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

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2017

OR

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

For the transition period from to

Commission file number: 001-34249

FARMER BROS. CO.

(Exact Name of Registrant as Specified in Its Charter)

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

1912 Farmer Brothers Drive, Northlake, Texas 76262
(Address of Principal Executive Offices; Zip Code)

888-998-2468
(Registrant's Telephone Number, Including Area Code)

13601 North Freeway, Suite 200, Fort Worth, Texas 76177
(Former Address, if Changed Since Last Report

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

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

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

Large accelerated filer	☐		Accelerated filer	☒
Non-accelerated filer	☐	(Do not check if a smaller reporting company)	Smaller reporting company	☐
			Emerging growth company	☐

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

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

As of May 9, 2017, the registrant had 16,844,216 shares outstanding of its common stock, par value $1.00 per share, which is the registrant's only class of common stock.

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

	March 31, 2017	June 30, 2016
ASSETS		
Current assets:		
Cash and cash equivalents	$ 5,727	$ 21,095
Short-term investments	26,541	25,591
Accounts and notes receivable, net	50,426	44,364
Inventories	60,712	46,378
Income tax receivable	293	247
Short-term derivative assets	—	3,954
Prepaid expenses	4,789	4,557
Assets held for sale	—	7,179
Total current assets	148,488	153,365
Property, plant and equipment, net	171,977	118,416
Goodwill	9,940	272
Intangible assets, net	19,172	6,219
Other assets	7,311	9,933
Deferred income taxes	66,046	80,786
Total assets	$ 422,934	$ 368,991
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	45,216	23,919
Accrued payroll expenses	18,168	24,540
Short-term borrowings under revolving credit facility	44,175	109
Short-term obligations under capital leases	1,131	1,323
Short-term derivative liabilities	339	—
Other current liabilities	7,074	6,946
Total current liabilities	116,103	56,837
Accrued pension liabilities	67,331	68,047
Accrued postretirement benefits	20,183	20,808
Accrued workers' compensation liabilities	10,248	11,459
Other long-term liabilities-capital leases	389	1,036
Other long-term liabilities	600	28,210
Total liabilities	$ 214,854	$ 186,397
Commitments and contingencies (Note 20)		
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; 16,841,650 and 16,781,561 shares issued and outstanding at March 31, 2017 and June 30, 2016, respectively	16,842	16,782
Additional paid-in capital	40,704	39,096
Retained earnings	220,070	196,782
Unearned ESOP shares	(4,289)	(6,434)
Accumulated other comprehensive loss	(65,247)	(63,632)
Total stockholders' equity	$ 208,080	$ 182,594
Total liabilities and stockholders' equity	$ 422,934	$ 368,991

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

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

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2017	2016	2017	2016
Net sales	$ 138,187	$ 134,468	$ 407,700	$ 410,220
Cost of goods sold	84,367	81,908	247,586	254,173
Gross profit	53,820	52,560	160,114	156,047
Selling expenses	40,377	38,447	117,912	112,741
General and administrative expenses	9,196	10,977	31,925	29,951
Restructuring and other transition expenses	2,547	3,169	9,542	13,855
Net gain from sale of Torrance Facility	—	—	(37,449)	—
Net gains from sale of Spice Assets	(272)	(335)	(764)	(5,441)
Net gains from sales of other assets	(86)	(4)	(1,525)	(163)
Operating expenses	51,762	52,254	119,641	150,943
Income from operations	2,058	306	40,473	5,104
Other income (expense):				
Dividend income	273	288	808	840
Interest income	147	139	435	359
Interest expense	(517)	(111)	(1,430)	(341)
Other, net	1,044	613	(1,088)	35
Total other income (expense)	947	929	(1,275)	893
Income before taxes	3,005	1,235	39,198	5,997
Income tax expense	1,411	43	15,910	318
Net income	$ 1,594	$ 1,192	$ 23,288	$ 5,679
Net income per common share—basic	$ 0.10	$ 0.07	$ 1.40	$ 0.34
Net income per common share—diluted	$ 0.10	$ 0.07	$ 1.39	$ 0.34
Weighted average common shares outstanding—basic	16,605,754	16,539,479	16,584,125	16,486,469
Weighted average common shares outstanding—diluted	16,721,774	16,647,415	16,704,200	16,614,275

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

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

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2017	2016	2017	2016
Net income	$ 1,594	$ 1,192	$ 23,288	$ 5,679
Other comprehensive income (loss), net of tax:				
Unrealized gains (losses) on derivative instruments designated as cash flow hedges	104	(1,245)	(1,249)	(5,575)
(Gains) losses on derivative instruments designated as cash flow hedges reclassified to cost of goods sold	(516)	2,677	(366)	11,504
Total comprehensive income, net of tax	$ 1,182	$ 2,624	$ 21,673	$ 11,608

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

FARMER BROS. CO.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

(In thousands)

	Nine Months Ended March 31,	
	2017	**2016**
Cash flows from operating activities:		
Net income	$ 23,288	$ 5,679
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	16,613	15,721
(Recovery of) provision for doubtful accounts	(44)	432
Interest on sale-leaseback financing obligation	681	—
Restructuring and other transition expenses, net of payments	2,191	(1,939)
Deferred income taxes	15,766	72
Net gain from sale of Torrance Facility	(37,449)	—
Net gains from sales of Spice Assets and other assets	(2,289)	(5,604)
ESOP and share-based compensation expense	2,996	3,488
Net losses on derivative instruments and investments	793	11,839
Change in operating assets and liabilities:		
Restricted cash	—	1,002
Purchases of trading securities held for investment	(4,216)	(5,938)
Proceeds from sales of trading securities held for investment	2,911	4,909
Accounts and notes receivable	(3,994)	(6,503)
Inventories	(13,242)	(4,452)
Income tax receivable	(46)	(70)
Derivative assets (liabilities), net	3,845	(11,580)
Prepaid expenses and other assets	(203)	865
Accounts payable	11,293	(997)
Accrued payroll expenses and other current liabilities	(5,712)	3,209
Accrued postretirement benefits	(624)	(384)
Other long-term liabilities	(2,028)	(337)
Net cash provided by operating activities	$ 10,530	$ 9,412
Cash flows from investing activities:		
Acquisition of businesses, net of cash acquired	$ (25,853)	$ —
Purchases of property, plant and equipment	(35,497)	(16,193)
Purchases of construction-in-progress assets for New Facility	(26,653)	(13,492)
Proceeds from sales of property, plant and equipment	3,984	5,990
Net cash used in investing activities	$ (84,019)	$ (23,695)

(continued on next page)

FARMER BROS. CO.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

(In thousands)

	Nine Months Ended March 31,	
	2017	2016
Cash flows from financing activities:		
Proceeds from revolving credit facility	$ 67,583	$ 314
Repayments on revolving credit facility	(23,517)	(86)
Proceeds from sale-leaseback financing obligation	42,455	—
Proceeds from New Facility lease financing	7,662	13,492
Repayments of New Facility lease financing	(35,772)	—
Payments of capital lease obligations	(1,107)	(2,710)
Payment of financing costs	—	(8)
Proceeds from stock option exercises	823	1,610
Tax withholding payment - net share settlement of equity awards	(6)	(159)
Net cash provided by financing activities	$ 58,121	$ 12,453
Net decrease in cash and cash equivalents	$ (15,368)	$ (1,830)
Cash and cash equivalents at beginning of period	21,095	15,160
Cash and cash equivalents at end of period	$ 5,727	$ 13,330
Supplemental disclosure of non-cash investing and financing activities:		
Equipment acquired under capital leases	$ 353	$ 190
Net change in derivative assets and liabilities included in other comprehensive income, net of tax	$ (1,615)	$ 5,929
Construction-in-progress assets under New Facility lease	$ —	$ 5,662
New Facility lease obligation	$ —	$ 5,662
Non-cash additions to property, plant and equipment	$ 8,515	$ 1,576
Non-cash portion of earnout receivable recognized-Spice Assets sale	$ 229	$ 335
Non-cash portion of earnout payable recognized-China Mist acquisition	$ 500	$ —
Non-cash portion of earnout payable recognized-West Coast Coffee acquisition	$ 600	$ —
Option costs paid with exercised shares	$ 174	$ —

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

FARMER BROS. CO.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Introduction and Basis of Presentation

Overview

Farmer Bros. Co., a Delaware corporation (including its consolidated subsidiaries unless the context otherwise requires, the “Company,” or “Farmer Bros.”), is a national coffee roaster, wholesaler and distributor of coffee, tea and culinary products. The Company serves a wide variety of customers, from small independent restaurants and foodservice operators to large institutional buyers like restaurant and convenience store chains, hotels, casinos, hospitals, and gourmet coffee houses, as well as grocery chains with private brand coffee and consumer-facing branded coffee and tea products. The Company’s product categories consist of roast and ground coffee; frozen liquid coffee; flavored and unflavored iced and hot teas; culinary products; spices; and other beverages including cappuccino, cocoa, granitas, and ready-to-drink iced coffee. The Company was founded in 1912, incorporated in California in 1923, and reincorporated in Delaware in 2004. The Company operates in one business segment.

The Company operates production facilities in Northlake, Texas (the "New Facility"); Houston, Texas; Portland, Oregon; Hillsboro, Oregon; and Scottsdale, Arizona. Distribution takes place out of the New Facility, the Portland, Hillsboro and Scottsdale facilities, as well as separate distribution centers in Northlake, Illinois; and Moonachie, New Jersey. On July 15, 2016, the Company completed the sale of certain property, including the Company’s former headquarters in Torrance, California (the “Torrance Facility”) and leased it back. The Company vacated the Torrance Facility after transitioning the Company’s remaining Torrance operations to its other facilities and concluded the leaseback arrangement as of December 31, 2016. The Company commenced distribution activities at the New Facility during the second quarter of fiscal 2017 and initial production activities late in the third quarter of fiscal 2017.

The Company’s products reach its customers primarily in two ways: through the Company’s nationwide direct-store-delivery, or DSD, network of 646 delivery routes and 114 branch warehouses as of March 31, 2017, or direct-shipped via common carriers or third-party distributors. The Company operates a large fleet of trucks and other vehicles to distribute and deliver its products, and relies on third-party logistic (“3PL”) service providers for its long-haul distribution. DSD sales are made “off-truck” by the Company to its customers at their places of business.

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States (“GAAP”) for complete consolidated financial statements. In the opinion of management, all adjustments (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 and nine months ended March 31, 2017 are not necessarily indicative of the results that may be expected for the fiscal year ending June 30, 2017. Events occurring subsequent to March 31, 2017 have been evaluated for potential recognition or disclosure in the unaudited condensed consolidated financial statements for the three and nine months ended March 31, 2017.

The accompanying unaudited condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and related notes included in the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 2016, filed with the Securities and Exchange Commission (the “SEC”) on September 14, 2016 (the "2016 Form 10-K").

Principles of Consolidation

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

Use of Estimates

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

Note 2. Summary of Significant Accounting Policies

For a detailed discussion about the Company's significant accounting policies, see Note 1, "*Summary of Significant Accounting Policies*" to the consolidated financial statements in the 2016 Form 10-K.

During the three months ended March 31, 2017, other than the following, there were no significant updates made to the Company's significant accounting policies.

Business Combinations

The Company accounts for business combinations under the acquisition method of accounting. The purchase price of each business acquired is allocated to the tangible and intangible assets acquired and the liabilities assumed based on information regarding their respective fair values on the date of acquisition. Any excess of the purchase price over the fair value of the separately identifiable assets acquired and the liabilities assumed is allocated to goodwill. Management determines the fair values used in purchase price allocations for intangible assets based on historical data, estimated discounted future cash flows, and expected royalty rates for trademarks and trade names, as well as certain other information. The valuation of assets acquired and liabilities assumed requires a number of judgments and is subject to revision as additional information about the fair value of assets and liabilities becomes available. Additional information, which existed as of the acquisition date but unknown to the Company at that time, may become known during the remainder of the measurement period, a period not to exceed twelve months from the acquisition date. Adjustments in the purchase price allocation may require a recasting of the amounts allocated to goodwill and intangible assets. If such an adjustment is required, the Company will recognize a measurement-period adjustment during the period in which it determines the amount of the adjustment, including the effect on earnings of any amounts it would have recorded in previous periods if the accounting had been completed at the acquisition date. Transaction costs, including legal and accounting expenses, are expensed as incurred and are included in general and administrative expenses in the Company's condensed consolidated statements of operations. Contingent consideration, such as earnout, is deferred as a short-term or long-term liability based on an estimate of the timing of the future payment. These contingent consideration liabilities are recorded at fair value on the acquisition date and are re-measured quarterly based on the then assessed fair value and adjusted if necessary. The results of operations of businesses acquired are included in the Company's condensed consolidated financial statements from their dates of acquisition. See Note 3.

Goodwill and Indefinite-lived Intangible Assets

The Company accounts for its goodwill and indefinite-lived intangible assets in accordance with ASC 350, “Intangibles-Goodwill and Other” (“ASC 350”). Goodwill and other indefinite-lived intangible assets are not amortized but instead are reviewed for impairment annually, or more frequently if an event occurs or circumstances change which indicate that an asset might be impaired. Pursuant to ASC 350, the Company performs a qualitative assessment of goodwill and indefinite-lived intangible assets on its consolidated balance sheets, to determine if there is a more likely than not indication that its goodwill and indefinite-lived intangible assets are impaired as of June 30. If the indicators of impairment are present, the Company performs a quantitative assessment to determine the impairment of these assets as of the measurement date.

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 reporting units, including goodwill. If the fair value of a reporting unit is less than its carrying value, goodwill of the reporting unit is potentially impaired and 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, which is the residual fair value remaining after deducting the fair value of all tangible and intangible net assets of the reporting unit from the fair value of the reporting unit. If the implied fair value of goodwill is less than the carrying amount of goodwill, an impairment loss is recognized equal to the difference.

Indefinite-lived intangible assets are tested for impairment by comparing their fair values to their carrying values. An impairment charge is recorded if the estimated fair value of such assets has decreased below their carrying values. There were no indefinite-lived intangible asset or goodwill impairment charges recorded in the nine months ended March 31, 2017 or 2016.

Other Intangible Assets

Other intangible assets consist of finite-lived intangible assets including acquired recipes, non-compete agreements, customer relationships, trade names and trademarks. These assets are amortized over their estimated useful lives and are tested for impairment by grouping them with other assets at the lowest level for which identifiable cash flows are largely independent of the cash flows of other groups of assets and liabilities. The estimated future cash flows are based upon, among other things, assumptions about expected future operating performance, and may differ from actual cash flows. If the sum of the projected undiscounted cash flows (excluding interest) is less than the carrying value of the assets, the assets will be written down to the estimated fair value in the period in which the determination is made. The Company reviews the recoverability of its long-lived assets whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. There were no other intangible asset impairment charges recorded in the nine months ended March 31, 2017 or 2016.

Leases

Leases are categorized as either operating or capital leases at inception. Operating lease costs are recognized on a straight-line basis over the term of the lease. An asset and a corresponding liability for the capital lease obligation are established for the cost of a capital lease. Capital lease obligations are amortized over the life of the lease.

For build-to-suit leases, the Company establishes an asset and liability for the estimated construction costs incurred to the extent that it is involved in the construction of structural improvements or takes construction risk prior to the commencement of the lease. A portion of the lease arrangement is allocated to the land for which the Company accrues rent expense during the construction period. The amount of rent expense to be accrued is determined using the fair value of the leased land at construction commencement and the Company's incremental borrowing rate, and recognized on a straight-line basis. Upon exercise of the purchase option on a build-to-suit lease, the Company records an asset equal to the value of the option price that includes the value of the land and reverses the rent expense and the asset and liability established to record the construction costs incurred through the date of option exercise. See Note 5.

Coffee Brewing Equipment and Service

The Company classifies certain expenses related to coffee brewing equipment provided to customers as cost of goods sold. These costs include the cost of the equipment as well as the cost of servicing that equipment (including service employees' salaries, cost of transportation and the cost of supplies and parts) and are considered directly attributable to the generation of revenues from its customers. Accordingly, such costs included in cost of goods sold in the accompanying unaudited condensed consolidated financial statements in each of the three months ended March 31, 2017 and 2016 were $7.0 million. Coffee brewing equipment costs included in cost of goods sold in the nine months ended March 31, 2017 and 2016 were $19.9 million and $20.4 million, respectively.

The Company capitalizes coffee brewing equipment and depreciates it over an estimated three or five year period, depending on the assessment of the useful life and reports the depreciation expense in cost of goods sold. Such depreciation expense related to capitalized coffee brewing equipment reported in cost of goods sold in the three months ended March 31, 2017 and 2016 was $2.3 million and $2.4 million, respectively, and $6.9 million and $7.5 million, respectively, in the nine months ended March 31, 2017 and 2016. The Company capitalized coffee brewing equipment (included in machinery and equipment) in the amounts of $8.3 million and $5.7 million in the nine months ended March 31, 2017 and 2016, respectively.

Net Income Per Common Share

Computation of net income per share ("EPS") for the three months ended March 31, 2017 and 2016 includes the dilutive effect of 116,020 and 107,936 shares, respectively, issuable under stock options with exercise prices below the closing price of the Company's common stock on the last trading day of the applicable period, but excludes the dilutive effect of 30,401 and 59,854 shares, respectively, issuable under stock options with exercise prices above the closing price of the Company's common stock on the last trading day of the applicable period because their inclusion would be anti-dilutive.

Computation of EPS for the nine months ended March 31, 2017 and 2016 includes the dilutive effect of 120,075 and 127,806 shares, respectively, issuable under stock options with exercise prices below the closing price of the Company's common stock on the last trading day of the applicable period, but excludes 25,508 and 35,253 shares, respectively, issuable under stock options with exercise prices above the closing price of the Company's common stock on the last trading day of the applicable period because their inclusion would be anti-dilutive. See Note 19.

Shipping and Handling Costs

Shipping and handling costs incurred through outside carriers are recorded as a component of the Company's selling expenses and were $6.0 million and $3.0 million, respectively, in the three months ended March 31, 2017 and 2016, and $17.2 million and $7.9 million, respectively, in the nine months ended March 31, 2017 and 2016. With the Company’s move to 3PL for its long-haul distribution in the third quarter of fiscal 2016, payroll, benefits, vehicle costs and other costs associated with the Company’s internal operation of its long-haul distribution previously included elsewhere in selling expenses are now represented in outsourced shipping and handling costs in the three and nine months ended March 31, 2017. The amount associated with outside carriers for the Company's long-haul distribution recorded in shipping and handling costs in the three months ended March 31, 2017 was approximately the same in the three months ended March 31, 2016. The amount associated with outside carriers for the Company's long-haul distribution recorded in shipping and handling costs in the nine months ended March 31, 2017 was less than the comparable aggregate operating costs associated with internally managing the Company’s long-haul distribution in the nine months ended March 31, 2016.

Recently Adopted Accounting Standards

No new accounting standards were adopted by the Company in the three months ended March 31, 2017.

New Accounting Pronouncements

In March 2017, the FASB issued ASU No. 2017-07, "Compensation — Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost" ("ASU 2017-07"). ASU 2017-07 amends the requirements in GAAP related to the income statement presentation of the components of net periodic benefit cost for an entity’s sponsored defined benefit pension and other postretirement plans. The guidance in ASU 2017-07 is effective for annual periods beginning after December 15, 2017, including interim periods within those fiscal years, and is effective for the Company beginning July 1, 2018. The Company is evaluating the impact this guidance will have on its consolidated financial statements and expects the adoption will not have a significant impact on the results of operations, financial position or cash flows of the Company.

In January 2017, the FASB issued ASU No. 2017-04, "Intangibles — Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment" ("ASU 2017-04"). The amendments in ASU 2017-04 address concerns regarding the cost and complexity of the two-step goodwill impairment test, and remove the second step of the test. An entity will apply a one-step quantitative test and record the amount of goodwill impairment as the excess of a reporting unit's carrying amount over its fair value, not to exceed the total amount of goodwill allocated to the reporting unit. The new guidance does not amend the optional qualitative assessment of goodwill impairment. The guidance in ASU 2017-04 is effective for annual and interim goodwill impairment tests in fiscal years beginning after December 15, 2019, and is effective for the Company beginning July 1, 2020. Adoption of ASU 2017-04 is not expected to have a material effect on the results of operations, financial position or cash flows of the Company.

In January 2017, the FASB issued ASU No. 2017-01, "Business Combinations (Topic 805): Clarifying the Definition of a Business" ("ASU 2017-01"). The amendments in ASU 2017-01 clarify the definition of a business with the objective of adding guidance to assist entities with evaluating whether transactions should be accounted for as acquisitions (or disposals) of businesses and provide a screen to determine when an integrated set of assets and activities (collectively referred to as a “set”) is not a business. If the screen is not met, the amendments (1) require that to be considered a business, a set must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output and (2) remove the evaluation of whether a market participant could replace the missing elements. The guidance in ASU 2017-01 is effective for public business entities for annual periods beginning after December 15, 2017, including interim periods within those fiscal years. Early application is permitted in certain circumstances. ASU 2017-01 is effective for the Company beginning July 1, 2018. Adoption of ASU 2017-01 is not expected to have a material effect on the results of operations, financial position or cash flows of the Company.

In November 2016, the FASB issued ASU No. 2016-18, "Statement of Cash Flows (Topic 230): Restricted Cash" ("ASU 2016-18"). The amendments require that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. As a result, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The amendments do not provide a definition of restricted cash or restricted cash equivalents. ASU 2016-18 is effective for the Company beginning

July 1, 2018. Adoption of ASU 2016-18 is not expected to have a material effect on the results of operations, financial position or cash flows of the Company.

In March 2016, the FASB issued ASU No. 2016-09, "Compensation—Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting" ("ASU 2016-09"). ASU 2016-09 is being issued as part of the FASB's Simplification Initiative. The areas for simplification in ASU 2016-09 involve several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. ASU 2016-09 is effective for the Company beginning July 1, 2017. Adoption of ASU 2016-09 is not expected to have a material effect on the results of operations, financial position or cash flows of the Company.

In February 2016, the FASB issued ASU No. 2016-02, "Leases (Topic 842)" ("ASU 2016-02"), which introduces a new lessee model that brings substantially all leases onto the balance sheet. Under the new guidance, lessees are required to recognize a lease liability, which represents the discounted obligation to make future minimum lease payments and a related right-of-use asset. For public business entities, ASU 2016-02 is effective for financial statements issued for annual periods beginning after December 15, 2018, and interim periods within those annual periods. Early application is permitted. ASU 2016-02 is effective for the Company beginning July 1, 2019. The Company is evaluating the impact this guidance will have on its consolidated financial statements and expects the adoption will have a significant impact on the Company's financial position resulting from the increase in assets and liabilities.

In January 2016, the FASB issued ASU No. 2016-01, “Financial Instruments-Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities” (“ASU 2016-01”). ASU 2016-01 requires equity investments (except those accounted for under the equity method of accounting or those that result in consolidation of the investee) at fair value, with changes in fair value recognized in net income. Under ASU 2016-01, entities will no longer be able to recognize unrealized holding gains and losses on available-for-sale equity securities in other comprehensive income, and they will no longer be able to use the cost method of accounting for equity securities that do not have readily determinable fair values. The guidance to classify equity securities with readily determinable fair values into different categories (that is trading or available for sale) is no longer required. ASU 2016-01 eliminates certain disclosure requirements related to financial instruments measured at amortized cost and adds disclosures related to the measurement categories of financial assets and financial liabilities. The guidance is effective for annual periods beginning after December 15, 2017, including interim periods within those fiscal years. ASU 2016-01 is effective for the Company beginning July 1, 2018. Adoption of ASU 2016-01 is not expected to have a material effect on the results of operations, financial position or cash flows of the Company.

In July 2015, the FASB issued ASU No. 2015-11, “Inventory (Topic 330): Simplifying the Measurement of Inventory” (“ASU 2015-11”). ASU 2015-11 simplifies the subsequent measurement of inventory by requiring inventory to be measured at the lower of cost and net realizable value. Entities will continue to apply their existing impairment models to inventories that are accounted for using last-in first-out or LIFO and the retail inventory method or RIM. Under current guidance, net realizable value is one of several calculations an entity needs to make to measure inventory at the lower of cost or market. ASU 2015-11 is effective for public business entities for fiscal years beginning after December 15, 2016, including interim periods within those fiscal years. Early adoption is permitted, and the guidance must be applied prospectively after the date of adoption. ASU 2015-11 is effective for the Company beginning July 1, 2017. Adoption of ASU 2015-11 is not expected to have a material effect on the results of operations, financial position or cash flows of the Company.

In May 2014, the FASB issued accounting guidance which requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers under ASU No. 2014-09, “Revenue from Contracts with Customers” ("ASU 2014-09"). ASU 2014-09 will replace most existing revenue recognition guidance in GAAP when it becomes effective. On July 9, 2015, the FASB issued ASU No. 2015-14, "Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date," which defers the effective date of ASU 2014-09 by one year allowing early adoption as of the original effective date of January 1, 2017. The deferral results in the new accounting standard being effective for public business entities for annual reporting periods beginning after December 31, 2017, including interim periods within those fiscal years. ASU 2014-09 is effective for the Company beginning July 1, 2018. The Company is currently evaluating the impact of ASU 2014-09 along with the related amendments and interpretations issued under ASU 2016-08, ASU 2016-10, ASU 2016-12 and ASU 2016-20 on its results of operations, financial position and cash flows.

In August 2014, the FASB issued ASU No. 2014-15, "Presentation of Financial Statements—Going Concern (Subtopic 205-40): Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern" ("ASU 2014-15"). ASU 2014-15 amended ASC 205-40-Presentation of Financial Statements-Going Concern and requires management to evaluate whether there are conditions and events that raise substantial doubt about an entity's ability to continue as a going concern within one year after the financial statements are available to be issued and provide related disclosures of such conditions and events. The amendments in ASU 2014-15 apply to all entities and are effective for the annual period ending after December 15, 2016, and for annual periods and interim periods thereafter. Early application is permitted. Adoption of ASU 2014-15 will not have a material impact on the Company's results of operations, financial position and cash flows.

Note 3. Acquisitions

China Mist Brands, Inc.

On October 11, 2016, the Company, through a wholly owned subsidiary, acquired substantially all of the assets and certain specified liabilities of China Mist Brands, Inc. dba China Mist Tea Company (“China Mist”), a provider of flavored iced teas and iced green teas. The acquisition of China Mist is expected to extend the Company's tea product offerings and give the Company a greater presence in the high-growth premium tea industry. As part of the transaction, the Company assumed the lease on China Mist’s existing 17,400 square foot production, distribution and warehouse facility in Scottsdale, Arizona which is terminable upon twelve months’ notice. The Company acquired China Mist for aggregate purchase consideration of $11.7 million, which included $11.2 million in cash paid at closing including working capital adjustments of $0.4 million and up to $0.5 million in contingent consideration to be paid as earnout if certain sales levels are achieved in the calendar years of 2017 or 2018. This contingent earnout liability is currently estimated to have a fair value of $0.5 million and is recorded in other current liabilities on the Company's condensed consolidated balance sheet at March 31, 2017. The earnout is estimated to be paid within the next twelve months.

In the nine months ended March 31, 2017, the Company incurred $0.2 million in transaction costs related to the China Mist acquisition, consisting primarily of legal and accounting expenses, which are included in general and administrative expenses in the Company's condensed consolidated statements of operations.

The financial effect of this acquisition was not material to the Company’s consolidated financial statements. The Company has not presented pro forma results of operations for the acquisition because it is not significant to the Company's consolidated results of operations.

The acquisition was accounted for as a business combination. The fair value of consideration transferred was allocated to the tangible and intangible assets acquired and liabilities assumed based on their estimated fair values on the acquisition date, with the remaining unallocated amount recorded as goodwill. The purchase price allocation is preliminary as the Company is in the process of finalizing the valuation.

The following table summarizes the preliminary allocation of consideration transferred as of the acquisition date:

(In thousands)	Fair Value	Estimated Useful Life (years)
Cash paid, net of cash acquired	$ 11,183	
Contingent consideration	500	
Total consideration	$ 11,683	
Accounts receivable	$ 811	
Inventory	544	
Prepaid assets	48	
Property, plant and equipment	212	
Goodwill	1,871	
Intangible assets:		
Recipes	930	7
Non-compete agreement	100	5
Customer relationships	450	10
Trade name/Trademark—finite-lived	7,100	10
Accounts payable	(383)	
Total consideration, net of cash acquired	$ 11,683	

In connection with this acquisition, the Company recorded goodwill of $1.9 million, which is deductible for tax purposes. The Company also recorded $8.6 million in finite-lived intangible assets that included recipes, a non-compete agreement, customer relationships and a trade name/trademark. The weighted average amortization period for the finite-lived intangible assets is 9.6 years.

The determination of the fair value of intangible assets acquired was primarily based on significant inputs not observable in an active market and thus represent Level 3 fair value measurements as defined under GAAP.

The fair value assigned to the recipes was determined utilizing the replacement cost method, which captures the direct cost of the development effort plus lost profits over the time to re-create the recipes.

The fair value assigned to the non-compete agreement was determined utilizing the with and without method. Under the with and without method, the fair value of the intangible asset is estimated based on the difference in projected earnings with the agreement in place versus projected earnings based on starting with no agreement in place. Revenue and earnings projections were significant inputs into estimating the value of China Mist's non-compete agreement.

The fair value assigned to the customer relationships was determined based on management's estimate of the retention rate and utilizing certain benchmarks. Revenue and earnings projections were also significant inputs into estimating the value of customer relationships.

The fair value assigned to the trade name/trademark was determined utilizing a multi-period excess earnings approach. Under the multi-period excess earnings approach, the fair value of the intangible asset is estimated to be the present value of future earnings attributable to the asset and this method utilizes revenue and cost projections including an assumed contributory asset charge.

West Coast Coffee Company, Inc.

On February 7, 2017, the Company acquired substantially all of the assets and certain specified liabilities of West Coast Coffee Company, Inc. (“West Coast Coffee”), a coffee roaster and distributor with a focus on the convenience store, grocery and foodservice channels. The acquisition of West Coast Coffee is expected to broaden the Company's reach in the Northwestern United States. As part of the transaction, the Company entered into a three-year lease on West Coast Coffee’s existing 20,400 square foot production, distribution and warehouse facility in Hillsboro, Oregon, which expires January 31, 2020, and assumed leases on six branch warehouses consisting of an aggregate of 24,150 square feet in Oregon, California and Nevada, expiring on various dates through November 2020. The Company acquired West Coast Coffee for aggregate purchase consideration of $15.7 million, which included $14.7 million in cash paid at closing including working capital adjustments of $1.2 million and up to $1.0 million in contingent consideration to be paid as earnout if certain sales levels are achieved in the twenty-four months following the closing. This contingent earnout liability is currently estimated to have a fair value of $0.6 million and is recorded in other long-term liabilities on the Company’s condensed consolidated balance sheet at March 31, 2017. The earnout is estimated to be paid within the next twenty-four months.

In the three and nine months ended March 31, 2017, the Company incurred $0.3 million in transaction costs related to the West Coast Coffee acquisition, consisting primarily of legal and accounting expenses, which are included in general and administrative expenses in the Company's condensed consolidated statements of operations.

The financial effect of this acquisition was not material to the Company’s consolidated financial statements. The Company has not presented pro forma results of operations for the acquisition because it is not significant to the Company's consolidated results of operations.

The acquisition was accounted for as a business combination. The fair value of consideration transferred was allocated to the tangible and intangible assets acquired and liabilities assumed based on their estimated fair values on the acquisition date, with the remaining unallocated amount recorded as goodwill. The purchase price allocation is preliminary as the Company is in the process of finalizing the valuation.

The following table summarizes the preliminary allocation of consideration transferred as of the acquisition date:

(In thousands)	Fair Value	Estimated Useful Life (years)
Cash paid, net of cash acquired	$ 14,671	
Contingent consideration	600	
Total consideration	$ 15,271	
Accounts receivable	$ 955	
Inventory	939	
Prepaid assets	20	
Property, plant and equipment	1,546	
Goodwill	7,797	
Intangible assets:		
Non-compete agreements	100	5
Customer relationships	4,400	10
Trade name—finite-lived	260	7
Brand name—finite-lived	250	1.7
Accounts payable	(814)	
Other liabilities	(182)	
Total consideration, net of cash acquired	$ 15,271	

The preliminary purchase price allocation is subject to change based on numerous factors, including the final adjusted purchase price and the final estimated fair value of the assets acquired and liabilities assumed.

In connection with this acquisition, the Company recorded goodwill of $7.8 million, which is deductible for tax purposes. The Company also recorded $5.0 million in finite-lived intangible assets that included non-compete agreements, customer relationships, a trade name and a brand name. The weighted average amortization period for the finite-lived intangible assets is 9.3 years.

The determination of the fair value of intangible assets acquired was primarily based on significant inputs not observable in an active market and thus represent Level 3 fair value measurements as defined under GAAP.

The fair value assigned to the non-compete agreements was determined utilizing the with and without method. Under the with and without method, the fair value of the intangible asset is estimated based on the difference in projected earnings with the agreements in place versus projected earnings based on starting with no agreements in place. Revenue and earnings projections were significant inputs into estimating the value of West Coast Coffee's non-compete agreements.

The fair value assigned to the customer relationships was determined utilizing a multi-period excess earnings approach. Under the multi-period excess earnings approach, the fair value of the intangible asset is estimated to be the present value of future earnings attributable to the asset and this method utilizes revenue and cost projections including an assumed contributory asset charge.

The fair values assigned to the trade name and the brand name were determined utilizing the relief from royalty method. The relief from royalty method is based on the premise that the intangible asset owner would be willing to pay a royalty rate to license the subject asset. The analysis involves forecasting revenue over the life of the asset, applying a royalty rate and a tax rate, and then discounting the savings back to present value at an appropriate discount rate.

Note 4. Restructuring Plans

Corporate Relocation Plan

On February 5, 2015, the Company announced a plan (the “Corporate Relocation Plan”) to close the Torrance Facility and relocate its corporate headquarters, product development lab, and manufacturing and distribution operations from Torrance, California to the New Facility housing these operations in Northlake, Texas. Approximately 350 positions were impacted as a result of the Torrance Facility closure. The Company’s decision resulted from a comprehensive review of alternatives designed to make the Company more competitive and better positioned to capitalize on growth opportunities.

Expenses related to the Corporate Relocation Plan in the three months ended March 31, 2017 consisted of $0.4 million in employee retention and separation benefits, $0.6 million in facility-related costs including costs associated with the move of the Company's headquarters and the relocation of certain distribution operations and $0.3 million in other related costs including travel, legal, consulting and other professional services. Facility-related costs in the three months ended March 31, 2017 also included $22,000 in non-cash depreciation expense associated with the Torrance production facility resulting from the consolidation of coffee production operations with the Houston and Portland production facilities.

Expenses related to the Corporate Relocation Plan in the nine months ended March 31, 2017 consisted of $1.1 million in employee retention and separation benefits, $5.9 million in facility-related costs including lease of temporary office space, costs associated with the move of the Company's headquarters and the relocation of certain distribution operations and $1.3 million in other related costs including travel, legal, consulting and other professional services. Facility-related costs in the nine months ended March 31, 2017 also included $2.5 million in non-cash charges, including $1.1 million in depreciation expense associated with the Torrance production facility resulting from the consolidation of coffee production operations with the Houston and Portland production facilities and $1.4 million in non-cash rent expense recognized in the sale-leaseback of the Torrance Facility.

The following table sets forth the activity in liabilities associated with the Corporate Relocation Plan for the nine months ended March 31, 2017:

(In thousands)	Balances, June 30, 2016	Additions	Payments	Non-Cash Settled	Adjustments	Balances, March 31, 2017
Employee-related costs(1)	$ 2,342	$ 1,109	$ 2,616	$ —	$ —	$ 835
Facility-related costs(2)	—	5,850	3,375	2,475	—	—
Other(3)	200	1,294	1,494	—	—	—
Total(2)	$ 2,542	$ 8,253	$ 7,485	$ 2,475	$ —	$ 835
Current portion	$ 2,542					$ 835
Non-current portion	$ —					$ —
Total	$ 2,542					$ 835

(1) Included in “Accrued payroll expenses” on the Company's condensed consolidated balance sheets.
(2) Non-cash settled facility-related costs represent (a) depreciation expense associated with the Torrance production facility resulting from the consolidation of coffee production operations with the Houston and Portland production facilities and

included in "Property, plant and equipment, net" on the Company's condensed consolidated balance sheets and (b) non-cash rent expense recognized in the sale-leaseback of the Torrance Facility.
(3) Included in “Accounts payable” on the Company's condensed consolidated balance sheets.

The Company estimated that it would incur approximately $31 million in cash costs in connection with the Corporate Relocation Plan consisting of $18 million in employee retention and separation benefits, $5 million in facility-related costs and $8 million in other related costs. Since the adoption of the Corporate Relocation Plan through March 31, 2017, the Company has recognized a total of $31.5 million in aggregate cash costs including $17.4 million in employee retention and separation benefits, $6.7 million in facility-related costs related to the temporary office space, costs associated with the move of the Company's headquarters, relocation of the Company’s Torrance operations and certain distribution operations and $7.4 million in other related costs. The Company expects to complete the Corporate Relocation Plan and recognize an additional $0.1 million in other-related costs in the fourth quarter of fiscal 2017. The Company also recognized from inception through March 31, 2017 non-cash depreciation expense of $2.3 million associated with the Torrance production facility resulting from the consolidation of coffee production operations with the Houston and Portland production facilities and $1.4 million in non-cash rent expense recognized in the sale-leaseback of the Torrance Facility. The Company may incur certain pension-related costs in connection with the Corporate Relocation Plan.

The following table sets forth the activity in liabilities associated with the Corporate Relocation Plan from the time of adoption of the Corporate Relocation Plan through the nine months ended March 31, 2017:

(In thousands)	Balances, June 30, 2014	Additions	Payments	Non-Cash Settled	Adjustments	Balances, March 31, 2017
Employee-related costs(1)	$ —	$ 17,352	$ 16,517	$ —	$ —	$ 835
Facility-related costs(2)	—	10,442	6,711	3,731	—	—
Other	—	7,424	7,424	—	—	—
Total(2)	$ —	$ 35,218	$ 30,652	$ 3,731	$ —	$ 835

(1) Included in “Accrued payroll expenses” on the Company's condensed consolidated balance sheets.
(2) Non-cash settled facility-related costs represent (a) depreciation expense associated with the Torrance production facility resulting from the consolidation of coffee production operations with the Houston and Portland production facilities and included in "Property, plant and equipment, net" on the Company's condensed consolidated balance sheets and (b) non-cash rent expense recognized in the sale-leaseback of the Torrance Facility.

DSD Restructuring Plan

On February 21, 2017, the Company announced a restructuring plan to reorganize its DSD operations in an effort to realign functions into a channel based selling organization, streamline operations, acquire certain channel specific expertise, and improve selling effectiveness and financial results (the “DSD Restructuring Plan”). The strategic decision to undertake the DSD Restructuring Plan resulted from an ongoing operational review of various initiatives within the DSD selling organization. The Company expects to complete the DSD Restructuring Plan by the end of the second quarter of fiscal 2018.

The Company estimates that it will recognize approximately $3.7 million to $4.9 million of pre-tax restructuring charges by the end of the second quarter of fiscal 2018 consisting of approximately $1.9 million to $2.7 million in employee-related costs, including severance, prorated bonuses for bonus eligible employees, contractual termination payments and outplacement services, and $1.8 million to $2.2 million in other related costs, including legal, recruiting, consulting, other professional services, and travel. The Company may also incur other charges not currently contemplated due to events that may occur as a result of, or associated with, the DSD Restructuring Plan.

Expenses related to the DSD Restructuring Plan in the three and nine months ended March 31, 2017 consisted of $0.9 million in employee-related costs and $0.4 million in other related costs. As of March 31, 2017, the Company had paid a total of $0.1 million of these costs and had a balance of $1.2 million in DSD Restructuring Plan-related liabilities on the Company's condensed consolidated balance sheet.

Note 5. New Facility

Lease Agreement and Purchase Option Exercise

On June 15, 2016, the Company exercised the purchase option to purchase the land and the partially constructed New Facility located thereon pursuant to the terms of the lease agreement dated as of July 17, 2015, as amended (the "Lease Agreement"). On September 15, 2016 ("Purchase Option Closing Date"), the Company closed the purchase option and acquired the land and the partially constructed New Facility located thereon for an aggregate purchase price of $42.5 million (the “Purchase Price”), consisting of the purchase option price of $42.0 million based on actual construction costs incurred as of the Purchase Option Closing Date plus the option exercise fee, plus amounts paid in respect of real estate commissions, title insurance, and recording fees. Upon closing of the purchase option, the Company recorded the aggregate purchase price of the New Facility in "Property, plant and equipment, net" on its consolidated balance sheet. The asset related to the New Facility lease obligation included in "Property, plant and equipment, net," the offsetting liability for the lease obligation included in "Other long-term liabilities" and the rent expense related to the land were reversed. Concurrent with the purchase option closing, on September 15, 2016, the Company terminated the Lease Agreement. The Company did not pay any early termination penalties in connection with the termination of the Lease Agreement.

Development Management Agreement

In conjunction with the Lease Agreement, the Company also entered into a Development Management Agreement with an affiliate of Stream Realty Partners (the "DMA") to manage, coordinate, represent, assist and advise the Company on matters from the pre-development through construction of the New Facility. Pursuant to the DMA, the Company will pay the developer a development fee, an oversight fee and a development services fee the amounts of which are included in the construction costs incurred-to-date.

Amended Building Contract

On September 17, 2016, the Company and The Haskell Company (“Builder”) entered into a Change Order, which, among other things, amended the building contract previously entered into between the Company and Builder to provide a guaranteed maximum price and the basis for the price and the scope of Builder’s services in connection with the construction of the New Facility (the "Amended Building Contract").

Pursuant to the Amended Building Contract, Builder will provide pre-construction and construction services, including specialized industrial design and construction work in connection with Builder’s construction of certain production equipment that will be installed in portions of the New Facility (the “Project”). The Company has engaged other designers and builders to provide traditional construction work on the Project site, including for the foundation, building envelope and roof of the New Facility. Pursuant to the Amended Building Contract, the Company will pay Builder up to $21.9 million for Builder’s services in connection with the Project. This amount is a guaranteed maximum price and is subject to adjustment in accordance with the terms of the Amended Building Contract. The Amended Building Contract includes an “IDB Work Contract Schedule,” which sets forth interim milestones, durations and material dates in relation to the performance and timing of Builder’s work. The Amended Building Contract includes remedies for the Company in the event agreed milestone dates relating to Builder’s services are not met. The Amended Building Contract is subject to customary undertakings, covenants, obligations, rights and conditions. The Builder’s work on the Project was substantially completed as of March 31, 2017.

New Facility Costs

Based on the current forecast, the Company estimates that the total construction costs including the cost of land for the New Facility will be approximately $60 million of which the Company has paid an aggregate of $54.7 million as of March 31, 2017 and has outstanding contractual obligations of $5.5 million as of March 31, 2017 (see Note 20). In addition to the costs to complete the construction of the New Facility, the Company estimates that it will incur approximately $35 million to $39 million for machinery and equipment, furniture and fixtures and related expenditures of which the Company has paid an aggregate of $20.2 million as of March 31, 2017, including $15.7 million under the Amended Building Contract, and has outstanding contractual obligations of $6.2 million as of March 31, 2017 (see Note 20). The majority of the capital expenditures associated with machinery and equipment, furniture and fixtures, and related expenditures for the New Facility were incurred in the first three quarters of fiscal 2017. Construction of and relocation to the New Facility were substantially completed in the third quarter of fiscal 2017.

Note 6. Sales of Assets

Sale of Spice Assets

In order to focus on its core products, on December 8, 2015, the Company completed the sale of the Spice Assets to Harris Spice Company ("Harris"). Harris acquired substantially all of the Company's personal property used exclusively in connection with the manufacture, processing and distribution of raw, processed and blended spices and certain other culinary products (collectively, the "Spice Assets"), including certain equipment; trademarks, tradenames and other intellectual property assets; contract rights under sales and purchase orders and certain other agreements; and a list of certain customers, other than the Company's DSD customers, and assumed certain liabilities relating to the Spice Assets. The Company received $6.0 million in cash at closing, and is eligible to receive an earnout amount of up to $5.0 million over a three-year period based upon a percentage of certain institutional spice sales by Harris following the closing. The Company recognized $0.3 million and $0.8 million in earnout during the three and nine months ended March 31, 2017, respectively, a portion of which is included in "Net gains from sale of Spice Assets" in the Company's condensed consolidated statements of operations. The sale of the Spice Assets does not represent a strategic shift for the Company and is not expected to have a material impact on the Company's results of operations because the Company will continue to sell a complete portfolio of spice and other culinary products purchased from Harris under a supply agreement to its DSD customers.

Sale of Torrance Facility

On July 15, 2016, the Company completed the previously-announced sale of the Torrance Facility, consisting of approximately 665,000 square feet of buildings located on approximately 20.33 acres of land, for an aggregate cash sale price of $43.0 million, which sale price was subject to customary adjustments for closing costs and documentary transfer taxes. Cash proceeds from the sale of the Torrance Facility were $42.5 million.

Following the closing of the sale, the Company leased back the Torrance Facility on a triple net basis through October 31, 2016 at zero base rent, and exercised two one-month extensions at a base rent of $100,000 per month. In accordance with ASC 840, "Leases," due to the Company's continuing involvement with the property, the Company accounted for the transaction as a financing transaction, deferred the gain on sale of the Torrance Facility and recorded the net sale proceeds of $42.5 million and accrued non-cash interest expense on the financing transaction in "Sale-leaseback financing obligation" on the Company's consolidated balance sheet at September 30, 2016. The Company vacated the Torrance Facility in December 2016 and concluded the leaseback transaction. See Note 7. As a result, at December 31, 2016, the financing transaction qualified for sales recognition under ASC 840. Accordingly, in the nine months ended March 31, 2017, the Company recognized the net gain from sale of the Torrance Facility in the amount of $37.4 million, including non-cash interest expense of $0.7 million and non-cash rent expense of $1.4 million, representing the rent for the zero base rent period previously recorded in "Other current liabilities" and removed the amounts recorded in "Assets held for sale" and the "Sale-leaseback financing obligation" on its consolidated balance sheet.

Sale of Northern California Branch Property

On September 30, 2016, the Company completed the sale of its branch property in Northern California for a sale price of $2.2 million and leased it back through March 31, 2017, at a base rent of $10,000 per month. The Company recognized a net gain on sale of the Northern California property in the nine months ended March 31, 2017 in the amount of $2.0 million.

Note 7. Assets Held for Sale

The Company had designated its Torrance Facility and one of its branch properties in Northern California as assets held for sale and recorded the carrying values of these properties in the aggregate amount of $7.2 million in "Assets held for sale" on the Company's consolidated balance sheet at June 30, 2016. As of March 31, 2017, these assets were sold (see Note 6).

Note 8. Derivative Instruments

Derivative Instruments Held

Coffee-Related Derivative Instruments

The Company is exposed to commodity price risk associated with its price to be fixed green coffee purchase contracts, which are described further in Note 1 to the consolidated financial statements in the 2016 Form 10-K. The Company utilizes forward and option contracts to manage exposure to the variability in expected future cash flows from forecasted purchases of green coffee attributable to commodity price risk. Certain of these coffee-related derivative instruments utilized for risk management purposes have been designated as cash flow hedges, while other coffee-related derivative instruments have not been designated as cash flow hedges or do not qualify for hedge accounting despite hedging the Company's future cash flows on an economic basis.

The following table summarizes the notional volumes for the coffee-related derivative instruments held by the Company at March 31, 2017 and June 30, 2016:

(In thousands)	March 31, 2017	June 30, 2016
Derivative instruments designated as cash flow hedges:		
Long coffee pounds	11,663	32,550
Derivative instruments not designated as cash flow hedges:		
Long coffee pounds	873	1,618
Less: Short coffee pounds	(713)	(188)
Total	11,823	33,980

Coffee-related derivative instruments designated as cash flow hedges outstanding as of March 31, 2017 will expire within 12 months.

Effect of Derivative Instruments on the Financial Statements

Balance Sheets

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

	Derivative Instruments Designated as Cash Flow Hedges		Derivative Instruments Not Designated as Accounting Hedges	
(In thousands)	March 31, 2017	June 30, 2016	March 31, 2017	June 30, 2016
Financial Statement Location:				
Short-term derivative assets:				
Coffee-related derivative instruments	$ 522	$ 3,771	$ 1	$ 183
Long-term derivative assets(1):				
Coffee-related derivative instruments	$ —	$ 2,575	$ —	$ 57
Short-term derivative liabilities:				
Coffee-related derivative instruments	$ 326	$ —	$ 536	$ —

(1) Included in "Other assets" on the Company's condensed consolidated balance sheets.

Statements of Operations

The following table presents pretax net gains and losses for the Company's coffee-related derivative instruments designated as cash flow hedges, as recognized in accumulated other comprehensive income (loss) “AOCI,” “Cost of goods sold” and “Other, net”:

	Three Months Ended March 31,		Nine Months Ended March 31,		Financial Statement Classification
(In thousands)	2017	2016	2017	2016	
Net gains (losses) recognized in accumulated other comprehensive income (effective portion)	$ 188	$ (1,245)	$ (2,029)	$ (5,575)	AOCI
Net gains (losses) recognized in earnings (effective portion)	$ 865	$ (2,677)	$ 614	$ (11,504)	Costs of goods sold
Net gains (losses) recognized in earnings (ineffective portion)	$ 90	$ (84)	$ 63	$ (568)	Other, net

For the three and nine months ended March 31, 2017 and 2016, there were no gains or losses recognized in earnings as a result of excluding amounts from the assessment of hedge effectiveness or as a result of reclassifications to earnings following the discontinuance of any cash flow hedges.

Gains and losses on derivative instruments not designated as accounting hedges are included in “Other, net” in the Company's condensed consolidated statements of operations and in “Net losses on derivative instruments and investments” in the Company's condensed consolidated statements of cash flows.

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

	Three Months Ended March 31,		Nine Months Ended March 31,	
(In thousands)	2017	2016	2017	2016
Net gains (losses) on coffee-related derivative instruments	$ 188	$ 239	$ (1,052)	$ (455)
Net gains (losses) on investments	738	2	(354)	120
Net gains (losses) on derivative instruments and investments(1)	926	241	(1,406)	(335)
Other gains (losses), net	118	372	318	370
Other, net	$ 1,044	$ 613	$ (1,088)	$ 35

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(1) Excludes net losses and net gains on coffee-related derivative instruments designated as cash flow hedges recorded in cost of goods sold in the three and nine months ended March 31, 2017 and 2016.

Offsetting of Derivative Assets and Liabilities

The Company has agreements in place that allow for the financial right of offset for derivative assets and liabilities at settlement or in the event of default under the agreements. Additionally, the Company maintains accounts with its brokers to facilitate financial derivative transactions in support of its risk management activities. Based on the value of the Company’s positions in these accounts and the associated margin requirements, the Company may be required to deposit cash into these broker accounts.

The following table presents the Company’s net exposure from its offsetting derivative asset and liability positions as of the reporting dates indicated:

(In thousands)		Gross Amount Reported on Balance Sheet	Netting Adjustments	Cash Collateral Posted	Net Exposure
March 31, 2017	Derivative Assets	$ 523	$ (523)	$ —	$ —
	Derivative Liabilities	$ 862	$ (523)	$ —	$ 339
June 30, 2016	Derivative Assets	$ 6,586	$ —	$ —	$ 6,586

Cash Flow Hedges

Changes in the fair value of the Company's coffee-related derivative instruments designated as cash flow hedges, to the extent effective, are deferred in AOCI and reclassified into cost of goods sold in the same period or periods in which the hedged forecasted purchases affect earnings, or when it is probable that the hedged forecasted transaction will not occur by the end of the originally specified time period. Based on recorded values at March 31, 2017, $1.9 million of net gains on coffee-related derivative instruments designated as cash flow hedges are expected to be reclassified into cost of goods sold within the next twelve months. These recorded values are based on market prices of the commodities as of March 31, 2017. Due to the volatile nature of commodity prices, actual gains or losses realized within the next twelve months will likely differ from these values.

Note 9. Investments

The following table shows gains and losses on trading securities held for investment by the Company:

	Three Months Ended March 31,		Nine Months Ended March 31,	
(In thousands)	2017	2016	2017	2016
Total gains (losses) recognized from trading securities held for investment	$ 738	$ 2	$ (354)	$ 120
Less: Realized gains (losses) from sales of trading securities held for investment	7	17	5	(10)
Unrealized gains (losses) from trading securities held for investment	$ 731	$ (15)	$ (359)	$ 130

Note 10. Fair Value Measurements

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

(In thousands)	Total	Level 1	Level 2	Level 3
March 31, 2017				
Preferred stock(1)	$ 26,541	$ 23,606	$ 2,935	$ —
Derivative instruments designated as cash flow hedges:				
Coffee-related derivative assets(2)	$ 522	$ —	$ 522	$ —
Coffee-related derivative liabilities(2)	$ 326	$ —	$ 326	$ —
Derivative instruments not designated as accounting hedges:				
Coffee-related derivative assets(2)	$ 1	$ —	$ 1	$ —
Coffee-related derivative liabilities(2)	$ 536	$ —	$ 536	$ —

	Total	Level 1	Level 2	Level 3
June 30, 2016				
Preferred stock(1)	$ 25,591	$ 21,976	$ 3,615	$ —
Derivative instruments designated as cash flow hedges:				
Coffee-related derivative assets(2)	$ 6,346	$ —	$ 6,346	$ —
Derivative instruments not designated as accounting hedges:				
Coffee-related derivative assets(2)	$ 240	$ —	$ 240	$ —

(1) Included in “Short-term investments” on the Company's condensed consolidated balance sheets.
(2) The Company's coffee-related derivative instruments are traded over-the-counter and, therefore, classified as Level 2.

During the three months ended March 31, 2017, there were no transfers of preferred stock from Level 1 to Level 2.

Note 11. Accounts and Notes Receivable, Net

(In thousands)	March 31, 2017	June 30, 2016
Trade receivables	$ 47,891	$ 43,113
Other receivables(1)	3,190	1,965
Allowance for doubtful accounts	(655)	(714)
Accounts and notes receivable, net	$ 50,426	$ 44,364

(1) At March 31, 2017 and June 30, 2016, respectively, the Company had recorded $0.3 million and $0.5 million, in "Other receivables" included in "Accounts and notes receivable, net" on its condensed consolidated balance sheets representing earnout receivable from Harris.

Note 12. Inventories

(In thousands)	March 31, 2017	June 30, 2016
Coffee		
Processed	$ 11,125	$ 12,362
Unprocessed	24,290	13,534
Total	$ 35,415	$ 25,896
Tea and culinary products		
Processed	$ 21,011	$ 15,384
Unprocessed	77	377
Total	$ 21,088	$ 15,761
Coffee brewing equipment parts	$ 4,209	$ 4,721
Total inventories	$ 60,712	$ 46,378

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

Because the expected reduction in spice inventory levels at June 30, 2017 from June 30, 2016 levels is expected to generate a beneficial effect, the Company recorded $0.8 million and $2.5 million in expected beneficial effect of the liquidation of LIFO inventory quantities in cost of goods sold in the three and nine months ended March 31, 2017, respectively, which increased income before taxes for the three and nine months ended March 31, 2017 by $0.8 million and $2.5 million, respectively. The Company recorded $0.8 million and $1.1 million in expected beneficial effect of the liquidation of LIFO inventory quantities in cost of goods sold in the three and nine months ended March 31, 2016, respectively, which increased income before taxes for the three and nine months ended March 31, 2016 by $0.8 million and $1.1 million, respectively. 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 13. Property, Plant and Equipment

(In thousands)	March 31, 2017	June 30, 2016
Buildings and facilities	$ 54,364	$ 54,768
Machinery and equipment	177,916	177,784
Buildings and facilities—New Facility	52,491	28,110
Machinery and equipment—New Facility	19,646	4,443
Office furniture and equipment—New Facility	3,990	—
Equipment under capital leases	7,552	11,982
Capitalized software	21,218	21,545
Office furniture and equipment	8,220	16,077
	345,397	314,709
Accumulated depreciation	(189,756)	(206,162)
Land	16,336	9,869
Property, plant and equipment, net	$ 171,977	$ 118,416

Note 14. Employee Benefit Plans

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

The Company is required to recognize the funded status of a benefit plan in its consolidated balance sheets. The Company is also required to recognize in other comprehensive income ("OCI") certain gains and losses that arise during the period but are deferred under pension accounting rules.

Single Employer Pension Plans

The Company has a defined benefit pension plan, the Farmer Bros. Co. Pension Plan for Salaried Employees (the "Farmer Bros. Plan"), for Company employees hired prior to January 1, 2010, who are not covered under a collective bargaining agreement. The Company amended the Farmer Bros. Plan, freezing the benefit for all participants effective June 30, 2011. After the plan freeze, participants do not accrue any benefits under the Farmer Bros. Plan, and new hires are not eligible to participate in the Farmer Bros. Plan. As all plan participants became inactive following this pension curtailment, net (gain) loss is now amortized based on the remaining life expectancy of these participants instead of the remaining service period of these participants.

The Company also has two defined benefit pension plans for certain hourly employees covered under collective bargaining agreements (the "Brewmatic Plan" and the "Hourly Employees' Plan"). Effective October 1, 2016, the Company froze benefit accruals and participation in the Hourly Employees' Plan, a defined benefit pension plan for certain hourly employees covered under collective bargaining agreements. After the plan freeze, participants do not accrue any benefits under the plan, and new hires are not eligible to participate in the plan. After the freeze the participants in the plan are eligible to receive the Company's matching contributions to their 401(k).

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

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2017	2016	2017	2016
(In thousands)				
Service cost	$ 124	$ 97	$ 372	$ 291
Interest cost	1,397	1,546	4,191	4,638
Expected return on plan assets	(1,607)	(1,710)	(4,821)	(5,130)
Amortization of net loss(1)	508	370	1,524	1,110
Net periodic benefit cost	$ 422	$ 303	$ 1,266	$ 909

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

Weighted-Average Assumptions Used to Determine Net Periodic Benefit Cost

	Fiscal	
	2017	2016
Discount rate	3.55%	4.40%
Expected long-term rate of return on plan assets	7.75%	7.50%

Basis Used to Determine Expected Long-Term Return on Plan Assets

The expected long-term return on plan assets assumption was developed as a weighted average rate based on the target asset allocation of the plan and the Long-Term Capital Market Assumptions (CMA) 2014. The capital market assumptions were developed with a primary focus on forward-looking valuation models and market indicators. The key fundamental economic inputs for these models are future inflation, economic growth, and interest rate environment. Due to the long-term nature of the pension obligations, the investment horizon for the CMA 2014 is 20 to 30 years. In addition to forward-looking models, historical analysis of market data and trends was reflected, as well as the outlook of recognized economists, organizations and consensus CMA from other credible studies.

Multiemployer Pension Plans

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

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

In fiscal 2012, the Company withdrew from the Local 807 Labor-Management Pension Fund (“Pension Fund”) and recorded a charge of $4.3 million associated with withdrawal from this plan, representing the present value of the estimated withdrawal liability expected to be paid in quarterly installments of $0.1 million over 80 quarters. On November 18, 2014, the Pension Fund sent the Company a notice of assessment of withdrawal liability in the amount of $4.4 million, which the Pension Fund adjusted to $4.9 million on January 5, 2015. The Company is in the process of negotiating a reduced liability amount. The Company has commenced quarterly installment payments to the Pension Fund of $91,000 pending the final settlement of the liability. The remaining estimated withdrawal liability of $3.6 million and $3.8 million is reflected in the Company's condensed consolidated balance sheets at March 31, 2017 and June 30, 2016, respectively, with the short-term and long-term portions reflected in current and long-term liabilities, respectively.

The Company may incur certain pension-related costs in connection with the Corporate Relocation Plan. Future collective bargaining negotiations may result in the Company withdrawing from the remaining multiemployer pension plans in which it participates and, if successful, the Company may incur a withdrawal liability, the amount of which could be material to the Company's results of operations and cash flows.

Multiemployer Plans Other Than Pension Plans

The Company participates in ten multiemployer defined contribution plans other than pension plans that provide medical, vision, dental and disability benefits for active, union-represented employees subject to collective bargaining agreements. The plans are subject to the provisions of the Employee Retirement Income Security Act of 1974, and provide that participating employers make monthly contributions to the plans in an amount as specified in the collective bargaining agreements. Also, the plans provide that participants make self-payments to the plans, the amounts of which are negotiated through the collective bargaining process. The Company's participation in these plans is governed by collective bargaining agreements which expire on or before January 31, 2020.

401(k) Plan

The Company's 401(k) Plan is available to all eligible employees who have worked more than 1,000 hours during a calendar year and were employed at the end of the calendar year. Participants in the 401(k) Plan may choose to contribute a percentage of their annual pay subject to the maximum contribution allowed by the Internal Revenue Service. The Company's matching contribution is discretionary, based on approval by the Company's Board of Directors. For the calendar years 2017 and 2016, the Company's Board of Directors approved a Company matching contribution of 50% of an employee's annual contribution to the 401(k) Plan, up to 6% of the employee's eligible income. The matching contributions (and any earnings thereon) vest at the rate of 20% for each of the participant's first 5 years of vesting service, so that a participant is fully vested in his or her matching contribution account after 5 years of vesting service, subject to accelerated vesting under certain circumstances in connection with the Corporate Relocation Plan due to the closure of the Company’s Torrance Facility or a reduction-in-force at another Company facility designated by the Administrative Committee of the Farmer Bros. Co. Qualified Employee Retirement Plans. A participant is automatically vested in the event of death, disability or attainment of age 65 while employed by the Company. Employees are 100% vested in their contributions. For employees subject to a collective bargaining agreement, the match is only available if so provided in the labor agreement.

The Company recorded matching contributions of $0.4 million in operating expenses in each of the three months ended March 31, 2017 and 2016, and $1.2 million in operating expenses in each of the nine months ended March 31, 2017 and 2016.

Postretirement Benefits

The Company sponsors a postretirement defined benefit plan that covers qualified non-union retirees and certain qualified union retirees (“Retiree Medical Plan”). The plan provides medical, dental and vision coverage for retirees under age 65 and medical coverage only for retirees age 65 and above. Under this postretirement plan, the Company’s contributions toward premiums for retiree medical, dental and vision coverage for participants and dependents are scaled based on length of service, with greater Company contributions for retirees with greater length of service, subject to a maximum monthly Company contribution.

The Company also provides a postretirement death benefit (“Death Benefit”) to certain of its employees and retirees, subject, in the case of current employees, to continued employment with the Company until retirement and certain other conditions related to the manner of employment termination and manner of death. The Company records the actuarially determined liability for the present value of the postretirement death benefit. The Company has purchased life insurance policies to fund the postretirement death benefit wherein the Company owns the policy but the postretirement death benefit is paid to the employee's or retiree's beneficiary. The Company records an asset for the fair value of the life insurance policies which equates to the cash surrender value of the policies.

Retiree Medical Plan and Death Benefit

The following table shows the components of net periodic postretirement benefit cost for the Retiree Medical Plan and Death Benefit for the three and nine months ended March 31, 2017 and 2016. Net periodic postretirement benefit cost for the three and nine months ended March 31, 2017 was based on employee census information and asset information as of July 1, 2016.

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2017	2016	2017	2016
(In thousands)				
Service cost	$ 190	$ 347	$ 570	$ 1,041
Interest cost	207	299	621	897
Amortization of net gain	(157)	(49)	(471)	(147)
Amortization of net prior service credit	(439)	(439)	(1,317)	(1,317)
Net periodic postretirement benefit (credit) cost	$ (199)	$ 158	$ (597)	$ 474

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

	Fiscal	
	2017	2016
Retiree Medical Plan discount rate	3.73%	4.69%
Death Benefit discount rate	3.79%	4.74%

Note 15. Bank Loan

The Company maintains a $75.0 million senior secured revolving credit facility (“Revolving Facility”) with JPMorgan Chase Bank, N.A. and SunTrust Bank (collectively, the “Lenders”), with a sublimit on letters of credit and swingline loans of $30.0 million and $15.0 million, respectively. The Revolving Facility includes an accordion feature whereby the Company may increase the Revolving Commitment by up to an additional $50.0 million, subject to certain conditions. Advances are based on the Company’s eligible accounts receivable, eligible inventory, and the value of certain real property and trademarks, less required reserves. The commitment fee ranges from 0.25% to 0.375% per annum based on average revolver usage. Outstanding obligations are collateralized by all of the Company’s assets, excluding certain real property not included in the borrowing base, machinery and equipment (other than inventory), and the Company's preferred stock portfolio. Borrowings under the Revolving Facility bear interest based on average historical excess availability levels with a range of PRIME - 0.25% to PRIME + 0.50% or Adjusted LIBO Rate + 1.25% to Adjusted LIBO Rate + 2.00%. The Company is subject to a variety of affirmative and negative covenants of types customary in an asset-based lending facility, including financial covenants relating to the maintenance of a fixed charge coverage ratio in certain circumstances, and the right of the Lenders to establish reserve requirements, which may reduce the amount of credit otherwise available to the Company. The Company is allowed to pay dividends, provided, among other things, certain excess availability requirements are met, and no event of default exists or has occurred and is continuing as of the date of any such payment and after giving effect thereto. The Revolving Facility expires on March 2, 2020.

At March 31, 2017, the Company was eligible to borrow up to a total of $61.7 million under the Revolving Facility and had outstanding borrowings of $44.2 million, utilized $4.4 million of the letters of credit sublimit, and had excess availability under the Revolving Facility of $13.1 million. At March 31, 2017, the weighted average interest rate on the Company's outstanding borrowings under the Revolving Facility was 2.52% and the Company was in compliance with all of the restrictive covenants under the Revolving Facility.

Note 16. Share-based Compensation

Non-qualified stock options with time-based vesting (“NQOs”)

In the nine months ended March 31, 2017, the Company granted no shares issuable upon the exercise of NQOs.

The following table summarizes NQO activity for the nine months ended March 31, 2017:

Outstanding NQOs:	Number of NQOs	Weighted Average Exercise Price ($)	Weighted Average Grant Date Fair Value ($)	Weighted Average Remaining Life (Years)	Aggregate Intrinsic Value ($ in thousands)
Outstanding at June 30, 2016	219,629	13.87	6.28	3.7	3,995
Granted	—	—	—	—	—
Exercised	(58,324)	10.72	4.88	—	1,306
Cancelled/Forfeited	(18,156)	25.12	10.89	—	—
Outstanding at March 31, 2017	143,149	13.72	6.26	2.7	3,096
Vested and exercisable at March 31, 2017	129,866	12.40	5.75	2.4	2,981
Vested and expected to vest at March 31, 2017	142,626	13.67	6.24	2.7	3,092

The aggregate intrinsic values outstanding at the end of each fiscal period in the table above represent the total pretax intrinsic value, based on the Company’s closing stock price of $35.35 at March 31, 2017 and $32.06 at June 30, 2016, representing the last trading day of the fiscal periods, which would have been received by NQO holders had all award holders exercised their NQOs that were in-the-money as of those dates. The aggregate intrinsic value of NQO exercises in the nine months ended March 31, 2017 represents the difference between the exercise price and the value of the Company’s common stock at the time of exercise. NQOs outstanding that are expected to vest are net of estimated forfeitures.

During the nine months ended March 31, 2017, 10,570 NQO shares vested and 58,324 NQO shares were exercised. Total fair value of NQOs vested during the nine months ended March 31, 2017 was $0.1 million. The Company received $0.5 million and $1.3 million in proceeds from exercises of vested NQOs in the nine months ended March 31, 2017 and 2016, respectively.

At March 31, 2017 and June 30, 2016, respectively, there was $0.1 million and $0.4 million of unrecognized compensation cost related to NQOs. The unrecognized compensation cost related to NQOs at March 31, 2017 is expected to be recognized over the weighted average period of 1.5 years. Total compensation expense for NQOs in the three months ended March 31, 2017 and 2016 was $14,000 and $45,000, respectively. Total compensation expense for NQOs in the nine months ended March 31, 2017 and 2016 was $0.1 million and $0.2 million, respectively.

Non-qualified stock options with performance-based and time-based vesting ("PNQs")

In the nine months ended March 31, 2017, the Company granted 149,223 shares issuable upon the exercise of PNQs to eligible employees under the Farmer Bros. Co. Amended and Restated 2007 Long-Term Incentive Plan (the "LTIP"), with 20% of each such grant subject to forfeiture if a target modified net income goal for fiscal 2017 is not attained. For this purpose, "Modified Net Income" is defined as net income (GAAP) before taxes and excluding any gains or losses from sales of assets, and excluding the effect of restructuring and other transition expenses related to the relocation of the Company's corporate headquarters to Northlake, Texas. These PNQs have an exercise price of $32.85, which was the closing price of the Company's common stock as reported on Nasdaq on the date of grant. One-third of the total number of shares subject to each such stock option vest ratably on each of the first three anniversaries of the grant date, contingent on continued employment, and subject to accelerated vesting in certain circumstances.

Following are the weighted average assumptions used in the Black-Scholes valuation model for PNQs granted during the nine months ended March 31, 2017.

	Nine Months Ended March 31, 2017
Weighted average fair value of PNQs	$11.42
Risk-free interest rate	1.53%
Dividend yield	—%
Average expected term	4.9 years
Expected stock price volatility	37.7%

The following table summarizes PNQ activity for the nine months ended March 31, 2017:

Outstanding PNQs:	Number of PNQs	Weighted Average Exercise Price ($)	Weighted Average Grant Date Fair Value ($)	Weighted Average Remaining Life (Years)	Aggregate Intrinsic Value ($ in thousands)
Outstanding at June 30, 2016	288,599	25.83	10.82	5.7	1,798
Granted	149,223	32.85	11.42	4.8	—
Exercised	(8,132)	24.35	10.67	—	73
Cancelled/Forfeited	(62,262)	31.43	11.38	—	—
Outstanding at March 31, 2017	367,428	27.77	10.97	5.3	2,787
Vested and exercisable at March 31, 2017	149,777	24.01	10.62	4.3	1,698
Vested and expected to vest at March 31, 2017	353,920	27.64	10.96	5.3	2,729

The aggregate intrinsic values outstanding at the end of each fiscal period in the table above represent the total pretax intrinsic values, based on the Company's closing stock price of $35.35 at March 31, 2017 and $32.06 at June 30, 2016 representing the last trading day of the respective fiscal periods, which would have been received by PNQ holders had all award holders exercised their PNQs that were in-the-money as of those dates. The aggregate intrinsic value of PNQ exercises in the nine months ended March 31, 2017 represents the difference between the exercise price and the value of the Company's common stock at the time of exercise. PNQs outstanding that are expected to vest are net of estimated forfeitures.

During the nine months ended March 31, 2017, 109,777 PNQ shares vested and 8,132 PNQ shares were exercised. Total fair value of PNQs vested during the nine months ended March 31, 2017 was $1.2 million. The Company received $0.2 million and $0.3 million in proceeds from exercises of vested PNQs in the nine months ended March 31, 2017 and 2016, respectively.

As of March 31, 2017, the Company met the performance target for the second and final tranche of the fiscal 2014 awards and the first tranche of the fiscal 2015 and fiscal 2016 awards and expects that it will achieve the performance targets set forth in the PNQ agreements for the remainder of the fiscal 2015 and 2016 awards, and the fiscal 2017 awards.

At March 31, 2017 and June 30, 2016, there was $2.1 million and $1.9 million, respectively, of unrecognized compensation cost related to PNQs. The unrecognized compensation cost related to PNQs at March 31, 2017 is expected to be recognized over the weighted average period of 1.5 years. Total compensation expense related to PNQs in each of the three months ended March 31, 2017 and 2016 was $0.2 million. Total compensation expense related to PNQs in the nine months ended March 31, 2017 and 2016 was $0.8 million and $0.3 million, respectively.

Restricted Stock

During the nine months ended March 31, 2017, the Company granted 5,106 shares of restricted stock to non-employee directors under the LTIP with a grant date fair value of $35.25 per share. Unlike prior-year awards to non-employee directors, which vest ratably over a period of three years, the fiscal 2017 restricted stock awards cliff vest on the first anniversary of the date of grant subject to continued service to the Company through the vesting date and the acceleration provisions of the LTIP and restricted stock agreement. No shares of restricted stock were granted to employees during the nine months ended March 31, 2017.

During the nine months ended March 31, 2017, 7,458 shares of restricted stock vested.

The following table summarizes restricted stock activity for the nine months ended March 31, 2017:

Outstanding and Nonvested Restricted Stock Awards:	Shares Awarded	Weighted Average Grant Date Fair Value ($)	Weighted Average Remaining Life (Years)	Aggregate Intrinsic Value ($ in thousands)
Outstanding at June 30, 2016	23,792	26.00	1.8	763
Granted	5,106	35.25	0.7	180
Exercised/Released	(7,458)	24.16	—	253
Cancelled/Forfeited	(5,995)	—	—	—
Outstanding at March 31, 2017	15,445	29.79	1.1	546
Expected to vest at March 31, 2017	14,843	29.78	1.1	525

The aggregate intrinsic value of shares outstanding at the end of each fiscal period in the table above represent the total pretax intrinsic values, based on the Company’s closing stock price of $35.35 at March 31, 2017 and $32.06 at June 30, 2016, representing the last trading day of the respective fiscal periods. Restricted stock that is expected to vest is net of estimated forfeitures.

At March 31, 2017 and June 30, 2016, there was $0.3 million and $0.5 million, respectively, of unrecognized compensation cost related to restricted stock. The unrecognized compensation cost related to restricted stock at March 31, 2017 is expected to be recognized over the weighted average period of 1.1 years. Total compensation expense for restricted stock was $15,000 and $66,000 for the three months ended March 31, 2017 and 2016, respectively. Total compensation expense for restricted stock was $0.2 million and $0.1 million, respectively, in the nine months ended March 31, 2017 and 2016.

Note 17. Other Long-Term Liabilities

Other long-term liabilities include the following:

(In thousands)	March 31, 2017	June 30, 2016
New Facility lease obligation(1)	$ —	$ 28,110
Earnout payable—RLC acquisition(2)	—	100
Earnout payable—West Coast Coffee acquisition(3)	600	—
Other long-term liabilities	$ 600	$ 28,210

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(1) Lease obligation associated with construction of the New Facility. The lease obligation was reversed upon termination of the Lease Agreement concurrent with the closing of the purchase option on September 15, 2016 (see Note 5).
(2) Earnout payable in connection with the Company's acquisition of substantially all of the assets of Rae' Launo Corporation completed on January 12, 2015.
(3) Earnout payable in connection with the Company's acquisition of substantially all of the assets of West Coast Coffee on February 7, 2017.

Note 18. Income Taxes

The Company’ effective tax rates for the three months ended March 31, 2017 and 2016 were 44.4% and 3.5%, respectively. The Company’ effective tax rates for the nine months ended March 31, 2017 and 2016 were 40.4% and 5.3%, respectively. The effective tax rates for the three and nine months ended March 31, 2017 are higher than the U.S. statutory rate of 35.0% primarily due to state income tax expense. The effective tax rates for the three and nine months ended March 31, 2016 are lower than the U.S. statutory rate of 35.0% primarily due to a valuation allowance recorded against the Company's deferred tax assets.

The Company evaluates its deferred tax assets quarterly to determine if a valuation allowance is required. In the fourth quarter of fiscal 2016, the Company considered whether a valuation allowance should be recorded against deferred tax assets based on the likelihood that the benefits of the deferred tax assets would or would not ultimately be realized in future periods. In making such assessment, significant weight was given to evidence that could be objectively verified such as recent operating results and less consideration was given to less objective indicators such as future income projections. After consideration of positive and negative evidence, including the recent history of income, the Company concluded that it is more likely than not that the Company will generate future income sufficient to realize the majority of the Company’s deferred tax assets as of June 30, 2016. Accordingly, the Company recorded a reduction in its valuation allowance in fiscal 2016 in the amount of $83.2 million.

As of March 31, 2017 and June 30, 2016 the Company had no unrecognized tax benefits. During the quarter ended September 30, 2016, the Internal Revenue Service completed its examination of the Company’s tax years ended June 30, 2013 and 2014 and accepted the returns as filed for each of those years.

Note 19. Net Income Per Common Share

(In thousands, except share and per share amounts)	Three Months Ended March 31, 2017	Three Months Ended March 31, 2016	Nine Months Ended March 31, 2017	Nine Months Ended March 31, 2016
Net income attributable to common stockholders—basic	$ 1,592	$ 1,190	$ 23,253	$ 5,673
Net income attributable to nonvested restricted stockholders	2	2	35	6
Net income	$ 1,594	$ 1,192	$ 23,288	$ 5,679
Weighted average common shares outstanding—basic	16,605,754	16,539,479	16,584,125	16,486,469
Effect of dilutive securities:				
Shares issuable under stock options	116,020	107,936	120,075	127,806
Weighted average common shares outstanding—diluted	16,721,774	16,647,415	16,704,200	16,614,275
Net income per common share—basic	$ 0.10	$ 0.07	$ 1.40	$ 0.34
Net income per common share—diluted	$ 0.10	$ 0.07	$ 1.39	$ 0.34

Note 20. Commitments and Contingencies:

For a detailed discussion about the Company's commitments and contingencies, see Note 22, "*Commitments and Contingencies*" to the consolidated financial statements in the 2016 Form 10-K. During the nine months ended March 31, 2017, other than the following, there were no material changes in the Company’s commitments and contingencies.

Leases

As part of the China Mist transaction, the Company assumed the lease on China Mist’s existing 17,400 square foot production, distribution and warehouse facility in Scottsdale, Arizona which is terminable upon twelve months’ notice. As part of the West Coast Coffee transaction, the Company entered into a three-year lease on West Coast Coffee’s existing 20,400 square foot production, distribution and warehouse facility in Hillsboro, Oregon, which expires January 31, 2020, and assumed leases on six branch warehouses consisting of an aggregate of 24,150 square feet in Oregon, California and Nevada, expiring on various dates through November 2020. See Note 3.

Contractual obligations for future fiscal periods are as follows:

	Contractual Obligations						
(In thousands)	Capital Lease Obligations	Operating Lease Obligations	New Facility Construction and Equipment Contracts (1)	Pension Plan Obligations	Postretirement Benefits Other Than Pension Plans	Revolving Credit Facility	Purchase Commitments (2)
Three months ending June 30, 2017	$ 341	$ 1,233	$ 11,698	$ 1,973	$ 270	$ 44,175	$ 41,919
Year Ending June 30,							
2018	$ 990	$ 4,684	$ —	$ 8,304	$ 1,102	$ —	$ 37,584
2019	$ 186	$ 3,798	$ —	$ 8,554	$ 1,143	$ —	$ —
2020	$ 51	$ 2,133	$ —	$ 8,844	$ 1,176	$ —	$ —
2021	$ 4	$ 798	$ —	$ 9,074	$ 1,210	$ —	$ —
Thereafter	$ —	$ 186	$ —	$ 47,262	$ 6,246	$ —	$ —
		$ 12,832	$ 11,698	$ 84,011	$ 11,147	$ 44,175	$ 79,503
Total minimum lease payments	$ 1,572						
Less: imputed interest (0.82% to 10.7%)	$ (52)						
Present value of future minimum lease payments	$ 1,520						
Less: current portion	$ 1,131						
Long-term capital lease obligations	$ 389						

(1) Includes $5.5 million in outstanding contractual obligations for construction of the New Facility and $6.2 million in outstanding contractual obligations under the Amended Building Contract as of March 31, 2017. See Note 5.
(2) Purchase commitments include commitments under coffee purchase contracts for which all delivery terms have been finalized but the related coffee has not been received as of March 31, 2017. Amounts shown in the table above: (a) include all coffee purchase contracts that the Company considers to be from normal purchases; and (b) do not include amounts related to derivative instruments that are recorded at fair value on the Company's consolidated balance sheets.

Self-Insurance

At June 30, 2016, the Company had posted a $7.4 million letter of credit as a security deposit with the State of California Department of Industrial Relations Self-Insurance Plans for participation in the alternative security program for California self-insurers for workers' compensation liability in California. The State of California notified the Company on December 13, 2016 that it had released and authorized the cancellation of the letter of credit. At March 31, 2017 and June 30, 2016, the Company had posted a $4.4 million and $4.3 million letter of credit, respectively, as a security deposit for self-insuring workers' compensation, general liability and auto insurance coverages outside of California.

Non-cancelable Purchase Orders

As of March 31, 2017, the Company had committed to purchase green coffee inventory totaling $68.9 million under fixed-price contracts, equipment for the New Facility totaling $0.5 million and other purchases totaling $10.1 million under non-cancelable purchase orders.

Legal Proceedings

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

On July 24, 2015, former Company employee Hernandez filed a putative class action complaint for damages alleging a single cause of action for unfair competition under the California Business & Professions Code. The claim purports to seek disgorgement of profits for alleged violations of various provisions of the California Labor Code relating to: failing to pay overtime, failing to provide meal breaks, failing to pay minimum wage, failing to pay wages timely during employment and upon termination, failing to provide accurate and complete wage statements, and failing to reimburse business-related expenses. Hernandez's complaint seeks restitution in an unspecified amount and injunctive relief, in addition to attorneys' fees and expenses. Hernandez alleges that the putative class is all "current and former hourly-paid or non-exempt individuals" for the four (4) years preceding the filing of the complaint through final judgment, and Hernandez also purports to reserve the right to establish sub-classes as appropriate. On November 12, 2015, a separate putative class representative, Monica Zuno, filed claim under the same class action; the Court has related this case to the Hernandez case. On November 17, 2015, the unified case was assigned to a judge, and this judge ordered the stay on discovery to remain intact until after a decision on the Company's demurrer action. The plaintiff filed an Opposition to the Demurrer and, in response, on January 5, 2016, the Company filed a reply to this Opposition to the Demurrer. On February 2, 2016, the Court held a hearing on the demurrer and found in the Company's favor, sustaining the demurrer in its entirety without leave to amend as to the plaintiff Hernandez, and so dismissing Hernandez's claims and the related putative class. Claims on behalf of the plaintiff Zuno remain at this time. The Company provided responses to discovery following a lift by the Court of the stay on discovery. Responses to plaintiff's first set of written and document discovery were filed on October 31, 2016. Following an October 31, 2016 hearing on a motion to compel and for sanctions against plaintiff and counsel for failing to appear for deposition, the Court granted the Company's motion, ruling that all of plaintiff's objections to the deposition notice were waived and ordered payment to the Company of $2,828 in sanctions. Depositions and written discovery proceeded from December 2016 through the first calendar quarter of 2017. A case management conference occurred on January 26, 2017, and a further case management conference has been scheduled for June 7, 2017 to determine whether Zuno intends to move forward as a purported class action or on an individual basis only. At this time, the Company is not able to predict the probability of the outcome or estimate of loss, if any, related to this matter.

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

Certain statements contained in this Quarterly Report on Form 10-Q are not based on historical fact and are forward-looking statements within the meaning of federal securities laws and regulations. These statements are based on management's current expectations, assumptions, estimates and observations of future events and include any statements that do not directly relate to any historical or current fact; actual results may differ materially due in part to the risk factors set forth in Part I, Item 1A of our Annual Report on Form 10-K for the fiscal year ended June 30, 2016 filed with the Securities and Exchange Commission (the "SEC") on September 14, 2016 and Part II, Item 1A of this report. These forward-looking statements can be identified by the use of words like "anticipates," "estimates," "projects," "expects," "plans," "believes," "intends," "will," "could," "assumes" and other words of similar meaning. Owing to the uncertainties inherent in forward-looking statements, actual results could differ materially from those set forth in forward-looking statements. We intend these forward-looking statements to speak only at the time of this report and do not undertake to update or revise these statements as more information becomes available except as required under federal securities laws and the rules and regulations of the SEC. Factors that could cause actual results to differ materially from those in forward-looking statements include, but are not limited to, the timing and success of completion of construction of the New Facility, the availability of capital resources to fund the construction costs and capital expenditures for the New Facility, the timing and success of implementation of the DSD Restructuring Plan, the timing and success of the Company in realizing estimated savings from third-party logistics ("3PL") and vendor managed inventory, the realization of the Company's cost savings estimates, the timing and success of the Company realizing the benefits of its acquisitions, the relative effectiveness of compensation-based employee incentives in causing improvements in Company performance, the capacity to meet the demands of our large national account customers, the extent of execution of plans for the growth of Company business and achievement of financial metrics related to those plans, the effect of the capital markets as well as other external factors on stockholder value, fluctuations in availability and cost of green coffee, competition, organizational changes, our ability to retain employees with specialized knowledge, the effectiveness of our hedging strategies in reducing price risk, changes in consumer preferences, our ability to provide sustainability in ways that do not materially impair profitability, changes in the strength of the economy, business conditions in the coffee industry and food industry in general, our continued success in attracting new customers, variances from budgeted sales mix and growth rates, weather and special or unusual events, 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. The results of operations for the three and nine months ended March 31, 2017 are not necessarily indicative of the results that may be expected for any future period.

Overview

We are a national coffee roaster, wholesaler and distributor of coffee, tea and culinary products manufactured under supply agreements, under our owned brands, as well as under private labels on behalf of certain customers. We were founded in 1912, incorporated in California in 1923, and reincorporated in Delaware in 2004. We operate in one business segment.

We serve a wide variety of customers, from small independent restaurants and foodservice operators to large institutional buyers like restaurants and convenience store chains, hotels, casinos, hospitals, and gourmet coffee houses, as well as grocery chains with private brand coffee and consumer-facing branded coffee and tea products. Through our sustainability, stewardship, environmental efforts, and leadership we are not only committed to serving the finest products available, considering the cost needs of the customer, but also insist on their sustainable cultivation, manufacture and distribution whenever possible. Our product categories consist of a robust line of roast and ground coffee, including organic, Direct Trade, Direct Trade Verified Sustainable ("DTVS") and sustainably-produced offerings; frozen liquid coffee; flavored and unflavored iced and hot teas; culinary products including gelatins and puddings, soup bases, dressings, gravy and sauce mixes, pancake and biscuit mixes, jellies and preserves, and coffee-related products such as coffee filters, sugar and creamers; spices; and other beverages including cappuccino, cocoa, granitas, and ready-to-drink iced coffee. We offer a comprehensive approach to our customers by providing not only a breadth of high-quality products, but also value-added services such as market insight, beverage planning, and equipment placement and service.

We operate production facilities in Northlake, Texas (the "New Facility"); Houston, Texas; Portland, Oregon; Hillsboro, Oregon; and Scottsdale, Arizona. Distribution takes place out of the New Facility, the Portland, Hillsboro and Scottsdale facilities, as well as separate distribution centers in Northlake, Illinois; and Moonachie, New Jersey. On July 15, 2016 we completed the sale of certain property, including our former headquarters in Torrance, California (the “Torrance Facility”) and leased it back. We vacated the Torrance Facility after transitioning our remaining Torrance operations to our other facilities and concluded the leaseback arrangement as of December 31, 2016. We commenced distribution activities at the New Facility during the second quarter of fiscal 2017 and initial production activities late in the third quarter of fiscal 2017.

Our products reach our customers primarily in two ways: through our nationwide DSD network of 646 delivery routes and 114 branch warehouses as of March 31, 2017, or direct-shipped via common carriers or third-party distributors. We operate a large fleet of trucks and other vehicles to distribute and deliver our products, and we rely on 3PL service providers for our long-haul distribution. DSD sales are made “off-truck” to our customers at their places of business.

Corporate Relocation

In an effort to make the Company more competitive and better positioned to capitalize on growth opportunities, in fiscal 2015 we began the process of relocating our corporate headquarters, product development lab, and manufacturing and distribution operations from Torrance, California to the New Facility housing these operations in Northlake, Texas (the “Corporate Relocation Plan”). Approximately 350 positions were impacted as a result of the Torrance Facility closure.

The significant milestones associated with our Corporate Relocation Plan are as follows:

Event	Date
Announced Corporate Relocation Plan	Q3 fiscal 2015
Transitioned coffee processing and packaging from Torrance production facility and consolidated them with Houston and Portland production facilities	Q4 fiscal 2015
Moved Houston distribution operations to Oklahoma City distribution center	Q4 fiscal 2015
Entered into the lease agreement and development management agreement for New Facility	Q1 fiscal 2016
Commenced construction of New Facility	Q1 fiscal 2016
Transitioned primary administrative offices from Torrance to temporary leased offices in Fort Worth, Texas	Q1-Q2 fiscal 2016
Sold Spice Assets to Harris	Q2 fiscal 2016
Principal design work completed on New Facility	Q3 fiscal 2016
Completed transition services to Harris and ceased spice processing and packaging at Torrance Facility	Q4 fiscal 2016
Entered into purchase and sale agreement to sell Torrance Facility	Q4 fiscal 2016
Exercised purchase option on New Facility	Q4 fiscal 2016
Closed sale of Torrance Facility	Q1 fiscal 2017
Closed purchase option for New Facility	Q1 fiscal 2017
Entered into amended building contract with The Haskell Company	Q1 fiscal 2017
Exited from Torrance Facility	Q2 fiscal 2017
Substantial completion of construction and relocation to New Facility	Q3 fiscal 2017
Transitioned Oklahoma City distribution operations to New Facility	Q3 fiscal 2017

See *Liquidity, Capital Resources and Financial Condition* below for further details of the impact of these activities on our financial condition and liquidity.

Recent Developments

On February 21, 2017, we announced a restructuring plan to reorganize our DSD operations in an effort to realign functions into a channel based selling organization, streamline operations, acquire certain channel specific expertise, and improve selling effectiveness and financial results (the “DSD Restructuring Plan”). The strategic decision to undertake the DSD Restructuring Plan resulted from an ongoing operational review of various initiatives within the DSD selling organization. We expect to complete the DSD Restructuring Plan by the end of the second quarter of fiscal 2018.

We estimate that we will recognize approximately \$3.7 to \$4.9 million of pre-tax restructuring charges by the end of the second quarter of fiscal 2018 consisting of approximately \$1.9 million to \$2.7 million in employee-related costs, including severance, prorated bonuses for bonus eligible employees, contractual termination payments and outplacement services, and \$1.8 million to \$2.2 million in other related costs, including legal, recruiting, consulting, other professional services, and travel. We may also incur other charges not currently contemplated due to events that may occur as a result of, or associated with, the DSD Restructuring Plan. See Note 4, *Restructuring Plans—DSD Restructuring Plan*, of the Notes to Unaudited Condensed Consolidated Financial Statements included in Part I, Item 1 of this report.

On February 7, 2017, we acquired substantially all of the assets and certain specified liabilities of West Coast Coffee Company, Inc. (“West Coast Coffee”), a coffee roaster and distributor with a focus on the convenience store, grocery and foodservice channels for aggregate purchase consideration of \$15.7 million, which included \$14.7 million in cash paid at closing including working capital adjustments of \$1.2 million and up to \$1.0 million in contingent consideration to be paid as earnout if certain sales levels are achieved in the twenty-four months following the closing. The acquisition of West Coast Coffee is expected to broaden our reach in the Northwestern United States. See Note 3, *Acquisitions—West Coast Coffee*

Company, Inc., of the Notes to Unaudited Condensed Consolidated Financial Statements included in Part I, Item 1 of this report.

On October 11, 2016, we acquired substantially all of the assets and certain specified liabilities of China Mist Brands, Inc. dba China Mist Tea Company ("China Mist"), a provider of flavored iced teas and iced green teas, for aggregate purchase consideration of $11.7 million, which included $11.2 million in cash paid at closing including working capital adjustments of $0.4 million and up to $0.5 million in contingent consideration to be paid as earnout if certain sales levels are achieved in the calendar years of 2017 or 2018. We anticipate that the acquisition of China Mist will extend our tea product offerings and give us a greater presence in the high-growth premium tea industry. See Note 3, *Acquisitions-China Mist Brands, Inc.*, of the Notes to Unaudited Condensed Consolidated Financial Statements included in Part I, Item 1 of this report.

On September 17, 2016, we and The Haskell Company ("Builder") entered into a Change Order, which, among other things, amended the building contract previously entered into between us and Builder to provide a guaranteed maximum price and the basis for the price and the scope of Builder's services in connection with the construction of the New Facility (the "Amended Building Contract"). Pursuant to the Amended Building Contract, we will pay Builder up to $21.9 million for Builder's services in connection with the pre-construction and construction services, including specialized industrial design and construction work in connection with Builder's construction of certain production equipment that will be installed in portions of the New Facility. See Note 5, *New Facility*, and Note 20, *Commitments and Contingencies* of the Notes to Unaudited Condensed Consolidated Financial Statements included in Part I, Item 1 of this report.

On September 15, 2016 (the "Purchase Option Closing Date"), we closed the purchase option and acquired the land and the partially constructed New Facility located thereon for an aggregate purchase price of $42.5 million (the "Purchase Price"), consisting of the purchase option price of $42.0 million based on actual construction costs incurred for the partially constructed New Facility as of the Purchase Option Closing Date, plus amounts paid in respect of real estate commissions, title insurance, and recording fees. The Purchase Price was paid in cash from proceeds received from the sale of the Torrance Facility. See Note 5, *New Facility*, of the Notes to Unaudited Condensed Consolidated Financial Statements included in Part I, Item 1 of this report.

On July 15, 2016, we completed the sale of the Torrance Facility consisting of approximately 665,000 square feet of buildings located on approximately 20.33 acres of land, for an aggregate cash sale price of $43.0 million, which sale price was subject to customary adjustments for closing costs and documentary transfer taxes. Cash proceeds from the sale of the Torrance Facility were $42.5 million. Following the closing of the sale, we leased back the Torrance Facility on a triple net basis through October 31, 2016 at zero base rent, and exercised two one-month extensions at a base rent of $100,000 per month. We vacated the Torrance Facility in December 2016 and concluded the leaseback transaction. Accordingly, in the nine months ended March 31, 2017, we recognized a net gain from the sale of the Torrance Facility in the amount of $37.4 million, including non-cash interest expense of $0.7 million and non-cash rent expense of $1.4 million, representing the rent for the zero base rent period previously recorded in "Other current liabilities" and removed the amounts recorded in "Assets Held for Sale" and the "Sale-leaseback financing obligation" on our consolidated balance sheet. See Note 6, *Sales of Assets—Sale of Torrance Facility*, and Note 7, *Assets Held for Sale*, of the Notes to Unaudited Condensed Consolidated Financial Statements included in Part I, Item 1 of this report.

Results of Operations

Financial Highlights

- Volume of green coffee pounds processed and sold increased 6.9% in each of the three and nine months ended March 31, 2017 as compared to the three and nine months ended March 31, 2016.
- Gross profit increased 2.4% to $53.8 million in the three months ended March 31, 2017 from $52.6 million in the three months ended March 31, 2016. Gross profit increased 2.6% to $160.1 million in the nine months ended March 31, 2017 from $156.0 million in the nine months ended March 31, 2016.
- Gross margin decreased to 38.9% in the three months ended March 31, 2017, from 39.1% in the three months ended March 31, 2016. Gross margin increased to 39.3% in the nine months ended March 31, 2017, from 38.0% in the nine months ended March 31, 2016.

- Income from operations was $2.1 million and $40.5 million, respectively, in the three and nine months ended March 31, 2017 as compared to $0.3 million and $5.1 million, respectively, in the three and nine months ended March 31, 2016. Income from operations included a $37.4 million net gain from the sale of the Torrance Facility in the nine months ended March 31, 2017 and net gains of $5.4 million from the sale of Spice Assets in the nine months ended March 31, 2016.

- Net income was $1.6 million, or $0.10 per diluted common share, in the three months ended March 31, 2017, compared to $1.2 million, or $0.07 per diluted common share, in the three months ended March 31, 2016. Net income was $23.3 million, or $1.39 per diluted common share, in the nine months ended March 31, 2017, compared to $5.7 million, or $0.34 per diluted common share, in the nine months ended March 31, 2016.

- EBITDA increased 52.7% to $10.0 million and EBITDA Margin was 7.3% in the three months ended March 31, 2017, as compared to EBITDA of $6.6 million and EBITDA Margin of 4.9% in the three months ended March 31, 2016. EBITDA increased 159.5% to $57.2 million and EBITDA Margin was 14.0% in the nine months ended March 31, 2017, as compared to EBITDA of $22.1 million and EBITDA Margin of 5.4% in the nine months ended March 31, 2016.

- Adjusted EBITDA increased 24.0% to $12.2 million and Adjusted EBITDA Margin was 8.8% in the three months ended March 31, 2017, as compared to Adjusted EBITDA of $9.8 million and Adjusted EBITDA Margin of 7.3% in the three months ended March 31, 2016. Adjusted EBITDA increased 5.7% to $34.3 million and Adjusted EBITDA Margin was 8.4% in the nine months ended March 31, 2017, as compared to Adjusted EBITDA of $32.5 million and Adjusted EBITDA Margin of 7.9% in the nine months ended March 31, 2016.

Net Sales

Net sales in the three months ended March 31, 2017 increased $3.7 million, or 2.8%, to $138.2 million from $134.5 million in the three months ended March 31, 2016 primarily due to a $5.3 million increase in net sales of roast and ground coffee and a $1.5 million increase in net sales of tea products, primarily from the addition of China Mist, partially offset by a $(2.4) million decrease in net sales of spice products resulting from the sale of our institutional spice assets and a $(0.7) million decrease in net sales of coffee (frozen liquid) products resulting from the loss of a large casino customer. Net sales in the three months ended March 31, 2017 included $1.2 million in price increases to customers utilizing commodity-based pricing arrangements, where the changes in the green coffee commodity costs are passed on to the customer, as compared to $(3.8) million in price decreases to customers utilizing such arrangements in the three months ended March 31, 2016.

Net sales in the nine months ended March 31, 2017 decreased $(2.5) million, or (0.6)%, to $407.7 million from $410.2 million in the nine months ended March 31, 2016. A $4.0 million increase in net sales from roast and ground coffee, a $3.0 million increase in net sales from tea products primarily from the addition of China Mist net sales from the date of its acquisition and a $1.2 million increase in net sales from culinary products were offset by a $(7.1) million decrease in net sales of spice products resulting from the sale of our institutional spice assets, a $(2.5) million decrease in net sales of coffee (frozen liquid) products and a $(0.7) million decrease in net sales of other beverages. Net sales in the nine months ended March 31, 2017 included $(5.4) million in price decreases to customers utilizing commodity-based pricing arrangements, where the changes in the green coffee commodity costs are passed on to the customer, as compared to $(3.2) million in price decreases to customers utilizing such arrangements in the nine months ended March 31, 2016.

The change in net sales in the three and nine months ended March 31, 2017 compared to the same period in the prior fiscal year was due to the following:

(In millions)	Three Months Ended March 31, 2017 vs. 2016	Nine Months Ended March 31, 2017 vs. 2016
Effect of change in unit sales	$ 0.8	$ 9.5
Effect of pricing and product mix changes	2.9	(12.0)
Total increase (decrease) in net sales	$ 3.7	$ (2.5)

Unit sales increased 0.6% in the three months ended March 31, 2017 as compared to the same period in the prior fiscal year, and average unit price increased by 2.1% resulting in an increase in net sales of 2.8%. In the three months ended

March 31, 2017, unit sales of roast and ground coffee products, which accounted for approximately 64% of total net sales, increased 6.9%, offset by a (80.6)% decrease in unit sales of spice products, which accounted for approximately 4% of net sales, due to the sale of our institutional spice assets, while the average unit price increased primarily due to the higher average unit price of roast and ground coffee products primarily driven by the pass-through of higher green coffee commodity purchase costs to our customers. In the three months ended March 31, 2017, we processed and sold approximately 24.4 million pounds of green coffee as compared to approximately 22.8 million pounds of green coffee processed and sold in the three months ended March 31, 2016. There were no new product category introductions in the three months ended March 31, 2017 or 2016 which had a material impact on our net sales.

Unit sales increased 2.4% in the nine months ended March 31, 2017 as compared to the same period in the prior fiscal year, but average unit price decreased by (2.9)% resulting in a decrease in net sales of (0.6)%. In the nine months ended March 31, 2017, unit sales of our roast and ground coffee products which accounted for approximately 63% of our total net sales increased 6.9%, while the average unit price decreased primarily due to the lower average unit price of roast and ground coffee products primarily driven by the pass-through of lower green coffee commodity purchase costs to our customers. In the nine months ended March 31, 2017, we processed and sold approximately 72.2 million pounds of green coffee as compared to approximately 67.6 million pounds of green coffee processed and sold in the nine months ended March 31, 2016. There were no new product category introductions in the nine months ended March 31, 2017 or 2016 which had a material impact on our net sales.

The following tables present net sales aggregated by product category for the respective periods indicated:

	Three Months Ended March 31,			
	2017		2016	
(In thousands)	$	% of total	$	% of total
Net Sales by Product Category:				
Coffee (Roast & Ground)	$ 87,833	64%	$ 82,568	61%
Coffee (Frozen Liquid)	8,228	6%	8,907	7%
Tea (Iced & Hot)	7,662	5%	6,159	4%
Culinary	13,855	10%	13,220	10%
Spice	5,948	4%	8,381	6%
Other beverages(1)	13,947	10%	14,430	11%
Net sales by product category	137,473	99%	133,665	99%
Fuel surcharge	714	1%	803	1%
Net sales	$ 138,187	100%	$ 134,468	100%

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

	Nine Months Ended March 31,			
	2017		2016	
(In thousands)	$	% of total	$	% of total
Net Sales by Product Category:				
Coffee (Roast & Ground)	$ 256,013	63%	$ 252,020	61%
Coffee (Frozen Liquid)	24,623	6%	27,145	7%
Tea (Iced & Hot)	21,371	5%	18,420	4%
Culinary	41,354	10%	40,198	10%
Spice	18,303	4%	25,428	6%
Other beverages(1)	43,831	11%	44,488	11%
Net sales by product category	405,495	99%	407,699	99%
Fuel surcharge	2,205	1%	2,521	1%
Net sales	$ 407,700	100%	$ 410,220	100%

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

Cost of Goods Sold

Cost of goods sold in the three months ended March 31, 2017 increased $2.5 million, or 3.0%, to $84.4 million, or 61.1% of net sales, from $81.9 million, or 60.9% of net sales, in the three months ended March 31, 2016. Cost of goods sold as a percentage of net sales in the three months ended March 31, 2017 increased due to startup costs associated with the production operations in the New Facility.

Cost of goods sold in the nine months ended March 31, 2017 decreased $(6.6) million, or (2.6)%, to $247.6 million, or 60.7% of net sales, from $254.2 million, or 62.0% of net sales, in the nine months ended March 31, 2016. The decrease in cost of goods sold as a percentage of net sales in the nine months ended March 31, 2017 was primarily due to lower conversion costs from supply chain improvements and lower hedged cost of green coffee.

Because the expected reduction in spice inventory levels at June 30, 2017 from June 30, 2016 levels is expected to generate a beneficial effect, we recorded $0.8 million and $2.5 million in expected beneficial effect of the liquidation of LIFO inventory quantities in cost of goods sold in the three and nine months ended March 31, 2017, respectively, which increased income before taxes in the three and nine months ended March 31, 2017 by $0.8 million and $2.5 million, respectively. In the three and nine months ended March 31, 2016, we recorded $0.8 million and $1.1 million in expected beneficial effect of the liquidation of LIFO inventory quantities in cost of goods sold which increased income before taxes for the three and nine months ended March 31, 2016 by $0.8 million and $1.1 million, respectively.

Gross Profit

Gross profit in the three months ended March 31, 2017 increased $1.2 million, or 2.4%, to $53.8 million from $52.6 million in the three months ended March 31, 2016 and gross margin decreased to 38.9% in the three months ended March 31, 2017 from 39.1% in the three months ended March 31, 2016. Gross margin was impacted by the startup costs associated with the production operations in the New Facility, partially offset by favorable pricing. Gross profit in the nine months ended March 31, 2017 increased $4.1 million, or 2.6%, to $160.1 million from $156.0 million in the nine months ended March 31, 2016 and gross margin increased to 39.3% in the nine months ended March 31, 2017 from 38.0% in the nine months ended March 31, 2016. This increase in gross profit was primarily due to lower conversion costs and lower hedged cost of green coffee partially offset by the decrease in net sales and the startup costs associated with the production operations in the New Facility. Gross profit in the three and nine months ended March 31, 2017 included $0.8 million and $2.5 million, respectively, in beneficial effect of the liquidation of LIFO inventory quantities. Gross profit in each of the three and nine months ended March 31, 2016 included the beneficial effect of the liquidation of LIFO inventory quantities in the amount of $0.8 million and $1.1 million, respectively.

Operating Expenses

In the three months ended March 31, 2017, operating expenses decreased $(0.5) million, or (0.9)%, to $51.8 million or 37.5% of net sales, from $52.3 million, or 38.9% of net sales, in the three months ended March 31, 2016, primarily due to a $(1.8) million decrease in general and administrative expenses and a $(0.6) million decrease in restructuring and other transition expenses associated with the Corporate Relocation Plan, partially offset by a $1.9 million increase in selling expenses. Restructuring and other transition expenses in the three and nine months ended March 31, 2017 also include expenses related to the DSD Restructuring Plan.

General and administrative expenses decreased $(1.8) million in the three months ended March 31, 2017 as compared to the same period in the prior fiscal year primarily due to $1.9 million in lower employee and retiree medical costs, partially offset by $0.3 million in acquisition-related consulting expenses and $0.2 million in non-recurring proxy contest-related expenses. During the three months ended March 31, 2017, we incurred $0.2 million in expenses incurred in connection with successfully defending against a proxy contest (the "2016 proxy contest"), including non-recurring legal fees, financial advisory fees, proxy solicitor fees, mailing and printing costs of proxy solicitation materials and other costs that were in excess of the level of expenses normally incurred for an annual meeting of stockholders.

Restructuring and other transition expenses in the three months ended March 31, 2017 decreased $(0.6) million, as compared to the same period in the prior fiscal year because most of the planned expenses related to our Corporate Relocation Plan have already been recognized in prior periods, partially offset by $1.3 million in costs incurred in the three months ended March 31, 2017 associated with the DSD Restructuring Plan.

Selling expenses increased $1.9 million during the three months ended March 31, 2017 as compared to the same period in the prior fiscal year, primarily due to $1.3 million from the consolidation of China Mist and West Coast Coffee and $0.5 million in operations-related consulting expenses, partially offset by a $0.5 million reduction in incentive compensation expense and $0.5 million in lower workers' compensation expense.

In each of the three months ended March 31, 2017 and 2016 net gains from sale of Spice Assets included $0.3 million in earnout.

In the nine months ended March 31, 2017, operating expenses decreased $(31.3) million, or (20.7)%, to $119.6 million or 29.3% of net sales, from $150.9 million, or 36.8% of net sales, in the nine months ended March 31, 2016, primarily due to the recognition of $37.4 million in net gain from the sale of the Torrance Facility and lower restructuring and other transition expenses associated with the Corporate Relocation Plan, partially offset by the absence of net gain from the sale of Spice Assets, and an increase in general and administrative expenses and selling expenses.

Restructuring and other transition expenses decreased $(4.3) million in the nine months ended March 31, 2017, as compared to the same period in the prior fiscal year because most of the planned expenses related to our Corporate Relocation Plan have already been recognized in prior periods, partially offset by $1.3 million in costs incurred in the nine months ended March 31, 2017 associated with the DSD Restructuring Plan.

Selling expenses increased $5.2 million during the nine months ended March 31, 2017 as compared to the same period in the prior fiscal year, primarily due to operations-related consulting expenses, higher depreciation expense, sales training expenses and the consolidation of China Mist and West Coast Coffee, partially offset by lower workers' compensation expense, savings from utilizing 3PL for our long-haul distribution and the absence of expenses related to the institutional spice assets.

General and administrative expenses increased $2.0 million in the nine months ended March 31, 2017 as compared to the same period in the prior fiscal year primarily due to non-recurring 2016 proxy contest expenses, partially offset by lower expenses associated with the Company’s Employee Stock Ownership Plan (the “ESOP”) resulting from the payoff of one of the two ESOP loans. During the nine months ended March 31, 2017, we incurred $5.2 million, or $0.31 per share, in expenses successfully defending against the 2016 proxy contest including non-recurring legal fees, financial advisory fees, proxy solicitor fees, mailing and printing costs of proxy solicitation materials and other costs.

During the nine months ended March 31, 2017, net gains from the sale of Spice Assets included $0.8 million in earnout, as compared to $5.4 million in net gains from the sale of Spice Assets in the same period in the prior fiscal year. Net gains from sales of other assets, primarily from the sale of our Northern California branch property, were $1.5 million in the nine months ended March 31, 2017 as compared to $0.2 million, primarily from sale of equipment, in the nine months ended March 31, 2016.

Income from Operations

Income from operations in the three months ended March 31, 2017 was $2.1 million as compared to $0.3 million in the three months ended March 31, 2016. Income from operations in the nine months ended March 31, 2017 was $40.5 million as compared to $5.1 million in the nine months ended March 31, 2016.

The higher income from operations in the three months ended March 31, 2017 as compared to the comparable prior fiscal year period was primarily due to higher gross profit, lower general and administrative expenses, lower restructuring and other transition expenses associated with the Corporate Relocation Plan, and higher net gains from sales of other assets, partially offset by higher selling expenses and lower net gains from the sale of Spice Assets.

The higher income from operations in the nine months ended March 31, 2017 as compared to the comparable prior fiscal year period was primarily due to net gains from the sales of the Torrance Facility and other real estate, lower restructuring and other transition expenses associated with the Corporate Relocation Plan and higher gross profit, partially offset by higher selling expenses, higher general and administrative expenses and lower net gains from the sale of Spice Assets.

Total Other Income (Expense)

Total other income and other expense in the three and nine months ended March 31, 2017 was $0.9 million and $(1.3) million, respectively, compared to total other income of $0.9 million in each of the three and nine months ended March 31, 2016. Total other income in the three months ended March 31, 2017 was primarily due to net gains on investments and derivative instruments partially offset by higher interest expense as compared to the same period in the prior fiscal year. Net gains and net losses on investments resulting from mark-to-market in the three and nine months ended March 31, 2017 were $0.7 million and $(0.4) million, respectively, as compared to net gains on investments of $2,000 and $0.1 million, respectively, in the comparable periods of the prior fiscal year. Net gains and net losses on derivative instruments in all the reported periods were due to mark-to-market net gains and net losses on coffee-related derivative instruments not designated as accounting hedges. Net gains and net losses on such coffee-related derivative instruments in each of the three and nine months ended March 31, 2017 were $0.2 million and $(1.1) million, respectively, compared to net gains of $0.2 million and net losses of $(0.5) million, respectively, in the comparable periods of the prior fiscal year. In the three and nine months ended March 31, 2017, we recognized $90,000 and $63,000, respectively, in net gains on coffee-related derivative instruments designated as cash flow hedges due to ineffectiveness, as compared to net losses of $(84,000) and $(0.6) million in the three and nine months ended March 31, 2016, respectively.

Interest expense in the three and nine months ended March 31, 2017, was $(0.5) million and $(1.4) million, respectively, as compared to $(0.1) million and $(0.3) million, respectively, in the comparable periods of the prior fiscal year. The higher interest expense in the three months ended March 31, 2017 was primarily due to higher loan balance. The higher interest expense in the nine months ended March 31, 2017 was primarily due to higher loan balance and non-recurring and non-cash interest expense related to the sale-leaseback of the Torrance Facility in the amount of $(0.7) million.

Income Taxes

In the three and nine months ended March 31, 2017, we recorded income tax expense of $1.4 million and $15.9 million, respectively, compared to $43,000 and $0.3 million in the three and nine months ended March 31, 2016, respectively. In the fourth quarter of fiscal 2016, we released the majority of our valuation allowance against our deferred tax assets. As of June 30, 2016, our net deferred tax assets totaled $80.8 million. In the three and nine months ended March 31, 2017 our deferred tax assets decreased by $1.1 million and $14.7 million, respectively, primarily as a result of deferring the gain on the sale of the Torrance Facility.

The Internal Revenue Service completed its examination of our tax years ended June 30, 2013 and 2014 and accepted the returns as filed for those years.

Net Income

As a result of the foregoing factors, net income was $1.6 million, or $0.10 per diluted common share, in the three months ended March 31, 2017 as compared to $1.2 million, or $0.07 per diluted common share, in the three months ended March 31, 2016. Net income was $23.3 million, or $1.39 per diluted common share, in the nine months ended March 31, 2017 as compared to $5.7 million, or $0.34 per diluted common share, in the nine months ended March 31, 2016.

Non-GAAP Financial Measures

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

“Non-GAAP net income” is defined as net income excluding the impact of:

- restructuring and other transition expenses;
- net gains and losses from sales of assets;
- non-cash income tax expense (benefit), including the release of valuation allowance on deferred tax assets;
- non-recurring 2016 proxy contest-related expenses; and
- non-cash interest expense accrued on the Torrance Facility sale-leaseback financing obligation;

and including the impact of:

- income taxes on non-GAAP adjustments.

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

“EBITDA” is defined as net income excluding the impact of:

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

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

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

- income taxes;
- interest expense;
- income from short-term investments;
- depreciation and amortization expense;
- ESOP and share-based compensation expense;
- non-cash impairment losses;
- non-cash pension withdrawal expense;
- other similar non-cash expenses;
- restructuring and other transition expenses;
- net gains and losses from sales of assets; and
- non-recurring 2016 proxy contest-related expenses.

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

Restructuring and other transition expenses are expenses that are directly attributable to (i) the Corporate Relocation Plan, consisting primarily of employee retention and separation benefits, facility-related costs and other related costs such as travel, legal, consulting and other professional services; and (ii) beginning in the third quarter of fiscal 2017, the DSD Restructuring Plan, consisting primarily of severance, prorated bonuses for bonus eligible employees, contractual termination payments and outplacement services, and other related costs, including legal, recruiting, consulting, other professional services, and travel.

In the first quarter of fiscal 2017, we modified the calculation of Non-GAAP net income and Non-GAAP net income per diluted common share (i) to exclude non-recurring expenses for legal and other professional services incurred in connection with the 2016 proxy contest that were in excess of the level of expenses normally incurred for an annual meeting of stockholders ("2016 proxy contest-related expenses") and non-cash interest expense accrued on the Torrance Facility sale-leaseback financing obligation which has been included in the computation of the gain on sale upon conclusion of the leaseback arrangement, and (ii) to include income tax expense (benefit) on the non-GAAP adjustments based on the Company’s marginal tax rate of 39.0%. There was no similar adjustment for non-cash income tax expense in the comparable period of the prior fiscal year due to the valuation allowance recorded against the Company’s deferred tax assets. We also modified Adjusted EBITDA and Adjusted EBITDA Margin to exclude 2016 proxy contest-related expenses. These modifications to our non-GAAP financial measures were made because such expenses are not reflective of our ongoing operating results and adjusting for them will help investors with comparability of our results. The historical presentation of the non-GAAP financial measures was not affected by these modifications.

Beginning in the third quarter of fiscal 2017 and for all periods presented, we include EBITDA in our non-GAAP financial measures. We believe that EBITDA facilitates operating performance comparisons from period to period by isolating the effects of certain items that vary from period to period without any correlation to core operating performance or that vary widely among similar companies. These potential differences may be caused by variations in capital structures (affecting interest expense), tax positions (such as the impact on periods or companies of changes in effective tax rates or net operating losses) and the age and book depreciation of facilities and equipment (affecting relative depreciation expense). We also present EBITDA and EBITDA Margin because (i) we believe that these measures are frequently used by securities analysts, investors and other interested parties to evaluate companies in our industry, (ii) we believe that investors will find these measures useful in assessing our ability to service or incur indebtedness, and (iii) we use these measures internally as benchmarks to compare our performance to that of our competitors.

In the third quarter of fiscal 2017, we also modified the calculation of Adjusted EBITDA to exclude income from our short-term investments because we believe excluding income generated from our investment portfolio is a measure more reflective of our operating results. The historical presentation of Adjusted EBITDA was recast to be comparable to the current period presentation.

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

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

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

	Three Months Ended March 31,		Nine Months Ended March 31,	
(In thousands)	2017	2016	2017	2016
Net income, as reported	$ 1,594	$ 1,192	$ 23,288	$ 5,679
Restructuring and other transition expenses	2,547	3,169	9,542	13,855
Net gain from sale of Torrance Facility	—	—	(37,449)	—
Net gains from sale of Spice Assets	(272)	(335)	(764)	(5,441)
Net gains from sales of other assets	(86)	(4)	(1,525)	(163)
Non-recurring 2016 proxy contest-related expenses	196	—	5,186	—
Interest expense on sale-leaseback financing obligation	—	—	681	—
Income tax expense (benefit) on non-GAAP adjustments	(930)	—	9,488	—
Non-GAAP net income	$ 3,049	$ 4,022	$ 8,447	$ 13,930
Net income per common share—diluted, as reported	$ 0.10	$ 0.07	$ 1.39	$ 0.34
Impact of restructuring and other transition expenses	$ 0.15	$ 0.19	$ 0.57	$ 0.83
Impact of net gain from sale of Torrance Facility	$ —	$ —	$ (2.24)	$ —
Impact of net gains from sale of Spice Assets	$ (0.02)	$ (0.02)	$ (0.05)	$ (0.33)
Impact of net gains from sales of other assets	$ (0.01)	$ —	$ (0.09)	$ (0.01)
Impact of non-recurring 2016 proxy contest-related expenses	$ 0.01	$ —	$ 0.31	$ —
Impact of interest expense on sale-leaseback financing obligation	$ —	$ —	$ 0.04	$ —
Impact of income tax expense (benefit) on non-GAAP adjustments	$ (0.06)	$ —	$ 0.57	$ —
Non-GAAP net income per diluted common share	$ 0.17	$ 0.24	$ 0.50	$ 0.83

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

(In thousands)	Three Months Ended March 31, 2017	Three Months Ended March 31, 2016	Nine Months Ended March 31, 2017	Nine Months Ended March 31, 2016
Net income, as reported	$ 1,594	$ 1,192	$ 23,288	$ 5,679
Income tax expense	1,411	43	15,910	318
Interest expense	517	111	1,430	341
Depreciation and amortization expense	6,527	5,234	16,613	15,721
EBITDA	$ 10,049	$ 6,580	$ 57,241	$ 22,059
EBITDA Margin	7.3%	4.9%	14.0%	5.4%

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

(In thousands)	Three Months Ended March 31, 2017	Three Months Ended March 31, 2016	Nine Months Ended March 31, 2017	Nine Months Ended March 31, 2016
Net income, as reported	$ 1,594	$ 1,192	$ 23,288	$ 5,679
Income tax expense	1,411	43	15,910	318
Interest expense	517	111	1,430	341
Income from short-term investments	(1,156)	(427)	(882)	(1,312)
Depreciation and amortization expense	6,527	5,234	16,613	15,721
ESOP and share-based compensation expense	902	837	2,996	3,488
Restructuring and other transition expenses	2,547	3,169	9,542	13,855
Net gain from sale of Torrance Facility	—	—	(37,449)	—
Net gains from sale of Spice Assets	(272)	(335)	(764)	(5,441)
Net gains from sales of other assets	(86)	(4)	(1,525)	(163)
Non-recurring 2016 proxy contest-related expenses	196	—	5,186	—
Adjusted EBITDA	$ 12,180	$ 9,820	$ 34,345	$ 32,486
Adjusted EBITDA Margin	8.8%	7.3%	8.4%	7.9%

Liquidity, Capital Resources and Financial Condition

Credit Facility

We maintain a $75.0 million senior secured revolving credit facility (the "Revolving Facility") with JPMorgan Chase Bank, N.A. and SunTrust Bank (collectively, the "Lenders"), with a sublimit on letters of credit and swingline loans of $30.0 million and $15.0 million respectively. The Revolving Facility includes an accordion feature whereby we may increase the Revolving Commitment by up to an additional $50.0 million, subject to certain conditions. Advances are based on our eligible accounts receivable, eligible inventory, and the value of certain real property and trademarks, less required reserves. The commitment fee ranges from 0.25% to 0.375% per annum based on average revolver usage. Outstanding obligations are collateralized by all of our assets, excluding certain real property not included in the borrowing base, machinery and equipment (other than inventory), and our preferred stock portfolio. Borrowings under the Revolving Facility bear interest based on average historical excess availability levels with a range of PRIME - 0.25% to PRIME + 0.50% or Adjusted LIBO Rate + 1.25% to Adjusted LIBO Rate + 2.00%. We are subject to a variety of affirmative and negative covenants of types customary in an asset-based lending facility, including financial covenants relating to the maintenance of a fixed charge coverage ratio in certain circumstances, and the right of the Lenders to establish reserve requirements, which may reduce the amount of credit otherwise available to us. We are allowed to pay dividends, provided, among other things, certain excess availability requirements are met, and no event of default exists or has occurred and is continuing as of the date of any such payment and after giving effect thereto. The Revolving Facility expires on March 2, 2020.

At March 31, 2017, we were eligible to borrow up to a total of $61.7 million under the Revolving Facility and had outstanding borrowings of $44.2 million, utilized $4.4 million of the letters of credit sublimit, and had excess availability under the Revolving Facility of $13.1 million. At March 31, 2017, the weighted average interest rate on our outstanding borrowings under the Revolving Facility was 2.52%. At March 31, 2017, we were in compliance with all of the restrictive covenants under the Revolving Facility.

At April 30, 2017, we had estimated outstanding borrowings of $44.2 million, utilized $4.4 million of the letters of credit sublimit, and had excess availability under the Revolving Facility of $13.1 million. At April 30, 2017, the weighted average interest rate on our outstanding borrowings under the Revolving Facility was 2.66%.

Liquidity

We generally finance our operations through cash flows from operations and borrowings under our Revolving Facility described above. At March 31, 2017, we had $5.7 million in cash and cash equivalents and $26.5 million in short-term investments. We believe our Revolving Facility, to the extent available, in addition to our cash flows from operations and other liquid assets, collectively, will be sufficient to fund our working capital and capital expenditure requirements for the next 12 to 18 months including additional construction costs to complete the New Facility and anticipated capital expenditures for machinery and equipment, furniture and fixtures, and related expenditures and the expected expenditures associated with the Corporate Relocation Plan and DSD Restructuring Plan.

Changes in Cash Flows

We generate cash from operating activities primarily from cash collections related to the sale of our products.

Net cash provided by operating activities was $10.5 million in the nine months ended March 31, 2017 compared to $9.4 million in the nine months ended March 31, 2016. The higher level of net cash provided by operating activities in the nine months ended March 31, 2017 compared to the same period of the prior fiscal year was primarily due to higher net income and a higher level of cash inflows from operating activities primarily from the increase in deferred income taxes and accounts payable balances, partially offset by cash outflows from increases in inventory and accounts receivable balances, payment of previously accrued bonus and restructuring and other transition expenses related to the Corporate Relocation Plan, cash outflows from purchases of short-term investments and a decrease in derivative assets. Net cash provided by operating activities in the nine months ended March 31, 2016 was due to cash inflows from operating activities resulting primarily from an increase in derivative assets and proceeds from sales of short-term investments partially offset by cash outflows from purchases of short-term investments, increases in accounts receivable and inventory balances, and payments of accounts payable balances and accrued payroll and other liabilities. Net cash provided by operating activities in the nine months ended March 31, 2016 included the release of restriction on $1.0 million in cash held in coffee-related derivative margin accounts, as we had a net gain position in such accounts.

Net cash used in investing activities in the nine months ended March 31, 2017 was $84.0 million as compared to $23.7 million in the nine months ended March 31, 2016. In the nine months ended March 31, 2017, net cash used in investing activities included $35.5 million in cash used for purchases of property, plant and equipment, $26.7 million in purchases of construction-in-progress assets in connection with the construction of the New Facility and $25.9 million net of cash acquired in connection with the China Mist and West Coast Coffee acquisitions, partially offset by $4.0 million in proceeds from sales of property, plant and equipment, primarily real estate. In the nine months ended March 31, 2016, net cash used in investing activities included $16.2 million for purchases of property, plant and equipment and $13.5 million in purchases of construction-in-progress assets in connection with construction of the New Facility, partially offset by proceeds from sales of assets of $6.0 million, including $5.3 million in proceeds from the sale of Spice Assets.

Net cash provided by financing activities in the nine months ended March 31, 2017 was $58.1 million as compared to $12.5 million in the nine months ended March 31, 2016. Net cash provided by financing activities in the nine months ended March 31, 2017 included $42.5 million in proceeds from the sale of the Torrance Facility, $44.1 million in net borrowings under our Revolving Facility primarily to pay for the China Mist and West Coast Coffee acquisitions and for expenditures related to the Corporate Relocation Plan, $7.7 million in proceeds from lease financing in connection with the purchase of the partially constructed New Facility, and $0.8 million in proceeds from stock option exercises, partially offset by $35.8 million in repayments on lease financing to acquire the partially constructed New Facility upon purchase option closing, and $1.1 million used to pay capital lease obligations. Net cash provided by financing activities in the nine months ended March 31, 2016 included $13.5 million in proceeds from lease financing in connection with the construction of the New Facility,

$0.2 million in net borrowings under our Revolving Facility, and $1.6 million in proceeds from stock option exercises, partially offset by $2.7 million to pay capital lease obligations, $8,000 in deferred financing costs for the Revolving Facility, and $0.2 million in tax withholding payments associated with net share settlement of equity awards.

Sale of Spice Assets

In order to focus on our core product offerings, in the second quarter of fiscal 2016, we completed the sale of certain assets associated with our manufacture, processing and distribution of raw, processed and blended spices and certain other culinary products to Harris. See Note 6, *Sales of Assets—Sale of Spice Assets*, of the Notes to Unaudited Condensed Consolidated Financial Statements included in Part I, Item 1 of this report.

Sale of Torrance Facility

On July 15, 2016, we completed the sale of the Torrance Facility for an aggregate cash sale price of $43.0 million, which sale price was subject to customary adjustments for closing costs and documentary transfer taxes. Cash proceeds from the sale of the Torrance Facility were $42.5 million. Following the closing of the sale, we leased back the Torrance Facility on a triple net basis through October 31, 2016 at zero base rent, and exercised two one-month extensions at a base rent of $100,000 per month. We vacated the Torrance Facility in December 2016 and concluded the leaseback transaction. Accordingly, in the nine months ended March 31, 2017, we recognized a net gain from the sale of the Torrance Facility in the amount of $37.4 million, including non-cash interest expense of $0.7 million and non-cash rent expense of $1.4 million, representing the rent for the zero base rent period previously recorded in “Other current liabilities” on our consolidated balance sheet. See Note 6, *Sale of Assets—Sale of Torrance Facility* and Note 7, *Assets Held for Sale*, of the Notes to Unaudited Condensed Consolidated Financial Statements included in Part I, Item 1 of this report.

Acquisitions

On October 11, 2016, we acquired substantially all of the assets and certain specified liabilities of China Mist for aggregate purchase consideration of $11.7 million, which included $11.2 million in cash paid at closing including working capital adjustments of $0.4 million and up to $0.5 million in contingent consideration to be paid as earnout if certain sales levels are achieved in the calendar years of 2017 or 2018. On February 7, 2017, we acquired substantially all of the assets and certain specified liabilities of West Coast Coffee for aggregate purchase consideration of $15.7 million including working capital adjustments of $1.2 million and up to $1.0 million in contingent consideration to be paid as earnout if certain sales levels are achieved in the twenty-four months following the closing. We funded the purchase price for these acquisitions with proceeds under our Revolving Facility and cash flows from operations. See Note 3, *Acquisitions*, of the Notes to Unaudited Condensed Consolidated Financial Statements included in Part I, Item 1 of this report.

DSD Restructuring Plan

On February 21, 2017, we announced the DSD Restructuring Plan. We estimate that we will recognize approximately $3.7 million to $4.9 million of pre-tax restructuring charges by the end of the second quarter of fiscal 2018 consisting of approximately $1.9 million to $2.7 million in employee-related costs, including severance, prorated bonuses for bonus eligible employees, contractual termination payments and outplacement services, and $1.8 million to $2.2 million in other related costs, including legal, recruiting, consulting, other professional services, and travel. Expenses related to the DSD Restructuring Plan in the nine months ended March 31, 2017 consisted of $0.9 million in employee-related costs and $0.4 million in other related costs. As of March 31, 2017, we had paid a total of $0.1 million of these costs and had a balance of $1.2 million in DSD Restructuring Plan-related liabilities on our condensed consolidated balance sheet. We may also incur other charges not currently contemplated due to events that may occur as a result of, or associated with, the DSD Restructuring Plan. We expect to complete the DSD Restructuring Plan by the end of the second quarter of fiscal 2018. See Note 4, *Restructuring Plans-DSD Restructuring Plan*, of the Notes to Unaudited Condensed Consolidated Financial Statements included in Part I, Item 1 of this report.

Corporate Relocation Plan

We estimated that we would incur approximately $31 million in cash costs in connection with the Corporate Relocation Plan consisting of $18 million in employee retention and separation benefits, $5 million in facility-related costs and $8 million in other related costs. Since the adoption of the Corporate Relocation Plan in fiscal 2015 through March 31, 2017, we have recognized a total of $31.5 million in aggregate cash costs, including $17.4 million in employee retention and separation benefits, $6.7 million in facility-related costs related to the temporary office space, costs associated with the move of the Company's headquarters, relocation of our Torrance operations and certain distribution operations and $7.4 million in other related costs recorded in “Restructuring and other transition expenses” in our condensed consolidated statements of operations. We expect to complete the Corporate Relocation Plan and recognize an additional $0.1 million in other related costs in the fourth quarter of fiscal 2017. Additionally, from inception through March 31, 2017, we recognized non-cash depreciation expense of $2.3 million associated with the Torrance production facility resulting from the consolidation of coffee production operations with the Houston and Portland production facilities and $1.4 million in non-cash rent expense recognized in the sale-leaseback of the Torrance Facility. We may incur certain pension-related costs in connection with the Corporate Relocation Plan which are not included in the estimated $31 million in aggregate cash costs. See Note 4, *Restructuring Plans—Corporate Relocation Plan*, of the Notes to Unaudited Condensed Consolidated Financial Statements included in Part I, Item 1 of this report.

Purchase Option Exercise

On September 15, 2016, we closed the purchase option and acquired the land and the partially constructed New Facility located thereon for an aggregate purchase price of $42.5 million, consisting of the purchase option price of $42.0 million based on actual construction costs incurred for the partially constructed New Facility as of the Purchase Option Closing Date, plus the option exercise fee, plus amounts paid in respect of real estate commissions, title insurance, and recording fees. The Purchase Price was paid in cash from proceeds received from the sale of the Torrance Facility. Upon closing of the purchase option, we recorded the aggregate purchase price of the New Facility in "Property, plant and equipment, net" on our consolidated balance sheet. The asset related to the New Facility lease obligation included in "Property, plant and equipment, net," the offsetting liability for the lease obligation included in "Other long-term liabilities" and the rent expense related to the land were reversed. See Note 5, *New Facility—Lease Agreement and Purchase Option Exercise*, of the Notes to Unaudited Condensed Consolidated Financial Statements included in Part I, Item 1 of this report.

New Facility Costs

Based on the current forecast, we estimate that the total construction costs including the cost of the land for the New Facility will be approximately $60 million of which we have paid an aggregate of $54.7 million as of March 31, 2017 and have outstanding contractual obligations of $5.5 million as of March 31, 2017. In addition to the costs to complete the construction of the New Facility, we expect to incur approximately $35 million to $39 million for machinery and equipment, furniture and fixtures, and related expenditures of which we have paid an aggregate of $20.2 million as of March 31, 2017, including $15.7 million under the Amended Building Contract, and have outstanding contractual obligations of $6.2 million as of March 31, 2017. See Note 5, *New Facility*, and Note 20, *Commitments and Contingencies*, of the Notes to Unaudited Condensed Consolidated Financial Statements included in Part I, Item 1 of this report. The majority of the capital expenditures associated with machinery and equipment, furniture and fixtures and related expenditures for the New Facility were incurred in the first three quarters of fiscal 2017. Construction of and relocation to the New Facility were substantially completed in the third quarter of fiscal 2017.

The following table summarizes the expenditures paid for the New Facility as of March 31, 2017 as compared to the final budget:

	Expenditures paid			Budget	
(In thousands)	**Nine Months Ended March 31, 2017**	**Through Fiscal Year Ended June 30, 2016**	**Total**	**Lower bound**	**Upper bound**
Building and facilities, including land	$ 26,606	$ 28,110	$ 54,716	$ 55,000	$ 60,000
Machinery and equipment; furniture and fixtures	15,764	4,443	20,207	35,000	39,000
Total	**$ 42,370**	**$ 32,553**	**$ 74,923**	**$ 90,000**	**$ 99,000**

Capital Expenditures

For the nine months ended March 31, 2017 and 2016, our capital expenditures were as follows:

	Nine Months Ended March 31,	
(In thousands)	2017	2016
Coffee brewing equipment	$ 8,280	$ 5,679
Building and facilities	230	200
Vehicles, machinery and equipment	9,439	7,060
Software, office furniture and equipment	1,831	1,320
Total capital expenditures excluding New Facility	$ 19,780	$ 14,259
New Facility:		
Building and facilities, including land	$ 26,606	$ 13,492
Machinery and equipment	11,774	1,934
Software, office furniture and equipment	3,990	—
Total capital expenditures	$ 62,150	$ 29,685

As we complete the first phase of capital spending on our New Facility, we anticipate spending between $16 million to $18 million in capital expenditures in the remainder of fiscal 2017. Our expected capital expenditures for fiscal 2017 unrelated to the New Facility include expenditures to replace normal wear and tear of coffee brewing equipment, vehicles, machinery and equipment and mobile sales solution hardware, and are expected to be $2.5 million to $3.5 million for the remainder of fiscal 2017 and approximately $20 million to $22 million, annually.

Depreciation and amortization expense was $6.5 million and $5.2 million, in the three months ended March 31, 2017 and 2016, respectively. Depreciation and amortization expense was $16.6 million and $15.7 million in the nine months ended March 31, 2017 and 2016, respectively. We anticipate depreciation and amortization expense to increase to $7.0 million to $7.5 million in the fourth quarter of fiscal 2017. We also anticipate our depreciation and amortization expense will be approximately $8.0 million to $8.5 million per quarter in fiscal 2018 based on our existing fixed asset commitments and the useful lives of our intangible assets.

Working Capital

At March 31, 2017 and June 30, 2016, our working capital was composed of the following:

(In thousands)	March 31, 2017	June 30, 2016
Current assets	$ 148,488	$ 153,365
Current liabilities	116,103	56,837
Working capital	$ 32,385	$ 96,528

Contractual Obligations

As part of the China Mist transaction, we assumed the lease on China Mist's existing 17,400 square foot production, distribution and warehouse facility in Scottsdale, Arizona which is terminable upon twelve months' notice. As part of the West Coast Coffee transaction, we entered into a three-year lease on West Coast Coffee's existing 20,400 square foot production, distribution and warehouse facility in Hillsboro, Oregon, which expires January 31, 2020, and assumed leases on six branch warehouses consisting of an aggregate of 24,150 square feet in Oregon, California and Nevada, expiring on various dates through November 2020.

The following table contains information regarding total contractual obligations as of March 31, 2017, including capital leases:

(In thousands)	Total	Less Than One Year	1-3 Years	3-5 Years	More Than 5 Years
	Payment due by period				
Contractual obligations:					
Operating lease obligations	$ 12,832	$ 1,233	$ 8,482	$ 2,931	$ 186
New Facility construction and equipment contracts(1)	11,698	11,698	—	—	—
Capital lease obligations(2)	1,572	341	1,176	55	—
Pension plan obligations	84,011	1,973	16,858	17,918	47,262
Postretirement benefits other than pension plans	11,147	270	2,245	2,386	6,246
Revolving credit facility	44,175	44,175	—	—	—
Purchase commitments(3)	79,503	41,919	37,584	—	—
Total contractual obligations	$ 244,938	$ 101,609	$ 66,345	$ 23,290	$ 53,694

(1) Includes $5.5 million in outstanding contractual obligations for construction of the New Facility and $6.2 million outstanding contractual obligations under the Amended Building Contract as of March 31, 2017. See Note 5, *New Facility*, of the Notes to Unaudited Condensed Consolidated Financial Statements included in Part I, Item 1 of this report.

(2) Includes imputed interest of $0.1 million.

(3) Purchase commitments include commitments under coffee purchase contracts for which all delivery terms have been finalized but the related coffee has not been received as of March 31, 2017. Amounts shown in the table above: (a) include all coffee purchase contracts that the Company considers to be from normal purchases; and (b) do not include amounts related to derivative instruments that are recorded at fair value on the Company's consolidated balance sheets.

As of March 31, 2017, we had committed to purchase green coffee inventory totaling $68.9 million under fixed-price contracts, equipment for the New Facility totaling $0.5 million and other purchases totaling $10.1 million under non-cancelable purchase orders.

Off-Balance Sheet Arrangements

We have no off-balance sheet arrangements.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Interest Rate Risk

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

The following table demonstrates the impact of varying interest rate changes based on our preferred securities holdings and market yield and price relationships at March 31, 2017. This table is predicated on an "instantaneous" change in the general level of interest rates and assumes predictable relationships between the prices of our preferred securities holdings and the yields on U.S. Treasury securities. At March 31, 2017, we had no futures contracts or put options with respect to our preferred securities portfolio designated as interest rate risk hedges.

($ in thousands)	Market Value of Preferred Securities at March 31, 2017	Change in Market Value
Interest Rate Changes		
–150 basis points	$ 27,940	$ 1,399
–100 basis points	$ 27,561	$ 1,020
Unchanged	$ 26,541	$ —
+100 basis points	$ 25,477	$ (1,064)
+150 basis points	$ 24,952	$ (1,589)

Borrowings under our Revolving Facility bear interest based on average historical excess availability levels with a range of PRIME - 0.25% to PRIME + 0.50% or Adjusted LIBO Rate + 1.25% to Adjusted LIBO Rate + 2.00%.

At March 31, 2017, we had outstanding borrowings of $44.2 million, utilized $4.4 million of the letters of credit sublimit, and had excess availability under the Revolving Facility of $13.1 million. The weighted average interest rate on our outstanding borrowings under the Revolving Facility at March 31, 2017 was 2.52%.

The following table demonstrates the impact of interest rate changes on our annual interest expense on outstanding borrowings under the Revolving Facility, excluding interest on letters of credit, based on the weighted average interest rate on the loan as of March 31, 2017:

($ in thousands)	Principal	Interest Rate	Annual Interest Expense
–150 basis points	$44,175	1.11%	$ 490,343
–100 basis points	$44,175	1.61%	$ 711,218
Unchanged	$44,175	2.61%	$ 1,152,968
+100 basis points	$44,175	3.61%	$ 1,594,718
+150 basis points	$44,175	4.11%	$ 1,815,593

Commodity Price Risk

We are exposed to commodity price risk arising from changes in the market price of green coffee. We value green coffee inventory on the LIFO basis. In the normal course of business we hold a large green coffee inventory and enter into forward commodity purchase agreements with suppliers. We are subject to price risk resulting from the volatility of green coffee prices. Due to competition and market conditions, volatile price increases cannot always be passed on to our customers.

We purchase over-the-counter coffee-related derivative instruments to enable us to lock in the price of green coffee commodity purchases. These derivative instruments also may be entered into at the direction of the customer under commodity-based pricing arrangements to effectively lock in the purchase price of green coffee under such customer arrangements, in certain cases up to 18 months or longer in the future. We account for certain coffee-related derivative instruments as accounting hedges in order to minimize the volatility created in our quarterly results from utilizing these derivative contracts and to improve comparability between reporting periods.

When we designate coffee-related derivative instruments as cash flow hedges, we formally document the hedging instruments and hedged items, and measure at each balance sheet date the effectiveness of our hedges. The effective portion of the change in fair value of the derivative is reported in AOCI and subsequently reclassified into cost of goods sold in the period or periods when the hedged transaction affects earnings. For the three months ended March 31, 2017 and 2016, respectively, we reclassified $0.9 million in net gains and $(2.7) million in net losses on derivative instruments designated as cash flow hedges, excluding tax, respectively, into cost of goods sold from AOCI. For the nine months ended March 31, 2017 and 2016, we reclassified $0.6 million in net gains and $(11.5) million in net losses on derivative instruments designated as cash flow hedges, excluding tax, respectively, into cost of goods sold from AOCI. Any ineffective portion of the derivative's change in fair value is recognized currently in “Other, net.” Gains or losses deferred in AOCI associated with terminated derivative instruments, derivative instruments that cease to be highly effective hedges, derivative instruments for which the forecasted transaction is reasonably possible but no longer probable of occurring, and cash flow hedges that have been otherwise discontinued remain in AOCI until the hedged item affects earnings. If it becomes probable that the forecasted transaction designated as the hedged item in a cash flow hedge will not occur, we recognize any gain or loss deferred in AOCI in “Other, net” at that time. For the three months ended March 31, 2017 and 2016, we recognized in “Other, net” $90,000 in net gains and $(0.1) million in net losses, respectively, on coffee-related derivative instruments designated as cash flow hedges due to ineffectiveness. For the nine months ended March 31, 2017 and 2016, we recognized in “Other, net” $63,000 in net gains and $(0.6) million in net losses, respectively, on coffee-related derivative instruments designated as cash flow hedges due to ineffectiveness.

For derivative instruments that are not designated in a hedging relationship, and for which the normal purchases and normal sales exception has not been elected, the changes in fair value are reported in “Other, net.” In each of the three months ended March 31, 2017 and 2016, we recorded in “Other, net” net gains of $0.2 million on coffee-related derivative instruments not designated as accounting hedges. For the nine months ended March 31, 2017 and 2016, we recorded in “Other, net” net losses on coffee-related derivative instruments not designated as accounting hedges in the amounts of $(1.1) million and $(0.5) million, respectively.

The following table summarizes the potential impact as of March 31, 2017 to net income and AOCI from a hypothetical 10% change in coffee commodity prices. The information provided below relates only to the coffee-related derivative instruments and does not include, when applicable, the corresponding changes in the underlying hedged items:

	Increase (Decrease) to Net Income		Increase (Decrease) to AOCI	
(In thousands)	10% Increase in Underlying Rate	10% Decrease in Underlying Rate	10% Increase in Underlying Rate	10% Decrease in Underlying Rate
Coffee-related derivative instruments(1)	$ 18	$ (18)	$ 1,702	$ (1,702)

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(1) The Company's purchase contracts that qualify as normal purchases include green coffee purchase commitments for which the price has been locked in as of March 31, 2017. These contracts are not included in the sensitivity analysis above as the underlying price has been fixed.

Item 4. Controls and Procedures

Disclosure Controls and Procedures

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

As of March 31, 2017, our management, with the participation of our Chief Executive Officer (principal executive officer) and Chief Financial Officer (principal financial and accounting officer), carried out an evaluation of the effectiveness of our disclosure controls and procedures pursuant to Rule 13a-15(e) promulgated under the Exchange Act. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective.

Changes in Internal Control Over Financial Reporting

Management has determined that there has been no change in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) promulgated under the Exchange Act) during our fiscal quarter ended March 31, 2017 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

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

Item 1A. Risk Factors

Our DSD Restructuring Plan may be unsuccessful or less successful than we presently anticipate, which may adversely affect our business, operating results and financial condition.

On February 21, 2017, we announced the DSD Restructuring Plan in an effort to realign functions into a channel based selling organization, streamline operations, acquire certain channel specific expertise, and improve selling effectiveness and financial results. We cannot guarantee that we will be successful in implementing the DSD Restructuring Plan in a timely manner or at all, or that such efforts will not interfere with our ability to achieve our business objectives. The DSD Restructuring Plan costs may be greater than anticipated which could cause us to incur indebtedness in amounts in excess of expectations. We may be unable to realize the contemplated benefits in connection with the reduction in workforce and other potential restructuring activities, which may have an adverse impact on our performance. Moreover, reductions in force can be difficult to manage, may cause concerns from current and potential customers, suppliers and other third parties with whom we do business which may cause them to delay or curtail doing business with us, may increase the likelihood of key employees leaving the Company or may make it more difficult to recruit new employees, and may have an adverse impact on our business. If we fail to achieve our objectives of the DSD Restructuring Plan, further restructuring may be necessary. Management continues to analyze the Company’s DSD organization and evaluate other potential restructuring opportunities in light of the Company’s strategic priorities which could result in additional restructuring charges the amount of which could be material.

Item 6. Exhibits

See Exhibit Index.

SIGNATURES

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

FARMER BROS. CO.

By: /s/ Michael H. Keown

Michael H. Keown
President and Chief Executive Officer
(chief executive officer)
May 10, 2017

By: /s/ David G. Robson

David G. Robson
Treasurer and Chief Financial Officer
(principal financial and accounting officer)
May 10, 2017

EXHIBIT INDEX

2.1	Asset Purchase Agreement, dated as of November 16, 2015, by and between Farmer Bros. Co. and Harris Spice Company Inc. (filed as Exhibit 10.1 to the Company’s Current Report on Form 8-K filed with the SEC on November 30, 2015 and incorporated herein by reference).*
2.2	Purchase Agreement, dated as of September 9, 2016, among Tea Leaf Acquisition Corp., China Mist Brands, Inc., certain stockholders of China Mist Brands, Inc., for certain limited purposes, Daniel W. Schweiker and John S. Martinson, and Daniel W. Schweiker, in his capacity as the sellers’ representative (filed as Exhibit 10.1 to the Company’s Current Report on Form 8-K filed with the SEC on September 14, 2016 and incorporated herein by reference).*
3.1	Certificate of Incorporation (filed as Exhibit 3.1 to the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 2014 filed with the SEC on September 16, 2014 and incorporated herein by reference).
3.2	Amended and Restated Bylaws (filed as Exhibit 3.2 to the Company’s Quarterly Report on Form 10-Q for the quarter ended March 31, 2016 filed with the SEC on May 6, 2016 and incorporated herein by reference).
3.3	Certificate of Elimination (filed as Exhibit 3.3 to the Company's Registration Statement on Form 8-A/A filed with the SEC on September 24, 2015 and incorporated herein by reference).
4.1	Specimen Stock Certificate (filed as Exhibit 4.1 to the Company's Registration Statement on Form 8-A/A filed with the SEC on September 24, 2015 and incorporated herein by reference).
4.2	Registration Rights Agreement, dated as of June 16, 2016, among Farmer Bros. Co. and the Investors identified on the signature pages thereto (filed as Exhibit 10.1 to the Company’s Current Report on Form 8-K filed with the SEC on June 21, 2016 and incorporated herein by reference).
10.1	Credit Agreement, dated as of March 2, 2015, by and among Farmer Bros. Co., Coffee Bean International, Inc., FBC Finance Company, Coffee Bean Holding Co., Inc., the Lenders party thereto and JPMorgan Chase Bank, N.A., as Administrative Agent (filed as Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the SEC on March 6, 2015 and incorporated herein by reference).
10.2	Joinder Agreement, dated as of October 11, 2016, by and among China Mist Brands, Inc., Farmer Bros. Co., as the Borrower’s Representative, and JPMorgan Chase Bank, N.A., as Administrative Agent, under that certain Credit Agreement dated as of March 2, 2015 (filed as Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q for the quarter ended December 31, 2016 filed with the SEC on February 9, 2017 and incorporated herein by reference).
10.3	Pledge and Security Agreement, dated as of March 2, 2015, by and among Farmer Bros. Co., Coffee Bean International, Inc., FBC Finance Company, Coffee Bean Holding Co., Inc. and JPMorgan Chase Bank, N.A., as Administrative Agent (filed as Exhibit 10.2 to the Company's Current Report on Form 8-K filed with the SEC on March 6, 2015 and incorporated herein by reference).
10.4	Joinder to Pledge and Security Agreement, dated as of October 11, 2016, by and among Farmer Bros. Co., Coffee Bean International, Inc., FBC Finance Company, Coffee Bean Holding Co., Inc., China Mist Brands, Inc. and JPMorgan Chase Bank, N.A., as Administrative Agent (filed as Exhibit 10.4 to the Company’s Quarterly Report on Form 10-Q for the quarter ended December 31, 2016 filed with the SEC on February 9, 2017 and incorporated herein by reference).
10.5	Farmer Bros. Co. Pension Plan for Salaried Employees (filed as Exhibit 10.3 to the Company’s Quarterly Report on Form 10-Q for the quarter ended September 30, 2012 filed with the SEC on November 5, 2012 and incorporated herein by reference).**
10.6	Amendment No. 1 to Farmer Bros. Co. Retirement Plan effective June 30, 2011 (filed as Exhibit 10.4 to the Company’s Annual Report on Form 10-K for the fiscal year ended June 30, 2016 filed with the SEC on September 14, 2016 and incorporated herein by reference).**

10.7	Action of the Administrative Committee of the Farmer Bros. Co. Qualified Employee Retirement Plans amending the Farmer Bros. Co. Retirement Plan, effective as of December 6, 2012 (filed as Exhibit 10.8 to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2013 filed with the SEC on May 6, 2013 and incorporated herein by reference).**
10.8	Farmer Bros. Co. 2005 Incentive Compensation Plan (filed as Exhibit 10.10 to the Company's Quarterly Report on Form 10-Q for the quarter ended December 31, 2013 filed with the SEC on February 10, 2014 and incorporated herein by reference).**
10.9	Amendment to 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 December 10, 2014 and incorporated herein by reference).**
10.10	Farmer Bros. Co. Amended and Restated Employee Stock Ownership Plan, as adopted by the Board of Directors on December 9, 2010 and effective as of January 1, 2010 (filed as Exhibit 10.8 to the Company’s Quarterly Report on Form 10-Q for the quarter ended March 31, 2016 filed with the SEC on May 6, 2016 and incorporated herein by reference).**
10.11	Action of the Administrative Committee of the Farmer Bros. Co. Qualified Employee Retirement Plans amending the Farmer Bros. Co. Amended and Restated Employee Stock Ownership Plan, effective as of January 1, 2012 (filed as Exhibit 10.7 to the Company’s Annual Report on Form 10-K for the fiscal year ended June 30, 2012 filed with the SEC on September 7, 2012 and incorporated herein by reference).**
10.12	Action of the Administrative Committee of the Farmer Bros. Co. Qualified Employee Retirement Plans amending the Farmer Bros. Co. Amended and Restated Employee Stock Ownership Plan, effective as of January 1, 2015 (filed as Exhibit 10.10 to the Company’s Quarterly Report on Form 10-Q for the quarter ended September 30, 2015 filed with the SEC on November 9, 2015 and incorporated herein by reference).**
10.13	Action of the Administrative Committee of the Farmer Bros. Co. Qualified Employee Retirement Plans amending the Farmer Bros. Co. Amended and Restated Employee Stock Ownership Plan, effective as of January 1, 2015 (filed as Exhibit 10.11 to the Company’s Quarterly Report on Form 10-Q for the quarter ended September 30, 2015 filed with the SEC on November 9, 2015 and incorporated herein by reference).**
10.14	Amendment dated October 6, 2016 to Farmer Bros. Co. Amended and Restated Employee Stock Ownership Plan (filed as Exhibit 10.1 to the Company’s Current Report on Form 8-K filed with the SEC on October 7, 2016 and incorporated herein by reference).**
10.15	ESOP Loan Agreement including ESOP Pledge Agreement and Promissory Note, dated March 28, 2000, between Farmer Bros. Co. and Wells Fargo Bank, N.A., Trustee for the Farmer Bros Co. Employee Stock Ownership Plan (filed as Exhibit 10.12 to the Company’s Quarterly Report on Form 10-Q for the quarter ended March 31, 2016 filed with the SEC on May 6, 2016 and incorporated herein by reference).
10.16	Amendment No. 1 to ESOP Loan Agreement, dated June 30, 2003, between Farmer Bros. Co. and Wells Fargo Bank, N.A., Trustee for the Farmer Bros Co. Employee Stock Ownership Plan (filed as Exhibit 10.13 to the Company’s Quarterly Report on Form 10-Q for the quarter ended March 31, 2016 filed with the SEC on May 6, 2016 and incorporated herein by reference).
10.17	ESOP Loan Agreement No. 2 including ESOP Pledge Agreement and Promissory Note, 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 10.14 to the Company’s Quarterly Report on Form 10-Q for the quarter ended March 31, 2016 filed with the SEC on May 6, 2016 and incorporated herein by reference).
10.18	Employment Agreement, dated March 9, 2012, by and between Farmer Bros. Co. and Michael H. Keown (filed herewith).**

10.19	Employment Agreement, effective as of May 27, 2015, by and between Farmer Bros. Co. and Scott W. Bixby (filed as Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the SEC on May 20, 2015 and incorporated herein by reference).**
10.20	Employment Agreement, effective as of August 6, 2015, by and between Farmer Bros. Co. and Thomas J. Mattei, Jr. (filed as Exhibit 10.20 to the Company’s Annual Report on Form 10-K for the fiscal year ended June 30, 2015 filed with the SEC on September 14, 2015 and incorporated herein by reference).**
10.21	Employment Agreement, dated as of September 25, 2015, by and between Farmer Bros. Co. and Isaac N. Johnston, Jr. (filed as Exhibit 10.1 to the Company’s Current Report on Form 8-K filed with the SEC on September 29, 2015 and incorporated herein by reference).**
10.22	Employment Agreement, dated as of February 17, 2017, by and between Farmer Bros. Co. and David G. Robson (filed as Exhibit 10.1 to the Company’s Current Report on Form 8-K filed with the SEC on February 23, 2017 and incorporated herein by reference).**
10.23	Employment Agreement, dated as of February 17, 2017, by and between Farmer Bros. Co. and Ellen D. Iobst (filed as Exhibit 10.2 to the Company’s Current Report on Form 8-K filed with the SEC on February 23, 2017 and incorporated herein by reference).**
10.24	Employment Agreement, dated as of February 17, 2017, by and between Farmer Bros. Co. and Scott A. Siers (filed as Exhibit 10.3 to the Company’s Current Report on Form 8-K filed with the SEC on February 23, 2017 and incorporated herein by reference).**
10.25	Form of First Amendment to Employment Agreement entered into between Farmer Bros. Co. and each of Michael H. Keown, David G. Robson, Ellen D. Iobst, Scott W. Bixby, Scott A. Siers and Thomas J. Mattei, Jr. (filed herewith).**
10.26	Confidential General Release and Separation Agreement by and between Barry C. Fischetto and Farmer Bros. Co. dated February 17, 2017 (filed as Exhibit 10.1 to the Company’s Current Report on Form 8-K filed with the SEC on February 17, 2017 and incorporated herein by reference).**
10.27	Farmer Bros. Co. 2007 Omnibus Plan, as amended (as approved by the stockholders at the 2012 Annual Meeting of Stockholders on December 6, 2012) (filed as Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the SEC on December 12, 2012 and incorporated herein by reference).**
10.28	Farmer Bros. Co. Amended and Restated 2007 Long-Term Incentive Plan (as approved by the stockholders at the 2013 Annual Meeting of Stockholders on December 5, 2013) (filed as Exhibit 10.2 to the Company's Current Report on Form 8-K filed with the SEC on December 11, 2013 and incorporated herein by reference).**
10.29	Addendum to Farmer Bros. Co. Amended and Restated 2007 Long-Term Incentive Plan (filed as Exhibit 10.30 to the Company's Quarterly Report on Form 10-Q for the quarter ended December 31, 2014 filed with the SEC on February 9, 2015 and incorporated herein by reference).**
10.30	Form of Farmer Bros. Co. 2007 Omnibus Plan Stock Option Grant Notice and Stock Option Agreement (filed as Exhibit 10.2 to the Company’s Current Report on Form 8-K filed with the SEC on April 4, 2013 and incorporated herein by reference).**
10.31	Form of Farmer Bros. Co. Amended and Restated 2007 Long-Term Incentive Plan Stock Option Grant Notice and Stock Option Agreement (filed as Exhibit 10.2 to the Company's Current Report on Form 8-K filed with the SEC on December 18, 2013 and incorporated herein by reference).**
10.32	Form of Farmer Bros. Co. 2007 Omnibus Plan Restricted Stock Award Grant Notice and Restricted Stock Award Agreement (filed as Exhibit 10.3 to the Company’s Current Report on Form 8-K filed with the SEC on April 4, 2013 and incorporated herein by reference).**
10.33	Form of Farmer Bros. Co. Amended and Restated 2007 Long-Term Incentive Plan Restricted Stock Award Grant Notice and Restricted Stock Award Agreement (filed as Exhibit 10.3 to the Company's Current Report on Form 8-K filed with the SEC on December 18, 2013 and incorporated herein by reference).**

10.34	Stock Ownership Guidelines for Directors and Executive Officers (filed as Exhibit 10.27 to the Company’s Annual Report on Form 10-K for the fiscal year ended June 30, 2016 filed with the SEC on September 14, 2016 and incorporated herein by reference).**
10.35	Form of Change in Control Severance Agreement for Executive Officers of the Company (with schedule of executive officers attached) (filed herewith).**
10.36	Form of First Amendment to Change in Control Severance Agreement entered into between Farmer Bros. Co. and each of Michael H. Keown, David G. Robson, Ellen D. Iobst, Scott W. Bixby, Scott A. Siers and Thomas J. Mattei, Jr. (filed herewith).**
10.37	Form of Indemnification Agreement for Directors and Officers of the Company, as adopted on December 5, 2013 (with schedule of indemnitees attached) (filed as Exhibit 10.4 to the Company’s Current Report on Form 8-K filed with the SEC on February 23, 2017 and incorporated herein by reference).**
10.38	Lease Agreement, dated as of July 17, 2015, by and between Farmer Bros. Co. as Tenant, and WF-FB NLTX, LLC as Landlord (filed as Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the SEC on July 23, 2015 and incorporated herein by reference).
10.39	First Amendment to Lease Agreement dated as of December 29, 2015, by and between Farmer Bros. Co. as Tenant, and WF-FB NLTX, LLC as Landlord (filed as Exhibit 10.36 to the Company’s Quarterly Report on Form 10-Q for the quarter ended March 31, 2016 filed with the SEC on May 6, 2016 and incorporated herein by reference).
10.40	Amendment No. 2 to Lease Agreement dated as of March 10, 2016, by and between Farmer Bros. Co. as Tenant, and WF-FB NLTX, LLC as Landlord (filed as Exhibit 10.37 to the Company’s Quarterly Report on Form 10-Q for the quarter ended March 31, 2016 filed with the SEC on May 6, 2016 and incorporated herein by reference).
10.41	Termination of Lease Agreement, dated as of September 15, 2016, by and between Farmer Bros. Co. as Tenant, and WF-FB NLTX, LLC as Landlord (filed as Exhibit 10.36 to the Company’s Quarterly Report on Form 10-Q for the quarter ended September 30, 2016 filed with the SEC on November 9, 2016).
10.42	Development Management Agreement dated as of July 17, 2015, by and between Farmer Bros. Co., as Tenant and Stream Realty Partners-DFW, L.P., as Developer (filed as Exhibit 10.2 to the Company's Current Report on Form 8-K filed with the SEC on July 23, 2015 and incorporated herein by reference).
10.43	First Amendment to Development Management Agreement dated as of January 1, 2016, by and between Farmer Bros. Co., as Tenant and Stream Realty Partners-DFW, L.P., as Developer (filed as Exhibit 10.39 to the Company’s Quarterly Report on Form 10-Q for the quarter ended March 31, 2016 filed with the SEC on May 6, 2016 and incorporated herein by reference).
10.44	Second Amendment to Development Management Agreement dated as of March 25, 2016, by and between Farmer Bros. Co., as Tenant and Stream Realty Partners-DFW, L.P., as Developer (filed as Exhibit 10.40 to the Company’s Quarterly Report on Form 10-Q for the quarter ended March 31, 2016 filed with the SEC on May 6, 2016 and incorporated herein by reference).
10.45	AIA Document A141 - 2014, Standard Form of Agreement Between Owner and Design-Builder, dated as of September 22, 2015, between Farmer Bros. Co. and The Haskell Company (filed as Exhibit 10.1 to the Company’s Current Report on Form 8-K filed with the SEC on September 22, 2016 and incorporated herein by reference).
10.46	Change Order No. 12, dated as of September 17, 2016, between Farmer Bros. Co. and The Haskell Company (filed as Exhibit 10.2 to the Company’s Current Report on Form 8-K filed with the SEC on September 22, 2016 and incorporated herein by reference).

10.47	Agreement of Purchase and Sale and Joint Escrow Instructions, dated as of April 11, 2016, by and between Farmer Bros. Co. as Seller, and Bridge Acquisition, LLC as Buyer (filed as Exhibit 10.41 to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2016 filed with the SEC on May 6, 2016 and incorporated herein by reference).
10.48	First Amendment to Agreement of Purchase and Sale and Joint Escrow Instructions, dated as of June 1, 2016, by and between Farmer Bros. Co. and Bridge Acquisition, LLC (filed as Exhibit 10.39 to the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 2016 filed with the SEC on September 14, 2016 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 and Accounting Officer Certification Pursuant to Securities Exchange Act Rules 13a-14 and 15d-14 as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (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 and Accounting Officer Certification Pursuant to 18 U.S.C. Section 1350 as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (furnished herewith).
101	The following financial statements from the Company's Quarterly Report on Form 10-Q for the fiscal period ended March 31, 2017, formatted in eXtensible Business Reporting Language: (i) Condensed Consolidated Balance Sheets, (ii) Condensed Consolidated Statements of Operations, (iii) Condensed Consolidated Statements of Comprehensive Income, (iv) Condensed Consolidated Statements of Cash Flows, and (v) Notes to Unaudited Condensed Consolidated Financial Statements (furnished herewith).

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* Pursuant to Item 601(b)(2) of Regulation S-K, the schedules and/or exhibits to this agreement have been omitted. The Registrant undertakes to supplementally furnish copies of the omitted schedules and/or exhibits to the Securities and Exchange Commission upon request.

** Management contract or compensatory plan or arrangement.

Exhibit 10.18

EXECUTION VERSION

EMPLOYMENT AGREEMENT
(Farmer Bros. Co. / Keown)

This Employment Agreement (this "Agreement") is made and entered into as of March 9, 2012 between FARMER BROS. CO., a Delaware corporation (the "Company"), and MICHAEL H. KEOWN ("Keown") who agree as follows:

1. Employment. The Company hereby employs Keown, and Keown accepts employment from the Company, on the terms and conditions herein stated.

2. Term and Location of Employment. The term of Keown's employment under this Agreement will commence on March 23, 2012 or on such other date as Keown and the Company's Board of Directors (the "Board") may mutually agree (the "Commencement Date") and shall end when terminated under Section 8 below. Keown's principal place of employment during the term of this Agreement shall be the Company's offices in Torrance, California.

3. Duties. Keown shall serve as the President and Chief Executive Officer of the Company, reporting directly to the Board. As Chief Executive Officer, Keown shall oversee and direct the operations of the Company including direct or indirect supervision of management personnel of the Company, and perform such other duties consistent with the responsibilities of Chief Executive Officer, all subject to the direction of the Board. Keown shall devote to the Company's business substantially all of his working time. Service as a director of for-profit organizations shall require approval of the Board. Keown shall be appointed to the vacancy on the Board occasioned by Jeffrey Wahba's resignation therefrom.

4. Base Salary. Keown shall receive a base salary of $475,000 per annum, payable in accordance with the Company's normal payroll practices. The annual base salary amount shall be reviewed each year by the Company and may be adjusted upward or downward by the Company from time to time but shall not be reduced below $475,000 per annum.

5. Bonuses.

A. Keown shall be entitled to participate in the Company's 2005 Incentive Compensation Plan or any successor plan ("Plan") each year, commencing with the Company's 2012 fiscal year, so long as the Plan remains in effect and one or more of the Company's other executive officers who are full-time Company employees ("Senior Executives") also participate. Under the terms of the Plan, the Compensation Committee of the Board will, in its discretion, determine the Performance Criteria, as defined in the Plan, and all other variables by which Keown's bonus for such year under the Plan will be measured. The Target Award, as defined in the Plan, shall be an amount equal to one hundred percent (100%) (the "Applicable Percentage") of Keown's base annual salary, except that the Applicable Percentage for fiscal 2012 shall be reduced pro rata for the period July 1, 2011 to the Commencement Date. If Keown is employed by the Company on June 30, 2012, Keown shall be entitled to a bonus for fiscal 2012 of $475,000 reduced pro-rata for the period July 1, 2011 to the Commencement Date (a "Guaranteed Bonus") subject to the condition that his employment is not terminated by the Company for "Cause" or by his resignation without "Good Reason," as those terms are defined in Sections 8A and 8B below, prior to the date the Compensation Committee takes final action on bonuses for Senior Executives under the Plan for fiscal 2012. If Keown is employed by the Company on June 30, 2013, Keown shall be entitled to a bonus (a "Guaranteed Bonus") for fiscal 2013 equal to one-third (1/3) of his Target Award for fiscal 2013 under the Plan subject to the condition that his employment is not terminated by the Company for "Cause" or by his resignation without

“Good Reason,” as these terms are defined in Sections 8A and 8B below, prior to the date the Compensation Committee takes final action on Plan bonuses for Senior Executives for fiscal 2013. “Performance Criteria,” as defined in the Plan, for Keown’s fiscal 2012 Target Award shall be determined by the Compensation Committee after the Commencement Date.

B. Keown’s participation in the Plan is subject to all Plan terms and conditions, provided that any conflict between the provisions of the Plan and this Section 5 shall be governed by the latter. Under the terms of the Plan, no bonus is earned until awarded by the Compensation Committee after completion of the fiscal year, and the Compensation Committee may, in its discretion, reduce, entirely eliminate or increase the bonus indicated by the Performance Criteria and other Plan factors. The provisions of the Plan notwithstanding, if after the end of a fiscal year and before the Compensation Committee takes final action on Plan bonuses for Senior Executives for the preceding fiscal year, Keown’s employment is terminated without “Cause” or he resigns with “Good Reason,” as those terms are defined in Sections 8A and 8B below, Keown will receive a bonus under Section 9C(iv) below for the preceding fiscal year in an amount computed by application of Keown’s Performance Criteria to his Target Award for such fiscal year, but not less than the Guaranteed Bonus, if any, for such fiscal year. The Guaranteed Bonuses are not subject to alteration by the Board or Compensation Committee; Keown acknowledges receipt of a copy of the Plan.

6. Equity Awards

A. Awards. In accordance with the provisions of the Farmer Bros. Co. 2007 Omnibus Plan (the “2007 Omnibus Plan”), on the Commencement Date or, if such day falls within a regular blackout period under the Company’s Insider Trading Policy (“Blackout Period”), on the first business day following the end of such Blackout Period (the “Award Date”), the Company will make following equity awards to Keown: (i) fifteen thousand (15,000) shares of restricted stock (“Restricted Stock Award”); (ii) seventy thousand (70,000) non-qualified stock options with a seven (7) year term at an exercise price equal to the closing price of the Company’s common stock on the grant date (“Option Award”); and (iii) such number of shares of restricted stock equal to One Hundred Seventy Five Thousand Dollars ($175,000) divided by the closing price of the Company’s common stock on the Award Date (“Additional Restricted Stock Award” and, together with the Restricted Stock Award and Option Award, the “Awards”).

B. Public Information. Notwithstanding the foregoing, the timing of the Awards will be delayed during such period as there exists, in the opinion of the Company’s counsel, material information concerning the Company which has not been publicly disclosed.

C. Vesting. Provided Keown is then employed by the Company, the Awards will vest as follows: (i) the Restricted Stock Award will vest in its entirety on the third anniversary of the Award Date; (ii) the Option Award will vest ratably over three years on each anniversary of the Award Date; and (iii) the Additional Restricted Stock Award will vest fifty-eight percent (58%) on the first anniversary of the Award Date and forty-two percent (42%) on the second anniversary of the Award Date; provided, however, the vesting of the Awards will be accelerated in the case of death, “Permanent Incapacity,” termination of employment for other than “Cause,” or resignation for “Good Reason,” as such terms are defined below.

D. Award Agreements. The Awards will be evidenced by a Grant Notice and Stock Option Agreement or Grant Notice and Restricted Stock Agreement, as applicable, to be consistent with this Section 6 and in the Company’s usual form.

7. Benefits

A. The Company will provide to Keown all benefits and perquisites provided by the Company from time to time to its Senior Executives, subject to the eligibility requirements and the terms and conditions of the benefit plans and perquisite policies. For the avoidance of doubt, Keown's benefit package includes twenty-five (25) paid days off per contract year (i.e., the year ending on each anniversary of the Commencement Date) notwithstanding that the Company's paid days off policy currently would provide fewer days and excludes participation in the Company's defined benefit pension plan which has been frozen. Other included benefits and perquisites presently consist of group health insurance (PPO or HMO), life insurance, 401(k) plan, employee stock ownership plan, cell phone, company credit card, expense reimbursement and an automobile allowance. Not all of the foregoing benefits are 100% Company paid.

B. Keown shall be entitled to participate in the 2007 Omnibus Plan or any successor plan as administered by the Compensation Committee. The Awards pursuant to Section 6A are in lieu of any other awards under the 2007 Omnibus Plan in fiscal 2012. Thereafter, Keown shall be entitled to such future grants under the 2007 Omnibus Plan or any successor plan as are awarded to him by the Compensation Committee in its discretion.

C. The Company reserves the right to alter or discontinue any or all such benefits and perquisites, provided they are so altered or discontinued as to all Senior Executives.

D. The Company shall pay the following expenses related to Keown's relocation to Southern California:

(i) Reasonable moving and storage expenses;

(ii) Two (2) house hunting trips for Keown's spouse;

(iii) Weekly commuting by Keown between Los Angeles and Denver for up to six (6) months from the Commencement Date until Keown and his family relocate from Colorado;

(iv) Housing allowance of $5,000 per month for up to six (6) months from the Commencement Date while Keown is in non-owned housing; and

(v) Reimbursement for the brokerage commissions, customary title and escrow charges, and local transfer taxes incurred in connection with the sale of his Colorado home, subject to a cap of six percent (6%) of the selling price of the home.

All reimbursements pursuant to this Section 7D will be made against submitted supporting documentation except that the $5,000 monthly housing allowance is a fixed amount, not a reimbursement of incurred expenses. In addition to the foregoing, the Company shall pay to Keown prior to April 15, 2013 a "gross up" amount determined by the following formula:

> First, determine a gross up percentage as follows: Gross up percentage equals Keown's combined effective federal and state marginal tax rate ("tax rate") divided by (1.0 minus the tax rate).
>
> Next, multiply the gross up percentage by the aggregate amount of the taxable relocation expenses to determine the gross up amount.

Keown and the Company shall cooperate reasonably with one another in determining the gross up amount. In the event Keown resigns his employment with the Company without “Good Reason,” as defined in Section 8B, within two (2) years of the Commencement Date, Keown shall reimburse the Company for a prorated portion of the relocation expenses, including the gross up amount, paid by the Company to Keown pursuant to this Section 7D within thirty (30) days after his effective resignation date, which prorated portion shall be determined by multiplying such expenses by a fraction the numerator of which is the number of days remaining after the effective resignation date to the second anniversary of the Commencement Date and the denominator of which is 730.

8. Termination

A. Keown’s employment is terminable by the Company for good and sufficient cause (“Cause”), which shall consist only of: (i) a repeated refusal to follow reasonable directions from the Board after a written warning; (ii) a material breach of any Keown fiduciary duty of loyalty to the Company (a breach involving dishonesty or personal gain shall be deemed material regardless of the amount involved); (iii) conviction of a felony; (iv) commission of a willful violation of any law, rule or regulation involving moral turpitude and which the Board reasonably determines has adversely affected or will likely adversely affect the Company’s reputation; (v) commission of a willful or grossly negligent act, omission or course of conduct which has a material adverse effect on the Company; or (vi) commission of a material breach by Keown of this Agreement (other than any breach addressed by (i)-(v) above) which breach, if curable, is not cured within a reasonable time after written notice from the Board describing the nature of the breach in reasonable detail.

B. Keown’s employment shall terminate upon Keown’s resignation, with or without “Good Reason,” as defined below, death or Permanent Incapacity. “Permanent Incapacity” shall be deemed to have occurred if Keown has been unable to perform substantially all of his employment duties under Section 3 on a substantially full time basis by reason of a mental or physical condition for a period of ninety (90) consecutive days or for more than one hundred eighty days (180) in any period of three hundred sixty-five (365) consecutive days.

“Good Reason” shall consist only of (i) the Company’s material breach of this Agreement, (ii) a material reduction in Keown’s responsibilities, duties or authority, or (iii) a material relocation of Keown’s principal place of employment more than fifty (50) miles from the Company’s offices in Torrance, California; provided, however, that any such condition in subsections (i) through (iii) shall not constitute “Good Reason” unless both (x) Keown 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 Keown’s employment with the Company shall not be treated as a resignation for “Good Reason” unless such resignation occurs not more than one (1) year following the initial existence of the condition claimed to constitute “Good Reason.”

C. Keown’s employment shall terminate at the election of the Company at any time without Cause.

D. The termination of Keown’s employment for any reason shall constitute Keown’s resignation from (i) the Board of Directors of the Company; (ii) any director, officer or employee position Keown has with the Company or any of its subsidiaries; and (iii) all fiduciary positions Keown holds with respect to any employee benefit plans or trusts established by the Company. Keown agrees that this Agreement shall serve as written notice of resignation in the foregoing circumstances.

9. Payments upon Termination. The following amounts are payable upon termination of Keown's employment, as applicable:

A. In the event of a termination for any reason, base salary at the then existing rate, shall be prorated and paid through the effective termination date, along with accrued and unused paid days off (subject to the Company's paid days off policy).

B. If termination is due to Keown's death or Permanent Incapacity, the Company shall also pay to Keown upon termination an additional lump sum severance amount equal to Keown's Target Award under Section 5 for the fiscal year in which termination is effective prorated for the partial fiscal year ending on the effective termination date; and, if the termination is due to death or Permanent Incapacity and occurs after the end of a fiscal year but before the Compensation Committee takes final action on Plan bonuses for Senior Executives for the preceding fiscal year, the Company will pay to Keown a bonus for the preceding fiscal year in an amount computed by application of Keown's Performance Criteria to his Target Award for such fiscal year, but not less than the Guaranteed Bonus, if any, for such fiscal year.

C. If termination occurs at the election of the Company without Cause or by Keown's resignation for Good Reason, Keown will receive as severance:

(i) base salary continuation at the rate in effect on the date of termination for a period of eighteen (18) months if such termination is effective prior to July 1, 2014 or for a period of twelve (12) months if such termination is effective after June 30, 2014;

(ii) partially Company-paid COBRA coverage under the Company's health care plan for himself and his spouse for one (1) year after the effective termination date (the Company will pay the same percentage of the coverage cost that it would have paid had Keown's employment not terminated);

(iii) an amount equal to Keown's Target Award under Section 5 for the fiscal year in which the date of termination is effective prorated for the partial fiscal year ending on the effective termination date; and

(iv) such bonus amounts, if any, as are payable under Section 5B.

Keown is not obligated to seek other employment as a condition to receipt of the payments called for by this Section 9C, and Keown's earnings, income or profits from other employment or business activities after termination of his employment shall not reduce the Company's payment obligations under this Section 9C. Subject to Section 9D and Section 13J(ii), the amount referred to in clause 9C(i) above shall be paid in installments in accordance with the Company's standard payroll practices commencing in the month following the month in which Keown's Separation from Service occurs, and the amount referred to in clause 9C(iii) above shall be paid in a lump sum within thirty (30) days after the end of the Company's fiscal year in which Keown's Separation from Service occurs. The amount referred to in clause 9C(iv) shall be paid in a lump sum within thirty (30) days after the Compensation Committee takes final action on Plan bonuses for Senior Executives for the preceding fiscal year. As used herein, a "Separation from Service" occurs when Keown 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. Salary continuation payments shall commence, and the additional severance amounts shall be paid, only when the release required by Section 9D below has become effective.

D. As conditions to receiving the applicable payments under Section 9C above, Keown must execute and deliver to the Company within twenty-one (21) days following the termination of his employment (or such longer period as may be required under applicable law) a general release of claims against the Company other than claims to the payments called for by this Agreement, such release to be in form and content substantially as attached hereto as Exhibit A, and said release shall have become effective under applicable laws, including the Age Discrimination in Employment Act of 1967, as amended and Keown must not materially breach Section 11.

E. All benefits other than the entitlement to payments under Section 9C shall terminate automatically upon termination of Keown's employment except to the extent otherwise provided in the Company benefit plans or by law.

F. Except as provided in this Section 9 or by applicable Company benefit plans or laws, Keown shall not be entitled to any payments of any kind in connection with the termination of his employment by the Company.

10. Employee Handbook and Company Policies. So long as he is employed by the Company, Keown shall comply with, and shall be entitled to rights as set forth in the Company's Employee Handbook which may be revised from time to time and other Company policies as in effect and communicated to Keown from time to time. In the event that there is a conflict or contradiction between the contents of the Employee Handbook or other such Company policies and the provisions of this Agreement, then the provisions of this Agreement will prevail.

11. Confidential Information, Intellectual Property

A**.** Keown acknowledges that during the course of his employment with the Company, he will be given or will have access to non-public and confidential business information of the Company which will include information concerning pending or potential transactions, financial information concerning the Company, information concerning the Company's product formulas and processes, information concerning the Company's business plans and strategies, information concerning Company personnel and vendors, and other non-public proprietary information of the Company (all collectively called "Confidential Information"). All of the Confidential Information constitutes "trade secrets" under the Uniform Trade Secrets Act. Keown covenants and agrees that during and after the term of his employment by the Company he will not disclose such information or any part thereof to anyone outside the Company or use such information for any purpose other than the furtherance of the Company's interests without the prior written consent of the Board.

B. Keown further covenants that for a period of two (2) years after his employment by the Company terminates, he will not, directly or indirectly, overtly or tacitly, induce, attempt to induce, solicit or encourage (i) any customer or prospective customer of the Company who was a customer or was contacted or solicited by the Company at any time during the last one hundred eighty (180) days of Keown's employment with the Company (the "window period") to cease doing business with, or not to do business with, the Company or (ii) any person employed by the Company at any time during the window period to leave the Company.

C. The Company and Keown agree that the covenants set forth in this Section 11 are reasonably necessary for the protection of the Company's Confidential Information and that a breach of the foregoing covenants will cause the Company irreparable damage not compensable by monetary damages, and that in the event of such breach or threatened breach, at the Company's election, an action may be brought in a court of competent jurisdiction seeking a temporary restraining order and a preliminary injunction against such breach or threatened breach notwithstanding the arbitration and reference provisions of Section 13F below. Upon the court's decision on the application for a preliminary injunction, the court action shall be stayed and the remainder of the dispute submitted to arbitration or reference under Section 13F. The prevailing party in such legal action shall be entitled to recover its costs of suit including reasonable attorneys' fees.

D. The Company shall own all rights in and to the results, proceeds and products of Keown's services hereunder, including without limitation, all ideas and intellectual property created or developed by Keown and which is related to Keown's employment.

12. Integration with Change in Control Severance Agreement. If Keown becomes eligible for benefits under Section 3 of the Change in Control Severance Agreement executed concurrently herewith, the benefits provided by Section 4 of that Agreement shall be in lieu of, and not in addition to, the benefits provided by Section 9C of this Agreement.

13. Miscellaneous

A. This Agreement and the Change in Control Severance Agreement and Indemnification Agreement entered into concurrently herewith contain the entire agreement of the parties on the subject of Keown's employment by the Company, all prior and contemporaneous agreements, promises or understandings being merged herein. This Agreement can be modified only by a writing signed by both parties hereto.

B. Keown cannot assign this Agreement or delegate his duties hereunder. Subject to the preceding sentence, this Agreement shall bind and inure to the benefit of the parties hereto, their heirs, personal representatives, successors and assigns.

C. No waiver of any provision or consent to any exception to the terms of this Agreement shall be effective unless in writing and signed by the party to be bound and then only to the specific purpose, extent and instance so provided. This Agreement may be executed in counterparts (and by facsimile signature), each of which shall be deemed an original but all of which together shall constitute one and the same agreement.

D. Each party shall execute and deliver such further instruments and take such other action as may be necessary or appropriate to consummate the transactions herein contemplated and to carry out the intent of the parties hereto.

E. This Agreement shall be construed in a fair and reasonable manner and not pursuant to any principle requiring that ambiguities be strictly construed against the party who caused same to exist.

F. (i) All disputes arising under or in connection with this Agreement, shall be submitted to a mutually agreeable arbitrator, or if the parties are unable to agree on an arbitrator within fifteen (15) days after a written demand for arbitration is made by either party, 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. 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 after the selection of an arbitrator by mutual agreement or, absent such mutual agreement, the filing of the application with JAMS by either party hereto, and a decision shall be rendered by the arbitrator within thirty (30) days after the conclusion of the hearing. The arbitrator shall have complete authority to interpret this Section 13F and 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 and the arbitrator's fee and costs, to the party determined to have substantially prevailed. Judgment on the award can be entered in a court of competent jurisdiction.

(ii) 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 non-jury civil action except that a former California Superior Court Judge selected by the parties or by JAMS, as hereinabove provided, shall be appointed as referee to try all issues of fact and law, without a jury, pursuant to California Code of Civil Procedure §638 et seq. The parties hereto expressly waive a trial by jury. 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.

G. Payments to Keown are subject to payroll deductions and withholdings if and to the extent required by law. Salary payments will be reduced on a dollar-for-dollar basis by payments received by Keown for disability under governmental or Company paid disability insurance programs. Payments to Keown under Section 9C are conditioned upon his continuing compliance with Sections 11A and 11B.

H. All provisions of this Agreement which must survive the termination of this Agreement to give them their intended effect shall so survive.

I. If any provision of this Agreement is determined to be unenforceable as illegal or contrary to public policy, it shall be deemed automatically amended to the extent necessary to render it enforceable provided the intent of the parties as expressed herein will not thereby be frustrated. Otherwise the unenforceable provision shall be severed from the remaining provisions which shall remain in effect.

J. (i) It is intended that any amounts payable under this Agreement shall either be exempt from or comply with Section 409A of the Internal Revenue Code (including the Treasury regulations and other published guidance relating thereto) ("Code Section 409A") so as not to subject Keown 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 Keown.

(ii) Notwithstanding any provision of this Agreement to the contrary, if Keown is a "specified employee" within the meaning of Treasury Regulation Section 1.409A-1(i) as of the date of Keown's Separation from Service, Keown shall not be entitled to any payment or benefit pursuant to Section 9C until the earlier of (i) the date which is six (6) months after Keown's Separation from Service for any reason other than death, or (ii) the date of Keown's death. Any amounts otherwise payable to Keown upon or in the six (6) month period following Keown's Separation from Service that are not so paid by reason of this Section 13J(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 Keown's Separation from Service (or, if earlier, as soon as practicable, and in all events within thirty (30) days, after the date of Keown's death). The provisions of this Section 13J(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 pursuant to Section 9C(ii) or reimbursements pursuant to Section 7 are taxable to Keown, any reimbursement payment due to Keown pursuant to such provision shall be paid to Keown on or before the last day of Keown'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 Keown receives in one taxable year shall not affect the amount of such benefits or reimbursements that Keown receives in any other taxable year.

[SIGNATURE PAGE FOLLOWS]

IN WITNESS WHEREOF, the parties have executed this Agreement as of the date first above written.

COMPANY: FARMER BROS. CO.,
a Delaware corporation

By:/s/ Jeffrey A, Wahba
Jeffrey A. Wahba
Interim Co-Chief Executive Officer and
Treasurer and Chief Financial Officer

KEOWN:

/s/ Michael H. Keown
Michael H. Keown

EXHIBIT A
FORM OF RELEASE AGREEMENT

I understand that my position with Farmer Bros. Co. (the “Company”) terminated effective ___________, 20__ (the “Separation Date”). The Company has agreed that if I choose to sign this Agreement, the Company will pay me severance benefits (minus the standard withholdings and deductions) pursuant to the terms of the Employment Agreement entered into as of March 9, 2012 between myself and the Company. I understand that I am not entitled to this severance payment unless I sign this Agreement. I understand that in addition to this severance, the Company will pay me all of my accrued salary and paid days off, to which I am entitled by law regardless of whether I sign this release.

In consideration for the severance payment I am receiving under this Agreement, I acknowledge and agree that I am bound by the provisions of Sections 11A and 11B of my Employment Agreement and hereby release the Company and its current and former officers, directors, agents, attorneys, employees, stockholders, and affiliates from any and all claims, liabilities, demands, causes of action, attorneys’ fees, damages, or obligations of every kind and nature, whether they are known or unknown, arising at any time prior to the date I sign this Agreement. This general release includes, but is not limited to: all federal and state statutory and common law claims related to my employment or the termination of my employment or related to breach of contract, tort, wrongful termination, discrimination, wages or benefits, or claims for any form of compensation. This release is not intended to release any claims I have or may have against any of the released parties for (a) indemnification as a director, officer, agent or employee under applicable law, charter document or agreement, (b) severance and other termination benefits specifically provided for in my Employment Agreement which constitutes a part of the consideration for this release, (c) health or other insurance benefits based on claims already submitted or which are covered claims properly submitted in the future, (d) vested rights under pension, retirement or other benefit plans, or (e) in respect of events, acts or omissions occurring after the date of this Release Agreement. In releasing claims unknown to me at present, I am waiving all rights and benefits under Section 1542 of the California Civil Code, and any law or legal principle of similar effect in any jurisdiction: “A general release does not extend to claims which the creditor does not know or suspect to exist in his favor at the time of executing the release, which if known by him must have materially affected his settlement with the debtor.”

I acknowledge that I am knowingly and voluntarily waiving and releasing any rights I may have under the federal Age Discrimination in Employment Act of 1967, as amended (“ADEA”). I also acknowledge that the consideration given for the waiver in the above paragraph is in addition to anything of value to which I was already entitled. I have been advised by this writing, as required by the ADEA that: (a) my waiver and release do not apply to any claims that may arise after my signing of this Agreement; (b) I should consult with an attorney prior to executing this release; (c) I have twenty-one (21) days within which to consider this release (although I may choose to voluntarily execute this release earlier); (d) I have seven (7) days following the execution of this release to revoke the Agreement; and (e) this Agreement will not be effective until the eighth day after this Agreement has been signed both by me and by the Company.

I accept and agree to the terms and conditions stated above:

Michael H. Keown ________________

Exhibit 10.25

[FORM OF]
FIRST AMENDMENT TO EMPLOYMENT AGREEMENT
(Farmer Bros. Co. / [Employee Last Name])

This First Amendment to Employment Agreement ("Amended Agreement") is made and entered into as of May 3, 2017 between FARMER BROS. CO., a Delaware corporation (the "Company"), and [EMPLOYEE FULL NAME] ("[Employee Last Name]"), who agree as follows:

WHEREAS the Company and [Employee Last Name] are parties to an Employment Agreement ("Agreement") dated [Date of Employment Agreement];

WHEREAS the parties desire to amend the Agreement to clarify certain rights and obligations of the parties to that Agreement;

The parties agree that the Agreement is amended to including the following paragraph:

Nothing contained in this Amended Agreement or the Agreement is intended to or shall be construed as prohibiting [Employee Last Name] from voluntarily communicating with the U.S. Securities and Exchange Commission ("Commission") about possible violations of law or from accepting a Commission whistleblower award.

IN WITNESS WHEREOF, the parties have executed this Agreement as of the date first above written.

COMPANY: FARMER BROS. CO.,
a Delaware corporation

By:____________
Michael H. Keown
President and Chief Executive Officer

[EMPLOYEE FULL NAME]:

By:____________
[Employee Full Name]

Exhibit 10.35

[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. Further, nothing contained in this Agreement is intended to or shall be construed as prohibiting Executive from voluntarily communicating with the U.S. Securities and Exchange Commission ("Commission") about possible violations of law or from accepting a Commission whistleblower award.

8. Settlement of Disputes; Arbitration

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

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

9. Miscellaneous

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

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

with a copy to: Farmer Bros. Co
1912 Farmer Brothers Drive
Northlake, TX 76262
Attn: Legal Department

If to the Executive: __________
____
____

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

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

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

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

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

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

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

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

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

(j) Section 409A

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

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

Executive’s Separation from Service (or, if earlier, as soon as practicable, and in all events within thirty (30) days, after the date of the Executive’s death). The provisions of this Section 9(j)(ii) shall only apply if, and to the extent, required to avoid the imputation of any tax, penalty or interest pursuant to Code Section 409A.

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

[SIGNATURES FOLLOW]

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

Company: FARMER BROS. CO.,
a Delaware corporation

By:_______________
Name:_______________
Title:_______________

Executive: _______________
[Name of Executive]

SCHEDULE OF EXECUTIVE OFFICERS

Michael H. Keown
Ellen D. Iobst
Thomas J. Mattei, Jr.
Scott W. Bixby
Scott A. Siers
David G. Robson

Exhibit 10.36

[FORM OF]
FIRST AMENDMENT TO CHANGE IN CONTROL SEVERANCE AGREEMENT
(Farmer Bros. Co. / [Executive Last Name])

This First Amendment to the Change in Control Severance Agreement ("Amended Agreement") is made and entered into as of [date of signature] between FARMER BROS. CO., a Delaware corporation (the "Company"), and [EXECUTIVE FULL NAME] ("[Executive Last Name]"), who agree as follows:

WHEREAS the Company and [Executive Last Name] are parties to a Change in Control Severance Agreement ("Agreement") dated [Date of Change in Control Severance Agreement];

WHEREAS the parties desire to amend the Agreement to clarify certain rights and obligations of the parties to that Agreement;

The parties agree that the Agreement is amended to including the following paragraph:

Nothing contained in this Amended Agreement or the Agreement is intended to or shall be construed as prohibiting [Executive's Last Name] from voluntarily communicating with the U.S. Securities and Exchange Commission ("Commission") about possible violations of law or from accepting a Commission whistleblower award.

IN WITNESS WHEREOF, the parties have executed this Agreement as of the date first above written.

COMPANY: FARMER BROS. CO.,
a Delaware corporation

By:____________
Michael H. Keown
President and Chief Executive Officer

[EXECUTIVE FULL NAME]:
By:____________
[Executive Full Name]

EXHIBIT 31.1

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

I, Michael H. Keown certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Farmer Bros. Co.;

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

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

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation;

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 10, 2017

/S/ MICHAEL H. KEOWN

Michael H. Keown
President and Chief Executive Officer
(principal executive officer)

EXHIBIT 31.2

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

I, David G. Robson, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Farmer Bros. Co.;

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

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

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation;

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 10, 2017

/S/ DAVID G. ROBSON

David G. Robson
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 quarterly period ended March 31, 2017, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Michael H. Keown, President and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: May 10, 2017

/s/ MICHAEL H. KEOWN

Michael H. Keown
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 Principal Financial and Accounting Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

In connection with the Quarterly Report of Farmer Bros. Co. (the "Company") on Form 10-Q for the quarterly period ended March 31, 2017 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, David G. Robson, 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 operation of the Company.

Dated: May 10, 2017

/S/ DAVID G. ROBSON

David G. Robson
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.