

**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 September 30, 2017**

**OR**

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

**For the transition period from** \_\_\_\_\_ **to** \_\_\_\_\_

**Commission file number: 001-34249**

**FARMER BROS. CO.**

(Exact Name of Registrant as Specified in Its Charter)

**Delaware**

(State of Incorporation)

**95-0725980**

(I.R.S. Employer Identification No.)

**1912 Farmer Brothers Drive, Northlake, Texas 76262**

(Address of Principal Executive Offices; Zip Code)

**888-998-2468**

(Registrant's Telephone Number, Including Area Code)

**None**

(Former Address, if Changed Since Last Report)

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

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

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

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

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

YES  NO

As of November 6, 2017, the registrant had 16,843,270 shares outstanding of its common stock, par value \$1.00 per share, which is the registrant's only class of common stock.

## TABLE OF CONTENTS

	<b>Page</b>
<b><u>PART I – FINANCIAL INFORMATION (UNAUDITED)</u></b>	
<b><u>Item 1. Financial Statements</u></b>	<b><u>1</u></b>
<u>Condensed Consolidated Balance Sheets at September 30, 2017 and June 30, 2017</u>	<u>1</u>
<u>Condensed Consolidated Statements of Operations for the Three Months Ended September 30, 2017 and 2016</u>	<u>2</u>
<u>Condensed Consolidated Statements of Comprehensive (Loss) Income for the Three Months Ended September 30, 2017 and 2016</u>	<u>3</u>
<u>Condensed Consolidated Statements of Cash Flows for the Three Months Ended September 30, 2017 and 2016</u>	<u>4</u>
<u>Notes to Condensed Consolidated Financial Statements</u>	<u>6</u>
<b><u>Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations</u></b>	<b><u>32</u></b>
<b><u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u></b>	<b><u>46</u></b>
<b><u>Item 4. Controls and Procedures</u></b>	<b><u>49</u></b>
<b><u>PART II – OTHER INFORMATION</u></b>	
<b><u>Item 1. Legal Proceedings</u></b>	<b><u>50</u></b>
<b><u>Item 6. Exhibits</u></b>	<b><u>50</u></b>
<b><u>SIGNATURES</u></b>	<b><u>51</u></b>
<b><u>EXHIBIT INDEX</u></b>	<b><u>52</u></b>

**PART I - FINANCIAL INFORMATION (UNAUDITED)**

**Item 1. Financial Statements**

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

	September 30, 2017	June 30, 2017
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 7,297	\$ 6,241
Short-term investments	359	368
Accounts receivable, net	47,076	46,446
Inventories	64,789	56,251
Income tax receivable	198	318
Prepaid expenses	8,070	7,540
<b>Total current assets</b>	<b>127,789</b>	<b>117,164</b>
Property, plant and equipment, net	172,680	176,066
Goodwill	10,996	10,996
Intangible assets, net	18,315	18,618
Other assets	6,717	6,837
Deferred income taxes	65,862	63,055
<b>Total assets</b>	<b>\$ 402,359</b>	<b>\$ 392,736</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	45,620	39,784
Accrued payroll expenses	18,376	17,345
Short-term borrowings under revolving credit facility	30,070	27,621
Short-term obligations under capital leases	769	958
Short-term derivative liabilities	2,305	1,857
Other current liabilities	9,745	9,702
<b>Total current liabilities</b>	<b>106,885</b>	<b>97,267</b>
Accrued pension liabilities	50,580	51,281
Accrued postretirement benefits	19,459	19,788
Accrued workers' compensation liabilities	7,548	7,548
Other long-term liabilities-capital leases	183	237
Other long-term liabilities	1,187	1,480
<b>Total liabilities</b>	<b>\$ 185,842</b>	<b>\$ 177,601</b>
Commitments and contingencies (Note 20)		
Stockholders' equity:		
Preferred stock, \$1.00 par value, 500,000 shares authorized and none issued	—	—
Common stock, \$1.00 par value, 25,000,000 shares authorized; 16,843,270 and 16,846,002 shares issued and outstanding at September 30, 2017 and June 30, 2017, respectively	16,843	16,846
Additional paid-in capital	42,304	41,495
Retained earnings	222,186	221,182
Unearned ESOP shares	(4,289)	(4,289)
Accumulated other comprehensive loss	(60,527)	(60,099)
<b>Total stockholders' equity</b>	<b>\$ 216,517</b>	<b>\$ 215,135</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$ 402,359</b>	<b>\$ 392,736</b>

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

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

	Three Months Ended September 30,	
	2017	2016
Net sales	\$ 131,713	\$ 130,488
Cost of goods sold	82,706	79,290
Gross profit	49,007	51,198
Selling expenses	38,915	38,438
General and administrative expenses	11,327	8,936
Restructuring and other transition expenses	120	3,030
Net gains from sale of Spice Assets	(150)	(158)
Net losses (gains) from sales of other assets	53	(1,553)
Operating expenses	50,265	48,693
(Loss) income from operations	(1,258)	2,505
Other (expense) income:		
Dividend income	5	265
Interest income	1	129
Interest expense	(523)	(389)
Other, net	87	191
Total other (expense) income	(430)	196
(Loss) income before taxes	(1,688)	2,701
Income tax (benefit) expense	(710)	1,083
Net (loss) income	\$ (978)	\$ 1,618
Net (loss) income per common share—basic	\$ (0.06)	\$ 0.10
Net (loss) income per common share—diluted	\$ (0.06)	\$ 0.10
Weighted average common shares outstanding—basic	16,699,822	16,562,984
Weighted average common shares outstanding—diluted	16,699,822	16,684,319

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

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

	Three Months Ended September 30,	
	2017	2016
Net (loss) income	\$ (978)	\$ 1,618
Other comprehensive (loss) income, net of tax:		
Unrealized (losses) gains on derivative instruments designated as cash flow hedges, net of tax	(432)	444
Losses on derivative instruments designated as cash flow hedges reclassified to cost of goods sold, net of tax	4	285
<b>Total comprehensive (loss) income, net of tax</b>	<b>\$ (1,406)</b>	<b>\$ 2,347</b>

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

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

	Three Months Ended September 30,	
	2017	2016
Cash flows from operating activities:		
Net (loss) income	\$ (978)	\$ 1,618
Adjustments to reconcile net (loss) income to net cash provided by operating activities:		
Depreciation and amortization	7,253	5,008
Provision for doubtful accounts	62	507
Interest on sale-leaseback financing obligation	—	310
Restructuring and other transition expenses, net of payments	(573)	869
Deferred income taxes	(895)	1,488
Net gains from sales of Spice Assets and other assets	(97)	(1,711)
ESOP and share-based compensation expense	806	942
Net losses on derivative instruments and investments	261	282
Change in operating assets and liabilities:		
Purchases of trading securities	—	(1,466)
Proceeds from sales of trading securities	—	1,259
Accounts receivable	(470)	(3,100)
Inventories	(8,539)	(4,724)
Income tax receivable	120	(7)
Derivative assets (liabilities), net	(455)	2,783
Prepaid expenses and other assets	(133)	195
Accounts payable	10,222	7,343
Accrued payroll expenses and other current liabilities	1,550	(7,057)
Accrued postretirement benefits	(329)	(192)
Other long-term liabilities	(701)	(525)
Net cash provided by operating activities	\$ 7,104	\$ 3,822
Cash flows from investing activities:		
Acquisition of businesses, net of cash acquired	\$ (553)	\$ —
Purchases of property, plant and equipment	(6,931)	(10,196)
Purchases of assets for New Facility	(844)	(14,354)
Proceeds from sales of property, plant and equipment	74	2,014
Net cash used in investing activities	\$ (8,254)	\$ (22,536)
Cash flows from financing activities:		
Proceeds from revolving credit facility	\$ 11,698	\$ 91
Repayments on revolving credit facility	(9,249)	—
Proceeds from sale-leaseback financing obligation	—	42,455
Proceeds from New Facility lease financing obligation	—	7,662
Repayments of New Facility lease financing	—	(35,772)
Payments of capital lease obligations	(243)	(399)
Proceeds from stock option exercises	—	84
Net cash provided by financing activities	\$ 2,206	\$ 14,121

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

	Three Months Ended September 30,	
	2017	2016
Net increase (decrease) in cash and cash equivalents	\$ 1,056	\$ (4,593)
Cash and cash equivalents at beginning of period	6,241	21,095
Cash and cash equivalents at end of period	<u>\$ 7,297</u>	<u>\$ 16,502</u>
Supplemental disclosure of non-cash investing and financing activities:		
Net change in derivative assets and liabilities included in other comprehensive (loss) income, net of tax	\$ (428)	\$ 729
Non-cash additions to property, plant and equipment	\$ 207	\$ 4,149
Non-cash portion of earnout receivable recognized-Spice Assets sale	\$ 150	\$ 158

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

## FARMER BROS. CO.

### NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

##### *Overview*

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

The Company operates production facilities in Northlake, Texas (the “New Facility”); Houston, Texas; Portland, Oregon; Hillsboro, Oregon; and Scottsdale, Arizona. Distribution takes place out of the New Facility, the Portland, Hillsboro and Scottsdale facilities, as well as separate distribution centers in Northlake, Illinois; and Moonachie, New Jersey.

The Company’s products reach its customers primarily in two ways: through the Company’s nationwide direct-store-delivery, or DSD, network of 449 delivery routes and 113 branch warehouses as of September 30, 2017, or direct-shipped via common carriers or third-party distributors. The Company operates a large fleet of trucks and other vehicles to distribute and deliver its products, and relies on third-party logistics (“3PL”) service providers for its long-haul distribution. DSD sales are made “off-truck” by the Company to its customers at their places of business.

##### *Basis of Presentation*

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States (“GAAP”) for complete consolidated financial statements. In the opinion of management, all adjustments (consisting only of normal recurring accruals, unless otherwise indicated) considered necessary for a fair presentation of the interim financial data have been included. Operating results for the three months ended September 30, 2017 are not necessarily indicative of the results that may be expected for the fiscal year ending June 30, 2018. Events occurring subsequent to September 30, 2017 have been evaluated for potential recognition or disclosure in the unaudited condensed consolidated financial statements for the three months ended September 30, 2017.

The accompanying unaudited condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and related notes included in the Company’s Annual Report on Form 10-K for the fiscal year ended June 30, 2017, filed with the Securities and Exchange Commission (the “SEC”) on September 28, 2017 (the “2017 Form 10-K”).

##### *Principles of Consolidation*

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

##### *Use of Estimates*

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

The Company reviews its estimates on an ongoing basis using currently available information. Changes in facts and circumstances may result in revised estimates and actual results may differ from those estimates.

## Note 2. Summary of Significant Accounting Policies

For a detailed discussion about the Company's significant accounting policies, see Note 2, "Summary of Significant Accounting Policies" to the consolidated financial statements in the 2017 Form 10-K.

During the three months ended September 30, 2017, other than the adoption of Accounting Standards Update ("ASU") No. 2017-12, "Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities" ("ASU 2017-12"), ASU No. 2016-09, "Compensation—Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting" ("ASU 2016-09"), and ASU No. 2015-11, "Inventory (Topic 330): Simplifying the Measurement of Inventory" ("ASU 2015-11"), there were no significant updates made to the Company's significant accounting policies.

### *Coffee Brewing Equipment and Service*

The Company classifies certain expenses related to coffee brewing equipment provided to customers as cost of goods sold. These costs include the cost of the equipment as well as the cost of servicing that equipment (including service employees' salaries, cost of transportation and the cost of supplies and parts) and are considered directly attributable to the generation of revenues from its customers. Accordingly, such costs included in cost of goods sold in the accompanying unaudited condensed consolidated financial statements in the three months ended September 30, 2017 and 2016 were \$6.6 million and \$6.5 million, respectively.

The Company capitalizes coffee brewing equipment and depreciates it over five years and reports the depreciation expense in cost of goods sold. Such depreciation expense related to capitalized coffee brewing equipment reported in cost of goods sold in the three months ended September 30, 2017 and 2016 was \$2.1 million and \$2.4 million, respectively. The Company capitalized coffee brewing equipment (included in machinery and equipment) in the amounts of \$2.2 million and \$3.2 million in the three months ended September 30, 2017 and 2016, respectively.

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

Computation of net (loss) income per share ("EPS") for the three months ended September 30, 2017 excludes a total of 463,434 shares issuable under stock options, because the Company incurred a net loss and including them would be anti-dilutive. Computation of EPS for the three months ended September 30, 2016 includes the dilutive effect of 121,335 shares issuable under stock options with exercise prices below the closing price of the Company's common stock on the last trading day of the three months ended September 30, 2016, but excludes the dilutive effect of 19,800 shares issuable under stock options with exercise prices above the closing price of the Company's common stock on the last trading day of the three months ended September 30, 2016 because their inclusion would be anti-dilutive. See [Note 19](#).

### *Shipping and Handling Costs*

Shipping and handling costs incurred through outside carriers are recorded as a component of the Company's selling expenses and were \$5.2 million and \$4.8 million, respectively, in the three months ended September 30, 2017 and 2016. The increase in shipping and handling costs in the three months ended September 30, 2017 compared to the same period in the prior fiscal year is primarily due to the distribution center in the New Facility commencing operations in the second quarter of fiscal 2017.

### *Recently Adopted Accounting Standards*

In August 2017, the Financial Accounting Standards Board ("FASB") issued ASU 2017-12. ASU 2017-12 amends the hedge accounting model in Accounting Standards Codification ("ASC") 815 to enable entities to better portray the economics of their risk management activities in the financial statements and enhance the transparency and understandability of hedge results. ASU 2017-12 expands an entity's ability to hedge non-financial and financial risk components and reduce complexity in fair value hedges of interest rate risk. The guidance eliminates the requirement to separately measure and report hedge ineffectiveness and generally requires the entire change in the fair value of a hedging instrument to be presented in the same income statement line as the hedged item. The guidance also eases certain documentation and assessment requirements and modifies the accounting for components excluded from the assessment of hedge effectiveness. The guidance in ASU 2017-12 is

effective for annual periods beginning after December 15, 2018, including interim periods within those fiscal years, and is effective for the Company beginning July 1, 2019. Early adoption is permitted in any interim period or fiscal year before the effective date. For cash flow and net investment hedges existing at the date of adoption, entities will apply the new guidance using a modified retrospective approach (i.e., with a cumulative effect adjustment recorded to the opening balance of retained earnings as of the initial application date). The guidance provides transition relief to make it easier for entities to apply certain amendments to existing hedges (including fair value hedges) where the hedge documentation needs to be modified. The Company early adopted ASU 2017-12 as of September 30, 2017 for its cash flow hedges related to coffee commodity purchases. Adoption of ASU 2017-12 resulted in a cumulative adjustment of \$0.3 million to the opening balance of retained earnings. Adoption of ASU 2017-12 did not have any other material effect on the results of operations, financial position or cash flows of the Company.

In March 2016, the FASB issued ASU 2016-09. ASU 2016-09 was issued as part of the FASB's Simplification Initiative. The areas for simplification in ASU 2016-09 involve several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. ASU 2016-09 requires that the tax impact related to the difference between share-based compensation for book and tax purposes be recognized as income tax benefit or expense in the reporting period in which such awards vest. ASU 2016-09 also required a modified retrospective adoption for previously unrecognized excess tax benefits. The guidance in ASU 2016-09 is effective for public business entities for annual periods beginning after December 15, 2016, including interim periods within those annual reporting periods. The Company adopted ASU 2016-09 beginning July 1, 2017 on a modified retrospective basis, recognizing all excess tax benefits previously unrecognized, as a cumulative-effect adjustment increasing deferred tax assets by \$1.6 million and increasing retained earnings by the same amount as of July 1, 2017. Adoption of ASU 2016-09 did not have any other material effect on the results of operations, financial position or cash flows of the Company.

In July 2015, the FASB issued ASU 2015-11. ASU 2015-11 simplifies the subsequent measurement of inventory by requiring inventory to be measured at the lower of cost and net realizable value. Entities will continue to apply their existing impairment models to inventories that are accounted for using last-in first-out or LIFO and the retail inventory method or RIM. Under current guidance, net realizable value is one of several calculations an entity needs to make to measure inventory at the lower of cost or market. ASU 2015-11 is effective for public business entities for fiscal years beginning after December 15, 2016, including interim periods within those fiscal years. Early adoption is permitted, and the guidance must be applied prospectively after the date of adoption. The Company adopted ASU 2015-11 beginning July 1, 2017. Adoption of ASU 2015-11 did not have a material effect on the results of operations, financial position or cash flows of the Company.

#### ***New Accounting Pronouncements***

In March 2017, the FASB issued ASU No. 2017-07, "Compensation—Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost" ("ASU 2017-07"). ASU 2017-07 amends the requirements in GAAP related to the income statement presentation of the components of net periodic benefit cost for an entity's sponsored defined benefit pension and other postretirement plans. ASU 2017-07 changes the income statement presentation of defined benefit plan expense by requiring separation between operating expense (service cost component) and non-operating expense (all other components, including interest cost, amortization of prior service cost, curtailments and settlements, etc.). The operating expense component is reported with similar compensation costs while the non-operating expense components are reported in other income and expense. In addition, only the service cost component is eligible for capitalization as part of an asset such as inventory or property, plant and equipment. The guidance in ASU 2017-07 is effective for annual periods beginning after December 15, 2017, including interim periods within those fiscal years, and is effective for the Company beginning July 1, 2018. Because the expected operating expense component and non-operating expense components of net periodic benefit cost are not material to the consolidated financial statements of the Company, the Company expects that the adoption of ASU 2017-07 will not have a significant impact on the results of operations, financial position or cash flows of the Company.

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

Adoption of ASU 2017-04 is not expected to have a material effect on the results of operations, financial position or cash flows of the Company.

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

In November 2016, the FASB issued ASU No. 2016-18, “Statement of Cash Flows (Topic 230): Restricted Cash” (“ASU 2016-18”). The amendments require that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. As a result, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The amendments do not provide a definition of restricted cash or restricted cash equivalents. The guidance in ASU 2016-18 is effective for public business entities for annual periods beginning after December 15, 2017, including interim periods within those fiscal years. Early application is permitted in certain circumstances. ASU 2016-18 is effective for the Company beginning July 1, 2018. Adoption of ASU 2016-18 is not expected to have a material effect on the results of operations, financial position or cash flows of the Company.

In August 2016, the FASB issued ASU No. 2016-15, “Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments (a consensus of the Emerging Issues Task Force)” (“ASU 2016-15”). ASU 2016-15 addresses certain issues where diversity in practice was identified in classifying certain cash receipts and cash payments based on the guidance in ASC 230. ASC 230 is principles based and often requires judgment to determine the appropriate classification of cash flows as operating, investing or financing activities. The application of judgment has resulted in diversity in how certain cash receipts and cash payments are classified. Certain cash receipts and cash payments may have aspects of more than one class of cash flows. ASU 2016-15 clarifies that an entity will first apply any relevant guidance in ASC 230 and in other applicable topics. If there is no guidance that addresses those cash receipts and cash payments, an entity will determine each separately identifiable source or use and classify the receipt or payment based on the nature of the cash flow. If a receipt or payment has aspects of more than one class of cash flows and cannot be separated, classification will depend on the predominant source or use. The guidance in ASU 2016-15 is effective for public business entities for annual periods beginning after December 15, 2017, including interim periods within those fiscal years. Early application is permitted in certain circumstances. ASU 2016-15 is effective for the Company beginning July 1, 2018. Adoption of ASU 2016-15 is not expected to have a material effect on the results of operations, financial position or cash flows of the Company.

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

In May 2014, the FASB issued accounting guidance which requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers under ASU No. 2014-09, “Revenue from Contracts with Customers” (“ASU 2014-09”). ASU 2014-09 will replace most existing revenue recognition guidance in GAAP when it becomes effective. On August 12, 2015, the FASB issued ASU No. 2015-14, “Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date,” which defers the effective date of ASU 2014-09 by one year allowing early adoption as of the original effective date of January 1, 2017. The deferral results in the new accounting standard being effective for public business entities for annual reporting periods beginning after December 31, 2017, including interim periods within

those fiscal years. ASU 2014-09 is effective for the Company beginning July 1, 2018. The Company is in the process of evaluating the provisions of ASU 2014-09 and assessing its impact on the Company's financial statements, information systems, business processes, and financial statement disclosures. The Company is analyzing its revenue streams and is evaluating the impact the new standard may have on revenue recognition. The Company primarily recognizes revenue at point of sale or delivery and does not expect that this will change under the new standard. Based on its preliminary reviews, the Company does not expect that the adoption of ASU 2014-09 will have a material impact on its consolidated financial statements; however, the Company's assessment of contracts related to recent acquisitions is still in process. At a minimum, the Company anticipates expanded disclosures related to revenue in order to comply with ASU 2014-09. The Company will continue to evaluate the impact of the adoption of ASU 2014-09. Preliminary assessments made by the Company are subject to change. The Company has not yet concluded which transition method it will elect but will determine the transition method in the third quarter of fiscal 2018.

### **Note 3. Acquisitions**

#### ***China Mist Brands, Inc.***

On October 11, 2016, the Company, through a wholly owned subsidiary, acquired substantially all of the assets and certain specified liabilities of China Mist Brands, Inc. dba China Mist Tea Company ("China Mist"), a provider of flavored and unflavored iced and hot teas. As part of the transaction, the Company assumed the lease on China Mist's existing 17,400 square foot production, distribution and warehouse facility in Scottsdale, Arizona which is terminable upon twelve months' notice.

The Company acquired China Mist for aggregate purchase consideration of \$12.2 million, consisting of \$11.2 million in cash paid at closing including estimated working capital adjustments of \$0.4 million, post-closing final working capital adjustments of \$0.6 million, and up to \$0.5 million in contingent consideration to be paid as earnout if certain sales levels are achieved in the calendar years of 2017 or 2018. This contingent earnout liability is currently estimated to have a fair value of \$0.5 million and is recorded in other long-term liabilities on the Company's condensed consolidated balance sheet at September 30, 2017. The earnout is estimated to be paid in calendar 2019.

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

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

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

<u>(In thousands)</u>	<u>Fair Value</u>	<u>Estimated Useful Life (years)</u>
Cash paid, net of cash acquired	\$ 11,183	
Post-closing final working capital adjustments	553	
Contingent consideration	500	
Total consideration	<u>\$ 12,236</u>	
Accounts receivable	\$ 811	
Inventory	544	
Prepaid assets	48	
Property, plant and equipment	189	
Goodwill	2,927	
Intangible assets:		
Recipes	930	7
Non-compete agreement	100	5
Customer relationships	2,000	10
Trade name/Trademark— <i>indefinite-lived</i>	5,070	
Accounts payable	(383)	
Total consideration, net of cash acquired	<u>\$ 12,236</u>	

In connection with this acquisition, the Company recorded goodwill of \$2.9 million, which is deductible for tax purposes. The Company also recorded \$3.0 million in finite-lived intangible assets that included recipes, a non-compete agreement and customer relationships and \$5.1 million in indefinite-lived trade name/trademark. The weighted average amortization period for the finite-lived intangible assets is 8.9 years.

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

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

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

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

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

***West Coast Coffee Company, Inc.***

On February 7, 2017, the Company acquired substantially all of the assets and certain specified liabilities of West Coast Coffee Company, Inc. ("West Coast Coffee"), a coffee roaster and distributor with a focus on the convenience store, grocery and foodservice channels. As part of the transaction, the Company entered into a three-year lease on West Coast Coffee's existing 20,400 square foot production, distribution and warehouse facility in Hillsboro, Oregon, which expires

**Farmer Bros. Co.**  
**Notes to Unaudited Condensed Consolidated Financial Statements (continued)**

January 31, 2020, and assumed leases on six branch warehouses consisting of an aggregate of 24,150 square feet in Oregon, California and Nevada, expiring on various dates through November 2020. The Company acquired West Coast Coffee for aggregate purchase consideration of \$15.7 million, which included \$14.7 million in cash paid at closing including working capital adjustments of \$1.2 million, and up to \$1.0 million in contingent consideration to be paid as earnout if certain sales levels are achieved in the twenty-four months following the closing. This contingent earnout liability is currently estimated to have a fair value of \$0.6 million and is recorded in other long-term liabilities on the Company's condensed consolidated balance sheet at September 30, 2017. The earnout is estimated to be paid within the next twenty-four months.

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

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

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

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

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

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

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

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

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

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

#### Note 4. Restructuring Plans

##### Corporate Relocation Plan

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

In the three months ended September 30, 2017, no expenses associated with the Corporate Relocation Plan were incurred.

The following table sets forth the activity in liabilities associated with the Corporate Relocation Plan for the three months ended September 30, 2017:

(In thousands)	Balances, July 1, 2017	Additions	Payments	Non-Cash Settled	Adjustments	Balances, September 30, 2017
Employee-related costs(1)	\$ 301	\$ —	\$ 89	\$ —	\$ —	\$ 212
Facility-related costs	—	—	—	—	—	—
Other	—	—	—	—	—	—
Total	\$ 301	\$ —	\$ 89	\$ —	\$ —	\$ 212
Current portion	\$ 301					\$ 212
Non-current portion	\$ —					\$ —
Total	\$ 301					\$ 212

(1) Included in “Accrued payroll expenses” on the Company’s condensed consolidated balance sheets.

The Company estimated that it would incur approximately \$31 million in cash costs in connection with the Corporate Relocation Plan consisting of \$18 million in employee retention and separation benefits, \$5 million in facility-related costs and \$8 million in other related costs. Since the adoption of the Corporate Relocation Plan through September 30, 2017, the Company has recognized a total of \$31.5 million in aggregate cash costs including \$17.1 million in employee retention and separation benefits, \$7.0 million in facility-related costs related to the temporary office space, costs associated with the move of the Company’s headquarters, relocation of the Company’s Torrance operations and certain distribution operations and \$7.4 million in other related costs. The Company also recognized from inception through September 30, 2017 non-cash depreciation expense of \$2.3 million associated with the Torrance production facility resulting from the consolidation of coffee production operations with the Houston and Portland production facilities and \$1.4 million in non-cash rent expense recognized in the sale-leaseback of the Torrance Facility. The Company may incur certain pension-related costs in connection with the Corporate Relocation Plan.

The following table sets forth the activity in liabilities associated with the Corporate Relocation Plan from the time of adoption of the Corporate Relocation Plan through the three months ended September 30, 2017:

(In thousands)	Balances, June 30, 2014	Additions	Payments	Non-Cash Settled	Adjustments	Balances, September 30, 2017
Employee-related costs(1)	\$ —	\$ 17,352	\$ 17,140	\$ —	\$ —	\$ 212
Facility-related costs(2)	—	10,779	7,048	3,731	—	—
Other	—	7,424	7,424	—	—	—
Total(2)	\$ —	\$ 35,555	\$ 31,612	\$ 3,731	\$ —	\$ 212

(1) Included in “Accrued payroll expenses” on the Company’s condensed consolidated balance sheets.

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

### ***DSD Restructuring Plan***

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

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

Expenses related to the DSD Restructuring Plan in the three months ended September 30, 2017 consisted of \$24,000 in employee-related costs and \$0.1 million in other related costs. Since the adoption of the DSD Restructuring Plan through September 30, 2017, the Company has recognized a total of \$2.5 million in aggregate cash costs including \$1.1 million in employee-related costs, and \$1.4 million in other related costs. As of September 30, 2017, the Company had paid a total of \$2.2 million of these costs and had a balance of \$0.3 million in accounts payable and accrued payroll expenses on the Company’s condensed consolidated balance sheet.

### **Note 5. New Facility**

#### ***Lease Agreement and Purchase Option Exercise***

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

### ***Development Management Agreement***

In conjunction with the Lease Agreement, the Company also entered into a Development Management Agreement with an affiliate of Stream Realty Partners (the “DMA”) to manage, coordinate, represent, assist and advise the Company on matters from the pre-development through construction of the New Facility. Services under the DMA have concluded. The Company incurred \$4.0 million under this agreement which amount is included in “Building and Facilities” (see [Note 12](#)), of which \$0.4 million remains to be paid which is included in accounts payable on the Company’s condensed consolidated balance sheet at September 30, 2017.

### ***Amended Building Contract***

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

Pursuant to the Amended Building Contract, Builder provided pre-construction and construction services, including specialized industrial design and construction work in connection with Builder’s construction of certain production equipment installed in portions of the New Facility (the “Project”). The Company engaged other designers and builders to provide traditional construction work on the Project site, including for the foundation, building envelope and roof of the New Facility. In April 2017, the Company and Builder entered into a change order to change the scope of work which added \$0.6 million to the Amended Building Contract. Builder’s work on the Project has been completed. The Company incurred \$22.5 million for Builder’s services in connection with the Project which amount is included in “Building and Facilities” (see [Note 12](#)), of which \$0.5 million remains to be paid which is included in accounts payable on the Company condensed consolidated balance sheet at September 30, 2017.

### ***New Facility Costs***

The Company estimated that the total construction costs including the cost of land for the New Facility would be approximately \$60 million. As of September 30, 2017, the Company has incurred an aggregate of \$60.8 million in construction costs and has outstanding contractual obligations of \$0.7 million. In addition to the costs to complete the construction of the New Facility, the Company estimated that it would incur approximately \$35 million to \$39 million for machinery and equipment, furniture and fixtures and related expenditures of which the Company has incurred an aggregate of \$33.2 million as of September 30, 2017, including \$22.5 million under the Amended Building Contract, and has outstanding contractual obligations of \$0.5 million as of September 30, 2017. The majority of the capital expenditures associated with machinery and equipment, furniture and fixtures, and related expenditures for the New Facility were incurred in the first three quarters of fiscal 2017. The Company commenced distribution activities at the New Facility during the second quarter of fiscal 2017 and initial production activities late in the third quarter of fiscal 2017. The Company began roasting coffee in the New Facility in the fourth quarter of fiscal 2017.

## **Note 6. Sales of Assets**

### ***Sale of Spice Assets***

In order to focus on its core products, on December 8, 2015, the Company completed the sale of the Spice Assets to Harris Spice Company (“Harris”). Harris acquired substantially all of the Company’s personal property used exclusively in connection with the manufacture, processing and distribution of raw, processed and blended spices and certain other culinary products (collectively, the “Spice Assets”), including certain equipment; trademarks, tradenames and other intellectual property assets; contract rights under sales and purchase orders and certain other agreements; and a list of certain customers, other than the Company’s DSD customers, and assumed certain liabilities relating to the Spice Assets. The Company received \$6.0 million in cash at closing, and is eligible to receive an earnout amount of up to \$5.0 million over a three-year period based upon a percentage of certain institutional spice sales by Harris following the closing. The Company recognized \$0.2 million in earnout in each of the three months ended September 30, 2017 and 2016. The sale of the Spice Assets does not represent a strategic shift for the Company and is not expected to have a material impact on the Company’s results of operations because the Company will continue to sell a complete portfolio of spice and other culinary products purchased from Harris under a supply agreement to its DSD customers.

### *Sale of Torrance Facility*

On July 15, 2016, the Company completed the sale of the Torrance Facility, consisting of approximately 665,000 square feet of buildings located on approximately 20.3 acres of land, for an aggregate cash sale price of \$43.0 million, which sale price was subject to customary adjustments for closing costs and documentary transfer taxes. Cash proceeds from the sale of the Torrance Facility were \$42.5 million.

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

### *Sale of Northern California Branch Property*

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

## **Note 7. Derivative Instruments**

### *Derivative Instruments Held*

#### *Coffee-Related Derivative Instruments*

The Company is exposed to commodity price risk associated with its price to be fixed green coffee purchase contracts, which are described further in Note 2 to the consolidated financial statements in the 2017 Form 10-K. The Company utilizes forward and option contracts to manage exposure to the variability in expected future cash flows from forecasted purchases of green coffee attributable to commodity price risk. Certain of these coffee-related derivative instruments utilized for risk management purposes have been designated as cash flow hedges, while other coffee-related derivative instruments have not been designated as cash flow hedges or do not qualify for hedge accounting despite hedging the Company's future cash flows on an economic basis.

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

<u>(In thousands)</u>	<u>September 30, 2017</u>	<u>June 30, 2017</u>
<b>Derivative instruments designated as cash flow hedges:</b>		
Long coffee pounds	35,925	33,038
<b>Derivative instruments not designated as cash flow hedges:</b>		
Long coffee pounds	465	2,121
Total	<u>36,390</u>	<u>35,159</u>

Coffee-related derivative instruments designated as cash flow hedges outstanding as of September 30, 2017 will expire within 15 months.

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

*Balance Sheets*

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

	Derivative Instruments Designated as Cash Flow Hedges		Derivative Instruments Not Designated as Accounting Hedges	
	September 30, 2017	June 30, 2017	September 30, 2017	June 30, 2017
<b>(In thousands)</b>				
Financial Statement Location:				
Short-term derivative assets(1):				
Coffee-related derivative instruments	\$ 57	\$ 66	\$ —	\$ —
Long-term derivative assets(2):				
Coffee-related derivative instruments	\$ 22	\$ 66	\$ —	\$ —
Short-term derivative liabilities(1):				
Coffee-related derivative instruments	\$ 2,137	\$ 1,733	\$ 225	\$ 190
Long-term derivative liabilities(2):				
Coffee-related derivative instruments	\$ 109	\$ 446	\$ —	\$ —

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

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

*Statements of Operations*

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

<b>(In thousands)</b>	Three Months Ended September 30,		Financial Statement Classification
	2017	2016	
Net (losses) gains recognized in AOCI	\$ (365)	\$ 726	AOCI
Net losses recognized in earnings	\$ (7)	\$ (466)	Costs of goods sold
Net gains recognized in earnings (ineffective portion)(1)	\$ 48	\$ 13	Other, net

(1) Amount included in three months ended September 30, 2017 relates to trades terminated prior to the adoption of ASU 2017-12. See [Note 2](#).

For the three months ended September 30, 2017 and 2016, there were no gains or losses recognized in earnings as a result of excluding amounts from the assessment of hedge effectiveness or as a result of reclassifications to earnings following the discontinuance of any cash flow hedges.

Net losses on derivative instruments in the Company's condensed consolidated statement of cash flows also includes net losses on coffee-related derivative instruments designated as cash flow hedges reclassified to cost of goods sold from AOCI in the three months ended September 30, 2017. Gains and losses on derivative instruments not designated as accounting hedges are included in "Other, net" in the Company's condensed consolidated statements of operations and in "Net losses on derivative instruments and investments" in the Company's condensed consolidated statements of cash flows.

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

(In thousands)	Three Months Ended September 30,	
	2017	2016
Net gains (losses) on coffee-related derivative instruments	\$ 97	\$ (35)
Net (losses) gains on investments	(9)	227
Net gains on derivative instruments and investments(1)	88	192
Other losses, net	(1)	(1)
Other, net	\$ 87	\$ 191

(1) Excludes net losses on coffee-related derivative instruments designated as cash flow hedges recorded in cost of goods sold in the three months ended September 30, 2017 and 2016.

#### Offsetting of Derivative Assets and Liabilities

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

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

(In thousands)		Gross Amount Reported on Balance Sheet	Netting Adjustments	Cash Collateral Posted	Net Exposure
		September 30, 2017	Derivative Assets	\$ 79	\$ (79)
	Derivative Liabilities	\$ 2,471	\$ (79)	\$ —	\$ 2,392
June 30, 2017	Derivative Assets	\$ 132	\$ (132)	\$ —	\$ —
	Derivative Liabilities	\$ 2,369	\$ (132)	\$ —	\$ 2,237

#### Cash Flow Hedges

Changes in the fair value of the Company's coffee-related derivative instruments designated as cash flow hedges, to the extent effective, are deferred in AOCI and reclassified into cost of goods sold in the same period or periods in which the hedged forecasted purchases affect earnings, or when it is probable that the hedged forecasted transaction will not occur by the end of the originally specified time period. Based on recorded values at September 30, 2017, \$(2.5) million of net losses on coffee-related derivative instruments designated as cash flow hedges are expected to be reclassified into cost of goods sold within the next twelve months. These recorded values are based on market prices of the commodities as of September 30, 2017. Due to the volatile nature of commodity prices, actual gains or losses realized within the next twelve months will likely differ from these values.

#### Note 8. Investments

The following table shows gains and losses on trading securities:

(In thousands)	Three Months Ended September 30,	
	2017	2016
Total (losses) gains recognized from trading securities	\$ (9)	\$ 227
Less: Realized losses from sales of trading securities	—	(2)
Unrealized (losses) gains from trading securities	\$ (9)	\$ 229

**Note 9. Fair Value Measurements**

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

<u>(In thousands)</u>	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
<b>September 30, 2017</b>				
Preferred stock(1)	\$ 359	\$ —	\$ 359	\$ —
Derivative instruments designated as cash flow hedges:				
Coffee-related derivative assets(2)	\$ 79	\$ —	\$ 79	\$ —
Coffee-related derivative liabilities(2)	\$ 2,246	\$ —	\$ 2,246	\$ —
Derivative instruments not designated as accounting hedges:				
Coffee-related derivative liabilities(2)	\$ 225	\$ —	\$ 225	\$ —
<b>June 30, 2017</b>				
Preferred stock(1)	\$ 368	\$ —	\$ 368	\$ —
Derivative instruments designated as cash flow hedges:				
Coffee-related derivative assets(2)	\$ 132	\$ —	\$ 132	\$ —
Coffee-related derivative liabilities(2)	\$ 2,179	\$ —	\$ 2,179	\$ —
Derivative instruments not designated as accounting hedges:				
Coffee-related derivative liabilities(2)	\$ 190	\$ —	\$ 190	\$ —

(1) Included in “Short-term investments” on the Company’s condensed consolidated balance sheets.

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

**Note 10. Accounts Receivable, Net**

<u>(In thousands)</u>	<u>September 30, 2017</u>	<u>June 30, 2017</u>
Trade receivables	\$ 46,283	\$ 44,531
Other receivables(1)	1,576	2,636
Allowance for doubtful accounts	(783)	(721)
Accounts receivable, net	<u>\$ 47,076</u>	<u>\$ 46,446</u>

(1) At September 30, 2017 and June 30, 2017, respectively, the Company had recorded \$0.6 million and \$0.4 million, in “Other receivables” included in “Accounts receivable, net” on its condensed consolidated balance sheets representing earnout receivable from Harris.

**Note 11. Inventories**

(In thousands)	September 30, 2017	June 30, 2017
Coffee		
Processed	\$ 15,106	\$ 14,085
Unprocessed	24,115	17,083
Total	\$ 39,221	\$ 31,168
Tea and culinary products		
Processed	\$ 20,947	\$ 20,741
Unprocessed	70	74
Total	\$ 21,017	\$ 20,815
Coffee brewing equipment parts	\$ 4,551	\$ 4,268
Total inventories	\$ 64,789	\$ 56,251

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

The Company does not expect inventory levels at June 30, 2018 to decrease from the levels at June 30, 2017 and, therefore, recorded no expected beneficial effect of the liquidation of LIFO inventory quantities in the three months ended September 30, 2017. The Company recorded \$0.8 million in expected beneficial effect of the liquidation of LIFO inventory quantities in cost of goods sold in the three months ended September 30, 2016, which increased income before taxes for the three months ended September 30, 2016 by \$0.8 million. Interim LIFO calculations must necessarily be based on management's estimates of expected fiscal year-end inventory levels and costs. Because these estimates are subject to many forces beyond management's control, interim results are subject to the final fiscal year-end LIFO inventory valuation.

**Note 12. Property, Plant and Equipment**

(In thousands)	September 30, 2017	June 30, 2017
Buildings and facilities	\$ 108,935	\$ 108,682
Machinery and equipment	202,371	201,236
Equipment under capital leases	7,516	7,540
Capitalized software	22,173	21,794
Office furniture and equipment	12,592	12,758
	353,587	352,010
Accumulated depreciation	(197,243)	(192,280)
Land	16,336	16,336
Property, plant and equipment, net	\$ 172,680	\$ 176,066

**Note 13. Goodwill and Intangible Assets**

There were no changes to the carrying value of goodwill in the three months ended September 30, 2017. The carrying value of goodwill at September 30, 2017 and June 30, 2017 was \$11.0 million.

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

(In thousands)	September 30, 2017		June 30, 2017	
	Gross Carrying Amount(1)	Accumulated Amortization(1)	Gross Carrying Amount(1)	Accumulated Amortization(1)
Amortized intangible assets:				
Customer relationships	\$ 17,353	\$ (11,075)	\$ 17,353	\$ (10,883)
Non-compete agreements	220	(65)	220	(38)
Recipes	930	(121)	930	(88)
Trade name/brand name	510	(135)	510	(84)
Total amortized intangible assets	\$ 19,013	\$ (11,396)	\$ 19,013	\$ (11,093)
Unamortized intangible assets:				
Trade names with indefinite lives	\$ 3,640	\$ —	\$ 3,640	\$ —
Trademarks and brand name with indefinite lives	7,058	—	7,058	—
Total unamortized intangible assets	\$ 10,698	\$ —	\$ 10,698	\$ —
Total intangible assets	\$ 29,711	\$ (11,396)	\$ 29,711	\$ (11,093)

(1) Reflects the preliminary purchase price allocation for West Coast Coffee. Subject to change based on numerous factors, including the final adjusted purchase price and the final estimated fair value of the assets acquired and the liabilities assumed. Adjustments in the purchase price allocation may require a recasting of the amounts allocated to goodwill and intangible assets.

Aggregate amortization expense for the three months ended September 30, 2017 and 2016 was \$0.3 million and \$50,000, respectively.

**Note 14. Employee Benefit Plans**

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

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

**Single Employer Pension Plans**

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

loss is now amortized based on the remaining life expectancy of these participants instead of the remaining service period of these participants.

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

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

	Three Months Ended September 30,	
	2017	2016
<b>(In thousands)</b>		
Service cost	\$ —	\$ 124
Interest cost	1,432	1,397
Expected return on plan assets	(1,456)	(1,607)
Amortization of net loss(1)	418	508
Net periodic benefit cost	<u>\$ 394</u>	<u>\$ 422</u>

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

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

	Fiscal	
	2018	2017
Discount rate	3.80%	3.55%
Expected long-term return on plan assets	6.75%	7.75%

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

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

**Multiemployer Pension Plans**

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

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

On October 30, 2017, counsel to the Company received written confirmation that the Western Conference of Teamsters Pension Trust (the “WCT Pension Trust”) will be retracting its claim, stated in its letter to the Company dated July 10, 2017 (the “WCT Pension Trust Letter”), that certain of the Company’s employment actions in 2015 resulting from the Corporate

Relocation Plan constituted a partial withdrawal from the WCTPP. The written confirmation stated that the WCT Pension Trust has determined that a partial withdrawal did not occur in 2015 and further stated that the withdrawal liability assessment has been rescinded. This rescinding of withdrawal liability assessment applies to Company employment actions in 2015 with respect to the bargaining units that were specified in the WCT Pension Trust Letter. As of September 30, 2017, the Company is not able to predict whether the WCT Pension Trust may make a claim, or estimate the extent of potential withdrawal liability, related to the Corporate Relocation Plan for actions or bargaining units other than those specified in the WCT Pension Trust Letter. See [Note 21](#).

In fiscal 2012, the Company withdrew from the Local 807 Labor-Management Pension Fund (“Pension Fund”) and recorded a charge of \$4.3 million associated with withdrawal from this plan, representing the present value of the estimated withdrawal liability expected to be paid in quarterly installments of \$0.1 million over 80 quarters. On November 18, 2014, the Pension Fund sent the Company a notice of assessment of withdrawal liability in the amount of \$4.4 million, which the Pension Fund adjusted to \$4.9 million on January 5, 2015. The Company is in the process of negotiating a reduced liability amount. The Company has commenced quarterly installment payments to the Pension Fund of \$91,000 pending the final settlement of the liability. The present value of the total estimated withdrawal liability of \$4.0 million is reflected in the Company’s condensed consolidated balance sheets at September 30, 2017 and June 30, 2017 as short-term with the expectation of paying off the liability in fiscal 2018.

Future collective bargaining negotiations may result in the Company withdrawing from the remaining multiemployer pension plans in which it participates and, if successful, the Company may incur a withdrawal liability, the amount of which could be material to the Company’s results of operations and cash flows.

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

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

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

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

The Company recorded matching contributions of \$0.5 million in operating expenses in each of the three months ended September 30, 2017 and 2016.

### Postretirement Benefits

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

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

#### Retiree Medical Plan and Death Benefit

The following table shows the components of net periodic postretirement benefit cost for the Retiree Medical Plan and Death Benefit for the three months ended September 30, 2017 and 2016. Net periodic postretirement benefit cost for the three months ended September 30, 2017 was based on employee census information and asset information as of June 30, 2017.

	Three Months Ended September 30,	
	2017	2016
<b>(In thousands)</b>		
Service cost	\$ 152	\$ 190
Interest cost	209	207
Amortization of net gain	(210)	(157)
Amortization of prior service credit	(439)	(439)
Net periodic postretirement benefit credit	\$ (288)	\$ (199)

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

	Fiscal	
	2018	2017
Retiree Medical Plan discount rate	4.13%	3.73%
Death Benefit discount rate	4.12%	3.79%

### Note 15. Bank Loan

The Company maintains a \$125.0 million senior secured revolving credit facility (the “Revolving Facility”) with JPMorgan Chase Bank, N.A. and SunTrust Bank (collectively, the “Lenders”), with a sublimit on letters of credit and swingline loans of \$30.0 million and \$15.0 million respectively. The Revolving Facility includes an accordion feature whereby the Company may increase the Revolving Commitment by up to an additional \$50.0 million, subject to certain conditions. Advances are based on the Company’s eligible accounts receivable, eligible inventory, and the value of certain real property and trademarks, less required reserves. The commitment fee is a flat fee of 0.25% per annum irrespective of average revolver usage. Outstanding obligations are collateralized by all of the Company’s assets, excluding certain real property not included in the borrowing base, machinery and equipment (other than inventory), and the Company’s preferred stock portfolio. Borrowings under the Revolving Facility bear interest based on average historical excess availability levels with a range of PRIME - 0.25% to PRIME + 0.50% or Adjusted LIBO Rate + 1.25% to Adjusted LIBO Rate + 2.00%. The Company is subject to a variety of affirmative and negative covenants of types customary in an asset-based lending facility, including financial covenants relating to the maintenance of a fixed charge coverage ratio in certain circumstances, and the right of the Lenders to

establish reserve requirements, which may reduce the amount of credit otherwise available to the Company. The Company is allowed to pay dividends, provided, among other things, certain excess availability requirements are met, and no event of default exists or has occurred and is continuing as of the date of any such payment and after giving effect thereto. The Revolving Facility matures on August 25, 2022.

At September 30, 2017, the Company was eligible to borrow up to a total of \$102.1 million under the Revolving Facility and had outstanding borrowings of \$30.1 million, utilized \$1.0 million of the letters of credit sublimit, and had excess availability under the Revolving Facility of \$71.0 million. At September 30, 2017, the weighted average interest rate on the Company's outstanding borrowings under the Revolving Facility was 3.36% and the Company was in compliance with all of the restrictive covenants under the Revolving Facility.

## **Note 16. Share-based Compensation**

### ***Farmer Bros. Co. 2017 Long-Term Incentive Plan***

On June 20, 2017 (the "Effective Date"), the Company's stockholders approved the Farmer Bros. Co. 2017 Long-Term Incentive Plan (the "2017 Plan"). The 2017 Plan succeeded the Company's prior long-term incentive plans, the Farmer Bros. Co. Amended and Restated 2007 Long-Term Incentive Plan (the "Amended Equity Plan") and the Farmer Bros. Co. 2007 Omnibus Plan (collectively, the "Prior Plans"). On the Effective Date, the Company ceased granting awards under the Prior Plans; however, awards outstanding under the Prior Plans will remain subject to the terms of the applicable Prior Plan. The 2017 Plan provides for the grant of stock options (including incentive stock options and non-qualified stock options), stock appreciation rights, restricted stock, restricted stock units, dividend equivalents, performance shares and other stock- or cash-based awards to eligible participants. The 2017 Plan also authorizes the grant of awards that are intended to qualify as "qualified performance-based compensation" within the meaning of Section 162(m) of the Internal Revenue Code. Non-employee directors of the Company and employees of the Company or any of its subsidiaries are eligible to receive awards under the 2017 Plan.

The 2017 Plan authorizes the issuance of (i) 900,000 shares of common stock plus (ii) the number of shares of common stock subject to awards under the Company's Prior Plans that are outstanding as of the Effective Date and that expire or are forfeited, cancelled or similarly lapse following the Effective Date. Subject to certain limitations, shares of common stock covered by awards granted under the 2017 Plan that are forfeited, expire or lapse, or are repurchased for or paid in cash, may be used again for new grants under the 2017 Plan. As of September 30, 2017, there are 931,548 shares available for future issuance under the 2017 Plan. Shares of common stock granted under the 2017 Plan may be authorized but unissued shares, shares purchased on the open market or treasury shares. In no event will more than 900,000 shares of common stock be issuable pursuant to the exercise of incentive stock options under the 2017 Plan.

The 2017 Plan contains a minimum vesting requirement, subject to limited exceptions, that awards made under the 2017 Plan may not vest earlier than the date that is one year following the grant date of the award. The 2017 Plan also contains provisions with respect to payment of exercise or purchase prices, vesting and expiration of awards, adjustments and treatment of awards upon certain corporate transactions, including stock splits, recapitalizations and mergers, transferability of awards and tax withholding requirements.

The 2017 Plan may be amended or terminated by the Board at any time, subject to certain limitations requiring stockholder consent or the consent of the applicable participant. In addition, the Administrator of the 2017 Plan may not, without the approval of the Company's stockholders, authorize certain repricings of any outstanding stock options or stock appreciation rights granted under the 2017 Plan. The 2017 Plan will expire on June 20, 2027.

As of September 30, 2017, no awards have been granted under the 2017 Plan.

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

In the three months ended September 30, 2017, the Company granted no shares issuable upon the exercise of NQOs.

The following table summarizes NQO activity for the three months ended September 30, 2017:

<u>Outstanding NQOs:</u>	Number of NQOs	Weighted Average Exercise Price (\$)	Weighted Average Grant Date Fair Value (\$)	Weighted Average Remaining Life (Years)	Aggregate Intrinsic Value (\$ in thousands)
Outstanding at June 30, 2017	133,464	13.05	5.99	2.6	2,299
Granted	—	—	—	—	—
Exercised	—	—	—	—	—
Cancelled/Forfeited	(4,194)	24.41	10.60	—	—
Outstanding at September 30, 2017	129,270	12.68	5.84	2.0	2,608
Vested and exercisable at September 30, 2017	125,376	12.13	5.64	1.9	2,598
Vested and expected to vest at September 30, 2017	129,108	12.66	5.83	2.0	2,607

The aggregate intrinsic values outstanding at the end of each fiscal period in the table above represent the total pretax intrinsic value, based on the Company's closing stock price of \$32.85 at September 30, 2017 and \$30.25 at June 30, 2017, representing the last trading day of the respective fiscal periods, which would have been received by NQO holders had all award holders exercised their NQOs that were in-the-money as of those dates. NQOs outstanding that are expected to vest are net of estimated forfeitures.

During the three months ended September 30, 2017, no NQOs vested or were exercised. The Company received \$0.1 million in proceeds from exercises of vested NQOs in the three months ended September 30, 2016.

At September 30, 2017 and June 30, 2017, respectively, there was \$34,000 and \$80,000 of unrecognized compensation cost related to NQOs. The unrecognized compensation cost related to NQOs at September 30, 2017 is expected to be recognized over the weighted average period of 1.4 years. Total compensation expense for NQOs in the three months ended September 30, 2017 and 2016 was \$2,000 and \$42,000, respectively.

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

In the three months ended September 30, 2017, the Company granted no shares issuable upon the exercise of PNQs.

The following table summarizes PNQ activity for the three months ended September 30, 2017:

<u>Outstanding PNQs:</u>	Number of PNQs	Weighted Average Exercise Price (\$)	Weighted Average Grant Date Fair Value (\$)	Weighted Average Remaining Life (Years)	Aggregate Intrinsic Value (\$ in thousands)
Outstanding at June 30, 2017	358,786	27.75	10.96	5.2	1,181
Granted	—	—	—	—	—
Exercised	—	—	—	—	—
Cancelled/Forfeited	(24,622)	31.54	11.44	—	—
Outstanding at September 30, 2017	334,164	27.75	10.96	5.2	1,181
Vested and exercisable at September 30, 2017	150,761	23.97	10.58	3.9	1,339
Vested and expected to vest at September 30, 2017	326,704	27.38	10.92	4.8	1,788

The aggregate intrinsic values outstanding at the end of each fiscal period in the table above represent the total pretax intrinsic values, based on the Company's closing stock price of \$32.85 at September 30, 2017 and \$30.25 at June 30, 2017 representing the last trading day of the respective fiscal periods, which would have been received by PNQ holders had all award holders exercised their PNQs that were in-the-money as of those dates. PNQs outstanding that are expected to vest are net of estimated forfeitures.

During the three months ended September 30, 2017, no PNQs vested or were exercised. The Company received \$0.1 million in proceeds from exercises of vested PNQs in the three months ended September 30, 2016.

As of September 30, 2017, the Company met the performance targets for the fiscal 2016 PNQ awards and the first two tranches of the fiscal 2015 PNQ awards. The Company expects to meet the performance targets for the remainder of the fiscal 2015 award. The Company did not meet the performance target for the fiscal 2017 awards and will record a 20% reduction in total shares granted under the fiscal 2017 award in November 2017 when the service condition for the first tranche of the fiscal 2017 award will be fulfilled.

At September 30, 2017 and June 30, 2017, there was \$1.3 million and \$1.8 million, respectively, of unrecognized compensation cost related to PNQs. The unrecognized compensation cost related to PNQs at September 30, 2017 is expected to be recognized over the weighted average period of 1.2 years. Total compensation expense related to PNQs in each of the three months ended September 30, 2017 and 2016 was \$0.2 million.

### Restricted Stock

During the three months ended September 30, 2017, the Company granted no shares of restricted stock.

The following table summarizes restricted stock activity for the three months ended September 30, 2017:

Outstanding and Nonvested Restricted Stock Awards:	Shares Awarded	Weighted Average Grant Date Fair Value (\$)	Weighted Average Remaining Life (Years)	Aggregate Intrinsic Value (\$ in thousands)
Outstanding at June 30, 2017	15,445	29.79	0.9	467
Granted	—	—	—	—
Exercised/Released	—	—	—	—
Cancelled/Forfeited	(2,732)	24.41	—	—
Outstanding at September 30, 2017	12,713	30.94	0.6	418
Expected to vest at September 30, 2017	12,493	30.94	0.6	410

The aggregate intrinsic value of shares outstanding at the end of each fiscal period in the table above represent the total pretax intrinsic values, based on the Company's closing stock price of \$32.85 at September 29, 2017 and \$30.25 at June 30, 2017, representing the last trading day of the respective fiscal periods. Restricted stock that is expected to vest is net of estimated forfeitures.

At September 30, 2017 and June 30, 2017, there was \$0.2 million and \$0.3 million, respectively, of unrecognized compensation cost related to restricted stock. The unrecognized compensation cost related to restricted stock at September 30, 2017 is expected to be recognized over the weighted average period of 0.8 years. Total compensation expense for restricted stock was \$33,000 and \$60,000 for the three months ended September 30, 2017 and 2016, respectively.

### Note 17. Other Long-Term Liabilities

Other long-term liabilities include the following:

	September 30, 2017	June 30, 2017
<b>(In thousands)</b>		
Earnout payable(1)	\$ 1,100	\$ 1,100
Derivative liabilities-noncurrent	87	380
Other long-term liabilities	\$ 1,187	\$ 1,480

(1) Includes \$0.5 million and \$0.6 million in earnout payable in connection with the Company's acquisition of substantially all of the assets of China Mist completed on October 11, 2016 and the Company's acquisition of West Coast Coffee completed on February 7, 2017, respectively. See [Note 3](#).

**Note 18. Income Taxes**

The Company's effective tax rates for the three months ended September 30, 2017 and 2016 were 42.1% and 39.9%, respectively. The effective tax rates for the three months ended September 30, 2017 and 2016 were higher than the U.S. statutory rate of 35.0% primarily due to state income tax expense.

The Company evaluates its deferred tax assets quarterly to determine if a valuation allowance is required. In making such assessment, significant weight is given to evidence that can be objectively verified such as recent operating results and less consideration is given to less objective indicators such as future income projections. After consideration of positive and negative evidence, including the recent history of income, the Company concluded that it is more likely than not that the Company will generate future income sufficient to realize the majority of the Company's deferred tax assets.

As of September 30, 2017 and June 30, 2017 the Company had no unrecognized tax benefits.

As discussed in [Note 2](#), the Company adopted ASU 2016-09 beginning July 1, 2017 and upon adoption recognized the excess tax benefits of \$1.6 million as an increase to deferred tax assets and a corresponding increase to retained earnings.

**Note 19. Net (Loss) Income Per Common Share**

(In thousands, except share and per share amounts)	Three Months Ended September 30,	
	2017	2016
Net (loss) income attributable to common stockholders—basic	\$ (977)	\$ 1,615
Net (loss) income attributable to nonvested restricted stockholders	(1)	3
Net (loss) income	\$ (978)	\$ 1,618
Weighted average common shares outstanding—basic	16,699,822	16,562,984
Effect of dilutive securities:		
Shares issuable under stock options	—	121,335
Weighted average common shares outstanding—diluted	16,699,822	16,684,319
Net (loss) income per common share—basic	\$ (0.06)	\$ 0.10
Net (loss) income per common share—diluted	\$ (0.06)	\$ 0.10

**Note 20. Commitments and Contingencies**

For a detailed discussion about the Company's commitments and contingencies, see Note 23, "Commitments and Contingencies" to the consolidated financial statements in the 2017 Form 10-K. During the three months ended September 30, 2017, other than the following, there were no material changes in the Company's commitments and contingencies.

**Non-cancelable Purchase Orders**

As of September 30, 2017, the Company had committed to purchase green coffee inventory totaling \$56.3 million under fixed-price contracts, and other purchases totaling \$12.1 million under non-cancelable purchase orders.

**Legal Proceedings**

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

On August 31, 2012, CERT filed an amendment to a private enforcement action adding a number of companies as defendants, including CBI, which sell coffee in California. The suit alleges that the defendants have failed to issue clear and reasonable warnings in accordance with Proposition 65 that the coffee they produce, distribute and sell contains acrylamide. This lawsuit was filed in Los Angeles Superior Court (the "Court"). CERT has demanded that the alleged violators remove

acrylamide from their coffee or provide Proposition 65 warnings on their products and pay \$2,500 per day for each and every violation while they are in violation of Proposition 65.

Acrylamide is produced naturally in connection with the heating of many foods, especially starchy foods, and is believed to be caused by the Maillard reaction, though it has also been found in unheated foods such as olives. With respect to coffee, acrylamide is produced when coffee beans are heated during the roasting process—it is the roasting itself that produces the acrylamide. While there has been a significant amount of research concerning proposals for treatments and other processes aimed at reducing acrylamide content of different types of foods, to our knowledge there is currently no known strategy for reducing acrylamide in coffee without negatively impacting the sensorial properties of the product.

The Company has joined a Joint Defense Group, or JDG, and, along with the other co-defendants, has answered the complaint, denying, generally, the allegations of the complaint, including the claimed violation of Proposition 65 and further denying CERT's right to any relief or damages, including the right to require a warning on products. The Joint Defense Group contends that based on proper scientific analysis and proper application of the standards set forth in Proposition 65, exposures to acrylamide from the coffee products pose no significant risk of cancer and, thus, these exposures are exempt from Proposition 65's warning requirement.

To date, the pleadings stage of the case has been completed. The Court has phased trial so that the “no significant risk level” defense, the First Amendment defense, and the preemption defense will be tried first. Fact discovery and expert discovery on these “Phase 1” defenses have been completed, and the parties filed trial briefs. Trial commenced on September 8, 2014, and testimony completed on November 4, 2014, for the three Phase 1 defenses.

Following final trial briefing, the Court heard, on April 9, 2015, final arguments on the Phase 1 issues. On September 1, 2015, the Court ruled against the JDG on the Phase 1 affirmative defenses. The JDG received permission to file an interlocutory appeal, which was filed by writ petition on October 14, 2015. On January 14, 2016, the Court of Appeals denied the JDG's writ petition thereby denying the interlocutory appeal so that the case stays with the trial court.

On February 16, 2016, the Plaintiff filed a motion for summary adjudication arguing that based upon facts that had been stipulated by the JDG, the Plaintiff had proven its prima facie case and all that remains is a determination of whether any affirmative defenses are available to Defendants. On March 16, 2016, the Court reinstated the stay on discovery for all parties except for the four largest defendants. Following a hearing on April 20, 2016, the Court granted Plaintiff's motion for summary adjudication on its prima facie case. Plaintiff filed its motion for summary adjudication of affirmatives defenses on May 16, 2016. At the August 19, 2016 hearing on Plaintiff's motion for summary adjudication (and the JDG's opposition), the Court denied Plaintiff's motion, thus maintaining the ability of the JDG to defend the issues at trial. On October 7, 2016, the Court continued the Plaintiff's motion for preliminary injunction until the trial for Phase 2.

In November 2016, the parties pursued mediation, but were not able to resolve the dispute.

In December 2016, discovery resumed for all defendants. Depositions of “person most knowledgeable” witnesses for each defendant in the JDG commenced in late December and proceeded through early 2017, followed by new interrogatories served upon the defendants. The Court set a fact and discovery cutoff of May 31, 2017 and an expert discovery cutoff of August 4, 2017. Depositions of expert witnesses were completed by the end of July. On July 6, 2017, the Court held hearings on a number of discovery motions and denied Plaintiff's motion for sanctions as to all the defendants.

At a final case management conference on August 21, 2017 the Court set August 31, 2017 as the new trial date for Phase 2, though later changed the starting date for trial to September 5, 2017. The Court elected to break up trial for Phase 2 into two segments, the first focused on liability and the second on remedies. After 14 days at trial, both sides rested on the liability segment, and the Court set a date of November 21, 2017 for the hearing for all evidentiary issues related to this liability segment. The Court also set deadlines for evidentiary motions, issues for oral argument, and oppositions to motions. The Court has indicated that it will announce its decision on the liability segment of the Phase 2 trial following the November 21, 2017 hearing. Based upon the Court's decision on liability, any remedies segment to the Phase 2 trial would start in 2018.

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

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

## **Note 21. Subsequent Events**

### *Boyd Coffee Company Acquisition*

On October 2, 2017, the Company completed its previously announced acquisition of substantially all of the assets of Boyd Coffee Company (the "Transaction") pursuant to the terms of that certain Asset Purchase Agreement, dated as of August 18, 2017 (the "Purchase Agreement"), among the Company, Boyd Assets Co., a Delaware corporation and wholly owned subsidiary of the Company ("Buyer"), Boyd Coffee Company, an Oregon corporation ("Seller"), and each of the parties set forth on Exhibit A thereto (collectively with Seller, the "Seller Parties"), in consideration of cash and preferred stock. At closing, the Company paid Seller \$39.5 million in cash, including \$630,000 to be applied towards the Company's obligations under a post-closing transition services agreement, and issued to Seller 14,700 shares of Series A Convertible Participating Cumulative Perpetual Preferred Stock, par value \$1.00 per share (the "Preferred Stock"). The Company held back approximately \$4.2 million in cash and 6,300 shares of Preferred Stock to secure Seller's (and the other Seller Parties') indemnification and certain other obligations under the Purchase Agreement.

In connection with the closing of the Transaction, on October 2, 2017, the Company borrowed \$39.5 million under its Revolving Facility. See [Note 15](#).

Each share of Preferred Stock will have a purchase price and an initial stated value of \$1,000 ("Stated Value"). Each holder of Preferred Stock will be entitled to receive dividends, when and if declared by the Company's Board of Directors, equal to 3.5% per annum of the Stated Value of such share in effect on the applicable regular dividend record date ("Regular Dividends"). Regular Dividends on each share of Preferred Stock will begin to accrue from, and including, the closing date; and if not declared and paid, will be cumulative. Subject to certain limitations, each share of Preferred Stock has the right to convert into 26 shares of the Company's common stock (rounded down to the nearest whole share and subject to adjustment in accordance with the terms of the Certificate of Designations filed with the Secretary of State of the State of Delaware. Except as otherwise required by applicable law, each share of Preferred Stock outstanding will entitle the holder(s) thereof to vote together with the holders of the Company's common stock on all matters submitted for a vote of, or consent by, holders of the Company's common stock. For these purposes, each holder will be deemed to be the holder of record, on the record date for each such vote or consent, of a number of shares of the Company's common stock equal to the quotient (rounded down to the nearest whole number) obtained by dividing (i) the aggregate Stated Value of the shares of Preferred Stock held by such holder on such record date by (ii) the conversion price determined in accordance with the Certificate of Designations in effect on such record date.

The Company is in the process of finalizing the valuation of assets acquired and has not received all the information necessary to complete its initial accounting for the business combination. The Company expects to complete its preliminary valuation and present the details of the acquisition in its quarterly report on Form 10-Q for the period ending December 31, 2017.

### *Western Conference of Teamsters Pension Trust*

On October 30, 2017, counsel to the Company received written confirmation that the WCT Pension Trust will be retracting its claim, stated in its letter to the Company dated July 10, 2017, that certain of the Company's employment actions in 2015 resulting from the Corporate Relocation Plan constituted a partial withdrawal from the WCTPP. The written confirmation stated that the WCT Pension Trust has determined that a partial withdrawal did not occur in 2015 and further stated that the withdrawal liability assessment has been rescinded. This rescinding of withdrawal liability assessment applies to Company employment actions in 2015 with respect to the bargaining units that were specified in the WCT Pension Trust Letter. As of September 30, 2017, the Company is not able to predict whether the WCT Pension Trust may make a claim, or estimate the extent of potential withdrawal liability, related to the Corporate Relocation Plan for actions or bargaining units other than those specified in the WCT Pension Trust Letter.

*Registration Statement on Form S-3*

On November 3, 2017, the Company filed with the SEC a shelf registration statement on Form S-3 to register, for one or more offerings to be made on a delayed or continuous basis, an aggregate of up to \$250,000,000 of common stock of the Company, par value \$1.00 per share (“Common Stock”), preferred stock of the Company, par value \$1.00 per share (“Preferred Stock”), depositary shares (“Depositary Shares”) representing Preferred Stock, warrants entitling the holders to purchase Common Stock, Preferred Stock or Depositary Shares, purchase contracts for the purchase or sale of equity securities, currencies or commodities, and units composed of two or more of the foregoing.

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

Certain statements contained in this Quarterly Report on Form 10-Q are not based on historical fact and are forward-looking statements within the meaning of federal securities laws and regulations. These statements are based on management’s current expectations, assumptions, estimates and observations of future events and include any statements that do not directly relate to any historical or current fact; actual results may differ materially due in part to the risk factors set forth in Part I, Item 1A of our Annual Report on Form 10-K for the fiscal year ended June 30, 2017 filed with the Securities and Exchange Commission (the “SEC”) on September 28, 2017. These forward-looking statements can be identified by the use of words like “anticipates,” “estimates,” “projects,” “expects,” “plans,” “believes,” “intends,” “will,” “could,” “assumes” and other words of similar meaning. Owing to the uncertainties inherent in forward-looking statements, actual results could differ materially from those set forth in forward-looking statements. We intend these forward-looking statements to speak only at the time of this report and do not undertake to update or revise these statements as more information becomes available except as required under federal securities laws and the rules and regulations of the SEC. Factors that could cause actual results to differ materially from those in forward-looking statements include, but are not limited to, the success of the Corporate Relocation Plan, the timing and success of implementation of the DSD Restructuring Plan, the Company’s success in consummating acquisitions and integrating acquired businesses, the adequacy and availability of capital resources to fund the Company’s existing and planned business operations and the Company’s capital expenditure requirements, the relative effectiveness of compensation-based employee incentives in causing improvements in Company performance, the capacity to meet the demands of our large national account customers, the extent of execution of plans for the growth of Company business and achievement of financial metrics related to those plans, the success of the Company to retain and/or attract qualified employees, the effect of the capital markets as well as other external factors on stockholder value, fluctuations in availability and cost of green coffee, competition, organizational changes, the effectiveness of our hedging strategies in reducing price risk, changes in consumer preferences, our ability to provide sustainability in ways that do not materially impair profitability, changes in the strength of the economy, business conditions in the coffee industry and food industry in general, our continued success in attracting new customers, variances from budgeted sales mix and growth rates, weather and special or unusual events, as well as other risks described in this report and other factors described from time to time in our filings with the SEC. The results of operations for the three months ended September 30, 2017 are not necessarily indicative of the results that may be expected for any future period.

### Overview

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

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

We operate production facilities in Northlake, Texas (the “New Facility”); Houston, Texas; Portland, Oregon; Hillsboro, Oregon; and Scottsdale, Arizona. Distribution takes place out of the New Facility, the Portland, Hillsboro and Scottsdale facilities, as well as separate distribution centers in Northlake, Illinois; and Moonachie, New Jersey. We commenced distribution activities at the New Facility during the second quarter of fiscal 2017 and initial production activities late in the third quarter of fiscal 2017. We began roasting coffee in the New Facility in the fourth quarter of fiscal 2017.

Our products reach our customers primarily in two ways: through our nationwide DSD network of 449 delivery routes and 113 branch warehouses as of September 30, 2017, or direct-shipped via common carriers or third-party distributors. DSD sales are made “off-truck” to our customers at their places of business. We operate a large fleet of trucks and other vehicles to distribute and deliver our products, and we rely on third-party logistics (“3PL”) service providers for our long-haul distribution.

## Corporate Relocation

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

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

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

See [Liquidity, Capital Resources and Financial Condition](#) below for further details of the impact of these activities on our financial condition and liquidity.

## Recent Developments

### *Acquisitions*

On October 2, 2017, we completed the previously announced acquisition of substantially all of the assets of Boyd Coffee Company, a coffee roaster and distributor with a focus on restaurants, hotels, and convenience stores on the West

Coast of the United States (the “Transaction”), pursuant to the terms of that certain Asset Purchase Agreement, dated as of August 18, 2017 (the “Purchase Agreement”), among the Company, Boyd Assets Co., a Delaware corporation and wholly owned subsidiary of the Company (“Buyer”), Boyd Coffee Company, an Oregon corporation (“Seller”), and each of the parties set forth on Exhibit A thereto (collectively with Seller, the “Seller Parties”), in consideration of cash and preferred stock. At closing, we paid Seller \$39.5 million in cash, including \$630,000 to be applied towards our obligations under a post-closing transition services agreement, and issued to Seller 14,700 shares of Series A Convertible Participating Cumulative Perpetual Preferred Stock, par value \$1.00 per share (the “Preferred Stock”). We held back approximately \$4.2 million in cash and 6,300 shares of Preferred Stock to secure Seller’s (and the other Seller Parties’) indemnification and certain other obligations under the Purchase Agreement. The Transaction is expected to add to our product portfolio, improve our growth potential, broaden our distribution footprint with a deeper penetration on the West Coast of the United States, and increase our capacity utilization at our production facilities. See [Note 21](#), Subsequent Events, of the Notes to Unaudited Condensed Consolidated Financial Statements included in Part I, Item 1 of this report.

In fiscal 2017, we completed two acquisitions. On October 11, 2016, we acquired substantially all of the assets and certain specified liabilities of China Mist Brands, Inc. dba China Mist Tea Company (“China Mist”), a provider of flavored and unflavored iced and hot teas, and on February 7, 2017, we acquired substantially all of the assets and certain specified liabilities of West Coast Coffee Company, Inc. (“West Coast Coffee”), a coffee roaster and distributor with a focus on the convenience store, grocery and foodservice channels. The China Mist acquisition is expected to extend our tea product offerings and give us a greater presence in the high-growth premium tea industry, while the acquisition of West Coast Coffee is expected to broaden our reach in the Northwestern United States. See [Note 3](#), *Acquisitions* of the Notes to Unaudited Condensed Consolidated Financial Statements included in Part I, Item 1 of this report.

#### *DSD Restructuring Plan*

As a result of an ongoing operational review of various initiatives within our DSD selling organization, in the third quarter of fiscal 2017, we commenced a plan to reorganize our DSD operations in an effort to realign functions into a channel based selling organization, streamline operations, acquire certain channel specific expertise, and improve selling effectiveness and financial results (the “DSD Restructuring Plan”). See [Liquidity, Capital Resources and Financial Condition—Liquidity—DSD Restructuring Plan](#), below, and [Note 4](#), *Restructuring Plans—DSD Restructuring Plan*, of the Notes to Unaudited Condensed Consolidated Financial Statements included in Part I, Item 1 of this report.

## **Results of Operations**

### *Financial Highlights*

- Volume of green coffee pounds processed and sold decreased (0.4)% in the three months ended September 30, 2017 as compared to the three months ended September 30, 2016.
- Gross profit decreased \$(2.2) million to \$49.0 million in the three months ended September 30, 2017 from \$51.2 million in the three months ended September 30, 2016.
- Gross margin decreased to 37.2% in the three months ended September 30, 2017, from 39.2% in the three months ended September 30, 2016.
- Loss from operations was \$(1.3) million in the three months ended September 30, 2017 as compared to income from operations of \$2.5 million in the three months ended September 30, 2016.
- Net loss was \$(1.0) million, or \$(0.06) per common share, in the three months ended September 30, 2017, compared to net income of \$1.6 million, or \$0.10 per diluted common share, in the three months ended September 30, 2016.
- EBITDA decreased (24.8)% to \$6.1 million and EBITDA Margin was 4.6% in the three months ended September 30, 2017, as compared to EBITDA of \$8.1 million and EBITDA Margin of 6.2% in the three months ended September 30, 2016.\*

- Adjusted EBITDA decreased (15.2)% to \$9.3 million and Adjusted EBITDA Margin was 7.1% in the three months ended September 30, 2017, as compared to Adjusted EBITDA of \$11.0 million and Adjusted EBITDA Margin of 8.4% in the three months ended September 30, 2016.\*
- (\* EBITDA, EBITDA Margin, Adjusted EBITDA and Adjusted EBITDA Margin are non-GAAP financial measures. See [Non-GAAP Financial Measures](#) in Part I, Item 2 of this report for a reconciliation of these non-GAAP measures to their corresponding GAAP measures.)

### Net Sales

Net sales in the three months ended September 30, 2017 increased \$1.2 million, or 0.9%, to \$131.7 million from \$130.5 million in the three months ended September 30, 2016 due to a \$1.5 million increase in net sales of roast and ground coffee primarily from the addition of West Coast Coffee, and a \$1.3 million increase in net sales of tea products, primarily from the addition of China Mist, partially offset by a \$(1.1) million decrease in net sales of other beverages, a \$(0.3) million decrease in net sales of frozen liquid coffee and a \$(0.1) million decrease in each of net sales of spice products and the fuel surcharge. Net sales in the three months ended September 30, 2017 benefited from \$0.9 million in price increases to customers utilizing commodity-based pricing arrangements, where the changes in the green coffee commodity costs are passed on to the customer, as compared to \$(4.2) million in price decreases to customers utilizing such arrangements in the three months ended September 30, 2016. Net sales in the three months ended September 30, 2017 were negatively impacted by lower than expected coffee pounds sold to certain of our large national account customers and the effects of Hurricanes Harvey and Irma.

The change in net sales in the three months ended September 30, 2017 compared to the same period in the prior fiscal year was due to the following:

<b>(In millions)</b>	<b>Three Months Ended September 30, 2017 vs. 2016</b>	
Effect of change in unit sales	\$	(11.3)
Effect of pricing and product mix changes		12.5
Total increase in net sales	\$	1.2

Unit sales decreased (7.9)% in the three months ended September 30, 2017 as compared to the same period in the prior fiscal year, however average unit price increased by 9.6% resulting in an increase in net sales of 0.9%. The decrease in unit sales was primarily due to a (49.0)% decrease in unit sales of culinary products, which accounted for approximately 11% of net sales, and a (0.4)% decrease in unit sales of roast and ground coffee products, which accounted for approximately 63% of total net sales. Average unit price increased primarily due to price increases on substantially all of our products. In the three months ended September 30, 2017, we processed and sold approximately 23.2 million pounds of green coffee as compared to approximately 23.3 million pounds of green coffee processed and sold in the three months ended September 30, 2016. There were no new product category introductions in the three months ended September 30, 2017 or 2016 which had a material impact on our net sales.

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

<b>(In thousands)</b>	<b>Three Months Ended September 30,</b>			
	<b>2017</b>		<b>2016</b>	
	<b>\$</b>	<b>% of total</b>	<b>\$</b>	<b>% of total</b>
<b>Net Sales by Product Category:</b>				
Coffee (Roast & Ground)	\$ 82,883	63%	\$ 81,342	62%
Coffee (Frozen Liquid)	7,824	6%	8,138	6%
Tea (Iced & Hot)	7,672	6%	6,368	5%
Culinary	13,763	11%	13,810	11%
Spice	6,274	5%	6,389	5%
Other beverages(1)	12,606	10%	13,681	11%
Net sales by product category	131,022	99%	129,728	99%
Fuel surcharge	691	1%	760	1%
Net sales	\$ 131,713	100%	\$ 130,488	100%

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

### **Cost of Goods Sold**

Cost of goods sold in the three months ended September 30, 2017 increased \$3.4 million, or 4.3%, to \$82.7 million, or 62.8% of net sales, from \$79.3 million, or 60.8% of net sales, in the three months ended September 30, 2016. Cost of goods sold as a percentage of net sales in the three months ended September 30, 2017 increased due to higher manufacturing costs associated with the production operations in the New Facility, higher hedged cost of green coffee, and the absence of the beneficial effect of the liquidation of LIFO inventory quantities in the three months ended September 30, 2017, as compared to the same period in the prior fiscal year. In the three months ended September 30, 2016, we recorded \$0.8 million in expected beneficial effect of the liquidation of LIFO inventory quantities in cost of goods sold which increased income before taxes for the three months ended September 30, 2016 by \$0.8 million. In the three months ended September 30, 2017, we recorded no expected beneficial effect of the liquidation of LIFO inventory quantities in cost of goods sold.

### **Gross Profit**

Gross profit in the three months ended September 30, 2017 decreased \$(2.2) million, or (4.3)%, to \$49.0 million from \$51.2 million in the three months ended September 30, 2016 and gross margin decreased to 37.2% in the three months ended September 30, 2017 from 39.2% in the three months ended September 30, 2016. This decrease in gross profit and gross margin was primarily due to higher manufacturing costs associated with the production operations in the New Facility, higher hedged cost of green coffee, and the absence of the beneficial effect of the liquidation of LIFO inventory quantities in the three months ended September 30, 2017, as compared to the same period in the prior fiscal year, as well as the effect of sales mix from higher net sales to direct ship customers which carry a lower gross margin.

### **Operating Expenses**

In the three months ended September 30, 2017, operating expenses increased \$1.6 million, or 3.2%, to \$50.3 million or 38.2% of net sales, from \$48.7 million, or 37.3% of net sales, in the three months ended September 30, 2016, primarily due to a \$2.4 million increase in general and administrative expenses, a \$1.6 million reduction in net gains from sales of other assets, and \$0.5 million increase in selling expenses. The increase in operating expenses was partially offset by a \$(2.9) million decrease in restructuring and other transition expenses associated with the Corporate Relocation Plan. Restructuring and other transition expenses in the three months ended September 30, 2017 also included expenses associated with the DSD Restructuring Plan.

General and administrative expenses increased \$2.4 million in the three months ended September 30, 2017 as compared to the same period in the prior fiscal year primarily due to \$2.4 million in acquisition and integration costs, \$0.6 million in expenses from the addition of China Mist and West Coast Coffee, \$0.7 million in higher depreciation and

amortization expense, partially offset by the absence of \$1.3 million in non-recurring 2016 proxy contest expenses incurred in the three months ended September 30, 2016.

Restructuring and other transition expenses in the three months ended September 30, 2017 decreased \$(2.9) million, as compared to the same period in the prior fiscal year primarily due to the absence of expenses related to our Corporate Relocation Plan, partially offset by \$0.1 million in costs incurred in connection with the DSD Restructuring Plan in the three months ended September 30, 2017.

Selling expenses increased \$0.5 million in the three months ended September 30, 2017 as compared to the same period in the prior fiscal year, primarily due to \$1.0 million in selling expenses from the addition of China Mist and West Coast Coffee, exclusive of their related depreciation and amortization expense, \$1.2 million in higher depreciation and amortization expense, partially offset by a \$1.3 million reduction in payroll and payroll tax expenses and \$0.4 million in lower bad debt expense.

In each of the three months ended September 30, 2017 and 2016 net gains from sale of Spice Assets included \$0.2 million in earnout.

#### ***(Loss) Income from Operations***

Loss from operations in the three months ended September 30, 2017 was \$(1.3) million as compared to income from operations of \$2.5 million in the three months ended September 30, 2017.

The loss from operations in the three months ended September 30, 2017 as compared to income from operations in the comparable period of the prior fiscal year was primarily due to lower gross profit, higher general and administrative expenses, higher selling expenses, and lower net gains from sales of other assets, partially offset by lower restructuring and other transition expenses associated with the Corporate Relocation Plan.

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

Total other expense in the three months ended September 30, 2017 was \$(0.4) million compared to total other income of \$0.2 million in the three months ended September 30, 2016. Total other expense in the three months ended September 30, 2017 was primarily due to higher interest expense as compared to the same period in the prior fiscal year, and lower income from investments as a result of liquidating substantially all of our investment in preferred securities in the fourth quarter of fiscal 2017 to fund expenditures associated with our New Facility.

Net losses on investments in the three months ended September 30, 2017 were \$(9,000) as compared to net gains on investments of \$0.2 million in the comparable period of the prior fiscal year due to mark-to-market net gains and net losses on coffee-related derivative instruments not designated as accounting hedges. Net gains on coffee-related derivative instruments in the three months ended September 30, 2017 were \$0.1 million compared to net losses of \$(35,000) in the comparable period of the prior fiscal year. In the three months ended September 30, 2017, we recognized \$48,000 in net gains on coffee-related derivative instruments designated as cash flow hedges due to ineffectiveness, as compared to \$13,000 in the three months ended September 30, 2016.

Interest expense in the three months ended September 30, 2017, was \$(0.5) million as compared to \$(0.4) million in the comparable period of the prior fiscal year. The higher interest expense in the three months ended September 30, 2017 was primarily due to higher loan balance.

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

In the three months ended September 30, 2017, we recorded income tax benefit of \$(0.7) million compared to income tax expense of \$1.1 million in the three months ended September 30, 2016. As of June 30, 2017, our net deferred tax assets totaled \$63.1 million. In the three months ended September 30, 2017 our deferred tax assets increased by \$2.8 million, primarily as a result of recording a deferred tax asset for the net operating loss, as well as a \$1.6 million adjustment related to the adoption of ASU 2016-09.

#### ***Net Loss***

As a result of the foregoing factors, net loss was \$(1.0) million, or \$(0.06) per common share, in the three months ended September 30, 2017 as compared to net income of \$1.6 million, or \$0.10 per diluted common share, in the three months ended September 30, 2016.

## Non-GAAP Financial Measures

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

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

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

and including the impact of:

- income taxes on non-GAAP adjustments.

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

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

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

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

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

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

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

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

In the first quarter of fiscal 2017, we modified the calculation of Non-GAAP net income and Non-GAAP net income per diluted common share (i) to exclude non-recurring expenses for legal and other professional services incurred in connection with the 2016 proxy contest that were in excess of the level of expenses normally incurred for an annual meeting

of stockholders (“2016 proxy contest-related expenses”) and non-cash interest expense accrued on the Torrance Facility sale-leaseback financing obligation which has been included in the computation of the gain on sale upon conclusion of the leaseback arrangement, and (ii) to include income tax expense (benefit) on the non-GAAP adjustments based on the Company’s marginal tax rate of 39.0%. We also modified Adjusted EBITDA and Adjusted EBITDA Margin to exclude 2016 proxy contest-related expenses. These modifications to our non-GAAP financial measures were made because such expenses are not reflective of our ongoing operating results and adjusting for them will help investors with comparability of our results.

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

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

Beginning in the fourth quarter of fiscal 2017, we modified the calculation of Non-GAAP net income, Non-GAAP net income per diluted common share, Adjusted EBITDA and Adjusted EBITDA Margin to exclude acquisition and integration costs. Acquisition and integration costs include legal expenses, consulting expenses and internal costs associated with acquisitions and integration of those acquisitions. Beginning in the fourth quarter of fiscal 2017 acquisition and integration costs were significant and, we believe, excluding them will help investors to better understand our operating results and more accurately compare them across periods. We have not adjusted the historical presentation of Non-GAAP net income, Non-GAAP net income per diluted common share, Adjusted EBITDA and Adjusted EBITDA Margin because acquisition and integration costs in prior periods were not material to the Company’s results of operations.

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

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

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

<b>(In thousands)</b>	<b>Three Months Ended September 30,</b>	
	<b>2017</b>	<b>2016</b>
Net (loss) income, as reported	\$ (978)	\$ 1,618
Restructuring and other transition expenses	120	3,030
Net gains from sale of Spice Assets	(150)	(158)
Net losses (gains) from sales of other assets	53	(1,553)
Non-recurring 2016 proxy contest-related expenses	—	1,270
Interest expense on sale-leaseback financing obligation	—	310
Acquisition and integration costs	2,410	—
Income tax expense on non-GAAP adjustments	(949)	(1,131)
Non-GAAP net income	\$ 506	\$ 3,386
Net (loss) income per common share—diluted, as reported	\$ (0.06)	\$ 0.10
Impact of restructuring and other transition expenses	\$ 0.01	\$ 0.18
Impact of net gains from sale of Spice Assets	\$ (0.01)	\$ (0.01)
Impact of net gains from sales of other assets	\$ —	\$ (0.09)
Impact of non-recurring 2016 proxy contest-related expenses	\$ —	\$ 0.08
Impact of interest expense on sale-leaseback financing obligation	\$ —	\$ 0.02
Impact of acquisition and integration costs	\$ 0.14	\$ —
Impact of income tax expense on non-GAAP adjustments	\$ (0.05)	\$ (0.07)
Non-GAAP net income per diluted common share	\$ 0.03	\$ 0.21

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

<b>(In thousands)</b>	<b>Three Months Ended September 30,</b>	
	<b>2017</b>	<b>2016</b>
Net (loss) income, as reported	\$ (978)	\$ 1,618
Income tax (benefit) expense	(710)	1,083
Interest expense	523	389
Depreciation and amortization expense	7,253	5,008
EBITDA	\$ 6,088	\$ 8,098
EBITDA Margin	4.6%	6.2%

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

<b>(In thousands)</b>	<b>Three Months Ended September 30,</b>	
	<b>2017</b>	<b>2016</b>
Net (loss) income, as reported	\$ (978)	\$ 1,618
Income tax (benefit) expense	(710)	1,083
Interest expense	523	389
Loss (income) from short-term investments	7	(621)
Depreciation and amortization expense	7,253	5,008
ESOP and share-based compensation expense	806	942
Restructuring and other transition expenses	120	3,030
Net gains from sale of Spice Assets	(150)	(158)
Net losses (gains) from sales of other assets	53	(1,553)
Non-recurring proxy contest-related expenses	—	1,270
Acquisition and integration costs	2,410	—
Adjusted EBITDA	\$ 9,334	\$ 11,008
Adjusted EBITDA Margin	7.1%	8.4%

## Liquidity, Capital Resources and Financial Condition

### *Credit Facility*

We maintain a \$125.0 million senior secured revolving credit facility (the “Revolving Facility”) with JPMorgan Chase Bank, N.A. and SunTrust Bank (collectively, the “Lenders”), with a sublimit on letters of credit and swingline loans of \$30.0 million and \$15.0 million respectively. The Revolving Facility includes an accordion feature whereby we may increase the Revolving Commitment by up to an additional \$50.0 million, subject to certain conditions. Advances are based on our eligible accounts receivable, eligible inventory, and the value of certain real property and trademarks, less required reserves. The commitment fee is a flat fee of 0.25% per annum irrespective of average revolver usage. Outstanding obligations are collateralized by all of our assets, excluding certain real property not included in the borrowing base, machinery and equipment (other than inventory), and our preferred stock portfolio. Borrowings under the Revolving Facility bear interest based on average historical excess availability levels with a range of PRIME - 0.25% to PRIME + 0.50% or Adjusted LIBO Rate + 1.25% to Adjusted LIBO Rate + 2.00%. We are subject to a variety of affirmative and negative covenants of types customary in an asset-based lending facility, including financial covenants relating to the maintenance of a fixed charge coverage ratio in certain circumstances, and the right of the Lenders to establish reserve requirements, which may reduce the amount of credit otherwise available to us. We are allowed to pay dividends, provided, among other things, certain excess availability requirements are met, and no event of default exists or has occurred and is continuing as of the date of any such payment and after giving effect thereto. The Revolving Facility matures on August 25, 2022.

At September 30, 2017, we were eligible to borrow up to a total of \$102.1 million under the Revolving Facility and had outstanding borrowings of \$30.1 million, utilized \$1.0 million of the letters of credit sublimit, and had excess availability under the Revolving Facility of \$71.0 million. At September 30, 2017, the weighted average interest rate on our outstanding borrowings under the Revolving Facility was 3.36%. At September 30, 2017, we were in compliance with all of the restrictive covenants under the Revolving Facility.

At October 31, 2017, we had estimated outstanding borrowings of \$73.5 million, utilized \$1.0 million of the letters of credit sublimit, and had excess availability under the Revolving Facility of \$27.6 million. At October 31, 2017, the weighted average interest rate on our outstanding borrowings under the Revolving Facility was 3.38%.

## *Liquidity*

We generally finance our operations through cash flows from operations and borrowings under our Revolving Facility described above. At September 30, 2017, we had \$7.3 million in cash and cash equivalents and \$0.4 million in short-term investments. In the fourth quarter of fiscal 2017, we liquidated substantially all of our preferred stock portfolio, net of purchases, to fund expenditures associated with our New Facility in Northlake, Texas.

We believe our Revolving Facility, to the extent available, in addition to our cash flows from operations and other liquid assets, collectively, will be sufficient to fund our working capital and capital expenditure requirements for the next 12 to 18 months.

### *Changes in Cash Flows*

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

Net cash provided by operating activities was \$7.1 million in the three months ended September 30, 2017 compared to \$3.8 million in the three months ended September 30, 2016. The higher level of net cash provided by operating activities in the three months ended September 30, 2017 compared to the same period of the prior fiscal year was primarily due to a higher level of cash inflows from operating activities primarily from the increase in accounts payable balances, partially offset by cash outflows from increases in inventory and increases in derivative assets, net of derivative liabilities. Net cash provided by operating activities in the three months ended September 30, 2016 was due to cash inflows from operating activities resulting primarily from increases in accounts payable balances, increase in derivative liabilities net of derivative assets and proceeds from sales of short-term investments partially offset by cash outflows from payments of accrued payroll and other liabilities, increases in inventory and accounts receivable balances and purchases of short-term investments.

Net cash used in investing activities in the three months ended September 30, 2017 was \$8.3 million as compared to \$22.5 million in the three months ended September 30, 2016. In the three months ended September 30, 2017, net cash used in investing activities included \$6.9 million in cash used for purchases of property, plant and equipment, \$0.8 million in purchases of equipment for the New Facility and \$0.6 million in post-closing working capital adjustments paid in connection with the finalization of purchase accounting for the China Mist acquisition, partially offset by \$0.1 million in proceeds from sales of property, plant and equipment, primarily equipment. In the three months ended September 30, 2016, net cash used in investing activities included \$10.2 million for purchases of property, plant and equipment and \$14.4 million in purchases of construction-in-progress assets in connection with construction of the New Facility, partially offset by proceeds from sales of property, plant and equipment, primarily real estate, of \$2.0 million.

Net cash provided by financing activities in the three months ended September 30, 2017 was \$2.2 million as compared to \$14.1 million in the three months ended September 30, 2016. Net cash provided by financing activities in the three months ended September 30, 2017 included \$2.4 million in net borrowings under our Revolving Facility, partially offset by \$0.2 million used to pay capital lease obligations. Net cash provided by financing activities in the three months ended September 30, 2016 included \$42.5 million in proceeds from sale-leaseback financing associated with the sale of the Torrance Facility, \$7.7 million in proceeds from lease financing in connection with the purchase of the partially constructed New Facility, \$0.1 million in borrowings under our Revolving Facility and \$0.1 million in proceeds from stock option exercises, partially offset by \$35.8 million in repayments on lease financing to acquire the partially constructed New Facility upon purchase option closing, and \$0.4 million used to pay capital lease obligations.

### *Acquisitions*

On October 11, 2016, we acquired substantially all of the assets and certain specified liabilities of China Mist for aggregate purchase consideration of \$12.2 million, consisting of \$11.2 million in cash paid at closing including working capital adjustments of \$0.4 million, post-closing final working capital adjustments of \$0.6 million, and up to \$0.5 million in contingent consideration to be paid as earnout if certain sales levels are achieved in the calendar years of 2017 or 2018. On February 7, 2017, we acquired substantially all of the assets and certain specified liabilities of West Coast Coffee for aggregate purchase consideration of \$15.7 million, which included \$14.7 million in cash paid at closing including working capital adjustments of \$1.2 million and up to \$1.0 million in contingent consideration to be paid as earnout if certain sales levels are achieved in the twenty-four months following the closing. We funded the purchase price for these acquisitions with proceeds under our Revolving Facility and cash flows from operations. See [Note 3, Acquisitions](#), of the Notes to Unaudited Condensed Consolidated Financial Statements included in Part I, Item 1 of this report.

### *DSD Restructuring Plan*

On February 21, 2017, we announced the DSD Restructuring Plan. We estimate that we will recognize approximately \$3.7 million to \$4.9 million of pre-tax restructuring charges by the end of the second quarter of fiscal 2018 consisting of approximately \$1.9 million to \$2.7 million in employee-related costs, including severance, prorated bonuses for bonus eligible employees, contractual termination payments and outplacement services, and \$1.8 million to \$2.2 million in other related costs, including legal, recruiting, consulting, other professional services, and travel. Expenses related to the DSD Restructuring Plan in the three months ended September 30, 2017 consisted of \$24,000 in employee-related costs and \$0.1 million in other related costs. Since the adoption of the DSD Restructuring Plan through September 30, 2017, we have recognized a total of \$2.5 million in aggregate cash costs including \$1.1 million in employee-related costs, and \$1.4 million in other related costs. As of September 30, 2017, we had paid a total of \$2.2 million of these costs and had a balance of \$0.3 million in accounts payable and accrued payroll expenses on our condensed consolidated balance sheet. We may also incur other charges not currently contemplated due to events that may occur as a result of, or associated with, the DSD Restructuring Plan. We expect to complete the DSD Restructuring Plan by the end of the second quarter of fiscal 2018. See [Note 4, Restructuring Plans-DSD Restructuring Plan](#), of the Notes to Unaudited Condensed Consolidated Financial Statements included in Part I, Item 1 of this report.

### *Corporate Relocation Plan*

We estimated that we would incur approximately \$31 million in cash costs in connection with the Corporate Relocation Plan consisting of \$18 million in employee retention and separation benefits, \$5 million in facility-related costs and \$8 million in other related costs. Since the adoption of the Corporate Relocation Plan in fiscal 2015 through September 30, 2017, we have recognized a total of \$31.5 million in aggregate cash costs, including \$17.1 million in employee retention and separation benefits, \$7.0 million in facility-related costs related to the temporary office space, costs associated with the move of the Company's headquarters, relocation of our Torrance operations and certain distribution operations and \$7.4 million in other related costs recorded in "Restructuring and other transition expenses" in our condensed consolidated statements of operations. We completed the Corporate Relocation Plan in the fourth quarter of fiscal 2017 and have \$0.2 million in accrued costs remaining to be paid in fiscal 2018. Additionally, from inception through September 30, 2017, we recognized non-cash depreciation expense of \$2.3 million associated with the Torrance production facility resulting from the consolidation of coffee production operations with the Houston and Portland production facilities and \$1.4 million in non-cash rent expense recognized in the sale-leaseback of the Torrance Facility. We may incur certain pension-related costs in connection with the Corporate Relocation Plan which are not included in the estimated \$31 million in aggregate cash costs. See [Note 4, Restructuring Plans—Corporate Relocation Plan](#), of the Notes to Unaudited Condensed Consolidated Financial Statements included in Part I, Item 1 of this report.

### *New Facility Costs*

We estimated that the total construction costs including the cost of the land for the New Facility would be approximately \$60 million. As of September 30, 2017, we have incurred an aggregate of \$60.8 million in construction costs and have outstanding contractual obligations of \$0.7 million. In addition to the costs to complete the construction of the New Facility, we estimated that we would incur approximately \$35 million to \$39 million for machinery and equipment, furniture and fixtures, and related expenditures of which we have incurred an aggregate of \$33.2 million as of September 30, 2017, including \$22.5 million under the amended building contract for the New Facility, and have outstanding contractual obligations of \$0.5 million as of September 30, 2017. See [Note 5, New Facility](#) of the Notes to Unaudited Condensed Consolidated Financial Statements included in Part I, Item 1 of this report. The majority of the capital expenditures associated with machinery and equipment, furniture and fixtures and related expenditures for the New Facility were incurred in the first three quarters of fiscal 2017. We commenced distribution activities at the New Facility during the second quarter of fiscal 2017 and initial production activities late in the third quarter of fiscal 2017. We began roasting coffee in the New Facility in the fourth quarter of fiscal 2017.

The following table summarizes the expenditures incurred for the New Facility as of September 30, 2017 as compared to the final budget:

<b>(In thousands)</b>	<b>Expenditures Incurred</b>			<b>Budget</b>	
	<b>Three Months Ended September 30, 2017</b>	<b>Through Fiscal Year Ended June 30, 2017</b>	<b>Total</b>	<b>Lower bound</b>	<b>Upper bound</b>
Building and facilities, including land	\$ —	\$ 60,770	\$ 60,770	\$ 55,000	\$ 60,000
Machinery and equipment; furniture and fixtures	—	33,241	\$ 33,241	35,000	39,000
<b>Total</b>	<b>\$ —</b>	<b>\$ 94,011</b>	<b>\$ 94,011</b>	<b>\$ 90,000</b>	<b>\$ 99,000</b>

#### *Capital Expenditures*

For the three months ended September 30, 2017 and 2016, our capital expenditures paid were as follows:

<b>(In thousands)</b>	<b>Three Months Ended September 30,</b>	
	<b>2017</b>	<b>2016</b>
Coffee brewing equipment	\$ 2,164	\$ 3,157
Building and facilities	1,179	—
Vehicles, machinery and equipment	89	49
Software, office furniture and equipment	1,078	29
Capital expenditures excluding New Facility	\$ 4,510	\$ 3,235
<b><u>New Facility:</u></b>		
Building and facilities, including land(1)	\$ 844	\$ 14,429
Machinery and equipment	1,995	4,910
Software, office furniture and equipment	426	1,976
Capital expenditures, New Facility	\$ 3,265	\$ 21,315
Total capital expenditures	\$ 7,775	\$ 24,550

(1) Includes \$14.4 million in purchase of assets for New Facility in the three months ended September 30, 2016.

In fiscal 2018, we anticipate paying between \$4.5 million to \$5.5 million in capital expenditures for machinery and equipment, furniture and fixtures and related expenditures budgeted for the New Facility, and approximately \$20 million to \$22 million in expenditures to replace normal wear and tear of coffee brewing equipment, vehicles, machinery and equipment and mobile sales solution hardware.

Depreciation and amortization expense was \$7.3 million and \$5.0 million, in the three months ended September 30, 2017 and 2016, respectively. We anticipate our depreciation and amortization expense will be approximately \$7.5 million to \$8.0 million per quarter in the remainder of fiscal 2018 based on our existing fixed asset commitments and the useful lives of our intangible assets.

#### *Working Capital*

At September 30, 2017 and June 30, 2017, our working capital was composed of the following:

<b>(In thousands)</b>	<b>September 30, 2017</b>	<b>June 30, 2017</b>
Current assets	\$ 127,789	\$ 117,164
Current liabilities	106,885	97,267
Working capital	\$ 20,904	\$ 19,897

### Contractual Obligations

During the three months ended September 30, 2017, other than the following, there were no material changes in the Company's contractual obligations.

As of September 30, 2017, we had committed to purchase green coffee inventory totaling \$56.3 million under fixed-price contracts and other purchases totaling \$12.1 million under non-cancelable purchase orders.

### Off-Balance Sheet Arrangements

We have no off-balance sheet arrangements.

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

### Interest Rate Risk

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

In the fourth quarter of fiscal 2017, we liquidated substantially all of our preferred stock portfolio, net of purchases, to fund expenditures associated with our New Facility in Northlake, Texas.

The following table demonstrates the impact of varying interest rate changes based on our remaining preferred securities holdings and market yield and price relationships at September 30, 2017. This table is predicated on an "instantaneous" change in the general level of interest rates and assumes predictable relationships between the prices of our preferred securities holdings and the yields on U.S. Treasury securities. At September 30, 2017, we had no futures contracts or put options with respect to our preferred securities portfolio designated as interest rate risk hedges.

<u>(\$ in thousands)</u>	<u>Market Value of Preferred Securities at September 30, 2017</u>	<u>Change in Market Value</u>
<b>Interest Rate Changes</b>		
-150 basis points	\$ 358.9	\$ —
-100 basis points	\$ 359.0	\$ —
Unchanged	\$ 359.1	\$ —
+100 basis points	\$ 359.3	\$ —
+150 basis points	\$ 359.4	\$ —

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

At September 30, 2017, we had outstanding borrowings of \$30.1 million, utilized \$1.0 million of the letters of credit sublimit, and had excess availability under the Revolving Facility of \$71.0 million. The weighted average interest rate on our outstanding borrowings under the Revolving Facility at September 30, 2017 was 3.36%.

The following table demonstrates the impact of interest rate changes on our annual interest expense on outstanding borrowings under the Revolving Facility, excluding interest on letters of credit, based on the weighted average interest rate on the outstanding borrowings as of September 30, 2017:

(\$ in thousands)	Principal	Interest Rate	Annual Interest Expense
-150 basis points	\$30,070	1.91%	\$ 574
-100 basis points	\$30,070	2.41%	\$ 725
Unchanged	\$30,070	3.41%	\$ 1,025
+100 basis points	\$30,070	4.41%	\$ 1,326
+150 basis points	\$30,070	4.91%	\$ 1,476

### **Commodity Price Risk**

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

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

When we designate coffee-related derivative instruments as cash flow hedges, we formally document the hedging instruments and hedged items, and measure at each balance sheet date the effectiveness of our hedges. The effective portion of the change in fair value of the derivative is reported in AOCI and subsequently reclassified into cost of goods sold in the period or periods when the hedged transaction affects earnings. For the three months ended September 30, 2017 and 2016, respectively, we reclassified \$(7,000) and \$(0.5) million in net losses on derivative instruments designated as cash flow hedges, excluding tax, respectively, into cost of goods sold from AOCI. Any ineffective portion of the derivative's change in fair value is recognized currently in "Other, net." Gains or losses deferred in AOCI associated with terminated derivative instruments, derivative instruments that cease to be highly effective hedges, derivative instruments for which the forecasted transaction is reasonably possible but no longer probable of occurring, and cash flow hedges that have been otherwise discontinued remain in AOCI until the hedged item affects earnings. If it becomes probable that the forecasted transaction designated as the hedged item in a cash flow hedge will not occur, we recognize any gain or loss deferred in AOCI in "Other, net" at that time. For the three months ended September 30, 2017 and 2016, we recognized in "Other, net" \$48,000 and \$13,000 in net gains, respectively, on coffee-related derivative instruments designated as cash flow hedges due to ineffectiveness.

For derivative instruments that are not designated in a hedging relationship, and for which the normal purchases and normal sales exception has not been elected, the changes in fair value are reported in "Other, net." In the three months ended September 30, 2017 and 2016, we recorded in "Other, net" net gains of \$0.1 million and net losses of \$(35,000) on coffee-related derivative instruments not designated as accounting hedges.

The following table summarizes the potential impact as of September 30, 2017 to net income and AOCI from a hypothetical 10% change in coffee commodity prices. The information provided below relates only to the coffee-related derivative instruments and does not include, when applicable, the corresponding changes in the underlying hedged items:

<b>(In thousands)</b>	<b>Increase (Decrease) to Net Income</b>		<b>Increase (Decrease) to AOCI</b>	
	<b>10% Increase in Underlying Rate</b>	<b>10% Decrease in Underlying Rate</b>	<b>10% Increase in Underlying Rate</b>	<b>10% Decrease in Underlying Rate</b>
Coffee-related derivative instruments(1)	\$ 61	\$ (61)	\$ 4,857	\$ (4,857)

(1) The Company's purchase contracts that qualify as normal purchases include green coffee purchase commitments for which the price has been locked in as of September 30, 2017. These contracts are not included in the sensitivity analysis above as the underlying price has been fixed.

**Item 4. Controls and Procedures*****Disclosure Controls and Procedures***

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

As of September 30, 2017, our management, with the participation of our Chief Executive Officer (principal executive officer) and Chief Financial Officer (principal financial and accounting officer), carried out an evaluation of the effectiveness of our disclosure controls and procedures pursuant to Rule 13a-15(e) promulgated under the Exchange Act. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective.

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

Management has determined that there has been no change in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) promulgated under the Exchange Act) during our fiscal quarter ended September 30, 2017 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

## **PART II - OTHER INFORMATION**

### **Item 1. Legal Proceedings**

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

### **Item 6. Exhibits**

See Exhibit Index.

**SIGNATURES**

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

**FARMER BROS. CO.**

By: \_\_\_\_\_ /s/ Michael H. Keown  
**Michael H. Keown**  
**President and Chief Executive Officer**  
**(chief executive officer)**  
**November 7, 2017**

By: \_\_\_\_\_ /s/ David G. Robson  
**David G. Robson**  
**Treasurer and Chief Financial Officer**  
**(principal financial and accounting officer)**  
**November 7, 2017**

## EXHIBIT INDEX

- 2.1 [Asset Purchase Agreement, dated as of November 16, 2015, by and between Farmer Bros. Co. and Harris Spice Company Inc. \(filed as Exhibit 2.1 to the Company's Current Report on Form 8-K filed with the SEC on November 20, 2015 and incorporated herein by reference\).](#)\*
- 2.2 [Purchase Agreement, dated as of September 9, 2016, among Tea Leaf Acquisition Corp., China Mist Brands, Inc., certain stockholders of China Mist Brands, Inc., for certain limited purposes, Daniel W. Schweiker and John S. Martinson, and Daniel W. Schweiker, in his capacity as the sellers' representative \(filed as Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the SEC on September 14, 2016 and incorporated herein by reference\).](#)\*
- 2.3 [Asset Purchase Agreement, dated as of August 18, 2017, by and among Farmer Bros. Co., Boyd Assets Co., Boyd Coffee Company, and each of the parties set forth on Exhibit A thereto \(filed as Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the SEC on August 21, 2017 and incorporated herein by reference\).](#)\*
- 3.1 [Certificate of Incorporation of Farmer Bros. Co. \(filed as Exhibit 3.1 to the Company's Current Report on Form 8-K filed with the SEC on June 26, 2017 and incorporated herein by reference\).](#)
- 3.2 [Certificate of Amendment to the Certificate of Incorporation of Farmer Bros. Co. \(filed as Exhibit 3.2 to the Company's Current Report on Form 8-K filed with the SEC on June 26, 2017 and incorporated herein by reference\).](#)
- 3.3 [Amended and Restated Bylaws \(filed as Exhibit 3.2 to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2016 filed with the SEC on May 6, 2016 and incorporated herein by reference\).](#)
- 3.4 [Certificate of Elimination \(filed as Exhibit 3.3 to the Company's Registration Statement on Form 8-A12B/A filed with the SEC on September 24, 2015 and incorporated herein by reference\).](#)
- 3.5 [Certificate of Designations of Series A Convertible Participating Cumulative Perpetual Preferred Stock of Farmer Bros. Co. \(filed as Exhibit 3.1 to the Company's Current Report on Form 8-K filed with the SEC on October 3, 2017 and incorporated herein by reference\).](#)
- 4.1 [Specimen Stock Certificate \(filed as Exhibit 4.1 to the Company's Registration Statement on Form 8-A12B/A filed with the SEC on September 24, 2015 and incorporated herein by reference\).](#)
- 4.2 [Specimen Stock Certificate for Series A Convertible Participating Cumulative Perpetual Preferred Stock \(filed herewith\).](#)
- 4.3 [Registration Rights Agreement, dated as of June 16, 2016, among Farmer Bros. Co. and the Investors identified on the signature pages thereto \(filed as Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the SEC on June 21, 2016 and incorporated herein by reference\).](#)
- 10.1 [Credit Agreement, dated as of March 2, 2015, by and among Farmer Bros. Co., Coffee Bean International, Inc., FBC Finance Company, Coffee Bean Holding Co., Inc., the Lenders party thereto and JPMorgan Chase Bank, N.A., as Administrative Agent \(filed as Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the SEC on March 6, 2015 and incorporated herein by reference\).](#)
- 10.2 [Pledge and Security Agreement, dated as of March 2, 2015, by and among Farmer Bros. Co., Coffee Bean International, Inc., FBC Finance Company, Coffee Bean Holding Co., Inc. and JPMorgan Chase Bank, N.A., as Administrative Agent \(filed as Exhibit 10.2 to the Company's Current Report on Form 8-K filed with the SEC on March 6, 2015 and incorporated herein by reference\).](#)

- 10.3 [Joinder Agreement, dated as of October 11, 2016, by and among China Mist Brands, Inc., Farmer Bros. Co., as the Borrower's Representative, and JPMorgan Chase Bank, N.A., as Administrative Agent, under that certain Credit Agreement dated as of March 2, 2015 \(filed as Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q for the quarter ended December 31, 2016 filed with the SEC on February 9, 2017 and incorporated herein by reference\).](#)
- 10.4 [Joinder to Pledge and Security Agreement, dated as of October 11, 2016, by and among Farmer Bros. Co., Coffee Bean International, Inc., FBC Finance Company, Coffee Bean Holding Co., Inc., China Mist Brands, Inc. and JPMorgan Chase Bank, N.A., as Administrative Agent \(filed as Exhibit 10.4 to the Company's Quarterly Report on Form 10-Q for the quarter ended December 31, 2016 filed with the SEC on February 9, 2017 and incorporated herein by reference\).](#)
- 10.5 [First Amendment to Credit Agreement and First Amendment to Pledge and Security Agreement, dated as of August 25, 2017, by and among Farmer Bros. Co., China Mist Brands, Inc., Coffee Bean International, Inc., FBC Finance Company, Coffee Bean Holding Company, Inc., the Lenders party thereto and JPMorgan Chase Bank, N.A., as Administrative Agent \(filed as Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the SEC on August 30, 2017 and incorporated herein by reference\).](#)
- 10.6 [Farmer Bros. Co. Pension Plan for Salaried Employees \(filed herewith\).\\*\\*](#)
- 10.7 [Amendment No. 1 to Farmer Bros. Co. Retirement Plan effective June 30, 2011 \(filed as Exhibit 10.4 to the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 2016 filed with the SEC on September 14, 2016 and incorporated herein by reference\).\\*\\*](#)
- 10.8 [Action of the Administrative Committee of the Farmer Bros. Co. Qualified Employee Retirement Plans amending the Farmer Bros. Co. Retirement Plan, effective as of December 6, 2012 \(filed as Exhibit 10.8 to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2013 filed with the SEC on May 6, 2013 and incorporated herein by reference\).\\*\\*](#)
- 10.9 [Farmer Bros. Co. 2005 Incentive Compensation Plan \(filed as Exhibit 10.10 to the Company's Quarterly Report on Form 10-Q for the quarter ended December 31, 2013 filed with the SEC on February 10, 2014 and incorporated herein by reference\).\\*\\*](#)
- 10.10 [Amendment to Farmer Bros. Co. 2005 Incentive Compensation Plan \(filed as Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the SEC on December 10, 2014 and incorporated herein by reference\).\\*\\*](#)
- 10.11 [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 \(filed as Exhibit 10.8 to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2016 filed with the SEC on May 6, 2016 and incorporated herein by reference\).\\*\\*](#)
- 10.12 [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 \(filed as Exhibit 10.12 to the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 2017 filed with the SEC on September 28, 2017 and incorporated herein by reference\).\\*\\*](#)
- 10.13 [Action of the Administrative Committee of the Farmer Bros. Co. Qualified Employee Retirement Plans amending the Farmer Bros. Co. Amended and Restated Employee Stock Ownership Plan, effective as of January 1, 2015 \(filed as Exhibit 10.10 to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2015 filed with the SEC on November 9, 2015 and incorporated herein by reference\).\\*\\*](#)
- 10.14 [Action of the Administrative Committee of the Farmer Bros. Co. Qualified Employee Retirement Plans amending the Farmer Bros. Co. Amended and Restated Employee Stock Ownership Plan, effective as of January 1, 2015 \(filed as Exhibit 10.11 to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2015 filed with the SEC on November 9, 2015 and incorporated herein by reference\).\\*\\*](#)

- 10.15 [Amendment dated October 6, 2016 to Farmer Bros. Co. Amended and Restated Employee Stock Ownership Plan \(filed as Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the SEC on October 7, 2016 and incorporated herein by reference\).\\*\\*](#)
- 10.16 [ESOP Loan Agreement including ESOP Pledge Agreement and Promissory Note, dated March 28, 2000, between Farmer Bros. Co. and Wells Fargo Bank, N.A., Trustee for the Farmer Bros Co. Employee Stock Ownership Plan \(filed as Exhibit 10.12 to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2016 filed with the SEC on May 6, 2016 and incorporated herein by reference\).](#)
- 10.17 [Amendment No. 1 to ESOP Loan Agreement, dated June 30, 2003, between Farmer Bros. Co. and Wells Fargo Bank, N.A., Trustee for the Farmer Bros Co. Employee Stock Ownership Plan \(filed as Exhibit 10.13 to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2016 filed with the SEC on May 6, 2016 and incorporated herein by reference\).](#)
- 10.18 [ESOP Loan Agreement No. 2 including ESOP Pledge Agreement and Promissory Note, dated July 21, 2003 between Farmer Bros. Co. and Wells Fargo Bank, N.A., Trustee for the Farmer Bros Co. Employee Stock Ownership Plan \(filed as Exhibit 10.14 to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2016 filed with the SEC on May 6, 2016 and incorporated herein by reference\).](#)
- 10.19 [Employment Agreement, dated March 9, 2012, by and between Farmer Bros. Co. and Michael H. Keown \(filed as Exhibit 10.18 to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2017 filed with the SEC on May 10, 2017 and incorporated herein by reference\).\\*\\*](#)
- 10.20 [Employment Agreement, effective as of May 27, 2015, by and between Farmer Bros. Co. and Scott W. Bixby \(filed as Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the SEC on May 20, 2015 and incorporated herein by reference\).\\*\\*](#)
- 10.21 [Employment Agreement, effective as of August 6, 2015, by and between Farmer Bros. Co. and Thomas J. Mattei, Jr. \(filed as Exhibit 10.20 to the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 2015 filed with the SEC on September 14, 2015 and incorporated herein by reference\).\\*\\*](#)
- 10.22 [Employment Agreement, dated as of February 17, 2017, by and between Farmer Bros. Co. and David G. Robson \(filed as Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the SEC on February 23, 2017 and incorporated herein by reference\).\\*\\*](#)
- 10.23 [Employment Agreement, dated as of February 17, 2017, by and between Farmer Bros. Co. and Ellen D. Iobst \(filed as Exhibit 10.2 to the Company's Current Report on Form 8-K filed with the SEC on February 23, 2017 and incorporated herein by reference\).\\*\\*](#)
- 10.24 [Employment Agreement, dated as of February 17, 2017, by and between Farmer Bros. Co. and Scott A. Siers \(filed as Exhibit 10.3 to the Company's Current Report on Form 8-K filed with the SEC on February 23, 2017 and incorporated herein by reference\).\\*\\*](#)
- 10.25 [Form of First Amendment to Employment Agreement entered into between Farmer Bros. Co. and each of Michael H. Keown, David G. Robson, Ellen D. Iobst, Scott W. Bixby, Scott A. Siers and Thomas J. Mattei, Jr. \(filed as Exhibit 10.25 to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2017 filed with the SEC on May 10, 2017 and incorporated herein by reference\).\\*\\*](#)
- 10.26 [Confidential General Release and Separation Agreement by and between Barry C. Fischetto and Farmer Bros. Co. dated February 17, 2017 \(filed as Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the SEC on February 17, 2017 and incorporated herein by reference\).\\*\\*](#)
- 10.27 [Farmer Bros. Co. 2007 Omnibus Plan, as amended \(as approved by the stockholders at the 2012 Annual Meeting of Stockholders on December 6, 2012\) \(filed herewith\).\\*\\*](#)
- 10.28 [Farmer Bros. Co. Amended and Restated 2007 Long-Term Incentive Plan \(as approved by the stockholders at the 2013 Annual Meeting of Stockholders on December 5, 2013\) \(filed as Exhibit 10.2 to the Company's Current Report on Form 8-K filed with the SEC on December 11, 2013 and incorporated herein by reference\).\\*\\*](#)

- 10.29 [Addendum to Farmer Bros. Co. Amended and Restated 2007 Long-Term Incentive Plan \(filed as Exhibit 10.30 to the Company's Quarterly Report on Form 10-Q for the quarter ended December 31, 2014 filed with the SEC on February 9, 2015 and incorporated herein by reference\).\\*\\*](#)
- 10.30 [Farmer Bros. Co. 2017 Long-Term Incentive Plan \(as approved by the stockholders at the Special Meeting of Stockholders on June 20, 2017\) filed as Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the SEC on June 26, 2017 and incorporated herein by reference\).\\*\\*](#)
- 10.31 [Form of Farmer Bros. Co. 2007 Omnibus Plan Stock Option Grant Notice and Stock Option Agreement \(filed as Exhibit 10.2 to the Company's Current Report on Form 8-K filed with the SEC on April 4, 2013 and incorporated herein by reference\).\\*\\*](#)
- 10.32 [Form of Farmer Bros. Co. Amended and Restated 2007 Long-Term Incentive Plan Stock Option Grant Notice and Stock Option Agreement \(filed as Exhibit 10.2 to the Company's Current Report on Form 8-K filed with the SEC on December 18, 2013 and incorporated herein by reference\).\\*\\*](#)
- 10.33 [Form of Farmer Bros. Co. 2007 Omnibus Plan Restricted Stock Award Grant Notice and Restricted Stock Award Agreement \(filed as Exhibit 10.3 to the Company's Current Report on Form 8-K filed with the SEC on April 4, 2013 and incorporated herein by reference\).\\*\\*](#)
- 10.34 [Form of Farmer Bros. Co. Amended and Restated 2007 Long-Term Incentive Plan Restricted Stock Award Grant Notice and Restricted Stock Award Agreement \(filed as Exhibit 10.3 to the Company's Current Report on Form 8-K filed with the SEC on December 18, 2013 and incorporated herein by reference\).\\*\\*](#)
- 10.35 [Stock Ownership Guidelines for Directors and Executive Officers \(filed as Exhibit 10.27 to the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 2016 filed with the SEC on September 14, 2016 and incorporated herein by reference\).\\*\\*](#)
- 10.36 [Form of Change in Control Severance Agreement for Executive Officers of the Company \(with schedule of executive officers attached\) \(filed as Exhibit 10.35 to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2017 filed with the SEC on May 10, 2017 and incorporated herein by reference\).\\*\\*](#)
- 10.37 [Form of First Amendment to Change in Control Severance Agreement entered into between Farmer Bros. Co. and each of Michael H. Keown, David G. Robson, Ellen D. Iobst, Scott W. Bixby, Scott A. Siers and Thomas J. Mattei, Jr. \(filed as Exhibit 10.36 to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2017 filed with the SEC on May 10, 2017 and incorporated herein by reference\).\\*\\*](#)
- 10.38 [Form of Indemnification Agreement for Directors and Officers of the Company, as adopted on December 5, 2013 \(with schedule of indemnitees attached\) \(filed as Exhibit 10.4 to the Company's Current Report on Form 8-K filed with the SEC on February 23, 2017 and incorporated herein by reference\).\\*\\*](#)
- 10.39 [Lease Agreement, dated as of July 17, 2015, by and between Farmer Bros. Co. as Tenant, and WF-FB NLTX, LLC as Landlord \(filed as Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the SEC on July 23, 2015 and incorporated herein by reference\).](#)
- 10.40 [First Amendment to Lease Agreement dated as of December 29, 2015, by and between Farmer Bros. Co. as Tenant, and WF-FB NLTX, LLC as Landlord \(filed as Exhibit 10.36 to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2016 filed with the SEC on May 6, 2016 and incorporated herein by reference\).](#)
- 10.41 [Amendment No. 2 to Lease Agreement dated as of March 10, 2016, by and between Farmer Bros. Co. as Tenant, and WF-FB NLTX, LLC as Landlord \(filed as Exhibit 10.37 to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2016 filed with the SEC on May 6, 2016 and incorporated herein by reference\).](#)

- 10.42 [Termination of Lease Agreement, dated as of September 15, 2016, by and between Farmer Bros. Co. as Tenant, and WF-FB NLTX, LLC as Landlord \(filed as Exhibit 10.33 to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2016 filed with the SEC on November 9, 2016 and incorporated herein by reference\).](#)
- 10.43 [Development Management Agreement dated as of July 17, 2015, by and between Farmer Bros. Co., as Tenant and Stream Realty Partners-DFW, L.P., as Developer \(filed as Exhibit 10.2 to the Company's Current Report on Form 8-K filed with the SEC on July 23, 2015 and incorporated herein by reference\).](#)
- 10.44 [First Amendment to Development Management Agreement dated as of January 1, 2016, by and between Farmer Bros. Co., as Tenant and Stream Realty Partners-DFW, L.P., as Developer \(filed as Exhibit 10.39 to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2016 filed with the SEC on May 6, 2016 and incorporated herein by reference\).](#)
- 10.45 [Second Amendment to Development Management Agreement dated as of March 25, 2016, by and between Farmer Bros. Co., as Tenant and Stream Realty Partners-DFW, L.P., as Developer \(filed as Exhibit 10.40 to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2016 filed with the SEC on May 6, 2016 and incorporated herein by reference\).](#)
- 10.46 [AIA Document A141 - 2014, Standard Form of Agreement Between Owner and Design-Builder, dated as of September 22, 2015, between Farmer Bros. Co. and The Haskell Company \(filed as Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the SEC on September 22, 2016 and incorporated herein by reference\).](#)
- 10.47 [Change Order No. 12, dated as of September 17, 2016, between Farmer Bros. Co. and The Haskell Company \(filed as Exhibit 10.2 to the Company's Current Report on Form 8-K filed with the SEC on September 22, 2016 and incorporated herein by reference\).](#)
- 10.48 [Agreement of Purchase and Sale and Joint Escrow Instructions, dated as of April 11, 2016, by and between Farmer Bros. Co. as Seller, and Bridge Acquisition, LLC as Buyer \(filed as Exhibit 10.41 to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2016 filed with the SEC on May 6, 2016 and incorporated herein by reference\).](#)
- 10.49 [First Amendment to Agreement of Purchase and Sale and Joint Escrow Instructions, dated as of June 1, 2016, by and between Farmer Bros. Co. and Bridge Acquisition, LLC \(filed as Exhibit 10.39 to the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 2016 filed with the SEC on September 14, 2016 and incorporated herein by reference\).](#)
- 31.1 [Principal Executive Officer Certification Pursuant to Securities Exchange Act Rules 13a-14 and 15d-14 as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 \(filed herewith\).](#)
- 31.2 [Principal Financial and Accounting Officer Certification Pursuant to Securities Exchange Act Rules 13a-14 and 15d-14 as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 \(filed herewith\).](#)
- 32.1 [Principal Executive Officer Certification Pursuant to 18 U.S.C. Section 1350 as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 \(furnished herewith\).](#)
- 32.2 [Principal Financial and Accounting Officer Certification Pursuant to 18 U.S.C. Section 1350 as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 \(furnished herewith\).](#)
- 101 The following financial statements from the Company's Quarterly Report on Form 10-Q for the fiscal period ended September 30, 2017, formatted in eXtensible Business Reporting Language: (i) Consolidated Balance Sheets, (ii) Consolidated Statements of Operations, (iii) Consolidated Statements of Comprehensive (Loss) Income, (iv) Consolidated Statements of Cash Flows, and (v) Notes to Unaudited Condensed Consolidated Financial Statements (furnished herewith).

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



INCORPORATED UNDER THE LAWS OF THE STATE OF DELAWARE

NUMBER  
DE

SHARES

SEE REVERSE SIDE  
FOR CERTAIN DEFINITIONS

*THIS CERTIFIES THAT*

  
  

*is the owner of*

**SERIES A CONVERTIBLE PARTICIPATING CUMULATIVE PERPETUAL PREFERRED STOCK**

---

**FARMER BROS. CO.**

*This instrument represents shares of a duly authorized series of preferred stock of Farmer Bros. Co., a corporation organized and existing under the General Corporation Law of the State of Delaware (the "Company," which term includes the successors of Farmer Bros. Co.), titled the "Series A Convertible Participating Cumulative Perpetual Preferred Stock" (the "Series A Preferred Stock"). The Series A Preferred Stock has the voting powers, preferences or relative, participating, optional or other special rights, or qualifications, limitations or restrictions thereof, set forth in the Company's certificate of incorporation, as it may be amended from time to time, including the Company's certificate of designations relating to the Series A Preferred Stock, as it may be amended from time to time, or as provided by applicable law.*

*Dated:*



David G. Robson  
Treasurer and Chief Financial Officer





Thomas J. Mattei, Jr.  
Assistant Secretary and General Counsel

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

BY 

TRANSFER AGENT  
AND REGISTRAR

AUTHORIZED SIGNATURE

AMERICAN FINANCIAL PRINTING INCORPORATED - MINNEAPOLIS

**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  
TEN ENT - as tenants by entireties  
JT TEN - as joint tenants with right of survivorship and not as tenants in common

UTMA - \_\_\_\_\_ Custodian \_\_\_\_\_  
(Cust) (Minor)  
under Uniform Transfers to Minors  
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 \_\_\_\_\_*  
*Attorney*  
*to transfer the said stock on the books of the within-named*  
*Corporation with full power of substitution in the premises.*

*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 WHATSOEVER.

**SIGNATURE GUARANTEED**

ALL GUARANTEES MUST BE MADE BY 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 ("NSMP"), OR THE STOCK EXCHANGES MEDALLION PROGRAM ("SEMP") AND MUST NOT BE DATED. GUARANTEES BY A NOTARY PUBLIC ARE NOT ACCEPTABLE.

**Restrictive Legends:**

THE SECURITIES REPRESENTED HEREBY HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933 (THE "ACT") AND MAY NOT BE OFFERED, SOLD OR OTHERWISE TRANSFERRED, ASSIGNED, PLEDGED OR HYPOTHECATED UNLESS AND UNTIL REGISTERED UNDER THE ACT OR UNLESS THE COMPANY HAS RECEIVED AN OPINION OF COUNSEL SATISFACTORY TO THE COMPANY AND ITS COUNSEL THAT SUCH REGISTRATION IS NOT REQUIRED. THE SECURITIES REPRESENTED HEREBY ARE SUBJECT TO THE PROVISIONS OF (i) THE ASSET PURCHASE AGREEMENT, DATED AUGUST 18, 2017, BY AND AMONG THE COMPANY, BOYD COFFEE COMPANY, AND THE OTHER PARTIES NAMED THEREIN AND (ii) THE CERTIFICATE OF DESIGNATIONS OF SERIES A CONVERTIBLE PARTICIPATING CUMULATIVE PERPETUAL PREFERRED STOCK OF THE COMPANY.

ANY STOCKHOLDER MAY OBTAIN FROM THE PRINCIPAL OFFICE OF THE ISSUER, UPON REQUEST AND WITHOUT CHARGE, A STATEMENT OF THE NUMBER OF SHARES CONSTITUTING EACH CLASS OR SERIES OF STOCK AND THE DESIGNATION THEREOF; AND A COPY OF THE POWERS, 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 AND THE BYLAWS.



**FARMER BROS. CO.**

**PENSION PLAN FOR SALARIED EMPLOYEES**

FARMER BROS. CO. RETIREMENT PLAN

Amendment and Restatement

Effective January 1, 2001

## TABLE OF CONTENTS

	<b>Page</b>
<b>Article 1. Definitions</b>	<b><u>7</u></b>
1.01 Accrued Pension	<u>7</u>
1.02 Accrued Pension Derived from Employer Contributions	<u>7</u>
1.03 Accrued Pension Derived from Participant Contributions	<u>7</u>
1.04 Accumulated Contributions	<u>8</u>
1.05 Actuarial Equivalent	<u>8</u>
1.06 Administrative Committee	<u>8</u>
1.07 Affiliated Employer	<u>8</u>
1.08 Alternate Accrued Pension Derived from Participant Contributions	<u>8</u>
1.09 Annuity Starting Date	<u>8</u>
1.10 Beneficiary	<u>9</u>
1.11 Benefit Service	<u>9</u>
1.12 Board of Directors	<u>10</u>
1.13 Break in Service	<u>10</u>
1.14 Code	<u>10</u>
1.15 Company	<u>10</u>
1.16 Compensation	<u>10</u>
1.17 Determination Date	<u>10</u>
1.18 Disability or Disabled	<u>10</u>
1.19 Early Retirement Date	<u>11</u>
1.20 Effective Date	<u>11</u>
1.21 Eligible Employee	<u>11</u>
1.22 Employee	<u>11</u>
1.23 Employer	<u>11</u>
1.24 Enrollment Date	<u>11</u>
1.25 ERISA	<u>12</u>
1.26 Final Average Compensation	<u>12</u>
1.27 Highly Compensated Employee	<u>12</u>
1.28 Hour of Service	<u>12</u>
1.29 IRS Interest Rate	<u>13</u>
1.30 IRS Mortality Table	<u>13</u>

1.31	Investment Manager	<a href="#">13</a>
1.32	Leased Employee	<a href="#">13</a>
1.33	Leave of Absence	<a href="#">13</a>
1.34	Maximum Compensation Limitation	<a href="#">14</a>
1.35	Normal Retirement Age	<a href="#">14</a>
1.36	Normal Retirement Date	<a href="#">14</a>
1.37	Parental Leave	<a href="#">14</a>
1.38	Participant	<a href="#">14</a>
1.39	Participant Contributions	<a href="#">14</a>
1.40	Pension	<a href="#">15</a>
1.41	Plan	<a href="#">15</a>
1.42	Plan Year	<a href="#">15</a>
1.43	Postponed Retirement Date	<a href="#">15</a>
1.44	Qualified Domestic Relations Order	<a href="#">15</a>
1.45	Qualified Joint and Survivor Annuity	<a href="#">15</a>
1.46	Residual Accrued Pension Derived from Participant Contributions	<a href="#">15</a>
1.47	Retirement Date	<a href="#">15</a>
1.48	Section 203(a)(3)(B) Service	<a href="#">15</a>
1.49	Section 417 Interest Rate	<a href="#">15</a>
1.50	Severance from Service Date	<a href="#">15</a>
1.51	Spousal Consent	<a href="#">16</a>
1.52	Spouse	<a href="#">16</a>
1.53	Stability Period	<a href="#">16</a>
1.54	Trust	<a href="#">16</a>
1.55	Trustee	<a href="#">16</a>
1.56	Year of Eligibility Service	<a href="#">16</a>
1.57	Year of Vesting Service	<a href="#">16</a>
1.58	Union Employee	<a href="#">16</a>
<b>Article 2. Eligibility and Participation</b>		<a href="#">17</a>
2.01	Eligibility	<a href="#">17</a>
2.02	Participation	<a href="#">17</a>
2.03	Reemployment of Former Employees and Former Participants	<a href="#">17</a>
2.04	Transferred Participants	<a href="#">17</a>
2.05	Termination of Participation	<a href="#">17</a>

<b>Article 3. Contributions</b>	<a href="#"><u>17</u></a>
3.01 Participant Contributions	<a href="#"><u>17</u></a>
3.02 Suspension of Participation	<a href="#"><u>18</u></a>
3.03 In-Service Withdrawal of Accumulated Contributions	<a href="#"><u>18</u></a>
3.04 Employer Contributions	<a href="#"><u>18</u></a>
3.05 Plan-to-Plan Transfers / Rollover Contributions	<a href="#"><u>18</u></a>
3.06 Return of Contributions	<a href="#"><u>18</u></a>
3.07 Contributions during Period of Service in the Uniformed Services of the United States	<a href="#"><u>19</u></a>
<b>Article 4. Termination of Employment Prior to Retirement</b>	<a href="#"><u>19</u></a>
4.01 Amount of Vested Interest	<a href="#"><u>19</u></a>
4.02 Distribution of Vested Interest	<a href="#"><u>19</u></a>
4.03 Repayment of Participant Contributions	<a href="#"><u>21</u></a>
<b>Article 5. Eligibility for and Amount of Pension Benefits</b>	<a href="#"><u>21</u></a>
5.01 Normal Retirement	<a href="#"><u>21</u></a>
5.02 Postponed Retirement	<a href="#"><u>22</u></a>
5.03 Early Retirement	<a href="#"><u>23</u></a>
5.04 Disability Retirement	<a href="#"><u>23</u></a>
5.05 Termination With Vesting	<a href="#"><u>24</u></a>
5.06 Adjustments to Pensions in Pay Status	<a href="#"><u>24</u></a>
5.07 Suspension of Benefits	<a href="#"><u>24</u></a>
5.08 Nonduplication of Benefits	<a href="#"><u>25</u></a>
<b>Article 6. Restrictions on Benefits and Payments</b>	<a href="#"><u>25</u></a>
6.01 Maximum Annual Benefit Limitation and Maximum Annual Additions Limitation	<a href="#"><u>25</u></a>
6.02 Top-Heavy Provisions	<a href="#"><u>26</u></a>
6.03 Limitation Concerning Highly Compensated Employees or Former Highly Compensated Employees	<a href="#"><u>26</u></a>
<b>Article 7. Form of Payment of Pension Benefits</b>	<a href="#"><u>26</u></a>
7.01 Normal Form of Payment	<a href="#"><u>26</u></a>
7.02 Automatic Form of Payment	<a href="#"><u>26</u></a>
7.03 Optional Forms of Payment	<a href="#"><u>27</u></a>
7.04 Election of Options	<a href="#"><u>28</u></a>
7.05 Method of Payment for Eligible Rollover Distributions	<a href="#"><u>29</u></a>
7.06 Commencement of Payments	<a href="#"><u>31</u></a>
<b>Article 8. Death Benefits</b>	<a href="#"><u>32</u></a>
8.01 Spouse's Pension	<a href="#"><u>32</u></a>

8.02	Children’s Pension	<a href="#">33</a>
8.03	Death Benefits Payable to Participant’s Estate	<a href="#">33</a>
8.04	Accumulated Contributions	<a href="#">34</a>
<b>Article 9. Administration of the Plan</b>		<a href="#">34</a>
9.01	Appointment of Administrative Committee	<a href="#">34</a>
9.02	Duties of Administrative Committee	<a href="#">34</a>
9.03	Meetings	<a href="#">34</a>
9.04	Action of Majority	<a href="#">34</a>
9.05	Compensation and Bonding	<a href="#">35</a>
9.06	Establishment of Rules	<a href="#">35</a>
9.07	Manner of Administering	<a href="#">35</a>
9.08	Prudent Conduct	<a href="#">35</a>
9.09	Service In More Than One Fiduciary Capacity	<a href="#">35</a>
9.10	Limitation of Liability	<a href="#">35</a>
9.11	Indemnification	<a href="#">35</a>
9.12	Expenses of Administration	<a href="#">35</a>
9.13	Claims and Review Procedures	<a href="#">36</a>
<b>Article 10. Management of Funds</b>		<a href="#">36</a>
10.01	The Trustee	<a href="#">37</a>
10.02	Exclusive Benefit Rule	<a href="#">37</a>
10.03	Appointment of Investment Manager	<a href="#">37</a>
<b>Article 11. Amendment, Merger and Termination</b>		<a href="#">37</a>
11.01	Amendment of the Plan	<a href="#">37</a>
11.02	Merger or Consolidations	<a href="#">37</a>
11.03	Additional Participating Employees	<a href="#">37</a>
11.04	Termination of the Plan	<a href="#">38</a>
<b>Article 12. General Provisions</b>		<a href="#">38</a>
12.01	Nonalienation; Qualified Domestic Relations Orders	<a href="#">38</a>
12.02	Conditions of Employment Not Affected by Plan	<a href="#">38</a>
12.03	Facility of Payment	<a href="#">38</a>
12.04	Information	<a href="#">39</a>
12.05	(Reserved)	<a href="#">39</a>
12.06	Proof of Death and Right of Beneficiary or Other Person	<a href="#">39</a>
12.07	Failure to Locate Recipient	<a href="#">39</a>

12.08 Action by the Board of Directors [39](#)

12.09 Construction [40](#)

Execution of the Plan [40](#)

Appendix A. Maximum Annual Benefit Limitation and Maximum Annual Additions Limitation [A-1](#)

Appendix B. Top-Heavy Provisions [B-1](#)

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

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

**PREAMBLE TO  
FARMER BROS. CO. RETIREMENT PLAN**

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

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

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

- General Agreement on Tariffs and Trade enacted in 1994

[also known as The Uruguay Round Agreements Act] (GATT)

- Uniformed Services Employment and Reemployment Rights Act of 1994 (USERRA)
- Small Business Job Protection Act of 1996 (SBJPA '96)
- Taxpayer Relief Act of 1997 (TRA '97)

**Article 1. Definitions**

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

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

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

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

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

- (a) 3% per annum through December 31, 1975;
- (b) 5% per annum for the period beginning January 1, 1976, and ending December 31, 1987; and
- (c) 120% of the Federal mid-term rate (as in effect under Section 1274 of the Code for the first month of the applicable Plan Year) for the period beginning January 1, 1988, and ending on the Determination Date.

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

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

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

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

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

- (a) The IRS Interest Rate and the IRS Mortality Table.
- (b) The 1971 Group Annuity Mortality Table for Males and an interest rate equal to 6.5%.

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

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

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

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

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

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

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

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

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

- (i) Until the later of the date the Participant (A) attains age 35, or (B) completes one Year of Eligibility Service;
- (ii) For any period credited for retirement benefits under any other pension plan to which the Employer contributes; and
- (iii) Unless the Participant elects to become a participant as of the date he is first eligible to do so.

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

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

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

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

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

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

- (i) The Employee is credited with an Hour of Service on or after January 1, 1995, or is on an approved Leave of Absence as of January 1, 1995;
- (ii) The Employee makes Participant Contributions during the 60 months required by Section 3.01;
- (iii) The Employee does not terminate his employment with the Employer and all Affiliated Employers prior to the date the Employee reaches his earliest Early Retirement Date; and
- (iv) The Employee provides the Administrative Committee with the information it deems necessary to determine the amount of any pension payable to the Employee under the terms

of a defined benefit pension plan to which the Employer contributes, directly or indirectly, to the extent that such pension is based on a period of employment with the Employer for which the Employee receives credit for Pension benefits under this Section 1.11(g); and

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

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

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

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

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

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

- (a) Include any salary deferral reductions pursuant to Section 401(k) of the Code or pursuant to a cafeteria plan as described in Section 125 of the Code;
- (b) Exclude any imputed income for auto allowances or company-paid life insurance for the Participant (including amounts for which the Employer or Affiliated Employer is required to furnish a written statement pursuant to Section 6052 of the Code); and
- (c) Not exceed the Maximum Compensation Limitation.

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

1.17 "Determination Date" means the date as of which an Accrued Pension or other benefit is calculated.

1.18 "Disability" or "Disabled" means the total and permanent incapacity, as determined by the Administrative Committee based upon competent medical advice, of the Employee to engage in any occupation or perform any work for remuneration or profit by reason of any medically determinable injury, disease or mental impairment. In determining whether or not a Participant is and continues to be Disabled, the Administrative Committee may at any reasonable time

require the Participant to submit to an examination by one or more physicians approved by the Administrative Committee. If the Participant refuses to submit to such examination, the Participant shall be deemed, for purposes of the Plan, to have recovered from his Disability.

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

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

1.20 "Effective Date" means July 1, 1964.

1.21 "Eligible Employee" means an Employee other than:

- (a) An Employee who is included in a unit of employees covered by a collective bargaining agreement between employee representatives and the Employer if there is evidence that retirement benefits were the subject of good faith bargaining and the agreement does not provide for such Employee's participation in the Plan,
- (b) An Employee who is a nonresident alien and receives no United States source income,
- (c) A Leased Employee, and
- (d) An Employee who is employed in a division, unit, facility or class of Employees whom the Employer has determined in writing not to be covered by the terms of the Plan.

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

- (a) the Employer withholds income tax on any portion of his or her income and Social Security contributions are made for him or her by the Employer, and
- (b) such individual is determined by the Employer to be an Employee, for purposes of the Employer's payroll records.

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

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

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

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

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

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

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

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

- (a) was a five percent (5%) owner during the current Plan Year or the preceding Plan Year; or
- (b) during the preceding Plan Year,
  - (1) received Section 414(s) Compensation of more than \$80,000 (or such larger amount as may be modified for cost-of-living adjustments by the Commissioner of the IRS); and
  - (2) if the Employer so elects, was a member of the top twenty percent (20%) of active Employees when ranked on the basis of Section 414(s) Compensation during the preceding Plan Year. Any election hereunder shall be made in accordance with regulations issued under section 414(q)(1) of the Code, as amended by section 1431(a) of the Small Business Job Protection Act of 1996. For purposes of determining the group with the highest twenty percent (20%) of Section 414(s) Compensation, employees described in Section 414(q)(8) of the Code and Q&A-9(b) of regulation section 1.414(q)-1T are excluded.

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

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

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

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

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

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

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

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

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

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

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

- (a) Such services are provided pursuant to an agreement between the Recipient and a "leasing organization";
- (b) Such person has performed such services for the Recipient (or the Recipient and the Employer or an Affiliated Employer) on a substantially full-time basis for a period of at least one year; and
- (c) Effective for Plan Years beginning after December 31, 1996, such services are performed under the primary direction and control of the Employer.

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

1.34 “Maximum Compensation Limitation” means, effective on or after January 1, 1989, and before January 1, 1994, \$200,000 per year. As of January 1 of each calendar year on and after January 1, 1990, and before January 1, 1994, the Maximum Compensation Limitation as determined by the Commissioner of Internal Revenue for the calendar year shall become effective as the Maximum Compensation Limitation taken into account for Plan purposes for the Plan Year beginning within that calendar year in lieu of the \$200,000 limitation set forth above.

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

Prior to Plan Years beginning on January 1, 1997, in determining a Participant’s compensation for purposes of the Maximum Compensation Limitation, if any individual is a member of the family of a 5-percent owner or of a Highly Compensated Employee who is in the group consisting of the 10 individuals paid the greatest compensation during the year, then (i) such individual shall not be considered as a separate employee and (ii) any compensation paid to such individual (and any applicable benefit on behalf of such individual) shall be treated as if it were paid to (or on behalf of) the 5-percent owner or Highly Compensated Employee; provided, however, that for purposes of this Section 1.34, the term “family” shall include only the

Participant’s Spouse and any lineal descendants of the Participant who have not attained age 19 before the close of the year. If, as a result of the application of the foregoing family aggregation rules, the Maximum Compensation Limitation is exceeded, then the limit shall be prorated among the affected individuals in proportion to each such individual’s compensation as determined prior to the application of the Maximum Compensation Limitation. After December 31, 1996, the family aggregation rules are repealed.

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

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

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

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

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

- 1.40 “Pension” means a Participant’s benefit under the Plan, generally payable in the form of an annuity.
- 1.41 “Plan” means the Farmer Bros. Co. Retirement Plan as set forth in this document, or as amended from time to time.
- 1.42 “Plan Year” means the 12-month period beginning on any January 1.
- 1.43 “Postponed Retirement Date” means the first day of the calendar month on or immediately after the date that a Participant terminates his employment with the Employer or an Affiliated Employer after his Normal Retirement Date.
- 1.44 “Qualified Domestic Relations Order” means a judgment, decree, or order issued by a court of competent jurisdiction which:
- (a) Creates for, or assigns to, a Spouse, former Spouse, child or other dependent of a Participant the right to receive all or a portion of the Participant’s benefits under the Plan for the purpose of providing child support, alimony payments or marital property rights to that Spouse, former Spouse, child or dependent;
  - (b) Is made pursuant to a State domestic relations law;
  - (c) Does not require the Plan to provide any type of benefit, or any option, not otherwise provided under the Plan; and
  - (d) Otherwise meets the requirements of Section 206(d) of ERISA as determined by the Administrative Committee.
- 1.45 “Qualified Joint and Survivor Annuity” means an annuity described in Section 7.02(a).
- 1.46 “Residual Accrued Pension Derived from Participant Contributions” is equal to the excess, if any, of the Participant’s Accrued Pension Derived from Participant Contributions over the Participant’s Alternate Accrued Pension Derived from Participant Contributions.
- 1.47 “Retirement Date” means a Participant’s Early, Normal or Postponed Retirement Date, whichever is applicable.
- 1.48 “Section 203(a)(3)(B) Service” means the employment of an Employee by the Employer or an Affiliated Employer during a calendar month, subsequent to the time the payment of the Participant’s Pension commenced or would have commenced if the Employee had not remained in or returned to employment during such month, if the Employee is credited with at least 40 Hours of Service during such calendar month.
- 1.49 “Section 417 Interest Rate” means the interest rate or rates that would be used by the Pension Benefit Guaranty Corporation for purposes of determining the present value of a lump sum distribution upon termination of an insufficient trustee single-employer plan as of the first day of the Plan Year in which the determination is made.
- 1.50 “Severance from Service Date” means the earlier of:
- (a) The date an Employee quits, retires, is discharged or dies, or

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

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

1.52 “Spouse” means the person legally married to the Participant.

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

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

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

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

1.57 “Year of Vesting Service” means, with respect to an Employee, any Plan Year in which the Employee completes at least 1,000 Hours of Service. If the Employee incurs a Break in Service, and he is subsequently rehired, the Employee’s Years of Vesting Service accrued after reemployment shall be aggregated with his Years of Vesting Service accrued prior to the Break in Service only if (i) the Employee was vested in his Accrued Pension Derived from Employer Contributions, or (ii) (A) the Employee’s consecutive one-year Breaks in Service do not equal or exceed the greater of five years or his Years of Vesting Service before the Break in Service, and (B) the Employee is credited with at least one Year of Vesting Service after his Break in Service. If the Employee’s Break in Service ended prior to January 1, 1985, or if he had a Break in Service on December 31, 1984, and the number of his consecutive one-year Breaks in Service as of that date exceeded his Years of Vesting Service under the Plan provisions then in effect, then his previously accrued Years of Vesting Service shall be excluded.

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

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

## **Article 2. Eligibility and Participation**

### 2.01 Eligibility

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

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

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

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

### 2.02 Participation

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

### 2.03 Reemployment of Former Employees and Former Participants

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

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

### 2.04 Transferred Participants

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

### 2.05 Termination of Participation

An Eligible Employee's participation in the Plan shall terminate on the date he terminates employment with the Employer and all Affiliated Employers unless the Participant is entitled to benefits under the Plan, in which event his participation shall terminate when those benefits are distributed to him.

## **Article 3. Contributions**

### 3.01 Participant Contributions

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

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

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

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

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

### 3.02 Suspension of Participation

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

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

### 3.03 In-Service Withdrawal of Accumulated Contributions

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

### 3.04 Employer Contributions

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

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

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

### 3.06 Return of Contributions

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

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

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

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

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

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

## Article 4. Termination of Employment Prior to Retirement

### 4.01 Amount of Vested Interest

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

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

### 4.02 Distribution of Vested Interest

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

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

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

Accumulated Contributions in accordance with the repayment provisions contained in Section 4.03 in order to restore his prior Accrued Pension;

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

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

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

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

- (i) To receive his entire Accrued Pension commencing as of his Retirement Date;
- (ii) Prior to the date that he commences to receive the Pension described in Section 4.02(d)(i), to receive a lump sum distribution of his Accumulated Contributions, with Spousal Consent if the present value of his Accrued Pension exceeds \$5,000 (prior to August 5, 1997 this amount was \$3,500); if he later again becomes a Participant, he may repay such Accumulated Contributions in accordance with the repayment provisions contained in Section 4.03 in order to restore his prior Accrued Pension; in the event the Participant does not repay his Accumulated Contributions, the Pension payable to the Participant as of his Retirement Date shall be the sum of his (A) Accrued Pension Derived from Employer Contributions and (B) Residual Accrued Pension Derived from Participant Contributions; or
- (iii) Prior to the date that he commences to receive the Pension described in Section 4.02(d)(i), to receive his Accrued Pension Derived from Participant Contributions in the form of an immediate annuity; the annuity shall be the Actuarial Equivalent (determined without regard to the early retirement factors described in Section 5.03(b) unless the Participant has attained age 55) of the Participant's Accrued Pension Derived from Participant Contributions and shall be payable only as a Qualified Joint and Survivor Annuity; in the event the Participant elects to receive his Accrued Pension Derived from Participant Contributions as an immediate annuity, the additional Pension payable to the Participant as of his Retirement Date shall be the sum of his (A) Accrued Pension Derived from Employer Contributions and (B) Residual Accrued Pension Derived from Participant Contributions.

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

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

#### 4.03 Repayment of Participant Contributions

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

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

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

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

#### 5.01 Normal Retirement

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

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

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

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

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

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

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

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

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

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

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

(i) His OBRA 1993 Accrued Pension; and

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

exceed the Maximum Compensation Limitation (as adjusted in accordance with Section 1.34) in effect for each of the relevant years on and after January 1, 1994.

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

- (i) "OBRA 1988 Accrued Pension" means the Participant's Accrued Pension determined as if the Participant terminated employment on December 31, 1988 (or date of termination, if earlier).
- (ii) "OBRA 1993 Accrued Pension" means the greater of:
  - (A) The Participant's Accrued Pension, determined using all Benefit Service and Compensation earned prior to January 1, 1994. For purposes of this subparagraph (A), the Participant's Compensation in each of the relevant years shall not exceed the \$200,000 Maximum Compensation Limitation (as adjusted in accordance with Section 1.34) in effect prior to January 1, 1994; or
  - (B) The sum of (i) the Participant's OBRA 1988 Accrued Pension, and (ii) the Participant's Accrued Pension, determined using Years of Service and Compensation earned after December 31, 1988, and prior to January 1, 1994. For purposes of this subparagraph (B)(ii), the Participant's Compensation in each of the relevant years shall not exceed the \$200,000 Maximum Compensation Limitation (as adjusted in accordance with Section 1.34) in effect prior to January 1, 1994.

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

## 5.02 Postponed Retirement

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

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

- (i) With respect to any Participant who during any month after his Normal Retirement Date is not employed in Section 203(a)(3)(B) Service, the Accrued Pension accrued by the Participant as of his Normal Retirement Date determined in accordance with Section 5.01(b) above, plus, for each Plan Year ending after the Participant's Normal Retirement Date through the Participant's Postponed Retirement Date, the greater of:
  - (A) The additional Accrued Pension accrued by the Participant for each such Plan Year determined in accordance with Section 5.01(b) based on the Participant's Compensation and Benefit Service earned in such Plan Year, or
  - (B) The actuarial increase in the Accrued Pension accrued by the Participant as of the end of the Plan Year preceding the Plan Year in question to take into account the nonpayment of such benefits.
- (ii) With respect to all other Participants, the greater of:
  - (A) The Accrued Pension accrued by the Participant determined in accordance with Section 5.01(b) based on the Participant's Final Average Compensation and Benefit Service as of his Postponed Retirement Date, or

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

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

- (i) The Pension payable to the Participant as of the date required by Section 7.06(b) shall be calculated in accordance with Section 5.02(b) above through the date the Pension will commence in accordance with Section 7.06(b), rather than through the Participant's Postponed Retirement Date; and
- (ii) The amount of Pension to which a Participant is entitled under the Plan shall be recalculated annually in accordance with Section 5.02(b) above, during the period that the Participant is still employed by the Employer or an Affiliated Employer, as of the end of each Plan Year with the amount of the Pension being paid adjusted as of the first day of the following Plan Year. Any additional accrual during a Plan Year shall be reduced, however, by the Actuarial Equivalent of the employer-derived portion of any payments during the Plan Year to the Participant during any month in which the Participant is employed in Section 203(a)(3)(B) Service; provided, however, that such reduction shall not exceed 25% of the amount of the Pension due the Participant before application of the reduction provided for in this sentence.

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

#### 5.03 Early Retirement

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

(b) Unless the Participant otherwise elects, the early retirement Pension shall be a deferred Pension beginning on the Participant's Normal Retirement Date and, subject to the provisions of Section 7.02, shall be equal to his Accrued Pension. However, the Participant may elect to receive an early retirement Pension beginning on the first day of any calendar month on or after his Early Retirement Date but before his Normal Retirement Date. The Participant's early retirement Pension shall be equal to the Participant's Accrued Pension reduced by one-third of one percent for each full calendar month by which the date the Participant's actual Early Retirement Date precedes the Participant's Normal Retirement Date; provided, however, that if the Participant is credited with an Hour of Service on or after January 1, 1995, or the Participant is on an approved Leave of Absence as of January 1, 1995, and the sum of Participant's age and Benefit Service as of his actual Early Retirement Date equals at least 82, the Participant's early retirement Pension shall be equal to the Participant's Accrued Pension reduced by one-third of one percent for each full calendar month, if any, by which the date the Participant's actual Early Retirement Date precedes the date that the Participant will attain age 62.

#### 5.04 Disability Retirement

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

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

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

#### 5.05 Termination With Vesting

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

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

#### 5.06 Adjustments to Pensions in Pay Status

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

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

(i) 10%; or

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

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

#### 5.07 Suspension of Benefits

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

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

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

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

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

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

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

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

#### 5.08 Nonduplication of Benefits

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

### **Article 6. Restrictions on Benefits and Payments**

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

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

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

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

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

#### 6.02 Top-Heavy Provisions

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

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

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

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

### **Article 7. Form of Payment of Pension Benefits**

#### 7.01 Normal Form of Payment

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

#### 7.02 Automatic Form of Payment

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

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

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

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

### 7.03 Optional Forms of Payment

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

- (i) Joint and Survivor Option — a reduced Pension payable to the Participant during his life and, after his death, payable to his designated Beneficiary for the remainder of her life, in an amount equal to 50%, 75% or 100% (according to the election of the Participant) of the Pension the Participant was receiving; provided, however, that if the Participant's Beneficiary dies before the Participant, the Participant shall receive, commencing on the first day of the month after the Beneficiary dies, the benefit he would have received as of his Annuity Starting Date if he had elected the normal form of benefit described in Section 7.01(a) (referred to as the "Pop-Up Feature"); provided further that such Joint and Survivor Annuity shall be payable for a minimum of 60 months. If both the Participant and the Participant's Beneficiary die during the first 60 months of payment, a lump sum payment equal to the Actuarial Equivalent of the remaining payments shall be paid to the estate of the Participant unless the Participant's Beneficiary dies after the Participant, in which case, the lump sum payment shall be paid to the Beneficiary's estate. This Option shall not be available to a Participant whose Beneficiary is more than 30 years younger than the Participant, unless the Beneficiary is the Participant's Spouse.
- (ii) Five Year Certain and Life Option — a Pension payable to the Participant during his life; provided, however, that such annuity shall be payable for a minimum of 60 months. If the Participant dies during the first 60 months of payment, the Pension shall be payable for the balance of the 60 months to the Beneficiary designated by the Participant when he elected the option, or the Beneficiary may elect to receive a lump sum payment equal to the Actuarial Equivalent of the remaining payments. If both the Participant and the Participant's Beneficiary die during the first 60 months of payment, a lump sum payment equal to the Actuarial Equivalent of the remaining payments shall be paid to the estate of the Participant unless the Participant's Beneficiary dies after the Participant, in which case, the lump sum payment shall be paid to the Beneficiary's estate.

- (iii) Ten Year Certain and Life Option — a Pension payable to the Participant during his life; provided, however, that such annuity shall be payable for a minimum of 120 months. If the Participant dies during the first 120 months of payment, the Pension shall be payable for the balance of the 120 months to the Beneficiary designated by the Participant when he elected the option, or the Beneficiary may elect to receive a lump sum payment equal to the Actuarial Equivalent of the remaining payments. If both the Participant and the Participant's Beneficiary die during the first 120 months of payment, a lump sum payment equal to the Actuarial Equivalent of the remaining payments shall be paid to the estate of the Participant unless the Participant's Beneficiary dies after the Participant, in which case, the lump sum payment shall be paid to the Beneficiary's estate.
- (iv) Level Income Option — an increased Pension payable to the Participant before commencement of Social Security benefits and a correspondingly reduced Pension after commencement of Social Security benefits such that the total income (from the adjusted Pension payable pursuant to the Plan and the Social Security benefit to which the Participant is entitled) shall be as level as practicable both before and after commencement of Social Security benefits. Such Level Income Annuity shall be payable for a minimum of 60 months. If the Participant dies during the first 60 months of payment, the Pension (the amount of which is determined as if the Participant had lived for the 60 months) shall be payable for the balance of the 60 months to the Beneficiary designated by the Participant when he elected the option, or the Beneficiary may elect to receive a lump sum payment equal to the Actuarial Equivalent of the remaining payments. If both the Participant and the Participant's Beneficiary die during the first 60 months of payment, a lump sum payment equal to the Actuarial Equivalent of the remaining payments shall be paid to the estate of the Participant unless the Participant's Beneficiary dies after the Participant, in which case, the lump sum payment shall be paid to the Beneficiary's estate. Effective January 1, 1995, this Option shall not be available to a Participant who retires on or after the date that the Participant attains age 62.

(b) Except as otherwise provided in this Section 7.03(b), the benefit payable under options (i) through (iv) above shall be the Actuarial Equivalent of the normal form of payment described in Section 7.01. With respect to the Joint and Survivor Option, the Actuarial Equivalent shall be based on the percentage of the benefit to be continued to the surviving Beneficiary and the ages of both the Participant and his designated Beneficiary, but no actuarial adjustment shall be made to account for the Pop-Up Feature and the five year certain period. With respect to the Five Year Certain and Life Option, the Actuarial Equivalent shall be based on the age of the Participant, but no actuarial adjustment shall be made to account for the five year certain period. With respect to the Ten Year Certain and Life Option, the Actuarial Equivalent shall be based on the age of the Participant and an actuarial adjustment shall be made to account for the ten year certain period. With respect to the Level Income Option, the Actuarial Equivalent shall be based on the age of the Participant and an estimate of the Social Security benefit that will be payable to the Participant assuming that the Participant will commence receiving Social Security Benefits on the date the Participant attains age 65, but no actuarial adjustment shall be made to account for the five year certain period.

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

#### 7.04 Election of Options

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

- (i) The option is the Actuarial Equivalent of the Qualified Joint and Survivor Annuity; and
- (ii) The option provides for monthly payments to the Participant's Spouse for life after the Participant's death in an amount equal to at least 50% but not more than 100% of the monthly amount payable to the Participant under the option.

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

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

(d) Notwithstanding the foregoing subsections, if a Participant, who has been given the written explanation described in Section 7.04(b) (referred to as the "Written Explanation"), affirmatively elects a form of distribution and, where applicable, the Participant's spouse consents to such form of distribution the Participant's Annuity Starting Date may be less than thirty (30) days after the Written Explanation is given to the Participant provided that:

- (i) The Company notifies the Participant that he has the right to a period of at least thirty (30) days after receipt of the Written Explanation to consider whether or not to elect a distribution;
- (ii) The Company notifies the Participant that he has the right to revoke his election to commence receiving his distribution during the period ending seven (7) days after the Participant receives the Written Explanation, or , if later, the Participant's Annuity Starting Date;
- (iii) The Participant's Annuity Starting Date is after the date the Written Explanation is provided to the Participant; provided, however, that the Participant's Annuity Starting Date may be before the Participant makes an affirmative election to commence distribution and before the expiration of the period described in Section 7.04(d)(ii); and
- (iv) The actual distribution of benefits to the Participant does not commence before the expiration of the period described in Section 7.04(d)(ii).

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

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

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

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

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

- (i) If the Distributee is the Participant, the Actuarial Equivalent of the Participant's vested Accrued Pension does not exceed \$5,000 (\$3,500 prior to August 5, 1997);
- (ii) If the Distributee is the Participant's Spouse, the Actuarial Equivalent of the Spouse's Pension does not exceed \$5,000 (\$3,500 prior to August 5, 1997);
- (iii) The Distributee is notified that he has the right to a period of at least 30 days after receipt of the material to consider whether or not to elect a distribution; and
- (iv) After receipt of such notification, he affirmatively elects to receive a distribution.

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

- (i) "Eligible Rollover Distribution" means any distribution of all or any portion of the balance to the credit of the Distributee, except that an Eligible Rollover Distribution does not include:
  - (A) Any distribution that is one of a series of substantially equal periodic payments (not less frequently than annually) made for the life (or life expectancy) of the Distributee or the joint lives (or joint life expectancies) of the Distributee and the Distributee's designated beneficiary, or for a specified period of ten years or more;
  - (B) Any distribution to the extent such distribution is required under Section 401(a)(9) of the Code;
  - (C) The portion of any distribution that is not includible in gross income (determined without regard to the exclusion for net unrealized appreciation with respect to employer securities); and
  - (D) Any other type of distribution that the Internal Revenue Service announces (pursuant to regulation, notice or otherwise) is not an Eligible Rollover Distribution pursuant to Section 402(c) of the Code.
- (ii) "Eligible Retirement Plan" means an individual retirement account described in Section 408(a) of the Code, an individual retirement annuity described in Section 408(b) of the Code, an annuity plan described in Section 403(a) of the Code, or a qualified trust described in Section 401(a) of the Code, that accepts the Distributee's Eligible Rollover Distribution. However, in the case of an Eligible Rollover Distribution to the surviving Spouse, an Eligible Retirement Plan is an individual retirement account or individual retirement annuity.
- (iii) "Distributee" includes an Employee or former Employee. In addition, the Employee's or former Employee's surviving Spouse and the Employee's or former Employee's Spouse or former Spouse who is the "alternate payee," as defined in Section 414(p)(8) of the Code,

pursuant to a Qualified Domestic Relations Order are Distributees with regard to the interest of the Spouse or former Spouse.

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

#### 7.06 Commencement of Payments

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

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

In the event a Participant's benefit commences under this subsection while the Participant is in active service, such required beginning date shall be the Participant's Annuity Starting Date for purposes of this Article 6, and the Participant shall receive a late retirement benefit commencing on or before his required beginning date in an amount determined as if he had retired on his required beginning date. As of each succeeding January 1 prior to the Participant's actual late retirement date and as of his actual late retirement date, the Participant's benefit shall be recomputed to reflect additional accruals. The Participant's recomputed benefit shall then be reduced by the Actuarial Equivalent value of the total payments of his late retirement benefits, which were paid prior to each such recomputation, to arrive at the Participant's late retirement benefit; provided that no such reduction shall reduce the Participant's late retirement benefit below the amount of any late retirement benefit payable to the Participant prior to the recomputation of his benefit.

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

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

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

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

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

## Article 8. Death Benefits

### 8.01 Spouse's Pension

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

- (i) If the Participant dies after a date on which he could have retired pursuant to Section 5.01, 5.02 or 5.03, whichever is applicable, the Spouse's Pension shall be an amount payable as if the Participant had retired and elected the 100% Joint and Survivor Annuity described in Section 7.03(a)(i) on the day before his death. Payment of the Spouse's Pension shall commence on the first day of the calendar month following the Participant's date of death, unless the Spouse makes a written election to defer commencement to a later date, which date shall not be later than the date the Participant would have attained age 65.
- (ii) If the Participant dies before a date on which he could have retired, the Spouse's Pension shall be an amount payable as if the following events had occurred: (A) the Participant separated from service on the date of his death or, if earlier, the date of his actual separation from service, (B) the Participant survived to the earliest date he could have retired, (C) the Participant retired and elected an immediate payment of the 100% Joint and Survivor Annuity described in Section 7.03(a)(i), and (D) the Participant died on the day after the earliest date he could have retired. Payment of the Spouse's Pension shall commence on the first day of the calendar month following the earliest date the Participant could have retired, unless the Spouse makes a written election to defer commencement to a later date, which date shall not be later than the date the Participant would have attained age 65.

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

- (i) If the Participant dies after a date on which he could have retired pursuant to Section 5.01, 5.02 or 5.03, whichever is applicable, the Spouse's Pension shall be an amount payable as if the Participant had retired and elected the 75% Joint and Survivor Annuity described in Section 7.03(a)(i) on the day before his death. Payment of the Spouse's Pension shall commence on the first day of the calendar month following the Participant's date of death, unless the Spouse makes a written election to defer commencement to a later date, which date shall not be later than the date the Participant would have attained age 65.
- (ii) If the Participant dies before a date on which he could have retired, the Spouse's Pension shall be an amount payable as if the following events had occurred: (A) the Participant separated from service on the date of his death or, if earlier, the date of his actual separation from service, (B) the Participant survived to the earliest date he could have retired, (C) the Participant retired and elected an immediate payment of the 75% Joint and Survivor Annuity described in Section 7.03(a)(i), and (D) the Participant died on the day after the earliest date he could have retired. Payment of the Spouse's Pension shall commence on the first day of the calendar month following the earliest date the Participant could have retired, unless the Spouse makes a written election to defer commencement to a later date, which date shall not be later than the date the Participant would have attained age 65.

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

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

#### 8.02 Children's Pension

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

- (i) If the Participant dies after a date on which he could have retired pursuant to Section 5.01, 5.02 or 5.03, whichever is applicable, the Pension payable as if the Participant had retired on the day before his death.
- (ii) If the Participant dies before a date on which he could have retired, the Actuarial Equivalent of the Pension payable as if the following events had occurred: (A) the Participant separated from service on the date of his death or, if earlier, the date of his actual separation from service, and (B) the Participant retired on the earliest date he could have retired.

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

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

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

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

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

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

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

#### 8.04 Accumulated Contributions

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

### **Article 9. Administration of the Plan**

#### 9.01 Appointment of Administrative Committee

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

#### 9.02 Duties of Administrative Committee

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

#### 9.03 Meetings

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

#### 9.04 Action of Majority

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

#### 9.05 Compensation and Bonding

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

#### 9.06 Establishment of Rules

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

#### 9.07 Manner of Administering

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

#### 9.08 Prudent Conduct

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

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

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

#### 9.10 Limitation of Liability

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

#### 9.11 Indemnification

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

#### 9.12 Expenses of Administration

All expenses that arise in connection with the administration of the Plan, including but not limited to the compensation of the Trustee, administrative expenses and proper charges and disbursements of the

Trustee and compensation and other expenses and charges of any enrolled actuary, counsel, accountant, specialist, or other person who has been retained by the Administrative Committee in connection with the administration thereof, shall be paid from the Trust to the extent not paid by the Employer.

#### 9.13 Claims and Review Procedures

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

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

(c) An applicant whose application for benefits was denied in whole or part, or the applicant's duly authorized representative, may appeal the denial by submitting to the Administrative Committee a request for a review of the application within 60 days after receiving written notice of the denial from the Administrative Committee. The Administrative Committee shall give the applicant or his representative an opportunity to review pertinent materials, other than legally privileged documents, in preparing the request for a review. The request for a review shall be in writing and addressed to the Administrative Committee. The request for a review shall set forth all of the grounds on which it is based, all facts in support of the request and any other matters that the applicant deems pertinent. The Administrative Committee may require the applicant to submit such additional facts, documents or other materials as it may deem necessary or appropriate in making its review.

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

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

### **Article 10. Management of Funds**

#### 10.01 The Trustee

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

#### 10.02 Exclusive Benefit Rule

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

#### 10.03 Appointment of Investment Manager

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

### **Article 11. Amendment, Merger and Termination**

#### 11.01 Amendment of the Plan

The Company, by action of its Board of Directors, may at any time and from time to time, and retroactively if deemed necessary or appropriate, amend in whole or in part any or all of the provisions of the Plan. However, no amendment shall make it possible for any part of the funds of the Plan to be used for, or diverted to, purposes other than for the exclusive benefit of persons entitled to benefits under the Plan, before the satisfaction of all liabilities with respect to them. No amendment shall be made which has the effect of decreasing the Accrued Pension of any Participant or of reducing the nonforfeitable percentage of the Accrued Pension of a Participant below the nonforfeitable percentage computed under the Plan as in effect on the date on which the amendment is adopted or, if later, the date on which the amendment becomes effective. No amendment shall be made which affects the rights, duties or responsibilities of the Trustee unless the Trustee provides written consent to such amendment.

#### 11.02 Merger or Consolidation

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

#### 11.03 Additional Participating Employers

(a) If any company is now or becomes a subsidiary or associated company of an Employer, the Company may include the employees of that company as participants in the Plan upon appropriate action by that company necessary to adopt the Plan. In that event, or if any persons become Employees of an Employer as the result of merger or consolidation or as the result of acquisition of all or part of the assets or business of another

company, the Company shall determine to what extent, if any, credit and benefits shall be granted for previous service with the subsidiary, associated or other company, but subject to the continued qualification of the trust for the Plan as tax-exempt under the Code.

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

#### 11.04 Termination of the Plan

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

### **Article 12. General Provisions**

#### 12.01 Nonalienation; Qualified Domestic Relations Orders

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

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

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

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

#### 12.03 Facility of Payment

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

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

#### 12.04 Information

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

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

#### 12.05 (Reserved)

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

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

#### 12.07 Failure to Locate Recipient

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

#### 12.08 Action by the Board of Directors

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

12.09 Construction

- (a) The Plan shall be construed, regulated and administered pursuant to the laws of the State of California, except where ERISA controls.
- (b) If any provision of this instrument is held by a court of competent jurisdiction to be invalid or unenforceable, the remaining provisions hereof shall continue to be fully effective.
- (c) The use of the masculine pronoun in this Plan shall include the feminine pronoun wherever appropriate, and vice versa.
- (d) The use of the singular form of a word in this Plan shall include the plural form wherever appropriate, and vice versa.
- (e) The titles and headings of the Articles and Sections in this Plan are for convenience only. In the case of ambiguity or inconsistency, the text rather than the titles or headings shall control.

**Execution of the Plan**

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

/s/ John E. Simmons

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(Signature)

Treasurer

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(Title)

## Appendix A

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

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

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

#### A.01 Definitions

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

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

- (a) The total contributions made on behalf of the Participant by the Employer and all Affiliated Employers under any qualified Defined Contribution Plan,
- (b) With respect to limitation years beginning before 1987, the lesser of the part of the Participant’s contributions in excess of 6% of his Section 415 Compensation or one-half of his total contributions to any qualified Defined Contribution Plan maintained by the Employer or an Affiliated Employer,
- (c) With respect to Limitation Years beginning after 1986, all of the Participant’s contributions to any qualified Defined Contribution Plan maintained by the Employer or an Affiliated Employer,
- (d) Forfeitures, if applicable, that have been allocated on behalf of the Participant under any qualified Defined Contribution Plan maintained by the Employer or an Affiliated Employer,
- (e) Voluntary or mandatory contributions made by the Participant under this Plan or another qualified Defined Benefit Plan maintained by the Employer or an Affiliated Employer, and
- (f) Contributions made on behalf of the Participant to an “individual medical benefit account” under a pension or annuity plan maintained by the Employer or an Affiliated Employer, as described, and to the extent required, under Section 415(l) of the Code.

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

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

- (a) The numerator of which is the projected annual benefit of the Participant (determined as of the close of the limitation year) under all Defined Benefit Plans maintained by the Employer or an Affiliated Employer; and
- (b) The denominator of which is the lesser of (i) or (ii) below:
  - (i) The product of 1.25 multiplied by the defined benefit plan dollar limitation under Section 415(b)(1)(A) of the Code (automatically adjusted each year as described in Section A.02(d)) in effect for such limitation year; or

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

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

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

- (a) The numerator of which is the sum of the Annual Additions made by the Employer or an Affiliated Employer on behalf of the Participant for such limitation year and all prior limitation years; and
- (b) The denominator of which is the sum of the lesser of (i) or (ii) below determined for such limitation year and for each prior year of service with the Employer or an Affiliated Employer:
  - (i) The product of 1.25 multiplied by the defined contribution plan dollar limitation under Section 415(c)(1)(A) of the Code (automatically adjusted every year as described in Section A.02(d)); or
  - (ii) The product of 1.4 multiplied by an amount equal to 25% of the Participant's Section 415 Compensation for such year.

At the direction of the Administrative Committee, the portion of the denominator of that fraction with respect to limitation years ending before 1983 shall be computed as the denominator for the limitation year ending in 1982, as determined under the law as then in effect, multiplied by a fraction the numerator of which is the lesser of: (A) \$51,875; or

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

and the denominator of which is the lesser of:

(A) \$41,500; or

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

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

- (a) Contributions made by the Employer or an Affiliated Employer on behalf of the Participant to the Plan or any other plan of deferred compensation maintained by the Employer or an Affiliated Employer;
- (b) Amounts realized from the exercise of a non-qualified stock option;
- (c) Amounts realized when restricted stock is no longer subject to substantial risk of forfeiture;
- (d) Amounts realized from the disposition of stock acquired under a qualified stock option; and
- (e) Other amounts that receive special tax benefits.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

#### A.03 Maximum Annual Additions Limitation

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

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

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

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

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

Administrative Committee for this Plan and the administrators of all other plans in which the Participant participates.

A.05 Preservation of Current Accrued Pension

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

- (a) The benefit that the Participant had accrued under the Plan as of the end of the Plan Year beginning in 1982, with no changes in the terms and conditions of the Plan on or after July 1, 1982, taken into account in determining that benefit; or
- (b) The benefit that the Participant had accrued under the Plan as of the end of the Plan Year beginning in 1986, with no changes in the terms and conditions of the Plan after May 5, 1986, taken into account in determining that benefit.

## **Appendix B**

### **Top-Heavy Provisions**

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

#### **B.01 General Definitions**

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

“Applicable Determination Date” means the last day of the later of the

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

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

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

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

“Non-Key Employee” means any Employee who is not a Key Employee.

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

“Remuneration” means “Section 415 Compensation” (as defined in Appendix A), except that Remuneration for purposes of this Appendix B shall not exceed the Maximum Compensation Limitation for any Plan Year.

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

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

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

(b) The present value of accrued pensions or account balances of all Non-Key Employees who were Key Employees during any prior Plan

Year shall not be taken into account;

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

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

B.02 Top-Heavy Definition

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

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

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

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

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

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

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

(iii) The 1.25 multiplier in the definitions of “Defined Benefit Plan Fraction” and “Defined Contribution Plan Fraction” in Section A.01 of Appendix A shall be reduced to 1.0, and the \$51,875 dollar amount in the definition of “Defined Contribution Plan Fraction” in Section A.01 of Appendix A shall be reduced to \$41,500.

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

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

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

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

## Appendix C

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

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

#### C.01 Restrictions

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

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

#### C.02 Limitation on Restrictions

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

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

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

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

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

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

## Appendix D

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

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

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

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

(ii) \$20,000;

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

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

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

**FARMER BROS. CO.**  
**2007 OMNIBUS PLAN**  
**(Approved by the stockholders at the Annual Stockholders' Meeting on December 6, 2012)**

**ARTICLE 1**  
**PURPOSE**

The purpose of the Farmer Bros. Co. 2007 Omnibus Plan (the "**Plan**") is to promote the success and enhance the stockholder value of Farmer Bros. Co., a Delaware corporation (the "**Company**"), by linking the personal interests of the members of the Board, Employees, and Consultants to those of Company stockholders and by providing such individuals with an incentive for performance to generate returns to Company stockholders. The Plan is further intended to provide flexibility to the Company in its ability to motivate, attract, and retain the services of members of the Board, Employees, and Consultants upon whose judgment, interest, and special effort the successful conduct of the Company's operation is largely dependent.

**ARTICLE 2**  
**DEFINITIONS AND CONSTRUCTION**

Wherever the following terms are used in the Plan they shall have the meanings specified below, unless the context clearly indicates otherwise. The singular pronoun shall include the plural where the context so indicates.

2.1 "**Administrator**" means the entity that conducts the general administration of the Plan as provided herein. With reference to the administration of the Plan with respect to Awards granted to Independent Directors, the term "**Administrator**" shall refer to the Board. With reference to the administration of the Plan with respect to any other Award, the term "**Administrator**" shall refer to the Committee unless the Board has assumed the authority for administration of the Plan generally as provided in Section 13.1. With reference to the duties of the Committee under the Plan which have been delegated to one or more persons pursuant to Section 13.5, the term "**Administrator**" shall refer to such person(s) unless the Committee or the Board has revoked such delegation.

2.2 "**Award**" means an Option, a Restricted Stock award, a Stock Appreciation Right award, a Dividend Equivalents award, a Stock Payment award, a Restricted Stock Unit award, a Performance-Based Award, a Dividend Equivalent award, a cash-based award or other incentive payable in cash or in shares of Stock granted to a Participant pursuant to the Plan.

2.3 "**Award Agreement**" means any written or electronic agreement, contract, or other instrument or document evidencing an Award.

2.4 "**Board**" means the Board of Directors of the Company.

2.5 "**Cause,**" unless otherwise defined in an employment or services agreement between the Participant and the Company or any Parent or Subsidiary, means a Participant's dishonesty, fraud, gross or willful misconduct against the Company or any Parent or Subsidiary, unauthorized use or disclosure of confidential information or trade secrets of the Company or any Parent or Subsidiary, or conviction of, or plea of *nolo contendere* to, a crime punishable by law (except misdemeanor violations), in each case as determined by the Administrator, and its determination shall be conclusive and binding.

2.6 "**Change in Control**" means and includes each of the following:

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

(b) the approval of the stockholders of the Company of a reorganization, merger, consolidation, complete liquidation, or dissolution of the Company, the sale or disposition of all or substantially all of the assets of the Company or any similar corporate transaction (in each case referred to in this Section 2.6 as a “**Corporate Transaction**”), other than a Corporate Transaction that would result in the outstanding common stock of the Company immediately prior thereto continuing to represent (either by remaining outstanding or by being converted into common stock of the surviving entity or a parent or affiliate thereof) at least fifty percent (50%) of the outstanding common stock of the Company or such surviving entity or parent or affiliate thereof (“**Successor Entity**”) immediately after such Corporate Transaction; provided, however, if the consummation of such Corporate Transaction is subject, at the time of such approval by stockholders, to the consent of any government or governmental agency, the Change in Control shall not occur until the obtaining of such consent (either explicitly or implicitly); or

(c) a change in the composition of the Board such that the individuals who, as of the Effective Date, constitute the Board (such Board shall be hereinafter referred to as the “**Incumbent Board**”) cease for any reason to constitute at least a majority of the Board; provided, however, for purposes of this Section 2.6 that any individual who becomes a member of the Board subsequent to the Effective Date whose election, or nomination for election by the Company’s stockholders, was approved by a vote of at least a majority of those individuals who are members of the Board and who were also members of the Incumbent Board (or deemed to be such pursuant to this proviso) shall be considered as though such individual were a member of the Incumbent Board; but, provided, further, that any such individual whose initial assumption of office occurs as a result of either an actual or threatened election contest (as such terms are used in Rule 14a-11 of Regulation 14A promulgated under the Exchange Act, including any successor to such Rule), or other actual or threatened solicitation of proxies or consents by or on behalf of a Person other than the Board, shall not be so considered as a member of the Incumbent Board.

The Administrator shall have full and final authority, which shall be exercised in its discretion, to determine conclusively whether a Change in Control of the Company has occurred pursuant to the above definition, and the date of the occurrence of such Change in Control and any incidental matters relating thereto.

2.7 “**Code**” means the Internal Revenue Code of 1986, as amended from time to time, and the regulations issued thereunder.

2.8 “**Committee**” means the committee of the Board described in Article 13.

2.9 “**Consultant**” means any consultant or adviser if:

(a) The consultant or adviser renders bona fide services to the Company or any Parent or Subsidiary;

(b) The services rendered by the consultant or adviser are not in connection with the offer or sale of securities in a capital-raising transaction and do not directly or indirectly promote or maintain a market for the Company’s securities; and

(c) The consultant or adviser is a person who has contracted directly with the Company or any Parent or Subsidiary to render such services.

2.10 “**Covered Employee**” means an Employee who is, or is likely to become, a “covered employee” within the meaning of Section 162(m)(3) of the Code.

2.11 “**Disability**” means a permanent and total disability within the meaning of Section 22(e)(3) of the Code, as it may be amended from time to time.

2.12 “**Dividend Equivalents**” means a right granted to a Participant pursuant to Article 8 to receive the equivalent value (in cash or Stock) of dividends paid on Stock.

2.13 “**Effective Date**” shall mean August 23, 2007.

2.14 “**Eligible Individual**” means any person who is a member of the Board, a Consultant or an Employee, as determined by the Administrator.

2.15 “**Employee**” means any officer or other employee (as defined in accordance with Section 3401(c) of the Code) of the Company or any Parent or Subsidiary.

2.16 “**Exchange Act**” means the Securities Exchange Act of 1934, as amended from time to time.

2.17 “**Expiration Date**” has the meaning set forth in Section 14.3.

2.18 “**Fair Market Value**” means, as of any date, the value of Stock determined as follows:

(a) If the Stock is listed on any established stock exchange or a national market system, including without limitation the Nasdaq National Market or The Nasdaq SmallCap Market of The Nasdaq Stock Market, its Fair Market Value shall be the closing sales price for such stock as quoted on such exchange or system on the date of determination, as reported in *The Wall Street Journal* or such other source as the Administrator deems reliable;

(b) If the Stock is regularly quoted by a recognized securities dealer but selling prices are not reported, its Fair Market Value shall be the mean of the closing bid and asked prices for the Stock on the date of determination as reported in *The Wall Street Journal* or such other source as the Administrator deems reliable; or

(c) In the absence of an established market for the Stock, the Fair Market Value thereof shall be determined in good faith by the Administrator.

2.19 **“Incentive Stock Option”** means an Option that is intended to be an incentive stock option and meets the requirements of Section 422 of the Code or any successor provision thereto.

2.20 **“Independent Director”** means a member of the Board who is not an Employee.

2.21 **“Non-Employee Director”** means a member of the Board who qualifies as a “Non-Employee Director” as defined in Rule 16b-3(b)(3) of the Exchange Act, or any successor rule.

2.22 **“Non-Qualified Stock Option”** means an Option that is not intended to be or otherwise does not qualify as an Incentive Stock Option.

2.23 **“Option”** means a right granted to a Participant pursuant to Article 5 of the Plan to purchase a specified number of shares of Stock at a specified price during specified time periods. An Option may be either an Incentive Stock Option or a Non-Qualified Stock Option.

2.24 **“Parent”** means any “parent corporation” as defined in Section 424(e) of the Code and any applicable regulations promulgated thereunder of the Company or any other entity which beneficially owns, directly or indirectly, a majority of the outstanding voting stock or voting power of the Company.

2.25 **“Participant”** means any Eligible Individual who, as a member of the Board, a Consultant or an Employee, has been granted an Award pursuant to the Plan.

2.26 **“Performance-Based Award”** means an Award granted to selected Covered Employees pursuant to Articles 6 and 8, but which is subject to the terms and conditions set forth in Article 9.

2.27 **“Performance Criteria”** means the criteria, either individually, alternatively or in any combination, that the Administrator selects for purposes of establishing the Performance Goal or Performance Goals for a Participant for a Performance Period. The Performance Criteria that will be used to establish Performance Goals are limited to the following: net earnings (either before or after interest, taxes, depreciation and amortization), sales or revenue, income or net income (either before or after taxes), operating income or net operating income, operating profit or net operating profit, cash flow (including, but not limited to, operating cash flow and free cash flow), economic profit (including economic profit margin), return on assets, return on capital, return on investment, return on operating revenue, return on equity or average stockholders’ equity, total stockholder return, growth in sales or return on sales, gross, operating or net profit margin, working capital, earnings per share, growth in earnings or earnings per share, price per share of Stock, market share, overhead or other expense reduction, growth in stockholder value relative to various indices, and strategic plan development and implementation, any of which may be used to measure the performance of the Company as a whole or with respect to any business unit, Subsidiary or business segment of the Company, either individually, alternatively or in any combination, and may be measured either annually or cumulatively over a period of years, on an absolute basis or relative to a pre-established target, to previous period results or to a designated comparison group, in each case as specified by the Administrator in the Award. The Administrator shall, within the time prescribed by Section 162(m) of the Code, define in an objective fashion the manner of calculating the Performance Criteria it selects to use for such Performance Period for such Participant.

2.28 **“Performance Goals”** means, for a Performance Period, the goals established in writing by the Administrator for the Performance Period based upon the Performance Criteria. Depending on the Performance Criteria used to establish such Performance Goals, the Performance Goals may be expressed in terms of overall Company performance or the performance of a Subsidiary, division or other operational unit, or an individual. The Administrator, in its discretion, may, within the time prescribed by Section 162(m) of the Code, adjust or modify the calculation of Performance Goals for such Performance Period

in order to prevent the dilution or enlargement of the rights of Participants (i) in the event of, or in anticipation of, any unusual or extraordinary corporate item, transaction, event, or development, or (ii) in recognition of, or in anticipation of, any other unusual or nonrecurring events affecting the Company, or the financial statements of the Company, or in response to, or in anticipation of, changes in applicable laws, regulations, accounting principles, or business conditions.

2.29 “**Performance Period**” means the one or more periods of time, which may be of varying and overlapping durations, as the Administrator may select, over which the attainment of one or more Performance Goals will be measured for the purpose of determining a Participant’s right to, and the payment of, a Performance-Based Award.

2.30 “**Plan**” means this Farmer Bros. Co. 2007 Omnibus Plan, as it may be amended from time to time.

2.31 “**Qualified Performance-Based Compensation**” means any compensation that is intended to qualify as “qualified performance-based compensation” as described in Section 162(m)(4)(C) of the Code.

2.32 “**Restricted Stock**” means Stock awarded to a Participant pursuant to Article 6 that is subject to certain restrictions and may be subject to risk of forfeiture or repurchase.

2.33 “**Restricted Stock Unit**” means a right to receive a share of Stock during specified time periods granted pursuant to Section 8.3.

2.34 “**Securities Act**” means the Securities Act of 1933, as amended from time to time.

2.35 “**Section 409A Award**” has the meaning set forth in Section 10.1.

2.36 “**Stock**” means the common stock of the Company and such other securities of the Company that may be substituted for Stock pursuant to Article 12.

2.37 “**Stock Appreciation Right**” or “**SAR**” means a right granted pursuant to Article 7 to receive a payment equal to the excess of the Fair Market Value of a specified number of shares of Stock on the date the SAR is exercised over the Fair Market Value of such number of shares of Stock on the date the SAR was granted as set forth in the applicable Award Agreement.

2.38 “**Stock Payment**” means (a) a payment in the form of shares of Stock, or (b) an option or other right to purchase shares of Stock, as part of any bonus, deferred compensation or other arrangement, made in lieu of all or any portion of the compensation, granted pursuant to Section 8.2.

2.39 “**Subsidiary**” means any “subsidiary corporation” as defined in Section 424(f) of the Code and any applicable regulations promulgated thereunder of the Company or any other entity of which a majority of the outstanding voting stock or voting power is beneficially owned directly or indirectly by the Company.

2.40 “**Successor Entity**” has the meaning set forth in Section 2.6.

2.41 “**Termination of Consultancy**” means the time when the engagement of a Participant as a Consultant to the Company or a Parent or Subsidiary is terminated for any reason, with or without cause, including, but not by way of limitation, by resignation, discharge, death or retirement, but excluding terminations where there is a simultaneous commencement of employment with the Company or any Parent or Subsidiary. The Administrator, in its absolute discretion, shall determine the effect of all matters and questions relating to Termination of Consultancy, including, but not by way of limitation, the question of whether a Termination of Consultancy resulted from a discharge for good cause, and all questions of whether a particular

leave of absence constitutes a Termination of Consultancy. Notwithstanding any other provision of the Plan, the Company or any Parent or Subsidiary has an absolute and unrestricted right to terminate a Consultant's service at any time for any reason whatsoever, with or without cause, except to the extent expressly provided otherwise in writing.

2.42 "**Termination of Directorship**" shall mean the time when a Participant who is an Independent Director ceases to be a member of the Board for any reason, including, but not by way of limitation, a termination by resignation, failure to be elected, death or retirement. The Board, in its sole and absolute discretion, shall determine the effect of all matters and questions relating to Termination of Directorship with respect to Independent Directors.

2.43 "**Termination of Employment**" shall mean the time when the employee-employer relationship between a Participant and the Company or any Parent or Subsidiary is terminated for any reason, with or without cause, including, but not by way of limitation, a termination by resignation, discharge, death, disability or retirement; but excluding: (a) terminations where there is a simultaneous reemployment or continuing employment of a Participant by the Company or any Parent or Subsidiary, (b) at the discretion of the Administrator, terminations which result in a temporary severance of the employee-employer relationship, and (c) at the discretion of the Administrator, terminations which are followed by the simultaneous establishment of a consulting relationship by the Company or a Parent or Subsidiary with the former employee. The Administrator, in its absolute discretion, shall determine the effect of all matters and questions relating to Termination of Employment, including, but not by way of limitation, the question of whether a Termination of Employment resulted from a discharge for good cause, and all questions of whether a particular leave of absence constitutes a Termination of Employment; *provided, however*, that, with respect to Incentive Stock Options, unless otherwise determined by the Administrator in its discretion, a leave of absence, change in status from an employee to an independent contractor or other change in the employee-employer relationship shall constitute a Termination of Employment if, and to the extent that, such leave of absence, change in status or other change interrupts employment for the purposes of Section 422(a)(2) of the Code and the then applicable regulations and revenue rulings under said Section.

### **ARTICLE 3 SHARES SUBJECT TO THE PLAN**

#### **3.1 Number of Shares**

(a) Subject to Article 12 and Section 3.1(b), the aggregate number of shares of Stock which may be issued or transferred pursuant to Awards under the Plan shall be 1,125,000 shares.

(b) Shares of Stock covered by an Award shall be counted as used at the time the Award is granted to a Participant. If any Award lapses, expires, terminates or is canceled prior to the issuance of shares thereunder or if shares of Stock are issued under the Plan to a Participant and are thereafter reacquired by the Company, the shares subject to such Awards and the reacquired shares shall again be available for issuance under the Plan. In addition to the shares of Stock that are actually issued to a Participant, the following items shall be counted against the total number of shares available for issuance under the Plan: (i) shares of Stock subject to an Award that are not delivered to a Participant because the Award is exercised through a reduction of shares of Stock subject to the Award (i.e., "net exercised") (including an appreciation distribution in respect of a Stock Appreciation Right that is paid in shares of Stock); (ii) shares of Stock subject to an Award that are not delivered to a Participant because such shares are withheld in satisfaction of the withholding of taxes incurred in connection with the exercise of an Option or Stock Appreciation Right, or the issuance of shares under a Restricted Stock Award or Restricted Stock Unit Award or other Award; and (iii) shares that are tendered to the Company (either by actual delivery or attestation) to pay the exercise price of any stock Award. The following items shall not be counted against the total number of shares available for issuance under the Plan: (A) the payment in cash of dividends or Dividend Equivalents; and (B) any Award that is settled in

cash rather than by issuance of Stock. All shares issued under the Plan may be either authorized and unissued shares or issued shares reacquired by the Company or shares held in trust for issuance under the Plan.

(c) The Administrator shall have the authority to grant Awards as an alternative to or as the form of payment for grants or rights earned or due under other compensation plans or arrangements of the Company.

(d) Notwithstanding the provisions of this Section 3.1, (i) no shares of Stock may again be optioned, granted or awarded if such action would cause an Incentive Stock Option to fail to qualify as an Incentive Stock Option under Section 422 of the Code; and (ii) the maximum number of shares that may be issued upon the exercise of Incentive Stock Options shall equal the aggregate share number stated in Section 3.1(a), subject to adjustment as provided in Article 12; and provided, further, that for purposes of Section 3.3, any such shares shall be counted in accordance with the requirements of Section 162(m) of the Code.

3.2 Stock Distributed. Any Stock distributed pursuant to an Award may consist, in whole or in part, of authorized and unissued Stock, treasury stock or Stock purchased on the open market.

3.3 Limitation on Number of Shares Subject to Awards. Notwithstanding any provision in the Plan to the contrary, and subject to Article 12, 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 shall be 250,000.

#### **ARTICLE 4 ELIGIBILITY AND PARTICIPATION**

4.1 Eligibility. Persons eligible to participate in this Plan include Employees, Consultants and members of the Board, as determined by the Administrator.

4.2 Participation. Subject to the provisions of the Plan, the Administrator may, from time to time, select from among all Eligible Individuals those to whom Awards shall be granted and shall determine the nature and amount of each Award. No individual shall have any right to be granted an Award pursuant to this Plan.

4.3 Foreign Participants. Notwithstanding any provision of the Plan to the contrary, in order to comply with the laws in other countries in which the Company and its Parents or Subsidiaries operate or have Eligible Individuals, the Administrator, in its sole discretion, shall have the power and authority to: (i) determine which Parents or Subsidiaries shall be covered by the Plan; (ii) determine which Eligible Individuals outside the United States are eligible to participate in the Plan; (iii) modify the terms and conditions of any Award granted to Eligible Individuals outside the United States to comply with applicable foreign laws; (iv) establish subplans and modify exercise procedures and other terms and procedures, to the extent such actions may be necessary or advisable (any such subplans and/or modifications shall be attached to this Plan as appendices); *provided, however*, that no such subplans and/or modifications shall increase the share limitations contained in Sections 3.1 and 3.3 of the Plan; and (v) take any action, before or after an Award is made, that it deems advisable to obtain approval or comply with any necessary local governmental regulatory exemptions or approvals. Notwithstanding the foregoing, the Administrator may not take any actions hereunder, and no Awards shall be granted, that would violate the Exchange Act, the Code, any securities law or governing statute or any other applicable law.

#### **ARTICLE 5 STOCK OPTIONS**

5.1 General. The Administrator is authorized to grant Options to Eligible Individuals on the following terms and conditions:

(a) Exercise Price. The exercise price per share of Stock subject to an Option shall be determined by the Administrator and set forth in the Award Agreement; *provided* that the exercise price per share for any Option shall not be less than 100% of the Fair Market Value per share of the Stock on the date of grant.

(b) Time and Conditions of Exercise. The Administrator shall determine the time or times at which an Option may be exercised in whole or in part; *provided* that the term of any Option granted under the Plan shall not exceed ten years. The Administrator shall also determine the performance or other conditions, if any, that must be satisfied before all or part of an Option may be exercised; *provided* that in no event shall Options vest and be fully exercisable at any time earlier than one year from the grant date except as may be specifically provided as a result of an acceleration upon a Change in Control, Termination of Employment, Termination of Directorship, Termination of Consultancy or other event providing for accelerated vesting. The Administrator may extend the term of any outstanding Option in connection with any Termination of Employment, Termination of Directorship or Termination of Consultancy of the Participant holding such Option, or amend any other term or condition of such Option relating to such a Termination of Employment, Termination of Directorship or Termination of Consultancy.

(c) Payment. The Administrator shall determine the methods, terms and conditions by which the exercise price of an Option may be paid, and the form and manner of payment, including, without limitation, payment in the form of cash, a promissory note bearing interest at no less than such rate as shall then preclude the imputation of interest under the Code, shares of Stock, or other property acceptable to the Administrator and payment through the delivery of a notice that the Participant has placed a market sell order with a broker with respect to shares of Stock then issuable upon exercise of the Option, and that the broker has been directed to pay a sufficient portion of the net proceeds of the sale to the Company in satisfaction of the Option exercise price; *provided* that payment of such proceeds is then made to the Company upon settlement of such sale, and the methods by which shares of Stock shall be delivered or deemed to be delivered to Participants. Notwithstanding any other provision of the Plan to the contrary, no Participant who is a member of the Board or an “executive officer” of the Company within the meaning of Section 13(k) of the Exchange Act shall be permitted to pay the exercise price of an Option, or continue any extension of credit with respect to the exercise price of an Option with a loan from the Company or a loan arranged by the Company, in any method which would violate Section 13(k) of the Exchange Act.

(d) Evidence of Grant. All Options shall be evidenced by an Award Agreement between the Company and the Participant. The Award Agreement shall include such additional provisions as may be specified by the Administrator.

5.2 Incentive Stock Options. Incentive Stock Options may be granted only to employees (as defined in accordance with Section 3401(c) of the Code) of the Company or a Subsidiary which constitutes a “subsidiary corporation” of the Company within Section 424(f) of the Code or a Parent which constitutes a “parent corporation” of the Company within the meaning of Section 424(e) of the Code, and the terms of any Incentive Stock Options granted pursuant to the Plan must comply with the following additional provisions of this Section 5.2 in addition to the requirements of Section 5.1:

(a) Ten Percent Owners. An Incentive Stock Option shall be granted to any individual who, at the date of grant, owns stock possessing more than ten percent of the total combined voting power of all classes of Stock of the Company or any “subsidiary corporation” of the Company or “parent corporation” of the Company (each within the meaning of Section 424 of the Code) only if such Option is granted at an exercise price per share that is not less than 110% of the Fair Market Value per share of the Stock on the date of the grant and the Option is exercisable for no more than five years from the date of grant.

(b) Transfer Restriction. An Incentive Stock Option shall not be transferable by the Participant other than by will or by the laws of descent or distribution.

(c) Right to Exercise. During a Participant's lifetime, an Incentive Stock Option may be exercised only by the Participant.

(d) Failure to Meet Requirements. Any Option (or portion thereof) purported to be an Incentive Stock Option which, for any reason, fails to meet the requirements of Section 422 of the Code shall be considered a Non-Qualified Stock Option.

5.3 Substitution of Stock Appreciation Rights. The Administrator may provide in the Award Agreement evidencing the grant of an Option that the Administrator, in its sole discretion, shall have the right to substitute a Stock Appreciation Right for such Option at any time prior to or upon exercise of such Option; *provided* that such Stock Appreciation Right shall be exercisable with respect to the same number of shares of Stock for which such substituted Option would have been exercisable.

## ARTICLE 6 RESTRICTED STOCK AWARDS

6.1 Grant of Restricted Stock. The Administrator is authorized to make Awards of Restricted Stock to any Eligible Individual selected by the Administrator in such amounts and subject to such terms and conditions as determined by the Administrator. All Awards of Restricted Stock shall be evidenced by an Award Agreement. In no event shall an Award of Restricted Stock payable in shares vest sooner than one year after the date of grant. Notwithstanding the foregoing, the Administrator may accelerate vesting of any Award in the event of a Participant's Termination of Employment, Termination of Directorship or Termination of Consultancy or a Change in Control.

6.2 Issuance and Restrictions. Restricted Stock shall be subject to such repurchase restrictions, forfeiture restrictions, restrictions on transferability and other restrictions as the Administrator may impose (including, without limitation, limitations on the right to vote Restricted Stock or the right to receive dividends on the Restricted Stock). These restrictions may lapse separately or in combination at such times, pursuant to such circumstances or installments or otherwise as the Administrator determines at the time of the grant of the Award or thereafter. Alternatively, these restrictions may lapse pursuant to the satisfaction of one or more Performance Goals or other specific performance goals as the Administrator determines to be appropriate at the time of the grant of the Award or thereafter, in each case on a specified date or dates or over any period or periods determined by the Administrator.

6.3 Repurchase or Forfeiture. Except as otherwise determined by the Administrator at the time of the grant of the Award or thereafter, upon a Participant's Termination of Employment, Termination of Directorship or Termination of Consultancy during the applicable restriction period, Restricted Stock that is at that time subject to restrictions shall be forfeited or subject to repurchase by the Company (or its assignee) under such terms as the Administrator shall determine; *provided, however*, that the Administrator may (a) provide in any Restricted Stock Award Agreement that restrictions or forfeiture conditions relating to Restricted Stock will be waived in whole or in part in the event of a Participant's Termination of Employment, Termination of Directorship or Termination of Consultancy under certain circumstances, and (b) in other cases waive in whole or in part restrictions or forfeiture conditions relating to Restricted Stock.

6.4 Certificates for Restricted Stock. Restricted Stock granted pursuant to the Plan may be evidenced in such manner as the Administrator shall determine. If certificates representing shares of Restricted Stock are registered in the name of the Participant, certificates must bear an appropriate legend referring to the terms, conditions, and restrictions applicable to such Restricted Stock, and the Company may, at its discretion, retain physical possession of the certificate until such time as all

applicable restrictions lapse or the Award Agreement may provide that the shares shall be held in escrow by an escrow agent designated by the Company.

## **ARTICLE 7 STOCK APPRECIATION RIGHTS**

7.1 Grant of Stock Appreciation Rights. A Stock Appreciation Right may be granted to any Eligible Individual selected by the Administrator. A Stock Appreciation Right shall be subject to such terms and conditions not inconsistent with the Plan as the Administrator shall impose and shall be evidenced by an Award Agreement.

### 7.2 Terms of Stock Appreciation Rights

(a) A Stock Appreciation Right shall have a term set by the Administrator. A Stock Appreciation Right shall be exercisable in such installments as the Administrator may determine. A Stock Appreciation Right shall cover such number of shares of Stock as the Administrator may determine. The exercise price per share of Stock subject to each Stock Appreciation Right shall be set by the Administrator.

(b) A Stock Appreciation Right shall entitle the Participant (or other person entitled to exercise the Stock Appreciation Right pursuant to the Plan) to exercise all or a specified portion of the Stock Appreciation Right (to the extent then exercisable pursuant to its terms) and to receive from the Company an amount determined by multiplying (i) the amount (if any) by which the Fair Market Value of a share of Stock on the date of exercise of the Stock Appreciation Right exceeds the exercise price per share of the Stock Appreciation Right, by (ii) the number of shares of Stock with respect to which the Stock Appreciation Right shall have been exercised, subject to any limitations the Administrator may impose.

### 7.3 Payment and Limitations on Exercise

(a) Subject to Sections 7.3(b) and (c), payment of the amounts determined under Sections 7.2(b) above shall be in cash, in Stock (based on its Fair Market Value as of the date the Stock Appreciation Right is exercised) or a combination of both, as determined by the Administrator.

(b) To the extent payment for a Stock Appreciation Right is to be made in cash, the Award Agreement shall, to the extent necessary to comply with the requirements of Section 409A of the Code, specify the date of payment, which may be different than the date of exercise of the Stock Appreciation Right. If the date of payment for a Stock Appreciation Right is later than the date of exercise, the Award Agreement may specify that the Participant be entitled to earnings on such amount until paid.

(c) To the extent any payment under Section 7.2(b) is effected in Stock, it shall be made subject to satisfaction of all provisions of Article 5 above pertaining to Options.

**ARTICLE 8**  
**OTHER TYPES OF AWARDS**

**8.1 Dividend Equivalents**

(a) Any Eligible Individual selected by the Administrator may be granted Dividend Equivalents based on the dividends on the shares of Stock that are subject to any Award, to be credited as of dividend payment dates, during the period between the date the Award is granted and the date the Award is exercised, vests or expires, as determined by the Administrator. Such Dividend Equivalents shall be converted to cash or additional shares of Stock by such formula and at such time and subject to such limitations as may be determined by the Administrator.

(b) Dividend Equivalents granted with respect to Options or SARs that are intended to be Qualified Performance-Based Compensation shall be payable, with respect to pre-exercise periods, regardless of whether such Option or SAR is subsequently exercised.

**8.2 Stock Payments.** Any Eligible Individual selected by the Administrator may receive Stock Payments in the manner determined from time to time by the Administrator; *provided*, that unless otherwise determined by the Administrator such Stock Payments shall be made in lieu of base salary, bonus, or other cash compensation otherwise payable to such Eligible Individual. The number of shares shall be determined by the Administrator and may be based upon the Performance Goals or other specific performance goals determined appropriate by the Administrator.

**8.3 Restricted Stock Units.** The Administrator is authorized to make Awards of Restricted Stock Units to any Eligible Individual selected by the Administrator in such amounts and subject to such terms and conditions as determined by the Administrator. At the time of grant, the Administrator shall specify the date or dates on which the Restricted Stock Units shall become fully vested and nonforfeitable, and may specify such conditions to vesting as it deems appropriate. Alternatively, Restricted Stock Units may become fully vested and nonforfeitable pursuant to the satisfaction of one or more Performance Goals or other specific performance goals as the Administrator determines to be appropriate at the time of the grant of the Restricted Stock Units or thereafter, in each case on a specified date or dates or over any period or periods determined by the Administrator. At the time of grant, the Administrator shall specify the maturity date applicable to each grant of Restricted Stock Units which shall be no earlier than the vesting date or dates of the Award and may be determined at the election of the Eligible Individual to whom the Award is granted. On the maturity date, the Company shall transfer to the Participant one unrestricted, fully transferable share of Stock for each Restricted Stock Unit that is vested and scheduled to be distributed on such date and not previously forfeited. The Administrator shall specify the purchase price, if any, to be paid by the Participant to the Company for such shares of Stock. In no event shall an Award of Restricted Stock Units payable in shares vest sooner than one year after the date of grant. Notwithstanding the foregoing, the Administrator may accelerate vesting of any Award in the event of a Participant's Termination of Employment, Termination of Directorship or Termination of Consultancy or a Change in Control.

**8.4 Term.** Except as otherwise provided herein, the term of any Award of Dividend Equivalents, Stock Payments or Restricted Stock Units shall be set by the Administrator in its discretion.

**8.5 Exercise or Purchase Price.** The Administrator may establish the exercise or purchase price, if any, of any Award of Stock Payments or Restricted Stock Units; *provided, however*, that such price shall not be less than the par value of a share of Stock on the date of grant, unless otherwise permitted by applicable state law.

**8.6 Form of Payment.** Payments with respect to any Awards granted under Sections 8.1, 8.2 or 8.3 shall be made in cash, in Stock or a combination of both, as determined by the Administrator.

8.7 Award Agreement. All Awards under this Article 8 shall be subject to such additional terms and conditions as determined by the Administrator and shall be evidenced by a written Award Agreement.

8.8 Other Stock or Cash-Based Awards. Subject to the terms of the Plan, the Administrator may grant other incentives payable in cash or in shares of Stock under the Plan as it determines to be in the best interests of the Company and subject to such other terms and conditions as it deems appropriate. The Administrator may grant such other Awards and designate the Participants to whom such Awards are to be awarded and determine the number of shares of Stock or the amount of cash payment subject to such Awards and the terms and conditions of each such Award. Such other Awards may, subject to the provisions of the Plan, entitle the Participant to a payment in cash or Stock only upon the attainment of performance goals and other terms and conditions specified by the Administrator. Notwithstanding the satisfaction of any performance goals, the amount to be paid under such other Award may be adjusted on the basis of such further consideration as the Administrator shall determine, in its sole discretion. However, the Administrator may not, in any event, increase the amount earned under such other Awards upon satisfaction of any performance goal by any Covered Employee.

## **ARTICLE 9**

### **PERFORMANCE-BASED AWARDS**

9.1 Purpose. The purpose of this Article 9 is to provide the Administrator the ability to qualify Awards other than Options and SARs and that are granted pursuant to Articles 6 and 8 as Qualified Performance-Based Compensation. If the Administrator, in its discretion, decides to grant a Performance-Based Award to a Covered Employee, the provisions of this Article 9 shall control over any contrary provision contained in Articles 6 or 8; *provided, however*, that the Administrator may in its discretion grant Awards to Covered Employees that are based on Performance Criteria or Performance Goals but that do not satisfy the requirements of this Article 9.

9.2 Applicability. This Article 9 shall apply only to those Covered Employees selected by the Administrator to receive Performance-Based Awards. The designation of a Covered Employee as a Participant for a Performance Period shall not in any manner entitle the Participant to receive an Award for the period. Moreover, designation of a Covered Employee as a Participant for a particular Performance Period shall not require designation of such Covered Employee as a Participant in any subsequent Performance Period and designation of one Covered Employee as a Participant shall not require designation of any other Covered Employees as a Participant in such period or in any other period.

9.3 Procedures with Respect to Performance-Based Awards. To the extent necessary to comply with the Qualified Performance-Based Compensation requirements of Section 162(m)(4)(C) of the Code, with respect to any Award granted under Articles 6 and 8 which may be granted to one or more Covered Employees, no later than ninety (90) days following the commencement of any fiscal year in question or any other designated fiscal period or period of service (or such other time as may be required or permitted by Section 162(m) of the Code), the Administrator shall, in writing, (a) designate one or more Covered Employees, (b) select the Performance Criteria applicable to the Performance Period, (c) establish the Performance Goals, and amounts of such Awards, as applicable, which may be earned for such Performance Period, and (d) specify the relationship between Performance Criteria and the Performance Goals and the amounts of such Awards, as applicable, to be earned by each Covered Employee for such Performance Period. Following the completion of each Performance Period, the Administrator shall certify in writing whether the applicable Performance Goals have been achieved for such Performance Period. In determining the amount earned by a Covered Employee, the Administrator shall have the right to reduce or eliminate (but not to increase) the amount payable at a given level of performance to take into account additional factors that the Administrator may deem relevant to the assessment of individual or corporate performance for the Performance Period.

9.4 Payment of Performance-Based Awards. Unless otherwise provided in the applicable Award Agreement, a Participant must be employed by the Company or a Parent or Subsidiary on the day a Performance-Based Award for such

Performance Period is paid to the Participant. Furthermore, a Participant shall be eligible to receive payment pursuant to a Performance-Based Award for a Performance Period only if the Performance Goals for such period are achieved.

9.5 Additional Limitations. Notwithstanding any other provision of the Plan, any Award which is granted to a Covered Employee and is intended to constitute Qualified Performance-Based Compensation shall be subject to any additional limitations set forth in Section 162(m) of the Code (including any amendment to Section 162(m) of the Code) or any regulations or rulings issued thereunder that are requirements for qualification as qualified performance-based compensation as described in Section 162(m)(4)(C) of the Code, and the Plan shall be deemed amended to the extent necessary to conform to such requirements.

## ARTICLE 10 COMPLIANCE WITH SECTION 409A OF THE CODE

10.1 Awards subject to Code Section 409A. Any Award that constitutes, or provides for, a deferral of compensation subject to Section 409A of the Code (a "**Section 409A Award**") shall satisfy the requirements of Section 409A of the Code and this Article 10, to the extent applicable. The Award Agreement with respect to a Section 409A Award shall incorporate the terms and conditions required by Section 409A of the Code and this Article 10.

### 10.2 Distributions under a Section 409A Award.

(a) Subject to subsection (b), any shares of Stock or other property or amounts to be paid or distributed upon the grant, issuance, vesting, exercise or payment of a Section 409A Award shall be distributed in accordance with the requirements of Section 409A(a)(2) of the Code, and shall not be distributed earlier than:

(i) the Participant's separation from service, as determined by the Secretary of the Treasury;

(ii) the date the Participant becomes disabled;

(iii) the Participant's death;

(iv) a specified time (or pursuant to a fixed schedule) specified under the Award Agreement at the date of the deferral of such compensation;

(v) to the extent provided by the Secretary of the Treasury, a change in the ownership or effective control of the Company or a Parent or Subsidiary, or in the ownership of a substantial portion of the assets of the Company or a Parent or Subsidiary; or

(vi) the occurrence of an unforeseeable emergency with respect to the Participant.

(b) In the case of a Participant who is a "specified employee," the requirement of paragraph (a)(i) shall be met only if the distributions with respect to the Section 409A Award may not be made before the date which is six months after the Participant's separation from service (or, if earlier, the date of the Participant's death). For purposes of this subsection (b), a Participant shall be a "specified employee" if such Participant is a key employee (as defined in Section 416(i) of the Code without regard to paragraph (5) thereof) of a corporation any stock of which is publicly traded on an established securities market or otherwise, as determined under Section 409A(a)(2)(B)(i) of the Code and the Treasury Regulations thereunder.

(c) The requirement of paragraph (a)(vi) shall be met only if, as determined under Treasury Regulations under Section 409A(a)(2)(B)(ii) of the Code, the amounts distributed with respect to the unforeseeable emergency do not exceed the amounts necessary to satisfy such unforeseeable emergency plus amounts necessary to pay taxes reasonably anticipated as a result of the distribution, after taking into account the extent to which such unforeseeable emergency is or may be relieved through reimbursement or compensation by insurance or otherwise or by liquidation of the Participant's assets (to the extent the liquidation of such assets would not itself cause severe financial hardship).

(d) For purposes of this Section, the terms specified therein shall have the respective meanings ascribed thereto under Section 409A of the Code and the Treasury Regulations thereunder.

10.3 Prohibition on Acceleration of Benefits. The time or schedule of any distribution or payment of any shares of Stock or other property or amounts under a Section 409A Award shall not be accelerated, except as otherwise permitted under Section 409A(a)(3) of the Code and the Treasury Regulations thereunder.

#### 10.4 Elections under Section 409A Awards

(a) Any deferral election provided under or with respect to an Award to any Eligible Individual, or to the Participant holding a Section 409A Award, shall satisfy the requirements of Section 409A(a)(4)(B) of the Code, to the extent applicable, and, except as otherwise permitted under paragraph (i) or (ii) below, any such deferral election with respect to compensation for services performed during a taxable year shall be made not later than the close of the preceding taxable year, or at such other time as provided in the Treasury Regulations.

(i) In the case of the first year in which an Eligible Individual or a Participant holding a Section 409A Award, becomes eligible to participate in the Plan, any such deferral election may be made with respect to services to be performed subsequent to the election with thirty days after the date the Eligible Individual, or the Participant holding a Section 409A Award, becomes eligible to participate in the Plan, as provided under Section 409A(a)(4)(B)(ii) of the Code.

(ii) In the case of any performance-based compensation based on services performed by an Eligible Individual, or the Participant holding a Section 409A Award, over a period of at least twelve months, any such deferral election may be made no later than six months before the end of the period, as provided under Section 409A(a)(4)(B)(iii) of the Code.

(b) In the event that a Section 409A Award permits, under a subsequent election by the Participant holding such Section 409A Award, a delay in a distribution or payment of any shares of Stock or other property or amounts under such Section 409A Award, or a change in the form of distribution or payment, such subsequent election shall satisfy the requirements of Section 409A(a)(4)(C) of the Code, and:

(i) such subsequent election may not take effect until at least twelve months after the date on which the election is made,

(ii) in the case such subsequent election relates to a distribution or payment not described in Section 10.2(a)(ii), (iii) or (vi), the first payment with respect to such election may be deferred for a period of not less than five years from the date such distribution or payment otherwise would have been made, and

(iii) in the case such subsequent election relates to a distribution or payment described in Section 10.2(a)(iv), such election may not be made less than twelve months prior to the date of the first scheduled distribution or payment under Section 10.2(a)(iv).

10.5 Compliance in Form and Operation. A Section 409A Award, and any election under or with respect to such Section 409A Award, shall comply in form and operation with the requirements of Section 409A of the Code and the Treasury Regulations thereunder.

## ARTICLE 11 PROVISIONS APPLICABLE TO AWARDS

11.1 Stand-Alone and Tandem Awards. Awards granted pursuant to the Plan may, in the discretion of the Administrator, be granted either alone, in addition to, or in tandem with, any other Award granted pursuant to the Plan. Awards granted in addition to or in tandem with other Awards may be granted either at the same time as or at a different time from the grant of such other Awards.

11.2 Award Agreement. Awards under the Plan shall be evidenced by Award Agreements that set forth the terms, conditions and limitations for each Award which may include the term of an Award, the provisions applicable in the event of the Participant's Termination of Employment, Termination of Directorship or Termination of Consultancy, and the Company's authority to unilaterally or bilaterally amend, modify, suspend, cancel or rescind an Award. The provisions governing Awards need not be the same with respect to each recipient.

### 11.3 Limits on Transfer

(a) Except as otherwise provided by the Administrator pursuant to Section 11.3(b), no right or interest of a Participant in any Award may be pledged, encumbered, or hypothecated to or in favor of any party other than the Company or a Parent or Subsidiary, or shall be subject to any lien, obligation, or liability of such Participant to any other party other than the Company or a Parent or Subsidiary. Except as otherwise provided by the Administrator pursuant to Section 11.3(b), no Award shall be assigned, transferred, or otherwise disposed of by a Participant other than by will or the laws of descent and distribution, unless and until such Award has been exercised, or the shares underlying such Award have been issued, and all restrictions applicable to such shares have lapsed.

(b) Notwithstanding Section 11.3(a), the Administrator, in its sole discretion, may permit an Award (other than an Incentive Stock Option) to be transferred to, exercised by and paid to any one or more Permitted Transferees (as defined below), subject to the following terms and conditions: (i) an Award transferred to a Permitted Transferee shall not be assignable or transferable by the Permitted Transferee other than by will or the laws of descent and distribution; (ii) any Award which is transferred to a Permitted Transferee shall continue to be subject to all the terms and conditions of the Award as applicable to the original Participant (other than the ability to further transfer the Award); and (iii) the Participant and the Permitted Transferee shall execute any and all documents requested by the Administrator, including, without limitation documents to (A) confirm the status of the transferee as a Permitted Transferee, (B) satisfy any requirements for an exemption for the transfer under applicable federal and state securities laws and (C) evidence the transfer. For purposes of this Section 11.3(b), "**Permitted Transferee**" shall mean, with respect to a Participant, any child, stepchild, grandchild, parent, stepparent, grandparent, spouse, former spouse, sibling, niece, nephew, mother-in-law, father-in-law, son-in-law, daughter-in-law, brother-in-law, or sister-in-law, including adoptive relationships, any person sharing the Participant's household (other than a tenant or employee), a trust in which these persons (or the Participant) control the management of assets, and any other entity in which these persons (or the Participant) own more than fifty percent of the voting interests, or any other transferee specifically approved by the Administrator.

11.4 Beneficiaries. Notwithstanding Section 11.3, a Participant may, in the manner determined by the Administrator, designate a beneficiary to exercise the rights of the Participant and to receive any distribution with respect to any Award upon the Participant's death. A beneficiary, legal guardian, legal representative, or other person claiming any rights pursuant to the

Plan is subject to all terms and conditions of the Plan and any Award Agreement applicable to the Participant, except to the extent the Plan and Award Agreement otherwise provide, and to any additional restrictions deemed necessary or appropriate by the Administrator. If the Participant is married and resides in a community property state, a designation of a person other than the Participant's spouse as his or her beneficiary with respect to more than 50% of the Participant's interest in the Award shall not be effective without the prior written consent of the Participant's spouse. If no beneficiary has been designated or survives the Participant, payment shall be made to the person entitled thereto pursuant to the Participant's will or the laws of descent and distribution. Subject to the foregoing, a beneficiary designation may be changed or revoked by a Participant at any time provided the change or revocation is filed with the Administrator.

#### 11.5 Stock Certificates; Book-Entry Procedures

(a) Notwithstanding anything herein to the contrary, the Company shall not be required to issue or deliver any certificates evidencing shares of Stock pursuant to the exercise of any Award, unless and until the Board has determined, with advice of counsel, that the issuance and delivery of such certificates is in compliance with all applicable laws, regulations of governmental authorities and, if applicable, the requirements of any exchange on which the shares of Stock are listed or traded. All Stock certificates delivered pursuant to the Plan are subject to any stop-transfer orders and other restrictions as the Administrator deems necessary or advisable to comply with federal, state, or foreign jurisdiction, securities or other laws, rules and regulations and the rules of any national securities exchange or automated quotation system on which the Stock is listed, quoted, or traded. The Administrator may place legends on any Stock certificate to reference restrictions applicable to the Stock. In addition to the terms and conditions provided herein, the Administrator may require that a Participant make such reasonable covenants, agreements, and representations as the Administrator, in its discretion, deems advisable in order to comply with any such laws, regulations, or requirements. The Administrator shall have the right to require any Participant to comply with any timing or other restrictions with respect to the settlement or exercise of any Award, including a window-period limitation, as may be imposed in the discretion of the Administrator.

(b) Notwithstanding any other provision of the Plan, unless otherwise determined by the Administrator or required by applicable law, rule or regulation, the Company shall not deliver to any Participant certificates evidencing shares of Stock issued in connection with any Award and instead such shares of Stock shall be recorded in the books of the Company (or, as applicable, its transfer agent or stock plan administrator).

11.6 Paperless Exercise. In the event that the Company establishes, for itself or using the services of a third party, an automated system for the exercise of Awards, such as a system using an internet website or interactive voice response, then the paperless exercise of Awards by a Participant may be permitted through the use of such an automated system.

## **ARTICLE 12 CHANGES IN CAPITAL STRUCTURE**

#### 12.1 Adjustments

(a) In the event of any stock dividend, stock split, combination or exchange of shares, merger, consolidation, spin-off, recapitalization, distribution of Company assets to stockholders (other than normal cash dividends), or any other corporate event affecting the Stock or the share price of the Stock, the Administrator shall make such proportionate adjustments, if any, as the Administrator in its discretion may deem appropriate to reflect such change with respect to (i) the aggregate number and type of shares that may be issued under the Plan (including, but not limited to, adjustments of the limitations in Sections 3.1 and 3.3, provided that any adjustment of the limitations in Section 3.1 shall be subject to the fourth sentence of Section 3.1); (ii) the terms and conditions of any outstanding Awards (including, without limitation, any applicable performance targets or criteria with respect thereto); and (iii) the grant, exercise or purchase price per share for any outstanding Awards under

the Plan. Any adjustment affecting an Award intended as Qualified Performance-Based Compensation shall be made consistent with the requirements of Section 162(m) of the Code.

(b) In the event of any transaction or event described in Section 12.1(a) or any unusual or nonrecurring transactions or events affecting the Company, any affiliate of the Company, or the financial statements of the Company or any affiliate (including without limitation any Change in Control), or of changes in applicable laws, regulations or accounting principles, and whenever the Administrator determines that such action is appropriate in order to prevent the dilution or enlargement of the benefits or potential benefits intended to be made available under the Plan or with respect to any Award under the Plan, to facilitate such transactions or events or to give effect to such changes in laws, regulations or principles, the Administrator, in its sole discretion and on such terms and conditions as it deems appropriate, either by the terms of the Award or by action taken prior to the occurrence of such transaction or event and either automatically or upon the Participant's request, is hereby authorized to take any one or more of the following actions:

(i) To provide for either (A) termination of any such Award in exchange for an amount of cash, if any, equal to the amount that would have been received upon the exercise of such Award or realization of the Participant's rights (and, for the avoidance of doubt, if as of the date of the occurrence of the transaction or event described in this Section 12.1(b) the Administrator determines in good faith that no amount would have been attained upon the exercise of such Award or realization of the Participant's rights, then such Award may be terminated by the Company without payment) or (B) the replacement of such Award with other rights or property selected by the Administrator in its sole discretion;

(ii) To provide that such Award be assumed by the successor or survivor corporation, or a parent or subsidiary thereof, or shall be substituted for by similar options, rights or awards covering the stock of the successor or survivor corporation, or a parent or subsidiary thereof, with appropriate adjustments as to the number and kind of shares and prices; and

(iii) To make adjustments in the number and type of shares of Stock (or other securities or property) subject to outstanding Awards, and in the number and kind of outstanding Restricted Stock and/or in the terms and conditions of (including the grant or exercise price), and the criteria included in, outstanding options, rights and awards and options, rights and awards which may be granted in the future;

(iv) To provide that such Award shall be exercisable or payable or fully vested with respect to all shares covered thereby, notwithstanding anything to the contrary in the Plan or the applicable Award Agreement; and

(v) To provide that the Award cannot vest, be exercised or become payable after such event.

12.2 Acceleration Upon a Change in Control. Notwithstanding Section 12.1(b), and except as may otherwise be provided in any applicable Award Agreement or other written agreement entered into between the Company and a Participant, if a Change in Control occurs and a Participant's Awards are not continued, converted, assumed, or replaced by (i) the Company or a Parent or Subsidiary of the Company, or (ii) a Successor Entity, such Awards shall become fully exercisable and/or payable, as applicable, and all forfeiture, repurchase and other restrictions on such Awards shall lapse immediately prior to such Change in Control. Subject to the foregoing, the Administrator shall have the discretion, exercisable at any time before a sale, merger, consolidation, reorganization, liquidation, dissolution or change in control of the Company, as defined by the Administrator, to take such further action as it determines to be necessary or advisable with respect to Awards. Such authorized action may include (but shall not be limited to) establishing, amending or waiving the type, terms, conditions or duration of, or restrictions on, Awards so as to provide for earlier, later, extended or additional time for exercise, lifting restrictions and other modifications, and the Administrator may take such actions with respect to all Participants, to certain categories of Participants or only to individual Participants. The Administrator may take such action before or after granting Awards to which the action relates and

before or after any public announcement with respect to such sale, merger, consolidation, reorganization, liquidation, dissolution or change in control that is the reason for such action.

12.3 No Other Rights. Except as expressly provided in the Plan, no Participant shall have any rights by reason of any subdivision or consolidation of shares of stock of any class, the payment of any dividend, any increase or decrease in the number of shares of stock of any class or any dissolution, liquidation, merger, or consolidation of the Company or any other corporation. Except as expressly provided in the Plan or pursuant to action of the Administrator under the Plan, no issuance by the Company of shares of stock of any class, or securities convertible into shares of stock of any class, shall affect, and no adjustment by reason thereof shall be made with respect to, the number of shares of Stock subject to an Award or the grant or exercise price of any Award.

### ARTICLE 13 ADMINISTRATION

13.1 Administrator. The Administrator of the Plan shall be the Compensation Committee of the Board (or another committee or a subcommittee of the Board to which the Board delegates administration of the Plan) (such committee, the “**Committee**”), which Committee shall consist solely of two or more members of the Board each of whom is both an “outside director,” within the meaning of Section 162(m) of the Code, a Non-Employee Director and an “independent director” under the rules of the Nasdaq Stock Market. Notwithstanding the foregoing: (a) the full Board, acting by a majority of its members in office, shall conduct the general administration of the Plan with respect to all Awards granted to Independent Directors, and for purposes of such Awards the term “**Administrator**” as used in this Plan shall be deemed to refer to the Board, and (b) the Committee may delegate its authority hereunder to the extent permitted by Section 13.5. Appointment of Committee members shall be effective upon acceptance of appointment. In its sole discretion, the Board may at any time and from time to time exercise any and all rights and duties of the Administrator under the Plan except with respect to matters which under Rule 16b-3 under the Exchange Act or Section 162(m) of the Code, or any regulations or rules issued thereunder, are required to be determined in the sole discretion of the Committee. Committee members may resign at any time by delivering written notice to the Board. Vacancies in the Committee may only be filled by the Board.

13.2 Action by the Administrator. A majority of the Administrator shall constitute a quorum. The acts of a majority of the members present at any meeting at which a quorum is present, and, subject to applicable law, acts approved in writing by a majority of the Administrator in lieu of a meeting, shall be deemed the acts of the Administrator. Each member of the Administrator is entitled to, in good faith, rely or act upon any report or other information furnished to that member by any officer or other employee of the Company or any Parent or Subsidiary, the Company’s independent certified public accountants, or any executive compensation consultant or other professional retained by the Company to assist in the administration of the Plan.

13.3 Authority of Administrator. Subject to any specific designation in the Plan, the Administrator has the exclusive power, authority and discretion to:

- (a) Designate Participants to receive Awards;
- (b) Determine the type or types of Awards to be granted to each Participant;
- (c) Determine the number of Awards to be granted and the number of shares of Stock to which an Award will relate;

(d) Determine the terms and conditions of any Award granted pursuant to the Plan, including, but not limited to, the exercise price, grant price, or purchase price, any reload provision, any restrictions or limitations on the Award, any schedule for lapse of forfeiture restrictions or restrictions on the exercisability of an Award, and accelerations or waivers thereof, any provisions related to non-competition and recapture of gain on an Award, based in each case on such considerations as the Administrator in its sole discretion determines; *provided, however*, that the Administrator shall not have the authority to accelerate the vesting or waive the forfeiture of any Performance-Based Awards;

(e) Determine whether, to what extent, and pursuant to what circumstances an Award may be settled in, or the exercise price of an Award may be paid in, cash, Stock, other Awards, or other property, or an Award may be canceled, forfeited, or surrendered;

(f) Prescribe the form of each Award Agreement, which need not be identical for each Participant;

(g) Decide all other matters that must be determined in connection with an Award;

(h) Establish, adopt, or revise any rules and regulations as it may deem necessary or advisable to administer the Plan;

(i) Interpret the terms of, and any matter arising pursuant to, the Plan or any Award Agreement;

(j) determine whether, to what extent and under what circumstances cash, shares of Stock, other property and other amounts payable with respect to an Award shall be deferred either automatically or at the election of the Participant; and

(k) Make all other decisions and determinations that may be required pursuant to the Plan or as the Administrator deems necessary or advisable to administer the Plan.

13.4 Decisions Binding. The Administrator's interpretation of the Plan, any Awards granted pursuant to the Plan, any Award Agreement and all decisions and determinations by the Administrator with respect to the Plan are final, binding, and conclusive on all parties.

13.5 Delegation of Authority. To the extent permitted by applicable law, the Committee may from time to time delegate to a committee of one or more members of the Board or one or more officers of the Company the authority to grant or amend Awards to Participants other than (a) senior executives of the Company who are subject to Section 16 of the Exchange Act, (b) Covered Employees, or (c) officers of the Company (or members of the Board) to whom authority to grant or amend Awards has been delegated hereunder. Any delegation hereunder shall be subject to the restrictions and limits that the Committee specifies at the time of such delegation, and the Committee may at any time rescind the authority so delegated or appoint a new delegatee. At all times, the delegatee appointed under this Section 13.5 shall serve in such capacity at the pleasure of the Committee.

**ARTICLE 14**  
**EFFECTIVE AND EXPIRATION DATES**

14.1 Effective Date. The Plan will be effective as of the Effective Date.

14.2 Approval of Plan by Stockholders. The Plan will be submitted for the approval of the Company's stockholders within twelve (12) months after the date of the Board's initial adoption of the Plan. Awards may be granted or awarded prior to such stockholder approval, *provided*, that such Awards shall not be exercisable nor shall such Awards vest prior to the time when the Plan is approved by the stockholders, and *provided further*, that if such approval has not been obtained at the end of said twelve-month period, all Awards previously granted or awarded under the Plan shall thereupon be canceled and become null and void. In addition, if the Board determines that Awards other than Options or Stock Appreciation Rights which may be granted to Section 162(m) Participants should continue to be eligible to qualify as performance-based compensation under Section 162(m)(4)(C) of the Code, the Performance Criteria must be disclosed to and approved by the Company's stockholders no later than the first stockholder meeting that occurs in the fifth year following the year in which the Company's stockholders previously approved the Plan, as amended and restated to include the Performance Criteria.

14.3 Expiration Date. The Plan will expire on, and no Award may be granted pursuant to the Plan after, the earlier of the tenth anniversary of (i) the date this Plan is approved by the Board or (ii) the date this Plan is approved by the Company's stockholders (the "**Expiration Date**"). Any Awards that are outstanding on the tenth anniversary of the Effective Date shall remain in force according to the terms of the Plan and the applicable Award Agreement.

**ARTICLE 15**  
**AMENDMENT, MODIFICATION, AND TERMINATION**

15.1 Amendment, Modification, And Termination. The Board may terminate, amend or modify the Plan at any time and from time to time; *provided, however*, that (a) to the extent necessary to comply with any applicable law, regulation, or stock exchange rule, the Company shall obtain stockholder approval of any Plan amendment in such a manner and to such a degree as required, and (b) stockholder approval is required for any amendment to the Plan that increases the number of shares available under the Plan (other than any adjustment as provided by Article 12). Notwithstanding any provision in this Plan to the contrary, absent approval of the stockholders of the Company, no Option may be amended to reduce the per share exercise price of the shares subject to such Option below the per share exercise price as of the date the Option is granted and, except as permitted by Article 12, no Option may be granted in exchange for, or in connection with, the cancellation or surrender of an Option having a higher per share exercise price.

15.2 Awards Previously Granted. No termination, amendment, or modification of the Plan shall adversely affect in any material way any Award previously granted pursuant to the Plan without the prior written consent of the Participant.

**ARTICLE 16**  
**GENERAL PROVISIONS**

16.1 No Rights to Awards. No Participant, Employee, or other person shall have any claim to be granted any Award pursuant to the Plan, and neither the Company nor the Administrator is obligated to treat Participants, Employees, and other persons uniformly.

16.2 No Stockholders Rights. Except as otherwise provided herein, a Participant shall have none of the rights of a stockholder with respect to shares of Stock covered by any Award until the Participant becomes the record owner of such shares of Stock.

16.3 Withholding. The Company or any Parent or Subsidiary shall have the authority and the right to deduct or withhold, or require a Participant to remit to the Company an amount sufficient to satisfy federal, state, local and foreign taxes (including the Participant's employment tax obligations) required by law to be withheld with respect to any taxable event concerning a Participant arising as a result of this Plan. The Administrator may in its discretion and in satisfaction of the foregoing requirement allow a Participant to elect to have the Company or a Parent or Subsidiary, as applicable, withhold shares of Stock otherwise issuable under an Award (or allow the return of shares of Stock) having a Fair Market Value equal to the sums required to be withheld. Notwithstanding any other provision of the Plan, the number of shares of Stock which may be withheld with respect to the issuance, vesting, exercise or payment of any Award (or which may be repurchased from the Participant of such Award within six months (or such other period as may be determined by the Administrator) after such shares of Stock were acquired by the Participant from the Company) in order to satisfy the Participant's federal, state, local and foreign income and payroll tax liabilities with respect to the issuance, vesting, exercise or payment of the Award shall be limited to the number of shares which have a Fair Market Value on the date of withholding or repurchase equal to the aggregate amount of such liabilities based on the minimum statutory withholding rates for federal, state, local and foreign income tax and payroll tax purposes that are applicable to such supplemental taxable income.

16.4 No Right to Employment or Services. Nothing in the Plan or any Award Agreement shall interfere with or limit in any way the right of the Company or any Parent or Subsidiary to terminate any Participant's employment or services at any time, nor confer upon any Participant any right to continue in the employ or service of the Company or any Parent or Subsidiary.

16.5 Unfunded Status of Awards. The Plan is intended to be an unfunded plan for incentive compensation. With respect to any payments not yet made to a Participant pursuant to an Award, nothing contained in the Plan or any Award Agreement shall give the Participant any rights that are greater than those of a general creditor of the Company or any Parent or Subsidiary.

16.6 Indemnification. To the extent allowable pursuant to applicable law, the Administrator (and each member thereof) shall be indemnified and held harmless by the Company from any loss, cost, liability, or expense that may be imposed upon or reasonably incurred by such member in connection with or resulting from any claim, action, suit, or proceeding to which he or she may be a party or in which he or she may be involved by reason of any action or failure to act pursuant to the Plan and against and from any and all amounts paid by him or her in satisfaction of judgment in such action, suit, or proceeding against him or her; *provided* he or she gives the Company an opportunity, at its own expense, to handle and defend the same before he or she undertakes to handle and defend it on his or her own behalf. The foregoing right of indemnification shall not be exclusive of any other rights of indemnification to which such persons may be entitled pursuant to the Company's Certificate of Incorporation or Bylaws, as a matter of law, or otherwise, or any power that the Company may have to indemnify them or hold them harmless.

16.7 Relationship to Other Benefits. No payment pursuant to the Plan shall be taken into account in determining any benefits pursuant to any pension, retirement, savings, profit sharing, group insurance, welfare or other benefit plan of the Company or any Parent or Subsidiary except to the extent otherwise expressly provided in writing in such other plan or an agreement thereunder.

16.8 Expenses. The expenses of administering the Plan shall be borne by the Company and its Subsidiaries.

16.9 Titles and Headings. The titles and headings of the Sections in the Plan are for convenience of reference only and, in the event of any conflict, the text of the Plan, rather than such titles or headings, shall control.

16.10 Fractional Shares. No fractional shares of Stock shall be issued and the Administrator shall determine, in its discretion, whether cash shall be given in lieu of fractional shares or whether such fractional shares shall be eliminated by rounding up or down as appropriate.

16.11 Limitations Applicable to Section 16 Persons. Notwithstanding any other provision of the Plan, the Plan, and any Award granted or awarded to any Participant who is then subject to Section 16 of the Exchange Act, shall be subject to any additional limitations set forth in any applicable exemptive rule under Section 16 of the Exchange Act (including any amendment to Rule 16b-3 under the Exchange Act) that are requirements for the application of such exemptive rule. To the extent permitted by applicable law, the Plan and Awards granted or awarded hereunder shall be deemed amended to the extent necessary to conform to such applicable exemptive rule.

16.12 Government and Other Regulations. The obligation of the Company to make payment of awards in Stock or otherwise shall be subject to all applicable laws, rules, and regulations, and to such approvals by government agencies as may be required. The Company shall be under no obligation to register pursuant to the Securities Act, any of the shares of Stock paid pursuant to the Plan. If the shares paid pursuant to the Plan may in certain circumstances be exempt from registration pursuant to the Securities Act, the Company may restrict the transfer of such shares in such manner as it deems advisable to ensure the availability of any such exemption.

16.13 Governing Law. The Plan and all Award Agreements shall be construed in accordance with and governed by the laws of the State of Delaware, without regard to the conflicts of law principles thereof.

**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: November 7, 2017

/S/ MICHAEL H. KEOWN

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

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

I, David G. Robson, certify that:

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

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

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

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

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

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

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

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

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

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

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

Date: November 7, 2017

/s/ DAVID G. ROBSON

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**David G. Robson**  
**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 September 30, 2017, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Michael H. Keown, President and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

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

Dated: November 7, 2017

/s/ MICHAEL H. KEOWN

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

In connection with the Quarterly Report of Farmer Bros. Co. (the "Company") on Form 10-Q for the quarterly period ended September 30, 2017 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, David G. Robson, Treasurer and Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

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

Dated: November 7, 2017

/s/ DAVID G. ROBSON

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**David G. Robson**  
**Treasurer and Chief Financial Officer**  
**(principal financial and accounting officer)**

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