

**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 December 31, 2013

OR

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

Commission file number: 001-34249

FARMER BROS. CO.

(Exact Name of Registrant as Specified in Its Charter)

Delaware
(State of Incorporation)

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

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

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

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 or a smaller reporting company. See definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input checked="" type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/> (Do not check if a smaller reporting company)	Smaller reporting company	<input type="checkbox"/>

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 February 7, 2014 the registrant had 16,459,933 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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PART I - FINANCIAL INFORMATION (UNAUDITED)**Item 1. Financial Statements**

FARMER BROS. CO.
CONSOLIDATED BALANCE SHEETS (UNAUDITED)

(In thousands, except share and per share data)

	December 31, 2013	June 30, 2013
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 7,864	\$ 2,678
Restricted cash	3,576	8,084
Short-term investments	20,553	20,546
Accounts and notes receivable, net	46,368	43,922
Inventories	62,568	60,867
Income tax receivable	158	409
Prepaid expenses	3,490	3,243
Total current assets	144,577	139,749
Property, plant and equipment, net	94,589	92,159
Intangible assets, net	5,845	6,277
Other assets	6,760	5,484
Deferred income taxes	467	467
Total assets	\$ 252,238	\$ 244,136
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 29,482	27,740
Accrued payroll expenses	20,230	19,757
Short-term borrowings under revolving credit facility	8,523	9,654
Short-term obligations under capital leases	3,413	3,409
Short-term derivative liability	7,125	9,896
Deferred income taxes	923	923
Other current liabilities	5,519	5,171
Total current liabilities	75,215	76,550
Long-term borrowings under revolving credit facility	10,000	10,000
Long-term derivative liability	210	1,129
Accrued postretirement benefits	15,406	16,076
Other long-term liabilities—capital leases	7,657	8,759
Accrued pension liabilities	43,769	43,800
Accrued workers' compensation liabilities	7,818	5,132
Deferred income taxes	983	852
Total liabilities	\$ 161,058	\$ 162,298
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, \$1.00 par value, 500,000 shares authorized and none issued	\$ —	\$ —
Common stock, \$1.00 par value, 25,000,000 shares authorized; 16,464,055 and 16,454,422 issued and outstanding at December 31, 2013 and June 30, 2013, respectively	16,464	16,454
Additional paid-in capital	32,103	34,654
Retained earnings	100,593	94,080
Unearned ESOP shares	(16,035)	(20,836)
Less accumulated other comprehensive loss	(41,945)	(42,514)
Total stockholders' equity	\$ 91,180	\$ 81,838
Total liabilities and stockholders' equity	\$ 252,238	\$ 244,136

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

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

	Three Months Ended December 31,		Six Months Ended December 31,	
	2013	2012	2013	2012
Net sales	\$ 142,151	\$ 135,705	\$ 270,712	\$ 254,858
Cost of goods sold	86,713	85,352	165,802	159,884
Gross profit	55,438	50,353	104,910	94,974
Selling expenses	38,991	40,765	76,326	78,036
General and administrative expenses	10,724	9,041	19,970	17,810
Operating expenses	49,715	49,806	96,296	95,846
Income (loss) from operations	5,723	547	8,614	(872)
Other (expense) income:				
Dividend income	258	284	526	543
Interest income	110	99	218	191
Interest expense	(393)	(463)	(765)	(920)
Other, net	(587)	(7,656)	(1,370)	(2,711)
Total other expense	(612)	(7,736)	(1,391)	(2,897)
Income (loss) before taxes	5,111	(7,189)	7,223	(3,769)
Income tax expense (benefit)	402	(32)	709	409
Net income (loss)	\$ 4,709	\$ (7,157)	\$ 6,514	\$ (4,178)
Net income (loss) per common share—basic	\$ 0.30	\$ (0.46)	\$ 0.41	\$ (0.27)
Net income (loss) per common share—diluted	\$ 0.29	\$ (0.46)	\$ 0.41	\$ (0.27)
Weighted average common shares outstanding—basic	15,847,958	15,548,094	15,825,100	15,519,980
Weighted average common shares outstanding—diluted	15,964,682	15,548,094	15,904,456	15,519,980

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

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

	<u>Three Months Ended December 31,</u>		<u>Six Months Ended December 31,</u>	
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
Net income (loss)	\$ 4,709	\$ (7,157)	\$ 6,514	\$ (4,178)
Other comprehensive income (loss), net of tax:				
Deferred losses on derivatives designated as cash flow hedges	(2,260)	—	(5,385)	—
Reclassification of deferred losses on derivatives designated as cash flow hedges to cost of goods sold	3,735	—	5,954	—
Total comprehensive income (loss), net of tax	<u>\$ 6,184</u>	<u>\$ (7,157)</u>	<u>\$ 7,083</u>	<u>\$ (4,178)</u>

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

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

	Six Months Ended December 31,	
	2013	2012
Cash flows from operating activities:		
Net income (loss)	\$ 6,514	\$ (4,178)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	14,478	16,640
Provision for (recovery of) doubtful accounts	168	(963)
Deferred income taxes	131	—
Net gains on sales of assets	(50)	(3,202)
ESOP and share-based compensation expense	2,134	1,906
Net losses on derivatives and investments	1,949	7,038
Change in operating assets and liabilities:		
Restricted cash	4,508	(1,987)
Purchases of trading securities held for investment	(2,963)	(4,188)
Proceeds from sales of trading securities held for investment	2,207	3,417
Accounts and notes receivable	(2,106)	(2,053)
Inventories	(5,608)	(2,404)
Income tax receivable	251	289
Prepaid expenses and other assets	(85)	558
Accounts payable	2,361	3,885
Accrued payroll expenses and other current liabilities	(2,581)	(3,702)
Accrued postretirement benefits	(670)	351
Other long-term liabilities	(211)	(1,302)
Net cash provided by operating activities	\$ 20,427	\$ 10,105
Cash flows from investing activities:		
Purchases of property, plant and equipment	(12,128)	(6,396)
Proceeds from sales of property, plant and equipment	333	3,911
Net cash used in investing activities	\$ (11,795)	\$ (2,485)
Cash flows from financing activities:		
Proceeds from revolving credit facility	22,550	15,000
Repayments on revolving credit facility	(24,300)	(19,750)
Payments of capital lease obligations	(1,821)	(1,558)
Proceeds from stock option exercises	125	—
Net cash used in financing activities	\$ (3,446)	\$ (6,308)
Net increase in cash and cash equivalents	\$ 5,186	\$ 1,312
Cash and cash equivalents at beginning of period	2,678	3,906
Cash and cash equivalents at end of period	\$ 7,864	\$ 5,218

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

FARMER BROS. CO.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

Note 1. Summary of Significant Accounting Policies

Organization

Farmer Bros. Co., a Delaware corporation (including its consolidated subsidiaries unless the context otherwise requires, the "Company," or "Farmer Bros."), is a manufacturer, wholesaler and distributor of coffee, tea and culinary products. The Company is a direct distributor of coffee to restaurants, hotels, casinos, offices, quick service restaurants ("QSR's"), convenience stores, healthcare facilities and other foodservice providers, as well as private brand retailers in the QSR, grocery, drugstore, restaurant, convenience store and independent coffeehouse channels. The Company was founded in 1912, was incorporated in California in 1923, and reincorporated in Delaware in 2004. The Company operates in one business segment.

Basis of Presentation

The accompanying unaudited consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States ("GAAP") for complete consolidated financial statements. In the opinion of management, all adjustments (consisting only of normal recurring accruals, unless otherwise indicated) considered necessary for a fair presentation of the interim financial data have been included. Operating results for the three and six months ended December 31, 2013 are not necessarily indicative of the results that may be expected for the fiscal year ending June 30, 2014. Events occurring subsequent to December 31, 2013 have been evaluated for potential recognition or disclosure in the unaudited consolidated financial statements for the three and six months ended December 31, 2013.

The accompanying unaudited 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, 2013, filed with the Securities and Exchange Commission (the "SEC") on October 9, 2013.

Use of Estimates

The preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. 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.

Corrections to Consolidated Statement of Cash Flows

Subsequent to the issuance of the Company's consolidated financial statements for the year ended June 30, 2013 the Company identified certain errors in the consolidated statement of cash flows. Accordingly, the Company has corrected the accompanying consolidated statement of cash flows for the six months ended December 31, 2012.

Within the presentation of cash flows from operating activities, the Company previously presented purchases and proceeds from sales of trading securities held for investment on a net basis that should have been presented on a gross basis to comply with GAAP. In addition, the Company previously presented a \$7.1 million increase in the Company's derivative liability as a reduction in the net activity in short-term investments that should have been included in the change in "Accrued payroll expenses and other current liabilities." The errors had no impact on the amounts previously reported in the Company's consolidated balance sheets, statements of operations, and statements of comprehensive income (loss). Management has evaluated the materiality of these errors quantitatively and qualitatively and has concluded that the corrections of these errors are immaterial to the statement of cash flows and the financial statements as a whole.

The accompanying consolidated statement of cash flows has been corrected for the errors described above. The impact of the adjustments is shown below:

(In thousands)	Six Months Ended December 31, 2012	
	As Previously Reported	As Corrected
Cash flows from operating activities:		
Net loss	\$ (4,178)	\$ (4,178)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	16,640	16,640
Recovery of doubtful accounts	(963)	(963)
Deferred income taxes	—	—
Net gains on sales of assets	(3,202)	(3,202)
ESOP and share-based compensation expense	1,906	1,906
Net losses on derivatives and investments	7,038	7,038
Change in operating assets and liabilities:		
Restricted cash	(1,987)	(1,987)
Purchases of trading securities held for investment	—	(4,188)
Proceeds from sales of trading securities held for investment	—	3,417
Short-term investments	(7,854)	—
Accounts and notes receivable	(2,053)	(2,053)
Inventories	(2,404)	(2,404)
Income tax receivable	289	289
Prepaid expenses and other assets	558	558
Accounts payable	3,885	3,885
Accrued payroll expenses and other current liabilities	3,381	(3,702)
Accrued postretirement benefits	351	351
Other long-term liabilities	(1,302)	(1,302)
Net cash provided by operating activities	<u>\$ 10,105</u>	<u>\$ 10,105</u>

Derivative Instruments

The Company purchases various derivative instruments to create economic hedges of its commodity price risk and interest rate risk. These derivative instruments consist primarily of futures and swaps. The Company reports the fair value of derivative instruments on its consolidated balance sheets in "Short-term investments," "Other assets," "Short-term derivative liability," or "Long-term derivative liability." The Company determines the current and noncurrent classification based on the timing of expected future cash flows of individual trades and reports these amounts on a gross basis. Additionally, the Company reports cash held on deposit in margin accounts for coffee-related derivative instruments on a gross basis.

The accounting for the changes in fair value of the Company's derivative instruments can be summarized as follows:

Derivative Treatment	Accounting Method
Normal purchases and normal sales exception	Accrual accounting
Designated in a qualifying hedging relationship	Hedge accounting
All other derivatives	Mark-to-market accounting

The Company enters into green coffee purchase commitments at a fixed price or at a price to be fixed ("PTF"). PTF contracts are purchase commitments whereby the quality, quantity, delivery period, price differential to the coffee "C" market price and other negotiated terms are agreed upon, but the price at which the base "C" market price will be fixed has not yet been

established. The coffee "C" market price is fixed at some point after the purchase contract date and before the futures market closes for the delivery month and may be fixed either at the direction of the Company to the vendor, or by the application of a derivative that was separately purchased as a hedge. For both fixed-price and PTF contracts, the Company expects to take delivery of and to utilize the coffee in a reasonable period of time and in the conduct of normal business. Accordingly, these purchase commitments qualify as normal purchases and are not recorded at fair value on the Company's consolidated balance sheets.

Prior to April 1, 2013, the Company had no derivative instruments that were designated as accounting hedges. Beginning April 1, 2013, the Company implemented procedures following the guidelines of ASC 815, "Derivatives and Hedging" ("ASC 815"), to enable it to account for certain coffee-related derivatives as accounting hedges in order to minimize the volatility created in the Company's quarterly results from utilizing these derivative contracts and to improve comparability between reporting periods. For a derivative to qualify for designation in a hedging relationship, it must meet specific criteria and the Company must maintain appropriate documentation. The Company establishes hedging relationships pursuant to its risk management policies. The hedging relationships are evaluated at the inception of the hedging relationship and on an ongoing basis to determine whether the hedging relationship is, and is expected to remain, highly effective in achieving offsetting changes in fair value or cash flows attributable to the underlying risk being hedged. The Company also regularly assesses whether the hedged forecasted transaction is probable of occurring. If a derivative ceases to be or is no longer expected to be highly effective, or if the Company believes the likelihood of occurrence of the hedged forecasted transaction is no longer probable, hedge accounting is discontinued prospectively, and future changes in the fair value of the derivative are recognized currently in "Other, net."

For commodity derivatives designated as cash flow hedges, the effective portion of the change in fair value of the derivative is reported as accumulated other comprehensive income ("AOCI") and subsequently reclassified into cost of goods sold in the period or periods when the hedged transaction affects earnings. 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 derivatives, derivatives that cease to be highly effective hedges, derivatives 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, any gain or loss deferred in AOCI is recognized in "Other, net" at that time. 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."

The following gains and losses on derivative instruments are netted together and reported in "Other, net" in the Company's consolidated statements of operations:

- Gains and losses on all derivatives that are not designated as cash flow hedges and for which the normal purchases and normal sales exception has not been elected; and
- The ineffective portion of unrealized gains and losses on derivatives that are designated as cash flow hedges.

The fair value of derivative instruments is based upon broker quotes. At December 31, 2013, approximately 90% of the Company's outstanding coffee-related derivative instruments were designated as cash flow hedges (see Note 2). At December 31, 2012, no derivative instruments were designated as accounting hedges.

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 consolidated financial statements for the three months ended December 31, 2013 and 2012 are \$6.5 million and \$6.3 million, respectively. Coffee brewing equipment costs included in cost of goods sold for the six months ended December 31, 2013 and 2012 are \$13.0 million and \$12.1 million, respectively. The Company capitalized coffee brewing equipment in the amounts of \$5.8 million and \$4.9 million in the six months ended December 31, 2013 and 2012, respectively. Depreciation expense related to capitalized coffee brewing equipment reported as cost of goods sold in the three months ended December 31, 2013 and 2012 was \$2.9 million and \$3.3 million, respectively. Depreciation expense related to capitalized coffee brewing equipment reported as cost of goods sold in the six months ended December 31, 2013 and 2012 was \$5.7 million and \$6.6 million, respectively.

Revenue Recognition

Most product sales are made “off-truck” to the Company’s customers at their places of business by the Company’s sales representatives. Revenue is recognized at the time the Company’s sales representatives physically deliver products to customers and title passes or when it is accepted by the customer when shipped by third-party delivery.

The Company sells roast and ground coffee and tea to The J.M. Smucker Company (“J.M. Smucker”) pursuant to a co-packing agreement. The Company recognizes revenue from the co-packing arrangement for the sale of tea on a net basis, net of direct costs of revenue, since the Company acts as an agent of J.M. Smucker in such transactions. As of December 31, 2013 and June 30, 2013, the Company had \$0.8 million and \$0.3 million, respectively, of receivables relating to this arrangement which are included in “Other receivables” (see Note 6).

Net Income (Loss) Per Common Share

Net income (loss) per share (“EPS”) represents net income (loss) attributable to common stockholders divided by the weighted-average number of common shares outstanding for the period, excluding unallocated shares held by the Company’s Employee Stock Ownership Plan (“ESOP”). Diluted EPS represents net income (loss) attributable to common stockholders divided by the weighted-average number of common shares outstanding, inclusive of the dilutive impact of common equivalent shares outstanding during the period. However, nonvested restricted stock awards (referred to as participating securities) are excluded from the dilutive impact of common equivalent shares outstanding in accordance with authoritative guidance under the two-class method. The nonvested restricted stockholders are entitled to participate in dividends declared on common stock as if the shares were fully vested and hence are deemed to be participating securities. Under the two-class method, net income (loss) attributable to nonvested restricted stockholders is excluded from net income (loss) attributable to common stockholders for purposes of calculating basic and diluted EPS. Computation of EPS for the three and six months ended December 31, 2013 includes the dilutive effect of 116,724 and 79,356 shares, respectively, issuable under stock options (see Note 12). Computation of EPS for the three and six months ended December 31, 2012 does not include the dilutive effect of 699,317 shares issuable under stock options because their inclusion would be anti-dilutive (see Note 12).

Dividends Declared

Although historically the Company has paid a dividend to stockholders, in light of the Company’s current financial position, the Company’s Board of Directors has omitted the payment of a quarterly dividend since the third quarter of fiscal 2011. The amount, if any, of dividends to be paid in the future will depend upon the Company’s then available cash, anticipated cash needs, overall financial condition, loan agreement restrictions, future prospects for earnings and cash flows, as well as other relevant factors.

Impairment of Indefinite-lived Intangible Assets

The Company performs its annual indefinite-lived intangible assets impairment test as of June 30 of each fiscal year. Indefinite-lived intangible assets are not amortized but instead are reviewed for impairment annually by comparing their fair values to their carrying values.

In addition to an annual test, indefinite-lived intangible assets must also be tested on an interim basis if events or circumstances indicate that the estimated fair value of such assets has decreased below their carrying value. There were no such events or circumstances during the six months ended December 31, 2013.

Long-Lived Assets, Excluding Indefinite-lived Intangible Assets

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. Long-lived assets evaluated for impairment are grouped with other assets to the lowest level for which identifiable cash flows are largely independent of the cash flows of other groups of assets and liabilities. The estimated future cash flows are based upon, among other things, assumptions about expected future operating performance, and may differ from actual cash flows. If the sum of the projected undiscounted cash flows (excluding interest) is less than the carrying value of the assets, the assets will be written down to the estimated fair value in the period in which the determination is made. There were no such events or circumstances during the six months ended December 31, 2013.

Self-Insurance

The Company is self-insured for California workers’ compensation claims subject to specific retention levels, and uses historical analysis to determine and record the estimates of expected future expenses resulting from workers’ compensation claims in California. The estimated outstanding losses are the accrued cost of unpaid claims. The estimated outstanding losses,

including allocated loss adjustment expenses ("ALAE"), include case reserves, the development of known claims and incurred but not reported claims. ALAE are the direct expenses for settling specific claims. The amounts reflect per occurrence and annual aggregate limits maintained by the Company. The analysis does not include estimating a provision for unallocated loss adjustment expenses.

The Company accounts for its accrued liability relating to workers' compensation claims on an undiscounted basis. The estimated gross undiscounted workers' compensation liabilities were \$8.0 million and the estimated recovery from reinsurance was \$1.9 million as of December 31, 2013.

In May 2011, the Company did not meet certain minimum credit rating criteria for participation in the alternative security program for California self-insurers. As a result, the Company was required to post a \$5.9 million letter of credit as a security deposit with the State of California Department of Industrial Relations Self-Insurance Plans. At December 31, 2013, this letter of credit continues to serve as a security deposit but has been reduced to \$5.4 million.

General liability, product liability, commercial auto liability and workers' compensation liability (in all states other than California) are insured through a captive insurance program. The Company retains risk within certain aggregate amounts. Cost of the insurance through the captive program is accrued based on estimates of the aggregate liability claims incurred using certain actuarial assumptions and historical claims experience. In the three and six months ended December 31, 2013, the Company accrued an additional \$1.3 million in selling expenses and increased its liability reserves for incurred but not reported claims to \$2.0 million at December 31, 2013.

The accrued liability for workers' compensation is presented on the Company's consolidated balance sheets in "Other current liabilities" and in "Accrued workers' compensation liabilities," as appropriate.

The estimated liability related to the Company's self-insured group medical insurance is recorded on an incurred but not reported basis, within deductible limits, based on actual claims and the average lag time between the date insurance claims are filed and the date those claims are paid.

New Accounting Pronouncements

In July 2013, the FASB issued ASU No. 2013-11, "Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists" ("ASU 2013-11"). An entity is required to present unrecognized tax benefits as a decrease in net operating loss, similar tax loss or tax credit carryforward if certain criteria are met. The determination of whether a deferred tax asset is available is based on the unrecognized tax benefit and the deferred tax asset that exists at the reporting date and presumes disallowance of the tax position at the reporting date. The guidance will eliminate the diversity in practice in the presentation of unrecognized tax benefits but will not alter the way in which entities assess deferred tax assets for realizability. This update is effective for public companies for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2013 and will be effective for the Company beginning July 1, 2014. Adoption of ASU 2013-11 is not expected to have a material effect on the results of operations, financial position or cash flows of the Company.

Note 2. Derivative Instruments

Derivative Instruments Held

Coffee-Related Derivative Instruments

The Company is exposed to commodity price risk associated with its PTF green coffee purchase contracts, which are described further in Note 1. The Company utilizes futures contracts and options to manage exposure to the variability in expected future cash flows from forecasted purchases of green coffee attributable to commodity price risk, in some instances, as much as 24 months prior to the actual delivery date. 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.

At December 31, 2013, approximately 90% of the Company's outstanding coffee-related derivative instruments, representing 46.9 million pounds of forecasted green coffee purchases, were designated as cash flow hedges. At December 31, 2012 no coffee-related derivative instruments were designated as accounting hedges.

For the three and six months ended December 31, 2013, the Company recorded coffee-related net derivative losses in other comprehensive income ("OCI") in the amounts of \$2.3 million and \$5.4 million, respectively. No coffee-related net derivative gains or losses were recorded in OCI for the three and six months ended December 31, 2012.

Interest Rate Swap

Effective December 1, 2012, the Company entered into an interest rate swap transaction utilizing a notional amount of \$10.0 million and a maturity date of March 1, 2015. The Company entered into the swap transaction to effectively fix the future interest rate during the applicable period on a portion of its borrowings under the revolving credit facility. The swap transaction is intended to manage the Company's interest rate risk related to its revolving credit facility and requires the Company to pay a fixed rate of 0.48% per annum in exchange for a variable interest rate based on 1-month USD LIBOR-BBA. The interest rate swap is not designated as an accounting hedge.

Effect of Derivative Instruments on the Financial Statements

Balance Sheet

Fair values of derivative instruments on the consolidated balance sheets (in thousands):

	Derivatives Designated as Cash Flow Hedges		Derivatives Not Designated as Accounting Hedges	
	December 31,	June 30,	December 31,	June 30,
	2013	2013	2013	2013
Financial Statement Location:				
Short-term investments:				
Coffee-related derivatives	\$ —	\$ —	\$ —	\$ 4
Short-term derivative liability:				
Coffee futures	\$ 7,146	\$ 9,331	\$ (21)	\$ 565
Other current liabilities:				
Interest rate swap	\$ —	\$ —	\$ 29	\$ 25
Long-term derivative liability:				
Coffee futures	\$ 210	\$ 1,129	\$ —	\$ —

Statement of Operations

For the three and six months ended December 31, 2013, the Company recognized \$0.1 million and \$0.7 million, respectively, in net losses on coffee-related derivative instruments designated as cash flow hedges for ineffectiveness and 10% of the total coffee-related derivative instruments were excluded from the effectiveness assessment since they were not designated as cash flow hedges. Cash flow hedge contracts outstanding as of December 31, 2013 will expire within 23 months.

The following table presents pretax net gains and losses on coffee-related derivative instruments designated as cash flow hedges, as recognized in "Cost of goods sold," "AOCI" and "Other, net" (in thousands):

	Three Months Ended December 31,		Six Months Ended December 31,		Financial Statement Classification
	2013	2012	2013	2012	
Net losses recognized in earnings (effective portion)	\$ (3,735)	\$ —	\$ (5,954)	\$ —	Cost of goods sold
Net losses recognized in other comprehensive income (loss) (effective portion)	\$ (2,260)	\$ —	\$ (5,385)	\$ —	AOCI
Net losses recognized in earnings (ineffective portion)	\$ (143)	\$ —	\$ (650)	\$ —	Other, net

For the three and six months ended December 31, 2013, 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 derivatives not designated as accounting hedges are included in "Other, net" in the Company's consolidated statements of operations and in "Net losses (gains) on derivatives and investments" in the Company's consolidated statements of cash flow.

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

(In thousands)	Three Months Ended December 31,		Six Months Ended December 31,	
	2013	2012	2013	2012
Net losses on coffee-related derivatives	\$ (347)	\$ (7,859)	\$ (1,195)	\$ (7,156)
Net (losses) gains on investments	(55)	59	(750)	158
Net gains (losses) on interest rate swap	2	(40)	(4)	(40)
Net losses on derivatives and investments	(400)	(7,840)	(1,949)	(7,038)
Net (losses) gains on sales of assets	(73)	(11)	50	3,202
Other (losses) gains, net	(114)	195	529	1,125
Other, net	<u>\$ (587)</u>	<u>\$ (7,656)</u>	<u>\$ (1,370)</u>	<u>\$ (2,711)</u>

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 tables present the Company's net exposure from its offsetting derivative asset and liability positions, as well as cash margins on deposit with each of its counterparties as of the reporting dates indicated:

<u>Counterparty A</u>		Gross Amount Reported on Balance Sheet	Netting Adjustments	Cash Collateral Posted (Received)	Net Exposure
At December 31, 2013	Derivative Assets	\$ 229	\$ (229)	\$ —	\$ —
	Derivative Liabilities	\$ 7,564	\$ (229)	\$ 3,576	\$ 3,759
At June 30, 2013	Derivative Assets	\$ 4	\$ (4)	\$ —	\$ —
	Derivative Liabilities	\$ 11,025	\$ (4)	\$ 8,084	\$ 2,937
<u>Counterparty B</u>		Gross Amount Reported on Balance Sheet	Netting Adjustments	Cash Collateral Posted (Received)	Net Exposure
At December 31, 2013	Derivative Assets	\$ —	\$ —	\$ —	\$ —
	Derivative Liabilities	\$ 29	\$ —	\$ —	\$ 29
At June 30, 2013	Derivative Assets	\$ —	\$ —	\$ —	\$ —
	Derivative Liabilities	\$ 25	\$ —	\$ —	\$ 25

Credit-Risk-Related Features

The Company does not have any credit-risk-related contingent features that would require it, in certain circumstances, to post additional collateral in support of its net derivative liability positions. The Company had \$3.6 million and \$8.1 million, respectively, in restricted cash representing cash held on deposit in margin accounts for coffee-related derivative instruments at December 31, 2013 and June 30, 2013 (see Note 5). Changes in commodity prices and the number of coffee-related derivative instruments held could have a significant impact on cash deposit requirements under the Company's broker and counterparty agreements.

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 earnings 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 December 31, 2013, \$7.1 million of net losses are expected to be reclassified into earnings within the next twelve months. These recorded values are based on market prices of the commodities as of December 31, 2013. Due to the volatile nature of commodity prices, actual gains or losses realized within the next twelve months will likely differ from these values. These gains or losses are expected to substantially offset net losses or gains that will be realized in earnings from previous unfavorable or favorable market movements associated with underlying hedged transactions.

Note 3. Investments

Preferred stock investments as of December 31, 2013 consisted of securities with a fair value of \$10.3 million in an unrealized loss position and securities with a fair value of \$10.2 million in an unrealized gain position. Preferred stock investments as of June 30, 2013 consisted of securities with a fair value of \$7.3 million in an unrealized loss position and \$13.2 million in an unrealized gain position.

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

(In thousands)	Three Months Ended December 31,		Six Months Ended December 31,	
	2013	2012	2013	2012
Total (loss) gain recognized on trading securities held for investment	\$ (55)	\$ 59	\$ (750)	\$ 158
Less: (Loss) gain on sales of trading securities held for investment	(24)	58	(66)	158
Unrealized loss (gain) on trading securities held for investment	\$ (31)	\$ 1	\$ (684)	\$ —

Note 4. Fair Value Measurements

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

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

Securities with quotes that are based on actual trades or actionable bids and offers with a sufficient level of activity on or near the measurement date are classified as Level 1. Securities that are priced using quotes derived from implied values, indicative bids and offers, or a limited number of actual trades, or the same information for securities that are similar in many respects to those being valued, are classified as Level 2. If market information is not available for securities being valued, or materially-comparable securities, then those securities are classified as Level 3. In considering market information, management evaluates changes in liquidity, willingness of a broker to execute at the quoted price, the depth and consistency of prices from pricing services, and the existence of observable trades in the market.

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

<u>December 31, 2013</u>	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Preferred stock(1)	\$ 20,553	\$ 15,995	\$ 4,558	\$ —
Futures, options and other derivative assets(2)	\$ 95	\$ 95	\$ —	\$ —
Derivatives designated as cash flow hedges:				
Coffee-related derivative liabilities	\$ 7,356	\$ 7,356	\$ —	\$ —
Derivatives not designated as accounting hedges:				
Coffee-related derivative liabilities	\$ (21)	\$ (21)	\$ —	\$ —
Derivative liabilities — interest rate swap	\$ 29	\$ —	\$ 29	\$ —
<u>June 30, 2013</u>	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Preferred stock(1)	\$ 20,542	\$ 15,738	\$ 4,804	\$ —
Futures, options and other derivative assets(3)	\$ 4	\$ —	\$ 4	\$ —
Derivatives designated as cash flow hedges:				
Coffee-related derivative liabilities	\$ 10,460	\$ 10,460	\$ —	\$ —
Derivatives not designated as accounting hedges:				
Coffee-related derivative liabilities	\$ 565	\$ 565	\$ —	\$ —
Derivative liabilities — interest rate swap	\$ 25	\$ —	\$ 25	\$ —

(1) Included in "Short-term investments" on the consolidated balance sheets.

(2) Included "Cash and cash equivalents" on the consolidated balance sheet.

(3) Included in "Short-term investments" on the consolidated balance sheet.

There were no significant transfers of securities between Level 1 and Level 2.

Effective December 1, 2012, the Company entered into an interest rate swap transaction utilizing a notional amount of \$10.0 million and a maturity date of March 1, 2015. The Company entered into the swap transaction to effectively fix the future interest rate during the applicable period on a portion of its borrowings under the revolving credit facility. The swap transaction is intended to manage the Company's interest rate risk related to its revolving credit facility and requires the Company to pay a fixed rate of 0.48% per annum in exchange for a variable interest rate based on 1-month USD LIBOR-BBA.

The Company values its interest rate swap using widely accepted valuation techniques, including discounted cash flow analysis on the expected cash flows of the interest rate swap. This analysis reflects the contractual terms of the interest rate swap, including the period to maturity, and uses observable market-based inputs, including interest rate curves and implied volatilities.

Valuation of the interest rate swap transaction is based on proprietary curves that take into account both Level 1 and Level 2 inputs. The fair value of the interest rate swap is determined using the market standard methodology of netting the discounted future fixed cash payments and the discounted expected variable cash receipts. The variable cash receipts are based on an expectation of future interest rates (forward curves). These forward curves are market-based, utilizing observable market data. Discount curves for present value purposes are constructed using rates representing estimated costs of funding swap positions for early terminations based on an appropriate observable discount rate.

Note 5. Restricted Cash

The Company had \$3.6 million and \$8.1 million, respectively, in restricted cash representing cash held on deposit in margin accounts for coffee-related derivative instruments at December 31, 2013 and June 30, 2013. Changes in commodity prices and the number of coffee-related derivative instruments held could have a significant impact on cash deposit requirements under the Company's broker and counterparty agreements.

Note 6. Accounts and Notes Receivable, Net

	December 31, 2013	June 30, 2013
<u>(In thousands)</u>		
Trade receivables	\$ 46,188	\$ 43,965
Other receivables(1)	955	1,072
Allowance for doubtful accounts	(775)	(1,115)
	<u>\$ 46,368</u>	<u>\$ 43,922</u>

(1) Includes as of December 31, 2013 and June 30, 2013, \$0.8 million and \$0.3 million, respectively, of receivables relating to the co-packing arrangement for J.M. Smucker (see Note 1).

Note 7. Inventories

	December 31, 2013	June 30, 2013
<u>(In thousands)</u>		
Coffee		
Processed	\$ 13,236	\$ 12,553
Unprocessed	15,504	12,796
Total	<u>\$ 28,740</u>	<u>\$ 25,349</u>
Tea and culinary products		
Processed	\$ 23,159	\$ 21,406
Unprocessed	4,787	4,194
Total	<u>\$ 27,946</u>	<u>\$ 25,600</u>
Coffee brewing equipment parts	\$ 5,882	\$ 9,918
Total inventories	<u>\$ 62,568</u>	<u>\$ 60,867</u>

Inventories are valued at the lower of cost or market. The Company accounts for coffee, tea and culinary products on the last in, first out ("LIFO") basis and coffee brewing equipment manufactured on the first in, first out ("FIFO") basis. The Company regularly evaluates these inventories to determine whether market conditions are correctly reflected in the recorded carrying value. At the end of each quarter, the Company records the expected beneficial effect of the liquidation of LIFO inventory quantities, if any, and records the actual impact at fiscal year-end. An actual valuation of inventory under the LIFO method is made only at the end of each fiscal year based on the inventory levels and costs at that time. If inventory quantities decline at the end of the fiscal year compared to the beginning of the fiscal year, the reduction results in the liquidation of LIFO inventory quantities carried at the cost prevailing in prior years. This LIFO inventory liquidation may result in a decrease or increase in cost of goods sold depending on whether the cost prevailing in prior years was lower or higher, respectively, than the current year cost. Accordingly, interim LIFO calculations must necessarily be based on management's estimates of expected fiscal year-end inventory levels and costs. Because these estimates are subject to many forces beyond management's control, interim results are subject to the final fiscal year-end LIFO inventory valuation. The Company anticipates its inventory levels at June 30, 2014 will be the same as at June 30, 2013 and, therefore, did not record an adjustment to cost of goods sold for the three and six months ended December 31, 2013. The Company recorded \$0.5 million in expected beneficial effect of LIFO inventory liquidation in cost of goods sold in the three and six months ended December 31, 2012, which reduced net loss for the three and six months ended December 31, 2012 by \$0.5 million.

Note 8. Employee Benefit Plans

The Company provides pension plans for most full time employees. Generally the plans provide benefits based on years of service and/or a combination of years of service and earnings. 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 sheet. The Company is also required to recognize in 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. Salaried Employees Pension Plan (the “Farmer Bros. Plan”), for the majority of its employees 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 plan, and new hires are not eligible to participate in the plan.

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”). In the fourth quarter of fiscal 2013, the Company determined that it would shut down its equipment refurbishment operations in Los Angeles, California and move them to its Oklahoma City distribution center effective August 30, 2013. Due to this shut down, all hourly employees responsible for these operations in Los Angeles were terminated and their pension benefits in the Brewmatic Plan were frozen effective August 30, 2013. As a result, the Company recorded a pension curtailment expense of \$34,000 in the fourth quarter of fiscal 2013.

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

	Three Months Ended December 31,		Six Months Ended December 31,	
	2013	2012	2013	2012
<i>(In thousands)</i>				
Service cost	\$ 100	\$ 119	\$ 200	\$ 238
Interest cost	1,452	1,449	2,904	2,898
Expected return on plan assets	(1,705)	(1,660)	(3,410)	(3,320)
Amortization of net (gain) loss*	336	387	672	774
Amortization of prior service cost (credit)*	—	5	—	10
Net periodic benefit cost	<u>\$ 183</u>	<u>\$ 300</u>	<u>\$ 366</u>	<u>\$ 600</u>

* These amounts represent the estimated portion of the net (gain) loss and net prior service cost (credit) remaining 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	
	2014	2013
Discount rate	4.50%	4.55%
Expected long-term rate of return on plan assets	8.00%	8.00%

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

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

Multiemployer Pension Plans

The Company participates in a multiemployer defined benefit pension plan, the Western Conference of Teamsters Pension Plan ("WCTPP"), that is union sponsored and collectively bargained for the benefit of certain employees subject to collective bargaining agreements. The Company makes contributions to WCTPP 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.

Effective October 2011, the Company withdrew from the defined benefit pension plan, United Teamsters Pension Fund, and replaced it with the defined contribution pension plan, "United Teamsters Annuity Fund" ("Annuity Fund"), for its employees covered by a certain collective bargaining agreement with a term expiring in 2014. The Company incurred no withdrawal liability related to the withdrawal from the United Teamsters Pension Fund. The Company's contributions to the Annuity Fund are based on the number of compensable hours worked by the Company's employees who participate in the Annuity Fund.

In fiscal 2012, the Company withdrew from the Labor Management 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. Installment payments will commence once the final determination of the amount of withdrawal liability is established, which determination may take up to 24 months from the date of withdrawal from the pension plan. Upon withdrawal, the employees covered under this multiemployer pension plan were included in the Company's 401(k) plan (the "401(k) 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 eight defined contribution multiemployer 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 the collective bargaining agreements which expire on or before June 30, 2017.

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 2012 and 2013, 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 participant's first 5 years of vesting service, so that the participant is fully vested in his or her matching contribution account after 5 years of vesting service. 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 \$0.5 million in operating expenses in each of the six months ended December 31, 2013 and 2012.

Postretirement Benefits

The Company sponsors a postretirement defined benefit plan that covers qualified non-union retirees and certain qualified union retirees. The plan provides medical, dental and vision coverage for retirees under age 65 and medical coverage only for retirees age 65 and above. Under this postretirement plan, 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, but subject to a maximum monthly Company contribution.

The Company also provides a postretirement 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.

The following table shows the components of net periodic postretirement benefit cost for the three and six months ended December 31, 2013 and 2012 for the postretirement medical and death benefits. Net periodic postretirement benefit cost for the three and six months ended December 31, 2013 was based on employee census information as of July 1, 2013 and asset information as of June 30, 2013.

	Three Months Ended December 31,		Six Months Ended December 31,	
	2013	2012	2013	2012
(In thousands)				
Components of Net Periodic Postretirement Benefit Cost:				
Service cost	\$ (25)	\$ 493	\$ 468	\$ 986
Interest cost	163	242	405	484
Expected return on plan assets	—	—	—	—
Amortization of net gain	(445)	4	(441)	8
Amortization of unrecognized transition (asset) obligation	—	—	—	—
Amortization of prior service cost (credit)	(440)	(439)	(879)	(878)
Net periodic postretirement benefit (credit) cost	<u>\$ (747)</u>	<u>\$ 300</u>	<u>\$ (447)</u>	<u>\$ 600</u>

Weighted-average assumptions used to determine net periodic postretirement benefit cost

	Fiscal	
	2014	2013
Postretirement medical benefit discount rate	4.80%	4.20%
Postretirement death benefit discount rate	4.53%	4.39%

Note 9. Bank Loan

On September 12, 2011, the Company entered into an Amended and Restated Loan and Security Agreement (the "Loan Agreement") among the Company and Coffee Bean International, Inc. ("CBI"), as Borrowers, certain of the Company's other subsidiaries, as Guarantors, the Lenders party thereto, and Wells Fargo Bank, National Association ("Wells Fargo"), as Agent.

On January 9, 2012, the Loan Agreement was amended in connection with JPMorgan Chase Bank, N.A. ("JPMorgan Chase"), becoming an additional Lender thereunder. On March 18, 2013, the Loan Agreement was amended further ("Amendment No. 2") to amend the definition of "Maximum Credit" available thereunder to \$75.0 million from \$85.0 million. Pursuant to Amendment No. 2, Wells Fargo will provide a commitment of \$53.0 million and JPMorgan Chase will provide a commitment of \$22.0 million.

The Loan Agreement provides for a senior secured revolving credit facility of up to \$75.0 million, with a letter of credit sublimit of \$20.0 million. The revolving credit facility provides for advances of 85% of eligible accounts receivable and 75% of eligible inventory (subject to a \$60.0 million inventory loan limit), as defined. The Loan Agreement provides for interest rates based on modified Monthly Average Excess Availability levels with a range of PRIME + 0.25% to PRIME + 0.75% or Adjusted Eurodollar Rate + 2.0% to Adjusted Eurodollar Rate + 2.5%. The Loan Agreement has an amendment fee of 0.375% and an unused line fee of 0.25%. Outstanding obligations under the Loan Agreement are collateralized by all of the Borrowers' assets, including the Company's preferred stock portfolio. The Loan Agreement expires on March 2, 2015.

The Loan Agreement contains a variety of affirmative and negative covenants of types customary in an asset-based lending facility, including those relating to reporting requirements, maintenance of records, properties and corporate existence, compliance with laws, incurrence of other indebtedness and liens, limitations on certain payments, including the payment of dividends and capital expenditures, and transactions and extraordinary corporate events. The Loan Agreement allows the Company to pay dividends, provided, among other things, certain liquidity requirements are met, the aggregate amount of all such payments in any fiscal year shall not exceed \$7.0 million (\$1.75 million in any fiscal quarter), 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 Loan Agreement also contains financial covenants requiring the Borrowers to maintain minimum Excess Availability and Total Liquidity levels. The Loan Agreement allows the Lenders to establish reserve requirements, which may reduce the amount of credit otherwise available to the Company, to reflect events, conditions, or risks that would have a reasonable likelihood of adversely affecting the Lender's collateral or the Company's assets, including the Company's green coffee inventory.

Effective December 1, 2012, the Company entered into an interest rate swap transaction utilizing a notional amount of \$10.0 million and a maturity date of March 1, 2015. The Company entered into the swap transaction to effectively fix the future interest rate during the applicable period on a portion of its borrowings under the revolving credit facility. The swap transaction is intended to manage the Company's interest rate risk related to its revolving credit facility and requires the Company to pay a fixed rate of 0.48% per annum in exchange for a variable interest rate based on 1-month USD LIBOR-BBA. As of December 31, 2013, the variable interest rate based on 1-month USD LIBOR-BBA was 0.16%.

The Company has not designated its interest rate swap as an accounting hedge. The Company records the interest rate swap on its consolidated balance sheet at fair value with the changes in fair value recorded as gain or loss in "Other, net" in its consolidated statements of operations. In the three and six months ended December 31, 2013, the Company recorded a gain of \$2,000 and a loss of \$(4,000), respectively, for the change in fair value of its interest rate swap. In the three and six months ended December 31, 2012, the Company recorded a loss of \$40,000 for the change in fair value of its interest rate swap (see Note 2).

On December 31, 2013, the Company was eligible to borrow up to a total of \$68.0 million under the credit facility. As of December 31, 2013, the Company had outstanding borrowings of \$18.6 million, including loan extension fees of \$0.1 million, utilized \$11.2 million of the letters of credit sublimit, and had excess availability under the credit facility of \$38.2 million. In connection with entering into the interest rate swap agreement on December 1, 2012, the Company reclassified \$10.0 million of its borrowings under the revolving credit facility as long-term because the Company intends to repay the borrowings in accordance with the termination date of the swap agreement which extends beyond one year. At December 31, 2013, the weighted average interest rate on the Company's outstanding borrowings under the credit facility was 1.13%. As of December 31, 2013, the Company was in compliance with all restrictive covenants under the credit facility.

Note 10. Share-based Compensation

On December 5, 2013, the Company's stockholders approved the Farmer Bros. Co. Amended and Restated 2007 Long-Term Incentive Plan (the "Amended Equity Plan"). The Amended Equity Plan is an amendment and restatement of, and successor to, the Farmer Bros. Co. 2007 Omnibus Plan (the "Omnibus Plan"), and, among other things, increases the number of shares of the Company's common stock, par value \$1.00 per share, authorized for issuance under the plan by 250,000 from 1,125,000 to 1,375,000. In addition, the Amended Equity Plan provides for the following material changes: limits the types of equity awards available to be granted under the Amended Equity Plan to performance-based options and restricted stock; limits participants in the Amended Equity Plan to directors, officers and other employees of the Company; limits the performance criteria that will be used to establish performance goals under the plan to (i) net sales or revenue; (ii) net income before tax and excluding gain or loss on sale of property, plant and equipment; and/or (iii) cash flow (including, but not limited to, operating cash flow and free cash flow); reduces the maximum number of shares of stock with respect to one or more awards that may be granted to any one participant during any calendar year from 250,000 to 75,000; requires that all options issued to employees include performance criteria or performance goals, unless issued in connection with the commencement of employment as an executive of the Company; provides for forfeiture of unvested awards upon termination of employment or termination of

directorship, except as otherwise determined by the plan administrator; prohibits awards of restricted stock to employees except in connection with the commencement of employment as an executive of the Company; limits the value of restricted stock awards granted to any non-employee director to an amount not more than \$30,000 annually; and prohibits delegation of administration of the plan to another committee or subcommittee of the Board, or authority to grant or amend awards to participants to a committee of one or more members of the Board or one or more officers of the Company.

The Company measures and recognizes compensation expense for all share-based payment awards made under the Amended Equity Plan based on estimated fair values.

Stock Options

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

On November 11, 2013, the Company granted 1,927 shares issuable upon the exercise of NQOs with an exercise price of \$18.68 per share to an eligible employee under the Omnibus Plan prior to its amendment and restatement which vest ratably over a three-year period.

Compensation expense is recognized on a straight-line basis over the service period based on the estimated fair value of the stock options. The Company estimates the fair value of option awards using the Black-Scholes option valuation model, which requires management to make certain assumptions for estimating the fair value of stock options at the date of grant. The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options that have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions including the expected stock price volatility. Because the Company's stock options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimates, in management's opinion the existing models may not necessarily provide a reliable single measure of the fair value of the Company's stock options. Although the fair value of stock options is determined using an option valuation model that value may not be indicative of the fair value observed in a willing buyer/willing seller market transaction.

Following are the weighted average assumptions used in the Black-Scholes valuation model for NQOs granted during the six months ended December 31, 2013 and 2012:

	Six Months Ended December 31,	
	2013	2012
Weighted average fair value of NQOs	\$ 9.17	\$ 5.54
Risk-free interest rate	1.7%	0.8%
Dividend yield	—%	—%
Average expected term	6.0 years	6.0 years
Expected stock price volatility	50.4%	49.5%

The Company's assumption regarding expected stock price volatility is based on the historical volatility of the Company's stock price. The risk-free interest rate is based on U.S. Treasury zero-coupon issues at the date of grant with a remaining term equal to the expected life of the stock options. The average expected life is based on the midpoint between the vesting date and the end of the contractual term of the award. Currently, management estimates an annual forfeiture rate of 6.5% based on actual forfeiture experience. Forfeitures are estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates.

The following table summarizes NQO activity for the six months ended December 31, 2013:

	Number of NQOs	Weighted Average Exercise Price (\$)	Weighted Average Grant Date Fair Value (\$)	Weighted Average Remaining Life (Years)	Aggregate Intrinsic Value (Dollars in thousands)(1)
Outstanding NQOs:					
Outstanding at June 30, 2013	557,427	\$ 12.81	\$ 5.44	5.1	1,620
Granted	1,927	\$ 18.68	\$ 9.17	7.0	—
Exercised	(8,765)	\$ 14.24	\$ 6.32	—	—
Cancelled/Forfeited	(14,835)	\$ 17.26	\$ 6.05	—	64
Outstanding at December 31, 2013	535,754	14.12	6.27	5.1	5,874
Vested and exercisable, December 31, 2013	315,574	14.30	5.75	4.0	2,828
Vested and expected to vest, December 31, 2013	518,645	12.74	6.19	4.7	5,455

(1) Aggregate intrinsic value represents the total pretax intrinsic value, based on the Company's closing stock price of \$23.26 at December 31, 2013, representing the last trading day of the fiscal quarter ended December 31, 2013, which would have been received by NQO holders had all award holders exercised their NQOs that were in-the-money as of that date.

The fair value of NQO grants vested during the six months ended December 31, 2013 was \$0.5 million. As of December 31, 2013 and 2012, there was \$1.0 million and \$1.6 million, respectively, of unrecognized compensation cost related to NQOs. Total compensation expense for NQOs recognized in operating expenses in the three months ended December 31, 2013 and 2012 was \$0.2 million and \$0.3 million, respectively. Total compensation expense for NQOs recognized in the six months ended December 31, 2013 and 2012 was \$0.4 million and \$0.5 million, respectively.

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

On December 12, 2013, the Company granted 107,035 shares issuable upon the exercise of PNQs with an exercise price of \$21.33 per share to eligible employees under the Amended Equity Plan. These PNQs vest over a three-year period with one-third of the total number of shares subject to each such PNQ vesting on the first anniversary of the grant date based on the Company's achievement of a modified net income target for the first fiscal year of the performance period as approved by the Compensation Committee, and the remaining two-thirds of the total number of shares subject to each PNQ vesting on the third anniversary of the grant date based on the Company's achievement of a cumulative modified net income target for all three years during the performance period as approved by the Compensation Committee, in each case, subject to the participant's employment by the Company or service on the Board of Directors of the Company on the applicable vesting date.

Following are the weighted average assumptions used in the Black-Scholes valuation model for PNQs granted during the six months ended December 31, 2013:

	Six Months Ended December 31, 2013
Weighted average fair value of PNQs	\$ 10.52
Risk-free interest rate	1.8%
Dividend yield	—%
Average expected term	6.0 years
Expected stock price volatility	50.5%

The following table summarizes PNQ activity for the six months ended December 31, 2013:

	Number of PNQs	Weighted Average Exercise Price (\$)	Weighted Average Grant Date Fair Value (\$)	Weighted Average Remaining Life (Years)	Aggregate Intrinsic Value (Dollars in thousands) (1)
Outstanding PNQs:					
Outstanding at June 30, 2013	—	—	—	—	—
Granted	107,035	21.33	10.52	7.0	—
Exercised	—	—	—	—	—
Cancelled/Forfeited	—	—	—	—	—
Outstanding at December 31, 2013	107,035	21.33	10.52	7.0	207
Vested and exercisable, December 31, 2013	—	—	—	—	—
Vested and expected to vest, December 31, 2013	91,979	21.33	10.52	7.0	178

(1) Aggregate intrinsic value represents the total pretax intrinsic value, based on the Company's closing stock price of \$23.26 at December 31, 2013, representing the last trading day of the fiscal quarter ended December 31, 2013, which would have been received by PNQ holders had all award holders exercised their PNQs that were in-the-money as of that date.

The Company has recorded compensation expense for the PNQs based on its expectation that achievement of the targets for the PNQs is probable. Compensation expense for PNQs recognized in operating expenses in the three and six months ended December 31, 2013 was \$30,000. As of December 31, 2013 there was \$1.1 million in unrecognized compensation cost related to PNQs. No comparable compensation expense was recognized in operating expenses in the three and six months ended December 31, 2012 and there was no unrecognized compensation cost related to PNQs at December 31, 2012

Restricted Stock

In the three months ended December 31, 2013, the Company granted 9,200 shares of restricted stock, with a weighted average grant date fair value of \$20.48 per share. In the three months ended December 31, 2012, the Company granted 37,544 shares of restricted stock with a grant date fair value of \$11.81 per share. Shares of restricted stock generally vest at the end of three years for eligible employees and officers who are employees. Shares of restricted stock generally vest ratably over a period of three years for directors.

Compensation expense is recognized on a straight-line basis over the service period based on the estimated fair value of the restricted stock. Total compensation expense recognized in each of the three months ended December 31, 2013 and 2012 was \$0.2 million. Total compensation expense recognized in the six months ended December 31, 2013 and 2012 was \$0.3 million and \$0.4 million, respectively. As of December 31, 2013 and 2012, there was approximately \$0.8 million and \$1.2 million, respectively, of unrecognized compensation cost related to restricted stock.

The following table summarizes restricted stock activity for the six months ended December 31, 2013:

	Shares Awarded	Weighted Average Grant Date Fair Value (\$)	Weighted Average Remaining Life (Years)	Aggregate Intrinsic Value (\$ in thousands)
Outstanding and Nonvested Restricted Stock Awards:				
Outstanding at June 30, 2013	139,360	9.87	1.9	1,959
Granted	9,200	20.48	2.0	188
Exercised/Released	(27,651)	13.36	—	604
Cancelled/Forfeited	(8,332)	9.45	—	—
Outstanding at December 31, 2013	112,577	9.90	1.9	2,619
Expected to vest, December 31, 2013	94,318	9.93	1.9	2,194

Note 11. Income Taxes

The Company adjusts its effective tax rate each quarter based on its current estimated annual effective tax rate. The Company also records the tax impact of certain discrete items, unusual or infrequently occurring tax events and the effects of changes in tax laws or rates, in the interim period in which they occur. In addition, the Company evaluates its deferred tax assets quarterly to determine if a valuation allowance is required.

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 this 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 earnings projections.

After consideration of positive and negative evidence, including the recent history of losses, the Company cannot conclude that it is more likely than not that it will generate future earnings sufficient to realize the Company's deferred tax assets. Accordingly, the Company is maintaining a valuation allowance against its deferred tax assets. The Company decreased its valuation allowance by \$1.8 million in the three months ended December 31, 2013 to \$79.9 million. The valuation allowance at June 30, 2013 was \$82.5 million.

A summary of the income tax expense recorded for the three and six months ended December 31, 2013 and 2012 is as follows:

(In thousands)	Three Months Ended December 31,		Six Months Ended December 31,	
	2013	2012	2013	2012
Income (loss) before taxes	\$ 5,111	\$ (7,189)	\$ 7,223	\$ (3,769)
Income tax expense (benefit) at statutory rate	1,738	(2,445)	2,456	(1,282)
State income tax expense (benefit), net of federal tax benefit	374	(325)	587	137
Valuation allowance	(1,847)	2,817	(2,582)	1,315
Other permanent items	137	(79)	248	239
Income tax expense (benefit)	\$ 402	\$ (32)	\$ 709	\$ 409

As of December 31, 2013 and June 30, 2013, the Company had not recognized the following tax benefits in its consolidated financial statements:

(In thousands)	As of	
	December 31, 2013	June 30, 2013
Total unrecognized tax benefits*	\$ 3,211	\$ 3,211
Unrecognized tax benefits that, if recognized, would affect the Company's effective tax rate, subject to the valuation allowance*	\$ 3,064	\$ 3,064

* Excluding interest and penalties

The Company believes it is reasonably possible that none of its total unrecognized tax benefits could be released in the next 12 months.

Note 12. Net Income (Loss) Per Common Share

	Three Months Ended December 31,		Six Months Ended December 31,	
	2013	2012	2013	2012
(In thousands, except share and per share amounts)				
Net income (loss) attributable to common stockholders—basic	\$ 4,676	\$ (7,089)	\$ 6,468	\$ (4,138)
Net income (loss) attributable to nonvested restricted stockholders	33	(68)	46	(40)
Total net income (loss)	<u>\$ 4,709</u>	<u>\$ (7,157)</u>	<u>\$ 6,514</u>	<u>\$ (4,178)</u>
Weighted average shares outstanding—basic	15,847,958	15,548,094	15,825,100	15,519,980
Effect of dilutive securities:				
Shares issuable under stock options	116,724	—	79,356	—
Weighted average shares outstanding—diluted	<u>15,964,682</u>	<u>15,548,094</u>	<u>15,904,456</u>	<u>15,519,980</u>
Net income (loss) per common share—basic	<u>\$ 0.30</u>	<u>\$ (0.46)</u>	<u>\$ 0.41</u>	<u>\$ (0.27)</u>
Net income (loss) per common share—diluted	<u>\$ 0.29</u>	<u>\$ (0.46)</u>	<u>\$ 0.41</u>	<u>\$ (0.27)</u>

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

Forward-Looking Statements

Certain statements contained in this quarterly report on Form 10-Q are not based on historical fact and are forward-looking statements within the meaning of federal securities laws and regulations. These statements are based on management's current expectations, assumptions, estimates and observations of future events and include any statements that do not directly relate to any historical or current fact. These forward-looking statements can be identified by the use of words like "anticipates," "estimates," "projects," "expects," "plans," "believes," "intends," "will," "assumes" and other words of similar meaning. Owing to the uncertainties inherent in forward-looking statements, actual results could differ materially from those set forth in forward-looking statements. We intend these forward-looking statements to speak only at the time of this report and do not undertake to update or revise these statements as more information becomes available except as required under federal securities laws and the rules and regulations of the Securities and Exchange Commission (the "SEC"). Factors that could cause actual results to differ materially from those in forward-looking statements include, but are not limited to, the relative effectiveness of compensation-based employee incentives in causing improvements in Company performance, the capacity to meet the demands of the Company's 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, the impact of a weaker economy, business conditions in the coffee industry and food industry in general, our continued success in attracting new customers, variances from budgeted sales mix and growth rates, weather and special or unusual events, 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 six months ended December 31, 2013 and 2012 are not necessarily indicative of the results that may be expected for any future period.

Liquidity and Capital Resources

Credit Facility

On September 12, 2011, we entered into an Amended and Restated Loan and Security Agreement (the "Loan Agreement") among the Company and CBI, as Borrowers, certain of the Company's other subsidiaries, as Guarantors, the Lenders party thereto, and Wells Fargo Bank, National Association ("Wells Fargo"), as Agent.

On January 9, 2012, the Loan Agreement was amended in connection with JPMorgan Chase Bank, N.A. ("JPMorgan Chase"), becoming an additional Lender thereunder. On March 18, 2013, the Loan Agreement was amended further ("Amendment No. 2") to amend the definition of "Maximum Credit" available thereunder to \$75.0 million from \$85.0 million. Pursuant to Amendment No. 2, Wells Fargo will provide a commitment of \$53.0 million and JPMorgan Chase will provide a commitment of \$22.0 million.

The Loan Agreement provides for a senior secured revolving credit facility of up to \$75.0 million, with a letter of credit sublimit of \$20.0 million. The revolving credit facility provides for advances of 85% of eligible accounts receivable and 75% of eligible inventory (subject to a \$60.0 million inventory loan limit), as defined. The Loan Agreement provides for interest rates based on modified Monthly Average Excess Availability levels with a range of PRIME + 0.25% to PRIME + 0.75% or Adjusted Eurodollar Rate + 2.0% to Adjusted Eurodollar Rate + 2.5%. The Loan Agreement has an amendment fee of 0.375% and an unused line fee of 0.25%. Outstanding obligations under the Loan Agreement are collateralized by all of the Borrowers' assets, including the Company's preferred stock portfolio. The term of the Loan Agreement expires on March 2, 2015.

The Loan Agreement contains a variety of affirmative and negative covenants of types customary in an asset-based lending facility, including those relating to reporting requirements, maintenance of records, properties and corporate existence, compliance with laws, incurrence of other indebtedness and liens, limitations on certain payments, including the payment of dividends and capital expenditures, and transactions and extraordinary corporate events. The Loan Agreement allows us to pay dividends, provided, among other things, certain liquidity requirements are met, the aggregate amount of all such payments in any fiscal year shall not exceed \$7.0 million (\$1.75 million in any fiscal quarter), 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 Loan Agreement also contains financial covenants requiring the Borrowers to maintain minimum Excess Availability and Total Liquidity levels. The Loan Agreement allows the Lenders to

establish reserve requirements, which may reduce the amount of credit otherwise available to us, to reflect events, conditions, or risks that would have a reasonable likelihood of adversely affecting the Lender's collateral or our assets, including our green coffee inventory.

The Loan Agreement provides that an event of default includes, among other things, subject to certain grace periods: (i) payment defaults; (ii) failure by any guarantor to perform any guarantee in favor of Lender; (iii) failure to abide by loan covenants; (iv) default with respect to other material indebtedness; (v) final judgment in a material amount not discharged or stayed; (vi) any change of control; (vii) bankruptcy or insolvency; and (viii) the failure of the Farmer Bros. Co. Employee Stock Ownership Benefit Trust, created by the Company to implement the Farmer Bros. Co. Employee Stock Ownership Plan ("ESOP"), to be duly qualified under Section 401(a) of the Internal Revenue Code of 1986, as amended, or exempt from federal income taxation, or if the ESOP engages in a material non-exempt prohibited transaction.

Effective December 1, 2012, we entered into an interest rate swap transaction utilizing a notional amount of \$10.0 million and a maturity date of March 1, 2015. We entered into the swap transaction to effectively fix the future interest rate during the applicable period on a portion of our borrowings under the revolving credit facility. The swap transaction is intended to manage our interest rate risk related to our borrowings under the revolving credit facility and requires us to pay a fixed rate of 0.48% per annum in exchange for a variable interest rate based on 1-month USD LIBOR-BBA. As of December 31, 2013, the variable interest rate based on 1-month USD LIBOR-BBA was 0.16%.

We have not designated our interest rate swap as an accounting hedge. We record the interest rate swap on our consolidated balance sheet at fair value with the changes in fair value recorded as gain or loss in "Other, net" in our consolidated statements of operations. In the three and six months ended December 31, 2013, we recorded a gain of \$2,000 and a loss of \$(4,000), respectively, for the change in fair value of our interest rate swap. In the three and six months ended December 31, 2012, we recorded a loss of \$(40,000) for the change in fair value of our interest rate swap.

On December 31, 2013, we were eligible to borrow up to a total of \$68.0 million under the credit facility. As of December 31, 2013, we had outstanding borrowings of \$18.6 million, including loan extension fees of \$0.1 million, utilized \$11.2 million of the letters of credit sublimit, and had excess availability under the credit facility of \$38.2 million. In connection with entering into the interest rate swap agreement on December 1, 2012, we reclassified \$10.0 million of our borrowings under the credit facility as long-term because we intend to repay the borrowings in accordance with the termination date of the swap agreement which extends beyond one year. The weighted average interest rate on our outstanding borrowings under the credit facility was 1.13% at December 31, 2013. We believe that the carrying value of our outstanding borrowings under the credit facility approximates fair value at December 31, 2013 as the credit facility bears interest at a variable interest rate based on prevailing market conditions. As of December 31, 2013, we were in compliance with all restrictive covenants under the Loan Agreement.

As of January 31, 2014, we had estimated outstanding borrowings of \$15.8 million, including loan extension fees of \$0.1 million, utilized \$11.2 million of the letters of credit sublimit, and had excess availability under the credit facility of \$39.7 million. As of January 31, 2014, the weighted average interest rate on our outstanding borrowings under the credit facility was 1.18%.

Liquidity

We generally finance our operations through cash flows from operations and borrowings under our revolving credit facility described above. As of December 31, 2013, we had \$7.9 million in cash and cash equivalents, \$3.6 million in restricted cash representing cash held on deposit in margin accounts for coffee-related derivative instruments and \$20.6 million in short-term investments. We believe our revolving credit facility, to the extent available, in addition to our cash flows from operations and other liquid assets, are sufficient to fund our working capital and capital expenditure requirements for the next 12 months.

We generate cash from operating activities primarily from cash collections related to the sale of our products. Net cash provided by operating activities was \$20.4 million in the six months ended December 31, 2013 compared to \$10.1 million in the six months ended December 31, 2012. The increase in net cash provided by operating activities in the six months ended December 31, 2013 was primarily due to a higher level of cash inflows from operating activities and a lower level of non-operational gains such as net gains on sales of assets.

Net cash used in investing activities was \$11.8 million in the six months ended December 31, 2013 compared to \$2.5 million in the six months ended December 31, 2012, primarily due to increased capital expenditures and decreased cash inflows from sales of fixed assets in the six months ended December 31, 2013.

Net cash used in financing activities was \$3.4 million in the six months ended December 31, 2013 compared to \$6.3 million in the six months ended December 31, 2012. Net cash used in financing activities in the six months ended December 31, 2013 included net repayments on our credit facility of \$(1.8) million, compared to net repayments of \$(4.8) million in the six months ended December 31, 2012.

In the six months ended December 31, 2013, we capitalized \$12.1 million in property, plant and equipment purchases which included \$5.9 million in expenditures to replace normal wear and tear of coffee brewing equipment, \$0.3 million in building and facility improvements, \$4.6 million in expenditures for vehicles, and machinery and equipment, and \$1.3 million in information technology related expenditures.

Our expected capital expenditures for fiscal 2014 include expenditures to replace normal wear and tear of coffee brewing equipment, vehicles, and machinery and equipment, and are expected to increase approximately 33% from fiscal 2013 levels.

Our working capital is composed of the following:

(In thousands)	December 31, 2013	June 30, 2013
Current assets	\$ 144,577	\$ 139,749
Current liabilities	75,215	76,550
Working capital	\$ 69,362	\$ 63,199

Liquidity Information:

(In thousands)	Six Months Ended December 31,	
	2013	2012
Capital expenditures	\$ 12,128	\$ 6,396

Results of Operations

Net sales in the three months ended December 31, 2013 increased \$6.4 million, or 4.8%, to \$142.1 million from \$135.7 million in the three months ended December 31, 2012, primarily due to increases in sales of our coffee and tea products. Net sales in the six months ended December 31, 2013 increased \$15.8 million, or 6.2%, to \$270.7 million as compared to \$254.9 million in the six months ended December 31, 2012, primarily due to increases in sales of our coffee and tea products.

Cost of goods sold in the three months ended December 31, 2013 increased \$1.4 million, or 1.6%, to \$86.7 million, or 61.0% of net sales, from \$85.4 million, or 62.9% of net sales, in the three months ended December 31, 2012. The decrease in cost of goods sold as a percentage of net sales in the three months ended December 31, 2013 was primarily due to a 29% decrease in the average cost of green coffee purchased, partially offset by \$3.7 million in coffee-related derivative losses reclassified into cost of goods sold. Cost of goods sold in the six months ended December 31, 2013 increased \$5.9 million, or 3.7% , to \$165.8 million, or 61.2% of net sales, from \$159.9 million, or 62.7% of net sales in the six months ended December 31, 2012. The decrease in cost of goods sold as a percentage of net sales in the six months ended December 31, 2013 was primarily due to a 26% decrease in the average cost of green coffee purchased, partially offset by \$6.0 million in coffee-related derivative losses reclassified into cost of goods sold.

We anticipate that inventory levels at June 30, 2014 will be greater than at June 30, 2013 and, therefore, did not record any adjustment to cost of goods sold to reflect the effect of the liquidation of LIFO inventory quantities in the results of operations for the three and six months ended December 31, 2013. Cost of goods sold in the three and six months ended December 31, 2012 includes the expected beneficial effect of the liquidation of LIFO inventory quantities in the amount of \$0.5 million.

Gross profit in the three months ended December 31, 2013 increased \$5.0 million, or 10.1%, to \$55.4 million from \$50.4 million in the three months ended December 31, 2012, primarily due to the increase in net sales. Gross margin increased to 39.0% in the three months ended December 31, 2013 from 37.1% in the three months ended December 31, 2012, primarily due to a 29% decrease in the average cost of green coffee purchased in the three months ended December 31, 2013. The increases in gross profit and gross margin were partially offset by \$3.7 million in coffee-related derivative losses reclassified into cost of goods sold matching the hedged transactions that affected earnings in the three months ended December 31, 2013. Gross profit in the six months ended December 31, 2013 increased \$9.9 million, or 10.5%, to \$104.9 million, as compared to \$95.0 million in the six months ended

December 31, 2012, primarily due to the increase in net sales. Gross margin increased to 38.8% in the six months ended December 31, 2013 from 37.3% in the comparable period of the prior fiscal year, primarily due to a 26% decrease in the average cost of green coffee purchased. The increases in gross profit and gross margin were partially offset by \$6.0 million in coffee-related derivative losses reclassified into cost of goods sold matching the hedged transactions that affected earnings in the six months ended December 31, 2013. Gross profit in the three and six months ended December 31, 2012 included the expected beneficial effect of the liquidation of LIFO inventory quantities in the amount of \$0.5 million.

In the three months ended December 31, 2013, operating expenses decreased \$0.1 million, or 0.2%, to \$49.7 million, or 35.0% of net sales, from \$49.8 million, or 36.7% of net sales, in the three months ended December 31, 2012. The decrease in operating expenses in the three months ended December 31, 2013 was primarily due a \$1.8 million decrease in selling expenses partially offset by a \$1.7 million increase in general and administrative expenses as compared to the three months ended December 31, 2012. Operating expenses in the six months ended December 31, 2013 increased \$0.5 million, or 0.5%, to \$96.3 million, or 35.6% of net sales, from \$95.8 million, or 37.6% of net sales in the six months ended December 31, 2012. The increase in operating expenses in the six months ended December 31, 2013 was primarily due to a \$2.2 million increase in general and administrative expenses partially offset by a \$1.7 million decrease in selling expenses. The decrease in selling expenses in the three and six months ended December 31, 2013 was primarily due to the absence of startup costs for national customers and the absence of expenses related to sales training and storm-related expenses as compared to the same periods in the prior fiscal year. In addition, insurance recovery of storm-related losses in the six months ended December 31, 2013 also contributed to the decrease in selling expenses. The decrease in selling expenses was partially offset by a \$1.3 million increase in additional accruals for incurred but not reported self-insurance claims. The increase in general and administrative expenses in the three and six months ended December 31, 2013 was primarily due to the increase in accrual for anticipated bonus payments to eligible employees as compared to the same periods in the prior fiscal year.

Income from operations in the three months ended December 31, 2013 was \$5.7 million compared to \$0.5 million in the three months ended December 31, 2012, primarily due to the improvement in gross profit and lower selling expenses partially offset by the increase in general and administrative expenses. Income from operations in the six months ended December 31, 2013 was \$8.6 million compared to loss from operations of \$(0.9) million in the six months ended December 31, 2012, primarily due to the improvement in gross profit and lower selling expenses partially offset by the increase in general and administrative expenses.

Total other expense in the three and six months ended December 31, 2013 was \$0.6 million and \$1.4 million, respectively, compared to \$7.7 million and \$2.9 million in the three and six months ended December 31, 2012, respectively. The decrease in total other expense in the three and six months ended December 31, 2013 was primarily due to the implementation of procedures following the guidelines of ASC 815, "Derivatives and Hedging" ("ASC 815"), beginning in April 2013 which enabled us to account for certain coffee-related derivative instruments as accounting hedges. As a result, beginning in April 2013, gains and losses from derivative instruments designated as accounting hedges are deferred in AOCI and recognized in cost of goods sold in the period or periods when the hedged transaction affects earnings. Gains and losses from derivative instruments not designated as accounting hedges are immediately recognized in "Other, net." Total other expense in the three and six months ended December 31, 2013 included \$0.3 million and \$1.2 million in net losses on coffee-related derivatives, respectively, as compared to \$7.9 million and \$7.2 million in the three and six months ended December 31, 2012, respectively. Total other expense in the six months ended December 31, 2012 included \$3.2 million in net gains on sales of assets, primarily real estate.

Net losses from coffee-related derivative instruments not designated as accounting hedges recorded in "Other, net" in the three and six months ended December 31, 2013 were \$0.2 million and \$0.5 million, respectively. For the three and six months ended December 31, 2013, we recognized \$0.1 million and \$0.7 million in losses on coffee-related derivative instruments designated as cash flow hedges due to ineffectiveness.

In the three months ended December 31, 2013, we recorded income tax expense of \$0.4 million compared to income tax benefit of \$(32,000) in the three months ended December 31, 2012. In the six months ended December 31, 2013, we recorded income tax expense of \$0.7 million compared to \$0.4 million in the six months ended December 31, 2012.

As a result of the foregoing factors, net income in the three months ended December 31, 2013 was \$4.7 million, or \$0.29 per diluted common share, compared to net loss of \$(7.2) million, or \$(0.46) per diluted common share, in the three months ended December 31, 2012. Net income in the six months ended December 31, 2013 was of \$6.5

million, or \$0.41 per diluted common share, as compared to net loss of \$(4.2) million, or \$(0.27) per diluted common share, in the six months ended December 31, 2012.

Non-GAAP Financial Measures

In addition to net income (loss) determined in accordance with GAAP, we use certain non-GAAP financial measures, including “EBITDAE” and “EBITDAE Margin,” in assessing our operating performance. We believe these non-GAAP financial measures serve as appropriate measures to be used in evaluating the performance of our business.

We define “EBITDAE” as net income (loss) excluding the impact of income taxes, interest expense, depreciation and amortization expense, ESOP and share-based compensation expense, non-cash impairment losses, pension withdrawal expense, and “Other, net,” which includes net gains and losses from derivatives and investments, and net gains and losses on sales of assets. We reference this particular non-GAAP financial measure frequently in our decision-making because it provides supplemental information that facilitates internal comparisons to the historical operating performance of prior periods. In addition, we base certain of our forward-looking estimates on EBITDAE to facilitate quantification of planned business activities and enhance subsequent follow-up with comparisons of actual to planned EBITDAE. We define “EBITDAE Margin” as EBITDAE expressed as a percentage of net sales. EBITDAE and EBITDAE Margin as defined by us may not be comparable to similarly titled measures reported by other companies. We do not intend for non-GAAP financial measures to be considered in isolation or as a substitute for other measures prepared in accordance with GAAP.

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

(In thousands)	Three Months Ended December 31,		Six Months Ended December 31,	
	2013	2012	2013	2012
Net income (loss), as reported(1)(2)	\$ 4,709	\$ (7,157)	\$ 6,514	\$ (4,178)
Income tax expense (benefit)	402	(32)	709	409
Interest expense (benefit)	393	463	765	920
Depreciation and amortization expense	7,054	8,300	14,478	16,640
ESOP and share-based compensation expense	1,230	1,083	2,134	1,906
Other, net(2)	587	7,656	1,370	2,711
EBITDAE	<u>\$ 14,375</u>	<u>\$ 10,313</u>	<u>\$ 25,970</u>	<u>\$ 18,408</u>
EBITDAE Margin	10.1%	7.6%	9.6%	7.2%

(1) Includes \$0.5 million in beneficial effect of LIFO inventory liquidation in the three and six months ended December 31, 2012.

(2) Includes: (a) \$0.1 million in net gains from sales of assets in the three and six months ended December 31, 2013; and (b) \$3.2 million in net gains from sales of assets, primarily real estate, and \$0.8 million in recovery of a note receivable previously deemed uncollectible in the six months ended December 31, 2012. Excludes \$2.3 million and \$5.4 million in losses from coffee-related derivatives which have been recorded in OCI in the three and six months ended December 31, 2013.

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 derivatives 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 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 December 31, 2013. 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 December 31, 2013, we had no futures contracts or put options with respect to our preferred securities portfolio designated as interest rate risk hedges.

	Market Value of Preferred Securities at December 31, 2013		Change in Market Value
<u>Interest Rate Changes</u>	(In thousands)		
–150 basis points	\$	21,582	\$ 1,029
–100 basis points	\$	21,287	\$ 734
Unchanged	\$	20,553	\$ —
+100 basis points	\$	19,622	\$ (931)
+150 basis points	\$	19,141	\$ (1,412)

The Loan Agreement for our revolving credit facility provides for interest rates based on modified Monthly Average Excess Availability levels with a range of PRIME + 0.25% to PRIME + 0.75% or Adjusted Eurodollar Rate + 2.0% to Adjusted Eurodollar Rate + 2.5%. Effective December 1, 2012, we entered into an interest rate swap transaction utilizing a notional amount of \$10.0 million and a maturity date of March 1, 2015. We entered into the swap transaction to effectively fix the future interest rate during the applicable period on a portion of our borrowings under our revolving credit facility. In connection with entering into the interest rate swap agreement on December 1, 2012, we reclassified \$10.0 million of our borrowings under the revolving credit facility as long-term because we intend to repay the borrowings in accordance with the termination date of the swap agreement which extends beyond one year. The swap transaction is intended to manage our interest rate risk related to our borrowings under our revolving credit facility and requires us to pay a fixed rate of 0.48% per annum in exchange for a variable interest rate based on 1-month USD LIBOR-BBA. As of December 31, 2013, the variable interest rate based on 1-month USD LIBOR-BBA was 0.16%.

We have not designated our interest rate swap as an accounting hedge. We record the interest rate swap on our consolidated balance sheet at fair value with the changes in fair value recorded as gain or loss in “Other, net” in our consolidated statements of operations. In the three and six months ended December 31, 2013, we recorded a gain of \$2,000 and a loss of \$(4,000), respectively, for the change in fair value of our interest rate swap. In the three and six months ended December 31, 2012, we recorded a loss of \$(40,000) for the change in fair value of our interest rate swap.

As of December 31, 2013, we had outstanding borrowings of \$18.6 million, including loan extension fees of \$0.1 million, utilized \$11.2 million of the letters of credit sublimit, and had excess availability under the credit facility of \$38.2 million. The weighted average interest rate on our outstanding borrowings under the credit facility at December 31, 2013 was 1.13%.

The following table demonstrates the impact of interest rate changes on our annual interest expense under the revolving credit facility based on the outstanding balance and interest rate as of December 31, 2013:

	Interest Rate	Annual Interest Expense	
<u>Interest Rate Changes</u>		(In thousands)	
–100 basis points	0.13%	\$	24
–50 basis points	0.63%	\$	117
Unchanged	1.13%	\$	210
+50 basis points	1.63%	\$	303
+100 basis points	2.13%	\$	396

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 last in, first out 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 routinely purchase exchange traded coffee contracts to enable us to lock in green coffee prices within a pre-established range, and hold a mix of futures contracts and options to help hedge against volatility in green coffee prices. Prior to April 1, 2013, none of our derivative instruments was designated as an accounting hedge. Beginning April 1, 2013, we implemented procedures following the guidelines of ASC 815 to enable us to account for certain coffee-related derivatives 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 coffee-related futures contracts are designated as cash flow hedges, we formally document the hedging instruments and hedged items, and measure at each balance sheet date the effectiveness of our hedges. Beginning in the fourth quarter of fiscal 2013, the effective portion of the change in fair value of the derivative is reported as AOCI and subsequently reclassified into cost of goods sold in the period or periods when the hedged transaction affects earnings. In the three and six months ended December 31, 2013, we reclassified \$3.7 million and \$6.0 million in net losses 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 derivatives, derivatives that cease to be highly effective hedges, derivatives 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 and six months ended December 31, 2013, we recognized in "Other, net" \$(0.5) million in losses on coffee-related derivative instruments designated as cash flow hedges due to ineffectiveness.

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

For the three and six months ended December 31, 2013, we recorded net (losses) gains from coffee-related derivative instruments not designated as accounting hedges in "Other, net" in the amounts of \$(0.2) million and \$0.5 million, respectively (see Note 2 to the consolidated financial statements).

The following table summarizes the potential impact as of December 31, 2013 to net income and OCI from a hypothetical 10% change in coffee commodity prices. The information provided below relates only to the coffee-related derivative instruments and does not represent the corresponding changes in the underlying hedged items:

	Increase (Decrease) to Net Income		Increase (Decrease) to OCI	
	10% Increase in Underlying Rate	10% Decrease in Underlying Rate	10% Increase in Underlying Rate	10% Decrease in Underlying Rate
(In thousands)				
Coffee-related derivative instruments	\$ 5,400	\$ (5,400)	\$ 616	\$ (616)

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 Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosures.

As of December 31, 2013, our management, with the participation of our Chief Executive Officer and Chief Financial Officer, carried out an evaluation of the effectiveness of our disclosure controls and procedures pursuant to Rule 13a-15(e) promulgated under the Exchange Act. Based on that evaluation, the Company's Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were not effective as of December 31, 2013. This conclusion was based on the material weakness identified in our internal control over financial reporting related to our accounting for postretirement benefit obligations, as described below.

Changes in Internal Control Over Financial Reporting

As described in Item 9A of our Annual Report on Form 10-K for the fiscal year ended June 30, 2013 filed with the SEC on October 9, 2013, our management identified a material weakness in our internal control over our accounting for postretirement benefit obligations. Our controls did not properly identify the failure to apply generally accepted accounting principles with respect to the accounting for death benefits and the related cash surrender value of life insurance, and did not properly detect when changes or amendments to other postretirement benefit plans occurred that should have resulted in changes to the related benefit plan obligations. As a result, material errors to the recorded postretirement benefit liability, postretirement death benefit liability and cash surrender value of life insurance purchased to fund the postretirement death benefit occurred and were not timely detected. As a result, our management concluded that, as of June 30, 2013, our internal control over financial reporting was not effective due to this material weakness.

To remediate the material weakness described above, we are currently evaluating the controls and procedures we will design and put in place to address this material weakness and plan to implement appropriate measures as part of this effort. These controls and procedures may include:

- engagement of independent consultants to review the Company's other postretirement benefit obligation controls and to make recommendations to address the design gaps in these controls;
- retention of additional knowledgeable accounting personnel to review the accuracy of data and plan information provided to actuaries engaged to perform valuation services;
- design of processes to facilitate improved interaction among human resources, external actuaries and accounting personnel; and
- additional focused training of our finance personnel in the area of accounting and reporting for our other postretirement obligations, including any changes in the relevant accounting guidance and timely adoption thereof.

However, the material weakness will not be considered remediated until the applicable remedial controls are implemented and operate for a sufficient period of time and management has concluded, through testing, that these controls are operating effectively.

Except as described above, 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 December 31, 2013, that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Part II - OTHER INFORMATION

Item 6. Exhibits

See Exhibit Index.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

FARMER BROS. CO.

By: /s/MICHAEL H. KEOWN

Michael H. Keown
President and Chief Executive Officer
(chief executive officer)
Date: February 10, 2014

By: /s/MARK J. NELSON

Mark J. Nelson
Treasurer and Chief Financial Officer
(principal financial and accounting officer)
Date: February 10, 2014

EXHIBIT INDEX

- 3.1 Certificate of Incorporation (filed as Exhibit 3.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2009 filed with the SEC on May 11, 2009 and incorporated herein by reference).
- 3.2 Amended and Restated Bylaws (filed as Exhibit 3.2 to the Company's Current Report on Form 8-K filed with the SEC on April 25, 2011 and incorporated herein by reference).
- 4.1 Certificate of Designation, Preferences and Rights of Series A Junior Participating Preferred Stock (filed as Exhibit 4.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2010 filed with the SEC on May 10, 2010 and incorporated herein by reference).
- 4.2 Rights Agreement, dated March 17, 2005, by and between Farmer Bros. Co. and Wells Fargo Bank, N.A., as Rights Agent (filed as Exhibit 4.2 to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2010 filed with the SEC on May 10, 2010 and incorporated herein by reference).
- 4.3 Specimen Stock Certificate (filed herewith).
- 10.1 Amended and Restated Loan and Security Agreement, dated September 12, 2011, by and among Farmer Bros. Co. and Coffee Bean International, Inc., as Borrowers, Coffee Bean Holding Co., Inc. and FBC Finance Company, as Guarantors, the Lenders party thereto, and Wells Fargo Bank, National Association, as Agent (filed as Exhibit 10.12 to the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 2011 filed with the SEC on September 12, 2011 and incorporated herein by reference).
- 10.2 Amendment No. 1 to Amended and Restated Loan and Security Agreement, effective January 9, 2012, by and among Farmer Bros. Co. and Coffee Bean International, Inc., as Borrowers, Coffee Bean Holding Co., Inc. and FBC Finance Company, as Guarantors, the Lenders party thereto, and Wells Fargo Bank, National Association, as Agent (filed as Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q for the quarter ended December 31, 2011 filed with the SEC on February 8, 2012 and incorporated herein by reference).
- 10.3 Amendment No. 2 to Amended and Restated Loan and Security Agreement, dated as of March 18, 2013, by and among Farmer Bros. Co. and Coffee Bean International, Inc., as Borrowers, Coffee Bean Holding Co., Inc. and FBC Finance Company, as Guarantors, the Lenders party thereto, and Wells Fargo Bank, National Association, as Agent (filed as Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the SEC on March 20, 2013 and incorporated herein by reference).
- 10.4 Letter Agreement regarding Waiver of Event of Default, dated October 3, 2013, by and among Farmer Bros. Co. and Coffee Bean International, Inc., as Borrowers, Coffee Bean Holding Co., Inc. and FBC Finance Company, as Guarantors, the Lenders party thereto, and Wells Fargo Bank, National Association, as Agent (filed as Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the SEC on October 4, 2013 and incorporated herein by reference).
- 10.5 ISDA Master Agreement, dated as of November 19, 2012, by and between Farmer Bros. Co. and Wells Fargo Bank, N.A. (filed as Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the SEC on November 26, 2012 and incorporated herein by reference).
- 10.6 Schedule to the ISDA Master Agreement, dated as of November 19, 2012, by and between Farmer Bros. Co. and Wells Fargo Bank, N.A. (filed as Exhibit 10.2 to the Company's Current Report on Form 8-K filed with the SEC on November 26, 2012 and incorporated herein by reference).
- 10.7 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).*

- 10.8 Amendment No. 1 to Farmer Bros. Co. Retirement Plan effective June 30, 2011 (filed as Exhibit 10.14 to the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 2011 filed with the SEC on September 12, 2011 and incorporated herein by reference).*
- 10.9 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 10.7 to the Company's Quarterly Report on Form 10-Q for the quarter ended December 31, 2012 filed with the SEC on February 6, 2013 and incorporated herein by reference).*
- 10.10 Farmer Bros. Co. 2005 Incentive Compensation Plan (filed herewith).*
- 10.11 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 10.12 to the Company's Quarterly Report on Form 10-Q for the quarter ended December 31, 2010 filed with the SEC on February 9, 2011 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, 2012 (filed as Exhibit 10.7 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).*
- 10.13 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 10.13 to the Company's Quarterly Report on Form 10-Q for the quarter ended December 31, 2010 filed with the SEC on February 9, 2011 and incorporated herein by reference).
- 10.14 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 10.14 to the Company's Quarterly Report on Form 10-Q for the quarter ended December 31, 2010 filed with the SEC on February 9, 2011 and incorporated herein by reference).
- 10.15 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 10.15 to the Company's Quarterly Report on Form 10-Q for the quarter ended December 31, 2010 filed with the SEC on February 9, 2011 and incorporated herein by reference).
- 10.16 Employment Agreement, dated March 9, 2012, by and between Farmer Bros. Co. and Michael H. Keown (filed as Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the SEC on March 13, 2012 and incorporated herein by reference).*
- 10.17 Second Amended and Restated Employment Agreement, effective as of February 13, 2012, by and between Farmer Bros. Co. and Jeffrey A. Wahba (filed as Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the SEC on February 17, 2012 and incorporated herein by reference).*
- 10.18 Consulting Services Agreement, effective as of March 1, 2013, between Farmer Bros. Co. and Jeffrey A. Wahba (filed as Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the SEC on February 28, 2013 and incorporated herein by reference).*
- 10.19 Letter Agreement by and between Farmer Bros. Co. and Jeffrey A. Wahba (filed as Exhibit 10.7 to the Company's Current Report on Form 8-K filed with the SEC on April 4, 2013 and incorporated herein by reference).*
- 10.20 Employment Agreement, dated as of April 4, 2012, by and between Farmer Bros. Co. and Thomas W. Mortensen (filed as Exhibit 10.1 to the Company's Current Report on Form 8-K/A filed with the SEC on April 10, 2012 and incorporated herein by reference).*
- 10.21 Amended and Restated Employment Agreement, effective as of February 13, 2012, by and between Farmer Bros. Co. and Patrick G. Criteser (filed as Exhibit 10.2 to the Company's Current Report on Form 8-K filed with the SEC on February 17, 2012 and incorporated herein by reference).*

- 10.22 Resignation Agreement, dated as of July 20, 2012, by and between Farmer Bros. Co. and Larry B. Garrett (filed as Exhibit 10.1 to the Company's Current Report on Form 8-K/A filed with the SEC on July 24, 2012 and incorporated herein by reference).*
- 10.23 Employment Agreement, dated as of April 1, 2013, by and between Farmer Bros. Co. and Mark J. Nelson (filed as Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the SEC on April 4, 2013 and incorporated herein by reference).*
- 10.24 Separation Agreement, dated as of December 12, 2013, by and between Farmer Bros. Co. and Hortensia R. Gomez (filed as Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the SEC on December 18, 2013 and incorporated herein by reference).*
- 10.25 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).*
- 10.26 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).*
- 10.27 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).*
- 10.28 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).*
- 10.29 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).*
- 10.30 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).*
- 10.31 Stock Ownership Guidelines for Directors and Executive Officers (filed as Exhibit 10.4 to the Company's Current Report on Form 8-K filed with the SEC on April 4, 2013 and incorporated herein by reference).*
- 10.32 Form of Award Letter (Fiscal 2012) under Farmer Bros. Co. 2005 Incentive Compensation Plan (filed as Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the SEC on September 24, 2012 and incorporated herein by reference).*
- 10.33 Form of Target Award Notification Letter (Fiscal 2013) under Farmer Bros. Co. 2005 Incentive Compensation Plan (filed as Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the SEC on September 28, 2012 and incorporated herein by reference).*
- 10.34 Form of Award Letter (Fiscal 2013) under Farmer Bros. Co. 2005 Incentive Compensation Plan (filed as Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the SEC on October 15, 2013 and incorporated herein by reference).*
- 10.35 Form of Target Award Notification Letter (Fiscal 2014) under Farmer Bros. Co. 2005 Incentive Compensation Plan (filed as Exhibit 10.2 to the Company's Current Report on Form 8-K filed with the SEC on October 15, 2013 and incorporated herein by reference).*
- 10.36 Form of Change in Control Severance Agreement for Executive Officers of the Company (with schedule of executive officers attached) (filed as Exhibit 10.6 to the Company's Current Report on Form 8-K filed with the SEC on April 4, 2013 and incorporated herein by reference).*

- 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 10.1 to the Company's Current Report on Form 8-K filed with the SEC on December 11, 2013 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 quarter ended December 31, 2013, formatted in eXtensible Business Reporting Language: (i) Consolidated Balance Sheets, (ii) Consolidated Statements of Operations, (iii) Consolidated Statements of Comprehensive Income (Loss), (iv) Consolidated Statements of Cash Flows and (v) Notes to Consolidated Financial Statements (furnished herewith).

* Management contract or compensatory plan or arrangement.



**Farmer Brothers
COFFEE**

FARMER BROS. CO.

INCORPORATED UNDER THE LAWS OF THE STATE OF DELAWARE

SEE REVERSE SIDE
FOR CERTAIN DEFINITIONS

THIS CERTIFICATE IS TRANSFERABLE IN SOUTH SAINT PAUL, MN.

CUSIP 307675 10 8

THIS CERTIFIES THAT

SPECIMEN

is the owner of

BY

COUNTERSIGNED AND REGISTERED:
WELLS FARGO BANK, N.A.

FULLY PAID AND NON-ASSESSABLE COMMON STOCK, \$1.00 PAR VALUE, OF
FARMER BROS. CO.

transferable on the books of the corporation by the holder hereof in person by Attorney upon surrender of this certificate properly endorsed. This certificate is not valid unless countersigned by the Transfer Agent and Registrar.

IN WITNESS WHEREOF, the said Corporation has caused this certificate to be signed by its duly authorized officers and to be sealed with the seal of the Corporation..

TRANSFER AGENT
AND REGISTRAR

AUTHORIZED SIGNATURE

Dated:

TREASURER



AMERICAN FINANCIAL [ILLEGIBLE] INCORPORATED – MINNEAPOLAS

PRESIDENT

FARMER BROS. CO.

THE CORPORATION WILL FURNISH WITHOUT CHARGE TO EACH STOCKHOLDER WHO SO REQUESTS THE POWERS, DESIGNATIONS, PREFERENCES AND RELATIVE, PARTICIPATING, OPTIONAL, OR OTHER SPECIAL RIGHTS OF EACH CLASS OF STOCK OR SERIES THEREOF AND THE QUALIFICATIONS, LIMITATIONS OR RESTRICTIONS OF SUCH PREFERENCES AND/OR RIGHTS.

The following abbreviations, when used in the inscription on the face of this certificate, shall be construed as though they were written out in full according to applicable laws or regulations:

TEN COM	– as tenants in common	UTMA —	Custodian
			(Cust) (Minor)
TEN ENT	– as tenants by entireties		under Uniform Transfer to Minors
JT TEN	– as joint tenants with right of survivorship and not as tenants in common	Act	(State)

Additional abbreviations may also be used though not in the above list.

For value received hereby sell, assign and transfer unto

PLEASE INSERT SOCIAL SECURITY OR OTHER
IDENTIFYING NUMBER OF ASSIGNEE

PLEASE PRINT OR TYPEWRITE NAME AND ADDRESS INCLUDING POSTAL ZIP CODE OF ASSIGNEE

Shares of the capital stock represented by the within Certificate, and do hereby irrevocably constitute and appoint transfer the said stock on the books of the within-named Corporation with full power of substitution in the premises.

Attorney to

Dated

NOTICE: THE SIGNATURE TO THIS ASSIGNMENT MUST
CORRESPOND WITH THE NAME AS WRITTEN UPON THE FACE
OF THE CERTIFICATE IN EVERY PARTICULAR WITHOUT
ALTERATION OR ENLARGEMENT OR ANY CHANGE
WHATEVER.

SIGNATURE GUARANTEED

ALL GUARANTEES MUST BE MADE AT A FINANCIAL INSTITUTION (SUCH AS A BANK OR BROKER) WHICH IS A PARTICIPANT IN THE SECURITIES TRANSFER AGENTS MEDALLION PROGRAM ("STAMP"). THE NEW YORK STOCK EXCHANGE, INC. MEDALLION SIGNATURE PROGRAM ("MSP"), OR THE STOCK EXCHANGES MEDALLION PROGRAM ("SEMP") AND MUST NOT BE DATED. GUARANTEES BY A NOTARY PUBLIC ARE NOT ACCEPTABLE.

This certificate also represents and entitles the holder hereof to certain Rights as set forth in the Rights Agreement between Farmer Bros. Co., Inc. (the "Company") and the Rights Agent thereunder (the "Rights Agent"), the terms of which are hereby incorporated herein by reference and a copy of which is on file at the principal offices of the Company. Under certain circumstances, as set forth in the Rights Agreement, such Rights will be represented by separate certificates and will no longer be represented by this certificate. The Company will mail to the holder of this certificate a copy of the Rights Agreement, as in effect on the date of mailing, without charge, promptly after receipt of a written request therefor. Under certain circumstances set forth in the Rights Agreement, Rights issued to, or held by, any Person who is, was or becomes an Acquiring Person or any Affiliate or Associate thereof (as such terms are defined in the Rights Agreement) whether currently held by or on behalf of such Person or by any subsequent holder, may become null and void.

FARMER BROS. CO.

2005 INCENTIVE COMPENSATION PLAN

(Amended and Restated as of December 31, 2008)

1. **Purpose.** The purpose of this Plan is to further the Company's profitability by providing an incentive and reward to key management employees of the Company who through industry, ability, teamwork with other key management employees and exceptional service contribute materially to the success of the Company, and by enhancing the Company's ability to attract and retain in its employ key personnel upon whose efforts the success of the Company is dependent. The Company desires to adopt this Plan to: provide awards based on the achievement of corporate goals and specifically measured individual goals that are consistent with and support the Company's overall business strategies and objectives; provide Participants with an incentive for excellence in individual performance; and promote teamwork. This Plan entirely supersedes the Company's 1982 Incentive Compensation Plan ("1982 Plan").
2. **Definitions.** As used in this Plan, the following terms shall have the following meanings:
 - (a) "**Plan**" means this Farmer Bros. Co. 2005 Incentive Compensation Plan, as it may be amended from time to time.
 - (b) "**Company**" means Farmer Bros. Co., a Delaware corporation, and includes the Company's subsidiaries and divisions.
 - (c) "**Board of Directors**" or "**Board**" means the Board of Directors of Farmer Bros. Co.
 - (d) "**Committee**" means the Compensation Committee of the Board, or such other committee as may be appointed by the Board to administer the Plan pursuant to section 9.
 - (e) "**Fiscal Year**" means the year selected by the Company for income taxation and financial reporting purposes.
 - (f) "**Employee**" or "**Eligible Employee**" means any officer or other key management employee of the Company (including subsidiaries) who is in the employ of the Company. No member of the Committee shall be an Eligible Employee while serving on the Committee or for a period of one year thereafter.
 - (g) "**Participant**" means an Eligible Employee to whom an award is made under this Plan.
 - (h) "**Award**" means a Current Award or Deferred Award made by the Committee pursuant to section 6 of the Plan.
 - (i) "**Current Award**" means an Award payable pursuant to section 7(a) of the Plan.
 - (j) "**Deferred Award**" means an Award payable pursuant to section 7(b) of the Plan.

(k) “Base Salary” means a Participant’s annual pay rate at the end of the Fiscal Year, without taking into account the following: (i) any deferrals of income; (ii) any incentive compensation; or (iii) any other benefits paid or provided under any of the Company’s other employee benefit plans.

(l) “Performance Criteria” means the attainment of specified levels of (or percentage changes in) financial performance and other corporate and/or individual objectives as determined by the Committee in its discretion.

(i) Performance Criteria may measure, without limitation, such financial performance indicators as the following: adjusted net income, net sales; total shareholder return; profitability; stock price; economic value added; profit margin (gross or net); asset turnover; sales growth (whether measured in pounds of coffee, number of accounts or otherwise); asset growth; return on investment; earnings per share; return on equity; return on assets; return on capital; operating cash flow; cost of capital; net income; market share; working capital; cost reduction; and such other financial metrics measured solely in terms of the attainment of quantitative targets related to the Company’s business.

(ii) Performance Criteria may also assess, without limitation, attainment of corporate and/or individual objectives such as customer satisfaction, maintenance of good employee relations, safety enhancement, improved product quality, systems improvement and implementation, acquisitions, expansion of product lines, creation of operating efficiencies, market share increase, geographic expansion, enhancement of management depth, succession planning, financial risk management, and such other objectives important to the achievement of the Company’s overall business strategies and objectives.

(iii) Performance Criteria may but need not be susceptible to objective measurement.

Performance Criteria may be applied by the Committee as a measure of the performance of any, all, or any combination of the following: the Company; a subsidiary, division, department, region, function or business unit of the Company or any subsidiary; a particular product category or categories of the Company or any subsidiary; or an individual Participant.

(m) “Target Award” is defined in Section 5.

3. Amount Subject to Awards. The amount available for Awards under this Plan each Fiscal Year shall be within the discretion of the Committee.

4. Participants. Based on its evaluation of an Employee’s performance, contribution to the Company, compensation, and other criteria it deems relevant, the Committee shall determine within ninety (90) days after the beginning of each Fiscal Year, in its sole discretion, the Employees, if any, who shall be Participants in the Plan for that year.

5. Performance Criteria and Target Award. With respect to each Participant, the Committee shall establish in writing the specific Performance Criteria for such Fiscal Year to be achieved by the Company and/or such Participant in order for such Participant to earn an Award under this Plan. The Committee shall also establish a target Award amount (“Target Award”) for each

Participant based upon the Participant's past annual compensation, current salary, job responsibilities and past and expected future job performance. The Committee may consult with senior management executives of the Company and the Plan Participants in establishing such Performance Criteria and Target Awards to the extent deemed appropriate by the Committee. Performance Criteria may vary from Participant to Participant and between groups of Participants. The Committee shall for each Fiscal Year establish a formula or matrix for each Participant pursuant to which his or her Award shall be determined based upon the degree of achievement of such Performance Criteria. This formula or matrix may take into account Performance Criteria achieved in prior Fiscal Years. In addition, the relative weight among specific Performance Criteria shall be determined by the Committee in its discretion. The Committee shall inform each Participant of the Performance Criteria, Target Award and formula or matrix for determining achievement of the Performance Criteria and calculation of the Award which are applicable to the Participant's Award. The Committee shall have the discretion at any time to add additional Performance Criteria and to modify any objectives or performance levels designated in relation to previously established Performance Criteria. The Performance Criteria for each Participant, once established, shall continue for subsequent Fiscal Years unless modified by the Committee. Depending on the level of achievement of applicable Performance Criteria, a Participant's actual Award can exceed his or her Target Award.

6. Determination of Awards.

After the end of each Fiscal Year and promptly upon availability of the Company's audited financial statements, the Committee shall review and evaluate the Performance Criteria applicable to the Fiscal Year for each Participant in light of the Company's and/or such Participant's performance measured in accordance with such criteria, and shall determine whether and to what extent the Performance Criteria have been satisfied and the amount of the Award, if any, to be made to the Plan Participant. The executive officers of the Company shall provide all information necessary to enable the Committee to make the determination promptly following fiscal year-end. The Committee may in its discretion consult with such Participant's immediate supervisor (i.e., responsible Vice President and/or the President and CEO) with respect to whether any Performance Criteria measured by such Participant's individual performance have been achieved. Achievement of financial Performance Criteria shall be determined by adding back any past or current Award made under the Plan or any award under the 1982 Plan which otherwise would affect the result unless the Committee determines otherwise. If a Performance Criterion is not susceptible to objective measurement, the Committee shall determine the level of attainment in good faith on a subjective basis. Payment of Awards, less withholding taxes, shall be made to Participants as provided in section 7, but only upon the Committee's certification that the applicable Performance Criteria have been satisfied and upon determination of the amount of each Award. No Award shall be deemed to be earned under the Plan prior to the Committee's certification and Award determination.

Notwithstanding anything contained in this Plan to the contrary and regardless of whether any or all of the Performance Criteria have been achieved, whether in whole or in part, the Committee may in its discretion eliminate entirely, reduce, or increase any Award to a Participant in order to reflect additional considerations relating to the Company and/or such Participant's individual performance. In determining whether an Award will be, eliminated, reduced or increased, the Committee shall consider any changes in circumstances which may

have occurred during the Fiscal Year, including, without limitation, changes in accounting practices or applicable law, extraordinary items of gain or loss, discontinued operations, restructuring costs, sales or dispositions of assets and acquisitions, and such Participant's individual performance. Any action by the Committee under this paragraph shall be conclusive and binding on the Company and the Participant.

7. Payment of Awards.

(a) Current Awards. Current Awards for a Fiscal Year shall be paid in a lump sum as soon as practicable after the Committee's determination pursuant to Section 6 and in all events not later than the December 31 that follows the end of such Fiscal Year.

(b) Deferred Awards. Prior to the beginning of any Fiscal Year, the Committee may, in its sole discretion, allow Participants to elect to defer payment of any Award they may receive with respect to that Fiscal Year beyond the date such Award would be paid pursuant to Section 7(a) but for such deferral election. Any such deferral election shall be made in a form and manner prescribed by the Committee, shall be filed with the Committee no later than the last day of the Fiscal Year that proceeds the Fiscal Year to which the Award relates (or such earlier deadline as may be prescribed by the Committee). Any such deferral of payment must comply with any applicable requirements of Section 409A of the U.S. Internal Revenue Code.

8. Designation of Beneficiaries.

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

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

9. Administration.

The Plan shall be administered by the Compensation Committee of the Board of Directors or such other committee as may be appointed by the Board of Directors. The

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

The Committee shall consist of two or more members, each of whom shall be appointed by, shall remain in office at the will of, and may be removed, with or with cause by the Board of Directors. Any member of the Committee may resign at any time. No member of the Committee shall be entitled to act on or decide any matter relating solely to himself or any of his rights or benefits under the Plan. No member of the Committee shall be entitled to receive an Award under this Plan while serving on the Committee or within one year thereafter. The members of the Committee shall not receive any special compensation for serving in their capacities as members of the Committee. No bond or other security need be required of the Committee or any member thereof in any jurisdiction.

The procedures for the proceedings of the Committee shall be established by resolution of the Board of Directors, absent which resolution the procedures applicable under the Company's Bylaws to proceedings of the Board of Directors shall apply to the proceedings of the Committee.

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

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

11. General Provisions.

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

If the Committee shall find that any person to whom any amount is payable under the Plan is unable to care for his affairs because of illness or accident, or is a minor, or is under any other disability, then any payment due him (unless a prior claim therefore has been made by a duly appointed legal representative), may, if the Committee so directs the Company, be paid to

his spouse, a child, a relative, an institution maintaining or having custody of such person, or any other person deemed by the Committee to be a proper recipient on behalf of such person otherwise entitled to payment. Any such payment shall be a complete discharge of the liability of the Plan, the Company, and the Committee therefor.

Except insofar as may otherwise be required by law, no amount payable at any time under the Plan shall be subject in any manner to alienation by anticipation, sale, transfer, assignment, bankruptcy, pledge, attachment, charge, or encumbrance of any kind nor in any manner be subject to the debts or liabilities of any person and any attempt to so alienate or subject any such amount, whether presently or thereafter payable, shall be void. If any person shall attempt to, or shall, alienate, sell, transfer, assign, pledge, attach, charge, or otherwise encumber any amount payable under the Plan, or any part thereof, or if by reason of his bankruptcy or other event happening at any such time such amount would be made subject to his debts or liabilities or would otherwise not be enjoyed by him, then the Committee, if it so elects, may direct that such amount be withheld and that the same or any part thereof be paid or applied to or for the benefit of such person, his spouse, children or other dependents, or any of them, in such manner and proportion as the Committee may deem proper.

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

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

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

12. Effective Date of the Plan. This Plan shall be effective for Awards made for the Fiscal Year ending June 30, 2006. Awards made for any prior Fiscal Year shall be governed by the 1982 Plan.

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: February 10, 2014

/s/ MICHAEL H. KEOWN

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

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

I, Mark J. Nelson, 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: February 10, 2014

/s/ MARK J. NELSON

Mark J. Nelson
Treasurer and Chief Financial Officer
(principal financial and accounting officer)

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

In connection with the Quarterly Report of Farmer Bros. Co. (the "Company") on Form 10-Q for the quarterly period ended December 31, 2013, 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: February 10, 2014

/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.

Certification of Chief Financial 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 December 31, 2013, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Mark J. Nelson, 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: February 10, 2014

/s/ MARK J. NELSON

Mark J. Nelson
Treasurer and Chief Financial Officer
(principal accounting and financial officer)

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