing the asset or liability. Valuation techniques include use of option pricing models, discounted cash flow models and similar techniques.



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The Company’s preferred stock investments have been grouped as follows at September 30, 2009:

| (In thousands) | Total | Level 1 | Level 2 | Level 3 |
|---|---|---|---|---|
| | | (Unaudited) | | |
| Preferred stock | $ 50,294 | $ 16,030 | $ 34,264 | $ — |

Investments, consisting of marketable debt and equity securities, money market instruments and various derivative instruments, are held for trading purposes and are stated at fair value. Investments are as follows:

| (In thousands) | September 30, 2009 (Unaudited) | June 30, 2009 |
|---|---|---|
| Trading securities at fair value | | |
| Preferred Stock | $ 50,294 | $ 42,466 |
| Futures, options and other derivatives | 416 | 460 |
| | $ 50,710 | $ 42,926 |

Gains and losses, both realized and unrealized, are included in “Other, net income (expense).” Net realized and unrealized gains and losses are as follows:

| (In thousands) | Three Months Ended September 30, 2009 | 2008 |
|---|---|---|
| | (Unaudited) | |
| Net realized gains | $ 55 | $ 19 |
| Net unrealized gains (losses) | 4,174 | (9,890) |
| Net realized and unrealized gains (losses) | $ 4,229 | $ (9,871) |

The following table shows gross unrealized losses and fair value for those investments that were in an unrealized loss position as of September 30, 2009 and June 30, 2009, aggregated by the length of time those investments have been in a continuous loss position:

| | September 30, 2009 (Unaudited) | | | |
|---|---|---|---|---|
| | Less than 12 Months | | Total | |
| (In thousands) | Fair Value | Unrealized Loss | Fair Value | Unrealized Loss |
| Preferred Stock | $ 1,146 | $ (16) | $ 22,195 | $ (9,691) |

| | June 30, 2009 (Unaudited) | | | |
|---|---|---|---|---|
| | Less than 12 Months | | Total | |
| (In thousands) | Fair Value | Unrealized Loss | Fair Value | Unrealized Loss |
| Preferred Stock | $ 3,438 | $ (714) | $ 26,009 | $ (11,718) |

**Note 4. Accounts Receivable, net**

| (In thousands) | September 30, 2009 (Unaudited) | June 30, 2009 |
|---|---|---|
| Trade Receivables | $ 38,254 | $ 37,076 |
| Other receivables | 6,078 | 9,841 |
| Allowance for doubtful accounts | (1,197) | (1,173) |
| | $ 43,135 | $ 45,744 |

**Note 5. Inventories**

| September 30, 2009 (Unaudited) | Processed | Unprocessed (In thousands) | Total |
|---|---|---|---|
| Coffee | $ 20,435 | $ 21,239 | $ 41,674 |
| Allied products | 26,204 | 3,833 | 30,037 |
| Coffee brewing equipment | 5,662 | 1,901 | 7,563 |
| | $ 52,301 | $ 26,973 | $ 79,274 |

| June 30, 2009 | Processed | Unprocessed (In thousands) | Total |
|---|---|---|---|
| Coffee | $ 15,612 | $ 19,816 | $ 35,428 |
| Allied products | 20,760 | 4,686 | 25,446 |
| Coffee brewing equipment | 4,745 | 3,342 | 8,087 |
| | $ 41,117 | $ 27,844 | $ 68,961 |

Inventories are valued at the lower of cost or market. Costs of coffee and allied products are determined on the last in, first out (LIFO) basis. Costs of coffee brewing equipment manufactured are accounted for on the first in, first out (FIFO) basis. An actual valuation of inventory under the LIFO method is made only at the end of each fiscal year based on the inventory levels and costs at that time. Accordingly, interim LIFO calculations must necessarily be based on management's estimates of expected fiscal year-end inventory levels and costs. Because these estimates are subject to many forces beyond management's control, interim results are subject to the final fiscal year-end LIFO inventory valuation.

**Note 6. Employee Benefit Plans**

The Company provides pension plans for most full time employees. Generally the plans provide benefits based on years of service and/or a combination of years of service and earnings. Retirees are also eligible for medical and life insurance benefits.

*Company Pension Plans*

The Company has a contributory defined benefit plan for the majority of its employees not covered under a collective bargaining agreement (Farmer Bros. Co. Plan) and non-contributory defined benefit pension plan for certain hourly employees covered under a collective bargaining agreement (Brewmatic Plan). The net periodic benefit costs for the defined benefit plans were as follows:





*Components of net periodic benefit cost*

| (Unaudited) | Three months ended September 30, 2009 | 2008 |
|---|---|---|
| | (In thousands) | |
| Service cost | $ 1,097 | $ 615 |
| Interest cost | 1,527 | 1,477 |
| Expected return on plan assets | (1,204) | (1,769) |
| Amortization of net (gain)/loss* | 856 | 145 |
| Amortization of prior service cost/(credit)* | 41 | 50 |
| Net periodic benefit (credit) cost | $ 2,317 | $ 518 |

* These amounts represent the estimated portion of the net (gain)/loss and net prior service cost/(credit) remaining in accumulated other comprehensive income 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*

| | Fiscal 2009 | 2008 |
|---|---|---|
| Discount rate | 6.25% | 6.80% |
| Expected long-term rate of return | 8.25% | 8.25% |
| Rate of compensation increase | 3.00% | 3.00% |

*Basis used to determine expected long-term return on plan assets*

Historical and future expected rates of return of multiple asset classes were analyzed to develop a risk-free real rate of return and risk premiums for each asset class. The overall rate for each asset class was developed by combining a long-term inflation component, the risk-free real rate of return, and the associated risk premium. A weighted average rate of return was developed based on those overall rates of return and the target asset allocation of the plans.

**Note 7. Bank Loan**

On March 2, 2009 the Company and its wholly owned subsidiary, Coffee Bean International, Inc. ("CBI"), as Borrowers, entered into a Loan and Security Agreement (the "Loan Agreement"), with Wachovia Bank, National Association, as Lender, providing for a $50 million senior secured revolving credit facility expiring in February 2012 to help finance the DSD Coffee Business acquisition and for general corporate purposes. The Loan Agreement contains a variety of restrictive covenants customary in an asset-based lending facility, including a cash flow coverage requirement, and it places limits on capital expenditures and dividends. All outstanding obligations under the Loan Agreement are collateralized by perfected security interests in the assets of the Company and CBI, excluding the preferred stock held in investment accounts. The revolving line provides for advances of 85% of eligible accounts receivable and 65% of eligible inventory, as defined. The agreement has an unused commitment fee of 0.375%. The interest rate varies based upon line usage, borrowing base availability and market conditions. The range is PRIME + 0.25% to PRIME + 0.75% or LIBOR + 2.25% to LIBOR + 2.75%, subject to a minimum for LIBOR based advances of 3.25%. The interest rate was 3.5% at September 30, 2009. Due to the short-term nature of the credit facility and the variable interest rate, fair value of the balance outstanding approximates carrying value.

The Company is in compliance with all restrictive covenants and limitations as of September 30, 2009 and anticipates being in compliance with all restrictive covenants for the foreseeable future. On September 30, 2009, borrowings under the credit facility were $8.1 million and the Company had excess availability under the credit facility of $34.8 million.



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**Note 8. Stock-Based Compensation**

***Stock Options***

No stock options were granted during the three months ended September 30, 2009 and 2008.

The following table summarizes stock option activity for three months ended September 30, 2009:

| (Unaudited) | Number of Shares Underlying Stock Options | Weighted Average Exercise Price | Weighted Average Fair Value | Weighted Average Remaining Life (Years) | Aggregate Intrinsic Value (In thousands) |
|---|---|---|---|---|---|
| **Balance, June 30, 2009** | 239,000 | $ 22.22 | $ 6.41 | 6.1 | $ 60 |
| Granted | — | | | | |
| Cancelled/forfeited | (15,668) | $ 22.52 | $ 6.26 | | $ 0 |
| **Balance, September 30, 2009** | 223,332 | $ 22.27 | $ 6.55 | 5.8 | $ 0 |
| Vested and exercisable, September 30, 2009 | 39,824 | $ 22.66 | $ 6.16 | 5.4 | $ 0 |
| Vested and expected to vest, September 30, 2009 | 223,332 | $ 22.27 | $ 6.55 | 5.8 | $ 0 |

The aggregate intrinsic value in the table above represents the total pretax intrinsic value, based on the Company's closing stock price of $20.70 at September 30, 2009, representing the last trading day of the quarter, which would have been received by award holders had all award holders exercised their awards that were in-the-money as of that date. As of September 30, 2009, there was approximately $0.9 million of unamortized compensation expense related to stock options. No awards vested during the three months ended September 30, 2009. Compensation expense recognized in general and administrative expenses for the three month period ended September 30, 2009 and 2008 was $0.1 million and $63,000, respectively.

***Restricted Stock***

Shares of restricted stock vest at the end of three years from the grant date. Compensation expense is recognized on a straight-line basis over the service period based on the estimated fair value of the restricted stock. Compensation expense recognized in general and administrative expenses for the three months ended September 30, 2009 and 2008 was $0.1 million and $48,000, respectively. No awards vested during the three months ended September 30, 2009. As of September 30, 2009, there was approximately $0.7 million of unamortized compensation expense related to restricted stock.

The following table summarizes the status of the Company's restricted stock as of September 30, 2009:

| (Unaudited) | Shares Awarded | Weighted Average Fair Value | Weighted Average Remaining Life (in years) | Aggregate Intrinsic Value (in thousands) |
|---|---|---|---|---|
| **Unvested at June 30, 2009** | 48,169 | $ 22.19 | 2.1 | $ 1,072 |
| Cancelled/forfeited | (2,500) | | | $ 52 |
| **Unvested at September 30, 2009** | 45,669 | | 1.8 | $ 945 |
| Vested and exercisable, September 30, 2009 | — | | | |
| Expected to vest, September 30, 2009 | 45,669 | $ 22.22 | 1.8 | $ 945 |



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**Note 9. Income Taxes**

Consideration of whether a valuation allowance should be recorded against deferred tax assets is based on the likelihood that the benefits of the deferred tax assets will or will not ultimately be realized in future periods. In making such assessment, significant weight is to be given to evidence that can be objectively verified such as recent operating results and less consideration is to be given to less objective indicators such as future earnings projections. In the fourth quarter of fiscal 2009, the Company evaluated its deferred tax assets in accordance with these requirements.

A significant negative factor was the Company's three year historical cumulative loss as of the end of the fourth quarter of fiscal 2009, compared to the size of deferred tax assets. The deferred tax assets in fiscal 2009 increased to $41.4 million as compared to $21.6 million in fiscal 2008. This increase primarily resulted from decreased pension asset values which in turn created increased pension plan contribution obligations. These considerations outweighed the Company's ability to rely on projections of future taxable income and future appreciation of pension assets as of June 30, 2009.

Accordingly, a valuation allowance of $33.3 million was recorded to offset this deferred tax asset.  Of this amount, $19.7 million was recorded as tax expense and $13.6 million was recorded as a reduction in other comprehensive income.

At September 30, 2009, the Company cannot conclude that it is more likely than not that the deferred tax assets will be realized due to the recent history of losses. A summary of the income tax provision recorded in the first quarter of fiscal 2010 and 2009 is as follows:

| (Unaudited) | Three months Ended September 30, 2009 | 2008 |
|---|---|---|
| | (In thousands) | |
| Income (loss) before income tax provision | $ 2,595 | $ (12,581) |
| Income tax provision at federal statutory rate | $ 882 | $ (4,278) |
| State income taxes and credits | 131 | (755) |
| Dividends received deduction | (379) | (1,191) |
| Valuation allowance | (445) | — |
| Other permanent items | 207 | (272) |
| Income tax provision | $ 396 | $ (6,496) |

As of September 30, 2009 and June 30, 2009, the Company had not recognized the following tax benefits in its consolidated financial statements:

| (In thousands) | September 30, 2009 (Unaudited) | June 30, 2009 |
|---|---|---|
| Total unrecognized tax benefits* | $ 4,382 | $ 4,382 |
| Unrecognized tax benefits that would affect the Company's effective tax rate if recognized* | $ 4,117 | $ 4,117 |

* Excluding interest and penalties

California is currently conducting a state examination of the Company's open tax return years.  The Company believes it is reasonably possible that a portion of its total unrecognized tax benefits will decrease in the next twelve months upon the conclusion of this examination, and other potential state and federal examinations.  However, it is premature to assess the range of the reasonably possible changes to the Company's unrecognized tax benefits.

**Note 10.  Net income (loss) per Share**

The following table sets forth the calculation of basic and diluted net income (loss) per share:

| (In thousands, except per share data) | Three Months Ended September 30, 2009 | 2008 |
|---|---|---|
| | (Unaudited) | |
| Net income (loss) attributable to common stockholders - basic | $ 2,199 | $ (6,086) |
| Effect of dilutive securities: | | |
| Net income (loss) attributable to unvested restricted stockholders | — | — |
| Total net income (loss) | $ 2,199 | $ (6,085) |
| Weighted average common shares outstanding - basic | 14,749 | 14,404 |
| Effect of dilutive securities: | | |
| Shares issuable under stock options and restricted stock | — | — |
| Weighted average common shares outstanding - diluted | 14,749 | 14,404 |
| Basic and diluted net income (loss) per common share | $ 0.15 | $ (0.42) |

Effective July 1, 2009, the Company began using the "Two-Class Method" to compute EPS since the Company awards restricted stock with a right to receive non-forfeitable dividends and since such awards are considered participating securities.  The Company computed EPS using the Two-Class Method for all periods presented. For the three months ended September 30, 2009, the undistributed income allocated to unvested restricted stock was not material. For the three months ended September 30, 2008, the Company incurred net loss and, therefore, the treasury stock method was used to compute EPS.



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**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**

**Forward-Looking Statements**

Certain statements contained in this Quarterly Report on Form 10-Q regarding the risks, circumstances and financial trends that may affect our future operating results, financial position and cash flows 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. These forward-looking statements can be identified by the use of words like "anticipates," "feels," "estimates," "projects," "expects," "plans," "believes," "intends," "will," "assumes" and other words of similar meaning. Owing to the uncertainties inherent in forward-looking statements, actual results could differ materially from those set forth in forward-looking statements. We intend these forward-looking statements to speak only at the time of this report and do not undertake to update or revise these statements as more information becomes available except as required under federal securities laws and the rules and regulations of the SEC. Factors that could cause actual results to differ materially from those in forward-looking statements include, but are not limited to, fluctuations in availability and cost of green coffee, competition, organizational changes, our ability to successfully integrate the CBI and DSD Coffee Business acquisitions, the impact of a weaker 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, and changes in the quality or dividend stream of third parties' securities and other investment vehicles in which we have invested our assets, as well as other risks described in this report, and other factors described from time to time in our filings with the SEC.

**Liquidity and Capital Resources**

*Credit Facility*

On March 2, 2009 we entered into a Loan and Security Agreement (the "Loan Agreement"), with Wachovia Bank, National Association, as Lender, providing for a $50 million senior secured revolving credit facility expiring in February 2012 to help finance the DSD Coffee Business acquisition and for general corporate purposes. The Loan Agreement contains a variety of restrictive covenants customary in an asset based lending facility, including a fixed charge coverage requirement, and it places limits on capital expenditures and dividends. The Loan Agreement allows us to pay dividends at the current rate, subject to certain cash flow and liquidity requirements.

All outstanding obligations under the Loan Agreement are collateralized by perfected security interests in our assets, excluding the preferred stock held in investment accounts. The revolving line provides for advances of 85% of eligible accounts receivable and 65% of eligible inventory, as defined. The Loan Agreement has an unused commitment fee of 0.375%. The interest rate varies based upon line usage, borrowing base availability and market conditions. The range is PRIME + 0.25% to PRIME + 0.75% or LIBOR + 2.25% to LIBOR + 2.75%, subject to a minimum for LIBOR based advances of 3.25%. The interest rate was 3.5% at September 30, 2009. Due to the short-term nature of the credit facility and the variable interest rate, fair value of the balance outstanding approximates carrying value.

We are in compliance with all restrictive covenants and limitations as of September 30, 2009 and anticipate being in compliance with all restrictive covenants for the foreseeable future. On September 30, 2009 borrowings under the credit facility were $8.1 million and we had excess availability under the credit facility of $34.8 million. As of October 31, 2009, approximately $12.3 million was outstanding under this credit facility.

*Liquidity*

During the first quarter of fiscal 2010 we continued to finalize our planning and begin the integration of the DSD Coffee Business into our existing operations. This is a broad based effort that is expected to include SKU optimization, branch and route consolidation, conversion to the Company's IT systems, including implementation of our mobile sales software across the DSD Coffee Business sales network, and supply chain and manufacturing streamlining. We currently estimate that integration expenses during fiscal 2010 will be approximately $13.0 million, of which approximately $5.0 million is expected to be capitalized. During fiscal 2010 we expect to incur approximately $6.0 million in expenditures associated with the





installation of two roasters and other production equipment at our Torrance facility and expenditures to replace normal wear and tear of coffee brewing equipment, vehicles and machinery and equipment. Of these planned expenditures, we incurred approximately $8.6 million during the fiscal quarter ended September 30, 2009. This included $0.5 million for vehicles, $6.8 million for machinery and equipment including machinery and equipment for the DSD Coffee Business. Approximately $4.0 million of the total capital expenditures during the quarter ended September 30, 2009 was associated with the integration of the DSD Coffee Business.

As described above, we maintain a $50 million senior secured revolving line of credit with Wachovia Bank. Although we expect cost reductions and other positive synergies from integrating the DSD Coffee Business with our operations, the timing of these improvements is uncertain. We believe this credit facility, in addition to our other liquid assets, provides sufficient capital resources and flexibility to allow us to make investments in the DSD Coffee Business, fund integration expenses, meet necessary working capital requirements and implement our business plan without relying solely on cash flows from operations.

Our working capital is composed of the following:

| (In thousands) | As of September 30, 2009 (Unaudited) | As of June 30, 2009 |
| --- | --- | --- |
| Current assets | $ 181,564 | $ 186,546 |
| Current liabilities | 69,746 | 76,457 |
| Working capital | $ 111,818 | $ 110,089 |
| | | |
| Capital expenditures | $ 8,613 | $ 38,901 |
| Purchase of business | $ — | $ 48,287 |
| Dividends paid and payable | $ 1,855 | $ 6,631 |

As of September 30, 2009 we had no material commitments for capital expenditures other than those described above.

**Results of Operations**

Our net sales in the first quarter of fiscal 2010 increased $45.6 million, or 69%, to $112.1 million as compared to $66.5 million in the first quarter of fiscal 2009. This increase is primarily due to the addition of $43.7 million in net sales from the DSD Coffee Business and a $2.7 million increase in net sales from CBI. Total combined unit sales for the first quarter of fiscal 2010 increased 62% from the first quarter of fiscal 2009. Unit sales, excluding CBI, for the first quarter of fiscal 2010 increased 70% from the first quarter of fiscal 2009. This increase resulted primarily from the acquisition of the DSD Coffee Business, which has been included in our consolidated financial statements since March 1, 2009.

The acquisition of the DSD Coffee Business has added to our top line sales and our geographic reach. Some of the new regions we now serve, for example in Michigan, continue to experience more negative economic conditions than in our pre-acquisition service area. We expect the ongoing weakness in the economy and reduced consumer spending will continue to impact our sales through the remainder of fiscal 2010.

Gross profit in the first quarter of fiscal 2010 increased $23.3 million, or 75%, to $54.3 million, as compared to $31.0 million in the first quarter of fiscal 2009. Gross margin increased to 48% in the first quarter of fiscal 2010 from 47% in the first quarter of fiscal 2009. Approximately 93% of this increase is from the addition of the DSD Coffee Business and 6% of this increase is from CBI. Additionally, total coffee brewing equipment and service costs in the first quarter of fiscal 2010 was $5.5 million as compared to $2.2 million in the first quarter of fiscal 2009.

In the first quarter of fiscal 2010, operating expenses increased $21.6 million, or 61%, to $56.8 million, or 51% of sales, from $35.2 million, or 53% of sales, in the comparable quarter of fiscal 2009. Operating expenses in the first quarter of fiscal 2010 include $18.3 million in operating expenses associated with the DSD Coffee Business.



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Our loss from operations in the first quarter of fiscal 2010 was ($2.5) million as compared to ($4.3) million in the first quarter of fiscal 2009. Cash flow remains strong, with non-cash expenses for depreciation and amortization, and ESOP and share-based compensation expense in the amount of $7.4 million in the first quarter of fiscal 2010, as compared to $4.7 million in the same quarter of the prior fiscal year.

Total other income for the first quarter of fiscal 2010 was $5.1 million as compared to total other expense of ($8.3) million in the first quarter of fiscal 2009. The improvement in total other income in the first quarter of fiscal 2010 is primarily the result of improved results from our preferred stock portfolio which recorded net realized and unrealized gains in the first quarter of fiscal 2010 as compared to net realized and unrealized losses in the first quarter of fiscal 2009.

As a result of the forgoing factors, net income in the first quarter of fiscal 2010 was $2.2 million, or $0.15 per share, as compared to net loss of ($6.1) million, or ($0.42) per share, in the first quarter of fiscal 2009.

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

**Interest Rate Risk**

We are exposed to market value risk arising from changes in interest rates on our securities portfolio. Our portfolio of preferred securities has sometimes included investments in derivatives that provide a natural economic hedge of interest rate risk. We review the interest rate sensitivity of these securities and (a) may enter into “short positions” in futures contracts on U.S. Treasury securities or (b) may hold put options on such futures contracts in order to reduce the impact of certain interest rate changes on such preferred stocks. Specifically, we attempt to manage the risk arising from changes in the general level of interest rates. We do not transact in futures contracts or put options for speculative purposes.

The number and type of futures and options contracts entered into depends on, among other items, the specific maturity and issuer redemption provisions for each preferred stock held, the slope of the U.S. Treasury yield curve, the expected volatility of U.S. Treasury yields, and the costs of using futures and/or options.

As of September 30, 2009 there were no futures or options contracts in place as an interest rate hedge.

The following table demonstrates the impact of varying interest rate changes based on the preferred stock holdings, futures and options positions, and market yield and price relationships at September 30, 2009. This table is predicated on an instantaneous change in the general level of interest rates and assumes predictable relationships between the prices of preferred securities holdings, the yields on U.S. Treasury securities and related futures and options.

| | Market Value at September 30, 2009 | | | |
|---|---|---|---|---|
| **Interest Rate Changes** | **Preferred Securities** | **Futures and Options** | **Total Portfolio** | **Changes in Market Value of Total Portfolio** |
| | | **(In thousands)** | | |
| -150 basis points | $ 51,816 | $ — | $ 51,816 | $ 1,522 |
| -100 basis points | $ 51,566 | $ — | $ 51,566 | $ 1,272 |
| Unchanged | $ 50,294 | $ — | $ 50,294 | $ — |
| +100 basis points | $ 47,700 | $ — | $ 47,700 | $ (2,594) |
| +150 basis points | $ 46,165 | $ — | $ 46,165 | $ (4,129) |

Our revolving line of credit with Wachovia Bank is at a variable rate. The interest rate varies based upon line usage, borrowing base availability and market conditions. The range is PRIME + 0.25% to PRIME + 0.75% or LIBOR + 2.25% to LIBOR + 2.75%, subject to a minimum for LIBOR based advances of 3.25%. The balance outstanding as of September 30, 2009 was $8.1 million and the interest rate at September 30, 2009 was 3.5%.



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The following table demonstrates the impact of interest rate changes on our interest expense on the revolving credit facility for a full year based on the outstanding balance and interest rate as of September 30, 2009:

| Interest Rate Changes | Interest Rate | | Annual Interest Expense (In thousands) |
|---|---|---|---|
| -150 basis points | 2.00% | $ | 162 |
| -100 basis points | 2.50% | $ | 202 |
| Unchanged | 3.50% | $ | 283 |
| +100 basis points | 4.50% | $ | 364 |
| +150 basis points | 5.00% | $ | 405 |

**Commodity Price Risk**

We are exposed to commodity price risk arising from changes in the market price of green coffee. We price green coffee inventory on the last-in, first-out (LIFO) basis. In the normal course of business we hold a large green coffee inventory and enter into forward commodity purchase agreements with suppliers. We are subject to price risk resulting from the volatility of green coffee prices. Due to competition and market conditions, volatile price increases cannot always be passed on to our customers. From time to time we may hold a mix of futures contracts and options to help hedge against volatile green coffee price decreases. Gains and losses on these derivative instruments are realized immediately in "Other, net (expense) income."

On June 30, 2009 we had no open hedge derivative contracts, and our entire exposure to commodity risk was in the potential change of our inventory value resulting from changes in the market price of green coffee. The following table demonstrates the impact of changes in market value of coffee cost on market value of coffee forward purchase contracts:

| Coffee Cost Change | Market Value | | | | | | Change in Market Value | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | Coffee Inventory | | Futures & Options | | Total | | Derivatives | | Inventory |
| | (In thousands) | | | | | | | | | |
| -10% | $ | 38,000 | $ | (623) | $ | 37,377 | $ | (623) | $ | (3,674) |
| unchanged | $ | 41,674 | $ | 416 | $ | 42,090 | $ | — | $ | — |
| 10% | $ | 46,000 | $ | 623 | $ | 46,623 | $ | 623 | $ | 4,326 |

**Item 4. Controls and Procedures**

Disclosure controls and procedures 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 Securities Exchange Act of 1934, as amended (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 Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosures.

As of September 30, 2009, our management, with the participation of our Chief Executive Officer and Chief Financial Officer, carried out an evaluation of the effectiveness of our disclosure controls and procedures pursuant to Rule 13(a)-15(e) promulgated under the Exchange Act. Based upon this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that, as of September 30, 2009, 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 September 30, 2009 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

During the fiscal quarter ended March 31, 2009 the Company entered into a transition services agreement with Sara Lee to host, maintain and support the IT infrastructure of the DSD Coffee Business for up to eighteen months. This change in our internal operations is reasonably likely to affect our internal controls. IT support is critical to the ongoing operation of the





DSD Coffee Business during the transition period. Management's ability to maintain our internal control over financial reporting depends significantly on the reliability of these systems for which we will rely on Sara Lee for up to eighteen months under the transition services agreement.

**Item 4T. Controls and Procedures**

None.

**PART II - OTHER INFORMATION**

**Item 6. Exhibits**

See Exhibit Index.

## 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.

| Name | Title | Date |
|---|---|---|
| /s/ ROGER M. LAVERTY III<br>Roger M. Laverty III | President and Chief Executive Officer (principal executive officer) | November 9, 2009 |
| /s/ JOHN E. SIMMONS<br>John E. Simmons | Treasurer and Chief Financial Officer (principal financial officer) | November 9, 2009 |





## EXHIBIT INDEX

| | |
|---|---|
| 3.1 | Certificate of Incorporation (filed as Exhibit 3.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2009 filed with the SEC on May 11, 2009 and incorporated herein by reference). |
| 3.2 | Amended and Restated Bylaws (filed as Exhibit 3.2 to the Company's Current Report on Form 8-K filed with the SEC on June 8, 2006 and incorporated herein by reference). |
| 4.1 | Certificate of Designation, Preferences and Rights of Series A Junior Participating Preferred Stock (filed as Exhibit 3.1 to the Company's Current Report on Form 8-K filed with the SEC on March 17, 2005 and incorporated herein by reference). |
| 4.2 | Rights Agreement, dated March 17, 2005, by and between Farmer Bros. Co. and Wells Fargo Bank, N.A., as Rights Agent (filed as Exhibit 4.1 to the Company's Current Report on Form 8-K filed with the SEC on March 18, 2005 and incorporated herein by reference). |
| 4.3 | Specimen Stock Certificate (filed as Exhibit 4.1 to the Company's Form 8-A/A filed with the SEC on February 6, 2009 and incorporated herein by reference). |
| 10.1 | Asset Purchase Agreement, dated as of December 2, 2008, by and among Sara Lee Corporation, Saramar, LLC and Farmer Bros. Co. (filed as Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended December 31, 2008 filed with the SEC on February 10, 2009 and incorporated herein by reference). |
| 10.2 | Amendment No. 1 to Asset Purchase Agreement, dated February 27, 2009, by and among Sara Lee Corporation, Saramar, LLC and Farmer Bros. Co. (filed as Exhibit 10.2 to the Company's Annual Report on Form 10-K/A for the fiscal year ended June 30, 2009 filed with the SEC on September 15, 2009 and incorporated herein by reference). |
| 10.3 | Stock Purchase Agreement, dated April 27, 2007, by and among Farmer Bros. Co., Coffee Bean Holding Co., Inc., and the Stockholders of Coffee Bean Holding Co., Inc. (filed as Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the SEC on May 1, 2007 and incorporated herein by reference). |
| 10.4 | Loan and Security Agreement, dated March 2, 2009, by and among Farmer Bros. Co. and Coffee Bean International, Inc., as Borrowers, Coffee Bean Holding Co., Inc., FBC Finance Company and SL Realty, LLC, as Guarantors, and Wachovia Bank, National Association, as Lender (filed as Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended December 31, 2008 filed with the SEC on February 10, 2009 and incorporated herein by reference). |
| 10.5 | Amendment No. 1 to Loan and Security Agreement and Consent, dated March 2, 2009, by and among Farmer Bros. Co. and Coffee Bean International, Inc., as Borrowers, Coffee Bean Holding Co., Inc. and FBC Finance Company, as Guarantors, and Wachovia Bank, National Association, as Lender (filed as Exhibit 10.5 to the Company's Annual Report on Form 10-K/A for the fiscal year ended June 30, 2009 filed with the SEC on September 15, 2009 and incorporated herein by reference). |
| 10.6 | Amendment No. 2 to Loan and Security Agreement and Consent, dated July 27, 2009, by and among Farmer Bros. Co. and Coffee Bean International, Inc., as Borrowers, Coffee Bean Holding Co., Inc. and FBC Finance Company, as Guarantors, and Wachovia Bank, National Association, as Lender (filed herewith). |
| 10.7 | Farmer Bros. Co. Pension Plan for Salaried Employees (filed as Exhibit 10.1 to the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 2007 filed with the SEC on September 13, 2007 and incorporated herein by reference).* |
| 10.8 | Farmer Bros. Co. 2005 Incentive Compensation Plan (Amended and Restated as of December 31, 2008) (filed as Exhibit 10.4 to the Company's Quarterly Report on Form 10-Q for the quarter ended December 31, 2008 filed with the SEC on February 10, 2009 and incorporated herein by reference).* |
| 10.9 | Farmer Bros. Co. Amended and Restated Employee Stock Ownership Plan (filed as exhibit 10.5 to the Company's Annual Report on Form 10- |

K for the fiscal year ended June 30, 2007 filed with the SEC on September 13, 2007 and incorporated herein by reference).*

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| 10.10 | ESOP Loan Agreement No. 2, dated July 21, 2003 between Farmer Bros. Co. and Wells Fargo Bank, N.A., Trustee for the Farmer Bros Co. Employee Stock Ownership Plan (filed as Exhibit 10.6 to the Company's Quarterly Report on Form 10-Q for the quarter ended December 31, 2008 filed with the SEC on February 10, 2009 and incorporated herein by reference). |
| 10.11 | Employment Agreement, dated as of June 2, 2006, by and between Farmer Bros. Co. and Roger M. Laverty III (filed as Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the SEC on June 8, 2006 and incorporated herein by reference).* |





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| 10.12 | Amendment No. 1 to Employment Agreement, dated as of December 5, 2007, by and between Farmer Bros. Co. and Roger M. Laverty III (filed as Exhibit 10.1 to the Company's Current Report on Form 8-K/A filed with the SEC on December 11, 2007 and incorporated herein by reference).* |
| 10.13 | Amendment No. 2 to Employment Agreement, dated as of December 31, 2008, by and between Farmer Bros. Co. and Roger M. Laverty III (filed as Exhibit 10.13 to the Company's Quarterly Report on Form 10-Q for the quarter ended December 31, 2008 filed with the SEC on February 10, 2009 and incorporated herein by reference).* |
| 10.14 | Employment Agreement, dated as of March 3, 2008, by and between Farmer Bros. Co. and Drew H. Webb (filed as Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the SEC on March 7, 2008 and incorporated herein by reference).* |
| 10.15 | Amendment No. 1 to Employment Agreement, dated as of December 31, 2008, by and between Farmer Bros. Co. and Drew H. Webb (filed as Exhibit 10.15 to the Company's Quarterly Report on Form 10-Q for the quarter ended December 31, 2008 filed with the SEC on February 10, 2009 and incorporated herein by reference).* |
| 10.16 | Employment Agreement, dated as of March 14, 2009, by and between Farmer Bros. Co. and Heidi L. Modaro (filed as Exhibit 10.15 to the Company's Annual Report on Form 10-K/A for the fiscal year ended June 30, 2009 filed with the SEC on September 15, 2009 and incorporated herein by reference).* |
| 10.17 | Consulting Agreement, dated as of March 2, 2009, by and between Farmer Bros. Co. and Michael J. King (filed as Exhibit 10.16 to the Company's Annual Report on Form 10-K/A for the fiscal year ended June 30, 2009 filed with the SEC on September 15, 2009 and incorporated herein by reference).* |
| 10.18 | 2007 Omnibus Plan (filed as Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the SEC on August 29, 2007 and incorporated herein by reference) * |
| 10.19 | Form of 2007 Omnibus Plan Stock Option Grant Notice and Stock Option Agreement (filed as Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the SEC on February 26, 2008 and incorporated herein by reference).* |
| 10.20 | Form of 2007 Omnibus Plan Restricted Stock Award Grant Notice and Restricted Stock Award Agreement (filed as Exhibit 10.2 to the Company's Current Report on Form 8-K filed with the SEC on February 26, 2008 and incorporated herein by reference).* |
| 10.21 | Stock Ownership Guidelines for Directors and Executive Officers (filed as Exhibit 10.3 to the Company's Current Report on Form 8-K filed with the SEC on February 26, 2008 and incorporated herein by reference).* |
| 10.22 | Form of 2007 Target Award Notification Letter under Farmer Bros. Co. 2005 Incentive Compensation Plan (filed as Exhibit 99.1 to the Company's Current Report on Form 8-K filed with the SEC on December 22, 2006 and incorporated herein by reference).* |
| 10.23 | Form of Award Letter (Fiscal 2007) under Farmer Bros. Co. 2005 Incentive Compensation Plan (filed as Exhibit 10.3 to the Company's Current Report on Form 8-K filed with the SEC on August 29, 2007 and incorporated herein by reference)* |
| 10.24 | Form of 2008 Target Award Notification Letter under Farmer Bros. Co. 2005 Incentive Compensation Plan (filed as Exhibit 10.2 to the Company's Current Report on Form 8-K filed with the SEC on December 11, 2007 and incorporated herein by reference) * |
| 10.25 | Form of Fiscal 2008 Award Letter under Farmer Bros. Co. 2005 Incentive Compensation Plan (filed as Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the SEC on October 3, 2008 and incorporated herein by reference).* |
| 10.26 | Amendment 2008-1 to the Farmer Bros. Co. Amended and Restated Employee Stock Ownership Plan (filed as Exhibit 10.30 to the Company's Quarterly Report on Form 10-Q for the quarter ended December 31, 2008 filed with the SEC on February 10, 2009 and incorporated herein by reference).* |
| 10.27 | Good Faith Amendment to comply with Code Section 401(a)(31)(B) as amended by the Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA) for the Farmer Bros. Co. Amended and Restated Employee Stock Ownership Plan (filed as Exhibit 10.31 to the Company's Quarterly Report on Form 10-Q for the quarter ended December 31, 2008 filed with the SEC on February 10, 2009 and incorporated herein by reference).* |
| 10.28 | Form of Change in Control Severance Agreement for Executive Officers of the Company (with schedule of executive officers attached) (filed herewith).* |

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| 10.29 | Form of Indemnification Agreement for Directors and Officers of the Company, as adopted on May 18, 2006 and as amended on December 31, 2008 (with updated schedule of indemnitees attached) (filed as Exhibit 10.28 to the Company's Annual Report on Form 10-K/A for the fiscal year ended June 30, 2009 filed with the SEC on September 15, 2009 and incorporated herein by reference).* |
| 14.1 | Farmer Bros. Co. Code of Conduct and Ethics adopted on August 26, 2009 (filed as Exhibit 14.1 to the Company's Current Report on Form 8-K filed with the SEC on August 31, 2009 and incorporated herein by reference). |
| 31.1 | 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. (filed herewith). |
| 31.2 | Principal Financial 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. (filed herewith). |
| 32.1 | 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. (furnished herewith). |
| 32.2 | Principal Financial Officer Certification Pursuant to 18 U.S.C. Section 1350 as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. (furnished herewith). |

* Management contract or compensatory plan or arrangement.

AMENDMENT NO. 2
TO
LOAN AND SECURITY AGREEMENT AND CONSENT

THIS AMENDMENT NO. 2 TO LOAN AND SECURITY AGREEMENT AND CONSENT (this “Amendment No. 2”), dated as of July 27, 2009, is by and among Wachovia Bank, National Association, a national banking association (“Lender”), Farmer Bros. Co., a Delaware corporation (as surviving corporation of the merger with FBC Realty, LLC formerly known as SL Realty, LLC, a Delaware limited liability company, “Farmer”) and Coffee Bean International, Inc., an Oregon corporation (“CBI” and together with Farmer, each individually a “Borrower” and collectively, “Borrowers”), Coffee Bean Holding Co., Inc., a Delaware corporation (“Coffee Holding”), FBC Finance Company, a California corporation (“Finance” and together with Coffee Holding, each individually a “Guarantor” and collectively, “Guarantors”).

W I T N E S S E T H :

WHEREAS, Lender, Borrowers and Guarantors have entered into financing arrangements pursuant to which Lender has made, and may make, loans and advances and provide other financial accommodations to Borrowers as set forth in the Loan and Security Agreement, dated as of March 2, 2009, by and among Lender, Borrowers and Guarantors, the “Loan Agreement”, Amendment No. 1 to Loan and Security Agreement, dated as of March 2, 2009, by and among Lender, Borrowers and Guarantors, and together with all agreements, documents and instruments at any time executed or delivered in connection therewith or related thereto, as from time to time amended and supplemented, collectively, the “Financing Agreements”);

WHEREAS, Borrowers and Guarantors have requested that Lender agree to make certain amendments to the Loan Agreement and agree to certain consents under the Loan Agreement, and Lender is willing to agree, subject to the terms and conditions set forth herein, to make such amendments and agree to such consents, as more specifically set forth herein; and

WHEREAS, by this Amendment No. 2, Lender, Borrowers and Guarantors desire and intend to evidence such amendments and consents.

NOW THEREFORE, in consideration of the foregoing and the mutual agreements and covenants contained herein, the parties hereto agree as follows:

1. Definitions.

1.1 Additional Definition. As used herein, the term “Amendment No. 2” shall mean Amendment No. 2 to Loan and Security Agreement and Consent, by and between Lender and Borrower, as the same now exists or may hereafter be amended, modified, supplemented, extended, renewed, restated or replaced, and the Loan Agreement and the other Financing

Agreements shall be deemed and are hereby amended to include, in addition and not in limitation, such definition.

1.2 Eligible Inventory.

(a) The definition of “Eligible Inventory” in Section 1.34 of the Loan Agreement is hereby amended by deleting clause (f)(iii)(A) thereof in its entirety and substituting the following therefor:

> “(A) as to locations which are leased by any Borrower, if Lender shall have received a Collateral Access Agreement from the owner and lessor of such location, duly authorized, executed and delivered by such owner and lessor or, if Lender shall not have received such Collateral Access Agreement (or Lender shall determine to accept a Collateral Access Agreement that does not include all required provisions or provisions in the form otherwise required by Lender), Lender may, at its option, nevertheless consider Inventory at such location to be Eligible Inventory to the extent Lender shall have established such Reserves in respect of amounts at any time payable by such Borrower to the owner and lessor thereof as Lender shall determine in good faith,”

1.3 Interpretation. All capitalized terms used herein shall have the meanings assigned thereto in the other Financing Agreements, unless otherwise defined herein. All references to the plural herein shall also mean the singular and all references to the singular herein shall also mean the plural, in each case unless otherwise required by the context of the use thereof.

2. Additional Representations, Warranties and Covenants. Borrowers and Guarantors represent, warrant and covenant with and to Lender as follows, which representations, warranties and covenants, together with the representations, warranties and covenants in the other Financing Agreements, are continuing and shall survive the execution and delivery hereof, and the truth and accuracy of, or compliance with each, being a continuing condition of the making of Loans by Lender to Borrowers:

2.1 No action of, or filing with, or consent of any Governmental Authority, and no approval or consent of any other Person, is or will be required to authorize, or is or will be otherwise required in connection with, the execution, delivery and performance by Borrowers and Guarantors of this Amendment No. 2.

2.2 This Amendment No. 2 and each other agreement, document or instrument to be executed and delivered by any Borrower or Guarantor in connection therewith or herewith has been duly authorized, executed and delivered by all necessary action on the part of such Borrower or Guarantor, and Amendment No. 2 and each other agreement, document or instrument to be executed and delivered by Borrowers and Guarantors in connection therewith or herewith is in full force and effect as of the date of Amendment No. 2 and the agreements and obligations of Borrowers and Guarantors contained herein and therein constitute legal, valid and binding obligations of Borrowers and Guarantors enforceable against Borrowers and Guarantors in accordance with their respective terms.

2.3 Neither the execution and delivery of this Amendment No. 2 or the documents, agreements or instruments executed or delivered in connection therewith or related thereto, nor the consummation of the transactions herein or therein contemplated, nor compliance with the provisions hereof or thereof is in contravention of any law or regulation or any order or decree of any court or Governmental Authority applicable to Borrowers and Guarantors in any respect, or conflicts with or result in the breach of, or constitutes a default in any respect under any mortgage, deed of trust, security agreement, agreement or instrument to which any Borrower or Guarantor is a party or may be bound, or violates any provision of the formation or other organizational documents of any Borrower or Guarantor.

2.4 After giving effect to this Amendment No. 2, no Event of Default or act, condition or event which with notice or passage of time or both would constitute an Event of Default exists or has occurred and is continuing on the date of Amendment No. 2.

3. Conditions Precedent. The effectiveness of the amendments and consents contained herein shall be subject to the receipt by Lender of each of the following, in form and substance satisfactory to Lender:

3.1 an original of this Amendment No. 2, duly authorized, executed and delivered by the parties hereto;

3.2 a true and correct copy of any consent, waiver or approval to or of this Amendment No. 2, which any Borrower or Guarantor is required to obtain from any other Person; and

3.3 after giving effect to this Amendment No. 2, no Event of Default or act, condition or event which with notice or passage of time or both would constitute an Event of Default exists or has occurred and is continuing on the date of this Amendment No. 2.

4. Effect of this Amendment. Except as expressly set forth herein, no other amendments, consents, changes or modifications to the Financing Agreements are intended or implied, and in all other respects the Financing Agreements are hereby specifically ratified, restated and confirmed by all parties hereto as of the effective date hereof and Borrowers and Guarantors shall not be entitled to any other or further amendment or consent by virtue of the provisions of this Amendment No. 2 or with respect to the subject matter of this Amendment No. 2. To the extent of conflict between the terms of this Amendment No. 2 and the other Financing Agreements, the terms of this Amendment No. 2 shall control. The Loan Agreement and this Amendment No. 2 shall be read and construed as one agreement.

5. Further Assurances. The parties hereto shall execute and deliver such additional documents and take such additional action as may be necessary or desirable to effectuate the provisions and purposes of this Amendment No. 2.

6. Governing Law. The validity, interpretation and enforcement of this Amendment No. 2 and the other Financing Agreements and any dispute arising out of the relationship between the parties hereto whether in contract, tort, equity or otherwise, shall be governed by the internal laws of the State of California but excluding any principles of conflict of laws or other rule of



law that would cause the application of the law of any jurisdiction other than the laws of the State of California.

7. Waiver, Modification, Etc. No provision or term hereof may be modified, altered, waived, discharged or terminated orally, but only by an instrument in writing executed by the party against whom such modification, alteration, waiver, discharge or termination is sought to be enforced.

8. Entire Agreement. This Amendment No. 2 represents the entire agreement and understanding concerning the subject matter hereof among the parties hereto, and supersedes all other prior agreements, understandings, negotiations and discussions, representations, warranties, commitments, proposals, offers and contracts concerning the subject matter hereof, whether oral or written.

9. Binding Effect. This Amendment No. 2 shall be binding upon and inure to the benefit of each of the parties hereto and their respective successors and assigns.

10. Severability. Any provision of this Agreement held by a court of competent jurisdiction to be invalid or unenforceable shall not impair or invalidate the remainder of this Agreement and the effect thereof shall be confirmed to the provision so held to be invalid or unenforceable.

11. Headings. The headings listed herein are for convenience only and do not constitute matters to be construed in interpreting this Amendment No. 2.

12. Counterparts. This Amendment No. 2 may be executed in any number of counterparts, each of which shall be an original, but all of which taken together shall constitute one and-the same agreement. Delivery of an executed counterpart of this Amendment No. 2 by telefacsimile or other electronic method of transmission shall have the same force and effect as the delivery of an original executed counterpart of this Amendment No. 2. Any party delivering an executed counterpart of this Amendment No. 2 by telefacsimile or other electronic method of transmission shall also deliver an original executed counterpart of this Amendment No. 2, but the failure to do so shall not affect the validity, enforceability or binding effect of such agreement.

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IN WITNESS WHEREOF, the parties hereto have caused this Amendment No. 2 to be duly executed and delivered by their authorized officers as of the day and year first above written.

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| LENDER | BORROWERS |
| WACHOVIA BANK, NATIONAL ASSOCIATION | FARMER BROS. CO. |

By: /s/ Gary Whitaker
Name: Gary Whitaker
Title: Director

By: /s/ John E. Simmons
Name: John E. Simmons
Title: Treasurer and CFO

COFFEE BEAN INTERNATIONAL, INC.

By: /s/ John E. Simmons
Name: John E. Simmons
Title: Director

GUARANTORS

COFFEE BEAN HOLDING CO., INC.

By: /s/ John E. Simmons
Name: John E. Simmons
Title: Treasurer and CFO

FBC FINANCE COMPANY

By: /s/ John E. Simmons
Name: John E. Simmons
Title: Director

**[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 m 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.

8. Settlement of Disputes; Arbitration

(a) All disputes arising under or in connection with this Agreement, shall be submitted to binding arbitration in Los Angeles County 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 JAMS/ENDISPUTE ("JAMS") or successor organization for binding arbitration in Los Angeles County by a single arbitrator who shall be a former California Superior Court judge. The arbitrator shall be selected by JAMS in an impartial manner determined by it. Except as may be otherwise provided herein, the arbitration shall be conducted under the California Arbitration Act, Code of Civil Procedure §1280 et seq. The parties shall have the discovery rights provided in Code of Civil Procedure §§1283.05 and 1283.1. 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 have complete authority to render any and all relief, legal and equitable, appropriate under California law, including the award of punitive damages where legally available and warranted. 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 Los Angeles County Superior Court as a regular civil action except that a former California Superior Court Judge selected by JAMS in an impartial manner shall be appointed as referee to determine, sitting without a jury (a jury being waived by all parties hereto), all issues pursuant to California Code of Civil Procedure §638(1). Judgment entered on the decision of the referee shall be appealable as a judgment of the Superior Court. 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
20333 South Normandie Avenue
Torrance, CA 90502
Attn: Chief Executive Officer

with a copy to: John M. Anglin, Esq.
Anglin, Flewelling, Rasmussen, Campbell & Trytten LLP
199 South Los Robles Avenue, Suite 600
Pasadena, CA 91101-2459

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 shall be governed by and construed and enforced in accordance with the laws of the State of California, 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

Roger M. Laverty III
Drew H. Webb
John E. Simmons
Heidi L. Modaro

**Exhibit 31.1**

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

I, Roger M. Laverty III, 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: November 9, 2009

/s/ Roger M. Laverty III

Roger M. Laverty III
President and Chief Executive Officer
(Principal Executive Officer)

**Exhibit 31.2**

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

I, John E. Simmons, 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: November 9, 2009

/s/ John E. Simmons
John E. Simmons
Treasurer and Chief Financial Officer
(Principal Financial and Accounting Officer)

**Exhibit 32.1**

**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 fiscal quarter ended September 30, 2009, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Roger M. Laverty III, 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: November 9, 2009

/s/ Roger M. Laverty III
Roger M. Laverty III
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.

Exhibit 32.2

**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 fiscal quarter ended September 30, 2009, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, John E. Simmons, Treasurer and 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 operations of the Company.

Dated: November 9, 2009

/s/ John E. Simmons
John E. Simmons
Treasurer and Chief Financial Officer
(Principal Financial and Accounting 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.