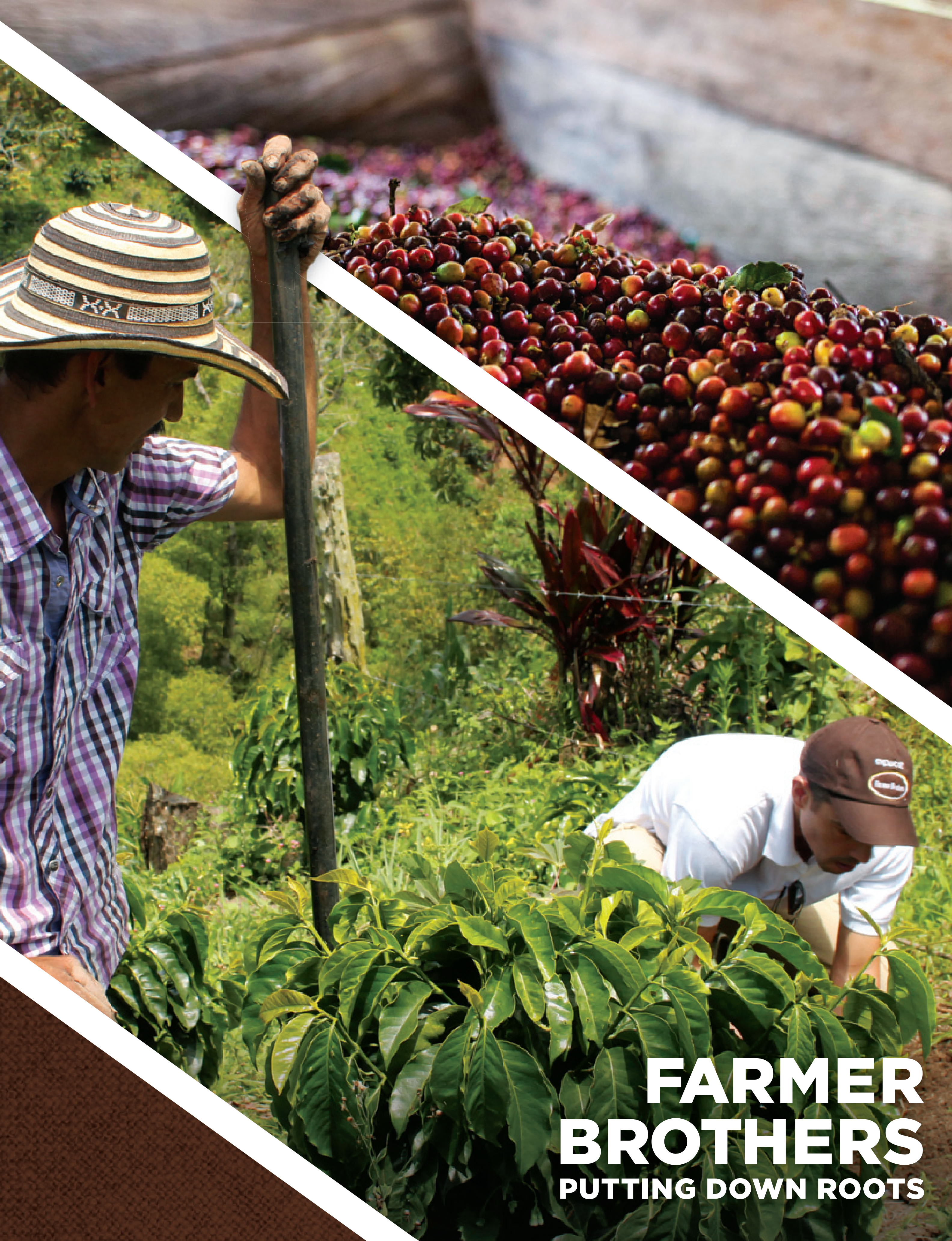


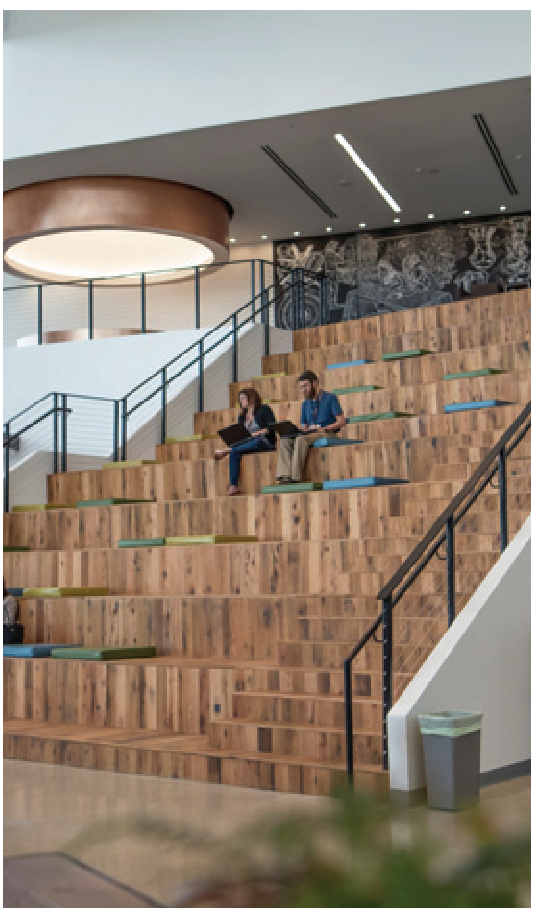
FARMER BROTHERS

PUTTING DOWN ROOTS

Fellow Stockholders,

On behalf of our employees and Board of Directors, I am pleased to present the Farmer Brothers Annual Report for fiscal year 2017. This is the sixth letter I have had the privilege of writing to you. We have made significant progress over that time in terms of our financial performance, building the organization and development of new capabilities, and execution of key strategic initiatives. That said, with this sixth letter, I have never been more excited for our prospects in the future.

Over the past year, we continued to make meaningful progress, which is reflected in our coffee volume growth and gross margin expansion compared to the prior fiscal year. The balance sheet remains strong, and our financial base is very solid. Most importantly, we believe that the Company is well positioned to continue driving stockholder value, as we look forward to next year. In addition to our stronger financial performance in fiscal 2017, I would like to highlight our progress on a few of our notable recent initiatives.



The Relocation to Northlake, Texas is Complete!

Our vision to create a facility which would appeal to new customers, attract and retain world class talent, utilize state-of-the-art technology to drive a lower-cost platform, and reflect our commitment to sustainability, is taking shape very well.

During the fiscal year, we successfully completed our move from Torrance, California to Northlake, Texas, which included the hiring and on-boarding of approximately 220 new team members. The headquarters is an inspiring place to work and highlights our commitment to high quality, innovation, and sustainably sourced coffee. We completed and began using the distribution center in the first half of the fiscal year, and we saw improvements from our transition to the use of third-party logistics. The roasting facility began operation in March, 2017, with an annualized production rate of roughly six million pounds of coffee by the end of fiscal 2018. We are working to achieve the food safety certifications we enjoy in Houston and Portland, which we expect by the end of fiscal 2018. Through all of this, our team maintained excellent customer service.

Organizationally, we are learning how to work better together. We continue to advance our performance-oriented culture across the organization with improved human capital systems and a renewed diversity and inclusion program. Additionally, we have made important progress improving our safety programs and results.

Main Cover Photo: Farmer Brothers Producer Relations Coordinator, Daniel Cifuentes (right), plants a coffee tree at El Encanto—the farm of one of our Direct Trade coffee growers, Oscar Restrepo (left)—in Salgar Antioquia, Colombia. Oscar Restrepo is one of the leaders of our Direct Trade Verified Sustainable cooperative of Salgar.

M&A Strategy

We are extremely focused on excellence in executing effective integration for our acquired businesses. This fiscal year included planning and due diligence for the recent acquisition of substantially all of the assets of Boyd Coffee Company. This acquisition is aimed at profitable growth, bringing in the business of a similarly well-established coffee roaster, with a long history of exceptional customer service to the food service industry. We believe that our experience with the China Mist and West Coast Coffee acquisitions have helped to prepare us for the integration of the Boyd business, and collectively can help to bring our organization the experience for any potential future acquisition opportunities that may arise.

Customer Development and Acquisition

Customers continue to recognize the quality and value proposition of Farmer Brothers. We increased total coffee pound volume by 5%, which included a combination of new business wins across multiple channels and a strong re-commitment from our existing customer base. During the third quarter of the fiscal year we launched a new channel-based selling model in our DSD organization designed to further improve customer acquisition results. This helped us end the fiscal year with additional prospects in our active pipeline. The new sales strategy should drive profitable volume and position us well for the future.

> **“We continue to further elevate our sustainability leadership in the coffee industry.”**

Social Responsibility

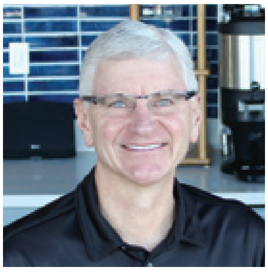
We continue to further elevate our sustainability leadership in the coffee industry. Our most recent Sustainability Report (viewable on our website) illustrates the significant progress the Company is making in sustainable practices at origin to conserve resources and encourage biodiversity; promote social, environmental and product compliance standards in our supply chain; reduce waste-to-landfill; and improve energy efficiency within our roasting plants.

In June, Farmer Brothers became the first coffee focused company in the world to receive approval from the Science Based Targets Initiative for its science based carbon reduction targets. This aligns our sustainability targets with global climate scientists to practice our intention to contribute to a better future. Further, we challenged our business partners to meet our standards for sustainability goals that impact human rights initiatives, waste reduction, environmental improvements, and ethical trade practices. Lastly, we continue to support key leaders in this space with the core of our efforts focused on World Coffee Research which continues to make meaningful progress in finding solutions to ensure the future of coffee in a world experiencing changes in climate in key coffee growing areas around the world.

Looking Forward

Our focus across the organization continues to be on unlocking Farmer Brothers' full potential to drive additional value for our stockholders consistently over time. We will continue to honor our heritage and proud history as we move the Company towards its next chapter!

I look forward to sharing more about our progress and future plans for growth at our Annual Meeting of Stockholders on December 7, 2017 in Fort Worth, Texas.



All the best,

Michael H. Keown
President and Chief Executive Officer
Farmer Bros. Co.

Farmer Brothers®

PROXY STATEMENT

Dear Fellow Stockholder:

You are cordially invited to attend the 2017 Annual Meeting of Stockholders (the "Annual Meeting") of Farmer Bros. Co. (the "Company"), which will be held at the Marriott Hotel & Golf Club at Champions Circle, 3300 Championship Parkway, Fort Worth, Texas 76177, on Thursday, December 7, 2017, at 10:00 a.m., Central Standard Time. The formal Notice of Annual Meeting of Stockholders and Proxy Statement, which are contained in the following pages, outline the actions that will, or may, if properly presented, be taken by the stockholders at the meeting. You should also have received a proxy card or voting instruction form and postage-paid return envelope, which are being solicited on behalf of our Board of Directors (the "Board"). Participants in the Farmer Bros. Co. Employee Stock Ownership Plan should follow the instructions provided by the plan trustee, GreatBanc Trust Company.

It is important that your shares be represented at the Annual Meeting whether or not you are personally able to attend. Accordingly, after reading the attached Notice of Annual Meeting of Stockholders and Proxy Statement, please promptly submit your proxy as described on your proxy card or voting instruction form. If you choose to submit your proxy to vote your shares by the proxy card or voting instruction form, please sign, date and mail the proxy card or voting instruction form in the enclosed postage-paid return envelope. You may also submit a proxy to vote by telephone or Internet. Instructions for submitting a proxy over the Internet or by telephone are provided on the enclosed proxy card. Your cooperation is greatly appreciated.

We look forward to sharing more about the Company at the Annual Meeting. In addition to the business to be transacted and described in the accompanying Notice of Annual Meeting of Stockholders and Proxy Statement, we will discuss recent developments and strategic initiatives during the past year, and respond to comments and questions of general interest.

On behalf of the Board, we thank you for your interest and investment in the Company. We look forward to seeing you on December 7, 2017. As a final note and also on behalf of the Board, we would like to thank Guenter W. Berger and Hamideh Assadi, who are not standing for re-election, for their dedication, commitment and longstanding service to the Company.

Sincerely yours,

Michael H. Keown	Randy E. Clark
President and Chief Executive Officer	Chairman of the Board of Directors

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The attached Proxy Statement is dated October 27, 2017 and is first being mailed on or about October 30, 2017.

FARMER BROS. CO.

1912 Farmer Brothers Drive
Northlake, Texas 76262

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS
TO BE HELD ON DECEMBER 7, 2017

TO THE STOCKHOLDERS OF FARMER BROS. CO.:

NOTICE IS HEREBY GIVEN that the 2017 Annual Meeting of Stockholders (the "Annual Meeting") of Farmer Bros. Co., a Delaware corporation (the "Company" or "Farmer Bros."), will be held at the Marriott Hotel & Golf Club at Champions Circle, 3300 Championship Parkway, Fort Worth, Texas 76177, on Thursday, December 7, 2017, at 10:00 a.m., Central Standard Time, for the following purposes:

1. To elect two Class II directors to the Board of Directors (the "Board") of the Company for a three-year term of office expiring at the Company's 2020 Annual Meeting of Stockholders and until their successors are elected and duly qualified;

2. To ratify the selection of Deloitte & Touche LLP as the Company's independent registered public accounting firm for the fiscal year ending June 30, 2018;

3. To hold an advisory (non-binding) vote to approve the compensation paid to the Company's named executive officers;

4. To hold an advisory (non-binding) vote on the frequency of future stockholder advisory votes to approve the compensation paid to the Company's named executive officers; and

5. To transact such other business as may properly come before the Annual Meeting or any continuation, postponement or adjournment thereof.

The foregoing items of business are more fully described in the Proxy Statement accompanying this Notice of Annual Meeting of Stockholders. The Board recommends: a vote "FOR" each of the two nominees for director named in the accompanying Proxy Statement, a vote "FOR" Proposals Nos. 2 and 3, and a vote of "ONE YEAR" for Proposal No. 4 on the enclosed proxy card.

The Board has fixed the close of business on October 23, 2017 as the record date for the determination of stockholders entitled to notice of, and to vote at, the Annual Meeting and at any continuation, postponement or adjournment thereof.

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IMPORTANT NOTICE REGARDING THE AVAILABILITY OF PROXY MATERIALS
FOR THE 2017 ANNUAL MEETING OF STOCKHOLDERS TO BE HELD ON DECEMBER 7, 2017

This Notice of Annual Meeting of Stockholders, the accompanying Proxy Statement, the Company's 2017 Annual Report, which includes its Annual Report on Form 10-K for the fiscal year ended June 30, 2017, and form proxy card are available at: *http://proxy.farmerbros.com*.

Please submit a proxy as soon as possible so that your shares can be represented and voted at the Annual Meeting in accordance with your instructions. By submitting your proxy promptly, you will save the Company the expense of further proxy solicitation. For specific instructions on submitting a proxy to have your shares voted, please refer to the instructions on the proxy card or the information forwarded by your bank, broker or other nominee. Even if you have submitted a proxy, you may still vote in person if you attend the Annual Meeting. Please note, however, that if your shares are held of record by a bank, broker or other nominee and you wish to vote in person at the Annual Meeting, you must obtain a legal proxy issued in your name from such bank, broker or other nominee. If you are a beneficial holder of shares held in "street name," you should follow the voting instructions provided by your bank, broker or other nominee to ensure that your shares are represented and voted at the Annual Meeting.

If you are a participant in the Farmer Bros. Co. Employee Stock Ownership Plan (the "ESOP"), you should follow the instructions provided by the ESOP trustee, GreatBanc Trust Company (the "ESOP Trustee"), with respect to having the shares allocated to you in the ESOP voted at the Annual Meeting. If you are an ESOP participant, although you may attend the Annual Meeting, you will not be able to cast a vote at the Annual Meeting with respect to any shares you hold through the ESOP.

Your vote is very important. Please submit your proxy even if you plan to attend the Annual Meeting. To submit a proxy to vote your shares over the Internet or by telephone, please follow the instructions on the enclosed proxy card.

By Order of the Board of Directors

TERI L. WITTEMAN
Secretary

Northlake, Texas
October 27, 2017

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The accompanying Proxy Statement provides a detailed description of the business to be conducted at the Annual Meeting. We urge you to read the accompanying Proxy Statement carefully and in its entirety.

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FARMER BROS. CO.

1912 Farmer Brothers Drive
Northlake, Texas 76262

PROXY STATEMENT

INFORMATION CONCERNING VOTING AND SOLICITATION

What are the date, time and place of the Annual Meeting?

The enclosed proxy card is being delivered with this Proxy Statement on behalf of the Board of Directors (the "Board of Directors" or the "Board") of Farmer Bros. Co., a Delaware corporation (the "Company," "we," "our" or "Farmer Bros."), in connection with the 2017 Annual Meeting of Stockholders (the "Annual Meeting") to be held on Thursday, December 7, 2017, at 10:00 a.m., Central Standard Time, or at any continuation, postponement or adjournment thereof, for the purposes described in this Proxy Statement and in the accompanying Notice of Annual Meeting of Stockholders, and to transact such other business as may properly come before the Annual Meeting. Proxies are solicited to give all stockholders of record an opportunity to vote on matters properly presented at the Annual Meeting. The Company intends to mail this Proxy Statement, the accompanying proxy card and the Company's 2017 Annual Report, which includes its Annual Report on Form 10-K for the fiscal year ended June 30, 2017 ("2017 Form 10-K"), on or about October 30, 2017 to all stockholders entitled to notice of and to vote at the Annual Meeting. The Annual Meeting will be held at the Marriott Hotel & Golf Club at Champions Circle, 3300 Championship Parkway, Fort Worth, Texas 76177. If you plan to attend the Annual Meeting in person, you should review the details below under the section captioned "Who can attend the Annual Meeting?"

What am I voting on?

You will be entitled to vote on the following proposals at the Annual Meeting:

- The election of two Class II directors to serve on our Board for a three-year term of office expiring at the Company's 2020 Annual Meeting of Stockholders and until their successors are elected and duly qualified;
- The ratification of the selection of Deloitte & Touche LLP ("Deloitte") as our independent registered public accounting firm for the fiscal year ending June 30, 2018;
- The approval, on an advisory (non-binding) basis, of the compensation paid to the Company's named executive officers; and
- The approval, on an advisory (non-binding) basis, of the frequency of future stockholder advisory votes to approve the compensation paid to the Company's named executive officers.

How does the Board recommend that I vote?

The Board recommends that you vote using the enclosed proxy card:

- "FOR" the election of each of the two nominees named herein to serve on our Board as Class II directors for a three-year term of office expiring at the Company's 2020 Annual Meeting of Stockholders and until their successors are elected and duly qualified;
- "FOR" the ratification of the selection of Deloitte as our independent registered public accounting firm for the fiscal year ending June 30, 2018;
- "FOR" the approval of, in an advisory (non-binding) vote, the compensation paid to our named executive officers; and
- "ONE YEAR" in an advisory (non-binding vote), for the frequency of conducting future stockholder advisory votes to approve the compensation paid to our named executive officers.

Who can vote?

The Board has set October 23, 2017 as the record date (the "Record Date") for the Annual Meeting. You are entitled to notice of and to vote at the Annual Meeting any shares of common stock, par value $1.00 per share, of the Company ("Common Stock"), and any shares of Series A Convertible Participating Cumulative Perpetual Preferred Stock, par value $1.00 per share, of the Company ("Series A Preferred Stock"), on an as-converted basis, in each case, of which you are the holder of record as of the close of business on the Record Date. Each share of Series A Preferred Stock entitles the holder(s) thereof to vote on an as-converted basis together with the holders of Common Stock as a single class. Your shares may be voted at the Annual Meeting only if you are present in person or your shares are represented by a valid proxy. A list of stockholders entitled to vote at the Annual Meeting will be available for examination by any stockholder for any purpose germane to the Annual Meeting during ordinary business hours at the principal executive offices of the Company located at 1912 Farmer Brothers Drive, Northlake, Texas 76262 for the ten days prior to the Annual Meeting and also at the Annual Meeting.

How many shares are outstanding and how many shares are needed for a quorum?

At the close of business on the Record Date, 16,843,270 shares of Common Stock entitled to 16,843,270 votes, and 14,700 shares of Series A Preferred Stock entitled to 383,611 votes, for a total of 17,226,881 votes, were outstanding and entitled to vote at the Annual Meeting. Each share of Series A Preferred Stock entitles the holder(s) thereof to vote on an as-converted basis together with the holders of the Common Stock as a single class. The Company has no other class of securities outstanding.

A majority of the issued and outstanding shares of Common Stock and Series A Preferred Stock (on an as-converted basis voting together with the Common Stock as a single class) present in person or represented by proxy and entitled to vote at the Annual Meeting will constitute a quorum at the Annual Meeting, which quorum is required to hold the Annual Meeting and conduct business. If you are a record holder of shares of Common Stock or Series A Preferred Stock as of the Record Date and you submit your proxy, regardless of whether you abstain from voting on one or more matters, your shares will be counted as present at the Annual Meeting for the purpose of determining a quorum. If your shares are held in "street name," your shares are counted as present for purposes of determining a quorum if your bank, broker or other nominee submits a proxy covering your shares. Your broker, bank or other nominee is entitled to submit a proxy covering your shares as to certain "routine" matters, even if you have not instructed your broker, bank or other nominee on how to vote on such matters. In the absence of a quorum, the Annual Meeting may be adjourned, from time to time, by vote of the holders of a majority of the total number of shares of Common Stock and Series A Preferred Stock (on an as-converted basis voting together with the Common Stock as a single class) represented and entitled to vote at the Annual Meeting.

What is the difference between a record holder and a beneficial owner?

If at the close of business on the Record Date your shares were registered directly in your name, you are considered the "record holder" of your shares. If, on the other hand, at the close of business on the Record Date your shares were held in an account at a brokerage firm, bank, dealer, or other similar organization or other nominee, then you are the beneficial owner of shares held in "street name" and the proxy materials, as applicable, are being forwarded to you by that organization. The organization holding your account is considered the stockholder of record for purposes of voting at the Annual Meeting. As a beneficial owner, you have the right to direct that organization on how to vote the shares in your account. **If you hold your shares in "street name," please instruct your bank, broker or other nominee how to vote your shares using the voting instruction form provided by your bank, broker or other nominee so that your vote can be counted.** The voting instruction form provided by your bank, broker or other nominee may also include information about how to submit your voting instructions over the Internet or telephonically, if such options are available.

How can I vote my shares?

You may vote your shares at the Annual Meeting using one of the following methods (please also see the information provided above concerning the difference between holding shares as a record holder and holding shares beneficially through a bank, broker or other nominee—beneficial holders should follow the voting instructions provided by such bank, broker or other nominee):

- **By mail**. You may vote your shares by completing, signing and mailing the enclosed proxy card included with these proxy materials (or voting instruction form in the case of beneficial holders). Please refer to your proxy card or voting instruction form for instructions on either submitting your proxy or voting by mail.

- **Over the Internet**. If you have access to the Internet, you may submit your proxy over the Internet by following the instructions included on the enclosed proxy card (or voting instruction form in the case of beneficial holders for whom Internet voting is available). Please refer to your proxy card or voting instruction form for instructions on either submitting a proxy or voting over the Internet.

- **By telephone**. You may submit a proxy to have your shares voted by calling a toll-free telephone number listed on the enclosed proxy card (or voting instruction form in the case of beneficial holders for whom telephone voting is available). Please refer to your proxy card or voting instruction form for instructions on submitting a proxy by phone.

- **In person at the Annual Meeting**. Stockholders are invited to attend the Annual Meeting and vote in person at the Annual Meeting. If you are a beneficial owner of shares you must obtain a legal proxy from the bank, broker or other nominee of your shares to be entitled to vote those shares in person at the Annual Meeting. If you are a record holder, you are encouraged to complete, sign and date the enclosed proxy card and mail it in the enclosed postage-paid envelope regardless of whether or not you plan to attend the Annual Meeting. If you hold your shares in "street name," you are encouraged to follow the voting instructions provided by your bank, broker or other nominee to ensure that your shares are represented and voted at the Annual Meeting.

A control number, located on the instructions included with the proxy card, is designated to verify your identity and allow you to vote your shares and confirm that your voting instructions have been recorded properly. If you submit your proxy over the Internet or by telephone, there is no need to return a signed proxy card. However, you may change your voting instructions by subsequently completing, signing and delivering the proxy card.

As noted above, if you hold shares beneficially in street name through a bank, broker or other nominee, you may vote your shares by following the voting instructions provided by your bank, broker or other nominee. Telephone and Internet voting may be also available—please refer to the voting instruction form provided by your bank, broker or other nominee for more information.

How do I vote if I am an ESOP participant?

The ESOP owns approximately 10.8% of the Company's outstanding voting securities, based on 16,843,270 shares of Common Stock and 14,700 shares of Series A Preferred Stock, representing 383,611 shares of Common Stock on an as-converted basis, outstanding as of October 23, 2017. Each ESOP participant has the right to direct the ESOP Trustee on how to vote the shares of Common Stock allocated to his or her account under the ESOP. The ESOP Trustee will vote all of the unallocated ESOP shares (i.e., shares of Common Stock held in the ESOP, but not allocated to any participant's account) and allocated shares for which no voting directions are timely received by the ESOP Trustee, in its independent fiduciary discretion. If you are an ESOP participant and want to revoke any prior voting instructions you provided to the ESOP Trustee in respect of the Annual Meeting, you must contact the ESOP Trustee.

If you are a participant in the ESOP, although you may attend the Annual Meeting in person, you will not be able to cast a vote at the meeting with respect to any shares you hold through the ESOP.

Who can attend the Annual Meeting?

Admission to the Annual Meeting is limited to stockholders and their duly-appointed proxy holders as of the close of business on the Record Date with proof of ownership of the Company's Common Stock or Series A Preferred Stock, as well as valid government-issued photo identification, such as a valid driver's license or passport. If your shares are held in the name of a bank, broker or other nominee and you plan to attend the Annual Meeting, you must present proof of your ownership of Common Stock or Series A Preferred Stock, such as a bank or brokerage account statement, to be admitted to the Annual Meeting. If you are a participant in the ESOP, although you may attend the Annual Meeting in person, you will not be able to cast a vote at the meeting with respect to any shares you hold through the ESOP. Any holder of a proxy from a stockholder must present the proxy card, properly executed, and a copy of proof of ownership.

We will be unable to admit anyone who does not present identification or refuses to comply with our security procedures. No cameras, recording equipment, electronic devices, large bags or packages will be permitted at the Annual Meeting. You are encouraged to submit a proxy to have your shares voted regardless of whether or not you plan to attend the Annual Meeting. **Your vote is very important. Please submit your proxy card even if you plan to attend the Annual Meeting.**

How will votes be tabulated?

All votes will be tabulated by the inspector of election appointed by the Company for the Annual Meeting, who will separately tabulate affirmative and negative votes and abstentions in accordance with Delaware law.

What is a "broker non-vote"?

A "broker non-vote" occurs when a nominee holding shares for a beneficial owner has not received voting instructions from the beneficial owner and does not have discretionary authority to vote the shares. If you hold your shares in street name and do not provide voting instructions to your bank, broker or other nominee, your shares will be considered to be broker non-votes and will not be voted on any proposal on which your bank, broker or other nominee does not have discretionary authority to vote. Brokers generally do not have discretionary voting power (i.e., they cannot vote) on non-routine matters without specific instructions from their customers. Proposals are determined to be routine or non-routine matters based on the rules of the various regional and national exchanges of which the brokerage firm is a member. Shares that constitute broker non-votes will be counted as present at the Annual Meeting for the purpose of determining a quorum, but will not be considered entitled to vote on the proposal in question. Brokers generally have discretionary authority to vote on the ratification of the selection of Deloitte as our independent registered public accounting firm. Brokers, however, do not have discretionary authority to vote on the election of directors to serve on our Board, the advisory vote to approve the compensation paid to our named executive officers, and the advisory vote on the frequency of future stockholder advisory votes to approve the compensation paid to our named executive officers because they are considered non-routine matters. Consequently, without your voting instructions, the bank, broker or other nominee that holds your shares cannot vote your shares on these proposals.

What vote is required to approve each proposal?

Election of Directors. Directors are elected by a plurality of the votes of the shares of Common Stock and Series A Preferred Stock (on an as-converted basis voting together with the Common Stock as a single class) present in person or represented by proxy at the Annual Meeting and entitled to vote on the election of directors. This means that the two individuals nominated for election to the Board at the Annual Meeting who receive the highest number of properly cast "FOR" votes (among votes properly cast in person or by proxy) will be elected as directors. In director elections, stockholders may either vote "FOR" or withhold voting authority with respect to director nominees. Shares voting "withhold" are counted for purposes of determining a quorum. However, if you withhold authority to vote with respect to the election of either or both of the nominees, your shares will not be voted with respect to those nominees indicated. Therefore, "withhold" votes will not affect the outcome of the election of directors. Broker non-votes will also not affect the outcome of the election of directors.

Ratification of Accountants. The ratification of the selection of Deloitte as our independent registered public accounting firm for the fiscal year ending June 30, 2018 requires the affirmative vote of a majority of the shares of Common Stock and Series A Preferred Stock (on an as-converted basis voting together with the Common Stock as a single class) present or represented by proxy at the Annual Meeting and entitled to vote thereat. Abstentions will have the same effect as votes "against" the ratification. Because brokers have discretionary authority to vote on the ratification, we do not expect any broker non-votes in connection with the ratification.

Advisory (Non-Binding) Vote to Approve the Compensation Paid to our Named Executive Officers. The advisory (non-binding) vote to approve the compensation paid to the Company's named executive officers requires the affirmative vote of a majority of the shares of Common Stock and Series A Preferred Stock (on an as-converted basis voting together with the Common Stock as a single class) present or represented by proxy at the Annual Meeting and entitled to vote thereat. Abstentions will have the same effect as votes "against" the proposal. Broker non-votes will not affect the outcome of the proposal because shares held by a bank, broker or other nominee who has not received instructions from the beneficial owner of the shares as to how the shares are to be voted on the proposal are not entitled to vote on such proposal at the Annual Meeting.

Advisory (Non-Binding) Vote to Approve the Frequency of Future Stockholder Advisory Votes to Approve the Compensation Paid to our Named Executive Officers. The advisory (non-binding) vote to approve the frequency of future stockholder advisory votes to approve the compensation paid to the Company's named executive officers requires the affirmative vote of a majority of the shares of Common Stock and Series A Preferred Stock (on an as-converted basis voting together with the Common Stock as a single class) present or represented by proxy at the Annual Meeting and entitled to vote thereat. If none of the frequency alternatives (one year, two years or three years) receives the vote of a majority of the shares of Common Stock and Series A Preferred Stock (on an as-converted basis voting together with the Common Stock as a single class) present or represented by proxy and entitled to vote on the matter, we will consider the highest number of votes cast by stockholders to be the frequency that has been selected by our stockholders. Abstentions will have no effect on the proposal. Broker non-votes will not affect the outcome of the proposal because shares held by a bank, broker or other nominee who has not received instructions from the beneficial owner of the shares as to how the shares are to be voted on the proposal are not entitled to vote on such proposal at the Annual Meeting.

What do I do if I receive more than one proxy card or voting instruction form?

If you receive more than one proxy card or voting instruction form from your bank, broker or other nominee, it means you hold shares that are registered in more than one name or account. To ensure that all of your shares are voted, sign, date and return each proxy card or voting instruction form. To vote by telephone or over the Internet, follow the instructions for voting over the Internet or by telephone provided on the enclosed proxy card or provided on the voting instruction form provided by your bank, broker or other nominee.

How will my shares be voted if I sign, date and return the proxy card but do not specify how I want my shares to be voted?

As a stockholder of record, if you sign, date and return the proxy card but do not specify how you want your shares to be voted, your shares will be voted by the proxy holders named in the enclosed proxy as follows:

- "FOR" the election of each of the two Board nominees named herein to serve on our Board as Class II directors for a three-year term of office expiring at the Company's 2020 Annual Meeting of Stockholders and until their successors are elected and duly qualified;
- "FOR" the ratification of the selection of Deloitte as our independent registered public accounting firm for the fiscal year ending June 30, 2018;

- "FOR" the approval of, in an advisory (non-binding) vote, the compensation paid to our named executive officers; and
- "ONE YEAR" in an advisory (non-binding vote), for the frequency of conducting future stockholder advisory votes to approve the compensation paid to our named executive officers.

In their discretion, the proxy holders named in the enclosed proxy are authorized to vote on any other matters that may properly come before the Annual Meeting and at any continuation, postponement or adjournment thereof. The Board of Directors knows of no other items of business that will be presented for consideration at the Annual Meeting other than those described in this Proxy Statement. In addition, no stockholder proposal or nomination was received on a timely basis, so no such matters may be brought to a vote at the Annual Meeting.

How can I revoke a proxy?

If you vote by proxy, you may revoke that proxy or change your vote at any time before it is voted at the Annual Meeting. Stockholders of record may revoke a proxy or change their vote prior to the Annual Meeting by sending to the Company's Secretary, at the Company's principal executive offices at 1912 Farmer Brothers Drive, Northlake, Texas 76262, a written notice of revocation or a duly executed proxy bearing a later date, by attending the Annual Meeting in person and voting in person, or by submitting a proxy over the Internet or by telephone by following the instructions on the proxy card. Please note that attendance at the Annual Meeting will not, by itself, revoke a proxy.

If your shares are held in the name of a bank, broker or other nominee, you may change your vote by submitting a new voting instruction form to your bank, broker or other nominee. Please note that if your shares are held of record by a bank, broker or other nominee, and you decide to attend and vote at the Annual Meeting, your vote in person at the Annual Meeting will not be effective unless you present a legal proxy, issued in your name from the record holder (your bank, broker or other nominee). ESOP participants must contact the ESOP Trustee directly to revoke any prior voting instructions.

When will the voting results be announced?

The final voting results will be reported in a Current Report on Form 8-K, which will be filed with the Securities and Exchange Commission (the "SEC") within four business days after the Annual Meeting. If our final voting results are not available within four business days after the Annual Meeting, we will file a Current Report on Form 8-K reporting the preliminary voting results and subsequently file the final voting results in an amendment to the Current Report on Form 8-K within four business days after the final voting results are known to us.

Are there interests of certain persons in matters to be acted upon?

No director or executive officer of the Company who has served at any time since the beginning of the 2017 fiscal year, and no nominee for election as a director of the Company, or any of their respective associates, has any substantial interest, direct or indirect, in any matter to be acted upon at the Annual Meeting other than Proposal No. 1–Election of Directors. No director has informed the Company in writing that he or she intends to oppose any action intended to be taken by the Company at the Annual Meeting.

Who will solicit proxies on behalf of the Board?

Proxies may be solicited on behalf of the Board, without additional compensation, by the Company's directors, director nominees and certain executive officers and other employees of the Company. The original solicitation of proxies by mail may be supplemented by telephone, telegram, facsimile, electronic mail, Internet and personal solicitation by our directors, director nominees and certain of our executive officers and other employees (who will receive no additional compensation for such solicitation activities). You may also be solicited by advertisements in periodicals, press releases issued by us and postings on our corporate website or other websites. Unless expressly indicated otherwise, information contained on our corporate website is not part of this Proxy Statement. In addition, none of the information on the other websites listed in this Proxy Statement is part of this Proxy Statement. These website addresses are intended to be inactive textual references only.

Who is paying for the cost of this proxy solicitation?

The entire cost of soliciting proxies on behalf of the Board, including the costs of preparing, assembling, printing and mailing this Proxy Statement, the proxy card and any additional soliciting materials furnished to stockholders by, or on behalf of, the Company, will be borne by the Company. Copies of the Company's solicitation material will be furnished to banks, brokerage houses, dealers, the ESOP Trustee, voting trustees, their respective nominees and other agents holding shares in their names, which are beneficially owned by others, so that they may forward such solicitation material, together with our 2017 Annual Report, which includes our 2017 Form 10-K, to beneficial owners. In addition, if asked, the Company will reimburse these persons for their reasonable expenses in forwarding these materials to the beneficial owners.

How can I obtain additional copies of these materials or copies of other documents?

Complete copies of this Proxy Statement and the 2017 Annual Report, which includes our 2017 Form 10-K, and directions to the Annual Meeting are also available at *http://proxy.farmerbros.com*. You are encouraged to access and review all of the important information contained in the proxy materials before voting.

PROPOSAL NO. 1

ELECTION OF DIRECTORS

General

Under the Company's Certificate of Incorporation, as amended (the "Certificate of Incorporation"), and Amended and Restated By-Laws ("By-Laws"), the Board of Directors is divided into three classes, each class consisting, as nearly as possible, of one-third of the total number of directors, with members of each class serving for a three-year term. Each year only one class of directors is subject to a stockholder vote. Class II consists of two directors whose term of office expires at the Annual Meeting and whose successors will be elected at the Annual Meeting to serve until the 2020 Annual Meeting of Stockholders. Class III consists of two directors, continuing in office until the 2018 Annual Meeting of Stockholders. Class I consists of three directors, continuing in office until the 2019 Annual Meeting of Stockholders.

The authorized number of directors is set forth in the Company's Certificate of Incorporation and shall consist of not less than five nor more than nine members, the exact number of which shall be fixed from time to time by resolution of the Board. The authorized number of directors is currently seven. If the number of directors is changed, any increase or decrease will be apportioned among the classes so as to maintain the number of directors in each class as nearly equal as possible. Any vacancy on the Board of Directors that results from an increase in the number of directors may be filled by a majority of the directors then in office, provided that a quorum is present, and any other vacancy occurring on the Board of Directors may be filled by a majority of the directors then in office, even if less than a quorum, or by the sole remaining director. Any director of any class elected to fill a vacancy resulting from an increase in the number of directors of such class will hold office for a term that will coincide with the remaining term of that class. Any director elected to fill a vacancy not resulting from an increase in the number of directors will have the same remaining term as that of his or her predecessor.

Based on the recommendation of the Nominating and Corporate Governance Committee, the Board has nominated Allison M. Boersma and David W. Ritterbush for election to the Board as Class II directors. If elected at the Annual Meeting, each would serve until the 2020 Annual Meeting of Stockholders and until his or her successor is elected and duly qualified, subject, however, to prior death, resignation, retirement, disqualification or removal from office. The director nominees were brought to the attention of the Nominating and Corporate Governance Committee by Spencer Stuart, whom the Nominating and Corporate Governance Committee retained in 2017 to assist with identifying potential director nominees. The functions performed by Spencer Stuart included identifying qualified candidates, conducting interviews and background checks, and presenting qualified candidates to the Nominating and Corporate Governance Committee for consideration. Ms. Boersma and Mr. Ritterbush have been nominated for election to the seats currently held by Hamideh Assadi and Guenter W. Berger, who will each serve out the remainder of their terms as Class II directors through the Annual Meeting. Each of Ms. Boersma and Mr. Ritterbush has agreed to be named in this Proxy Statement and serve if elected. We have no reason to believe that either such nominee will be unable to serve if elected.

All of the present directors were elected to their current terms by the stockholders. There are no family relationships among any directors, nominees for director or executive officers of the Company. Except as disclosed below, none of the continuing directors or nominees is a director of any other publicly held company.

Vote Required

Each share of Common Stock is entitled to one vote for each of the two director seats to be filled at the Annual Meeting. Each share of Series A Preferred Stock is entitled to vote on an as-converted basis together with the Common Stock as a single class for each of the two director seats to be filled at the Annual Meeting. Each stockholder will be given the option of voting "FOR" or withholding authority to vote for each nominee. Cumulative voting is not permitted. It is the intention of the proxy holders named in the enclosed proxy to vote the proxies received by them "FOR" the election of the two director nominees named herein unless the proxies direct otherwise. If either of the director nominees should be unable to serve or for good cause will not serve, your proxy will be voted for such substitute nominee(s) as the holders of your proxy, acting in their discretion, may determine.

Directors are elected by a plurality of the votes of the shares of Common Stock and Series A Preferred Stock (on an as-converted basis voting together with the Common Stock as a single class) present in person or represented by proxy at the Annual Meeting and entitled to vote on the election of directors. This means that the two individuals nominated for election to the Board at the Annual Meeting who receive the largest number of properly cast "FOR" votes (among votes properly cast in person or by proxy) will be elected as directors. In director elections, stockholders may either vote "FOR" or withhold voting authority with respect to director nominees. Shares voting "withhold" are counted for purposes of determining a quorum. However, if you withhold authority to vote with respect to the election of either or both of the two nominees, your shares will not be voted with respect to those nominees indicated. Therefore, "withhold" votes will not affect the outcome of the election of directors. Brokers do not have discretionary authority to vote on the election of directors. Broker non-votes and abstentions will have no effect on the election of directors.

Nominees for Election as Directors

Set forth below is biographical information for each of the Board's nominees for election as a Class II director at the Annual Meeting, including a summary of the specific experience, qualifications, attributes and skills which led our Board to conclude that the individual should serve on the Board at this time, in light of the Company's business and structure.

Allison M. Boersma, age 52, is currently the CFO and COO of BRG Sports Inc., a corporate holding company of leading brands that design, develop and market innovative sports equipment, protective products, apparel and related accessories. The company's core football brand, Riddell, is the industry leader in football helmet technology and innovation. Ms. Boersma has served as the finance and operations leader for BRG Sports since April 2016, responsible for financial oversight, including planning, treasury and risk management; leadership of global sourcing, manufacturing and distribution; human resources; strategic planning and acquisitions; and manufacturing strategy. Ms. Boersma has also served as CFO and COO of Riddell Inc., since May 2014, and SVP Finance, CFO Riddell, from February 2009 to May 2014. Previously, Ms. Boersma was a finance executive with Kraft Foods, a multinational confectionery, food and beverage conglomerate, for over 17 years, with various positions of increasing responsibility, including serving as Sr. Director Finance, Global Procurement, from May 2007 to February 2009, with leadership and oversight of commodity hedging and risk management, including for coffee; execution of global strategies to improve supplier performance; commodity tracking and derivative accounting. Other positions with Kraft included Controller, Grocery Sector; Controller, Meals Division; Director, Sales Finance, Kraft Food Services Division; and Senior Manager, Corporate Financial Business Analysis. Ms. Boersma began her career as a Senior Auditor with Coopers & Lybrand. Ms. Boersma received her undergraduate degree in Accountancy from the University of Illinois Champaign-Urbana, and her Masters of Management, Marketing and Finance, from JL Kellogg Graduate School of Management.

We believe Ms. Boersma's qualifications to serve on our Board include her CFO and COO leadership, coffee industry knowledge and foodservice experience, supply chain and manufacturing experience, accounting and financial expertise, as well as her experience in IT, risk assessment, strategy formation and execution, mergers and acquisitions, and global sourcing.

David W. Ritterbush, age 51, is currently the Chief Executive Officer of Quest Nutrition, LLC, a manufacturer and retailer of protein and nutrition food products. He has served in this position since March 2017, with oversight of the organization, including organizational structure, supply chain strategy, and product innovation. Prior to joining Quest Nutrition, Mr. Ritterbush served as Chief Executive Officer of Popchips (Sonora Mills, Inc.), a manufacturer of popped rice, corn, soy, and other grain-based snack food products, from August 2015 to February 2017. While at Popchips, Mr. Ritterbush's responsibilities included organization leadership, restructuring, sales turnaround, refreshed branding and new product innovation, supply chain restructuring, co-manufacturing and global procurement. Previously, from April 2009 to March 2015, Mr. Ritterbush held leadership positions with Premier Nutrition Corporation, a manufacturer and retailer of beverage products, bars and shakes, including Chief Executive Officer, Post Active Nutrition from April 2014 to March 2015; Chief Executive Officer, Premier Nutrition from August 2010 to March 2014; and Chief Operating Officer from April 2009 to August 2010. While at Premier Nutrition, Mr. Ritterbush reorganized the organization, led a significant turnaround of the supply chain across facilities and co-manufacturers, restructured the sales organization, and actively participated in strategy formation and acquisitions. Prior to this, Mr. Ritterbush was Vice President/General Manager-West Business Unit, for Red Bull North America, from October 2007 to March 2009, with leadership for the West Business Unit including sales, marketing, supply chain, finance and accounting. Previously, Mr. Ritterbush was a sales and marketing executive with Dreyer's Grand Ice Cream, Inc., for over 16 years, with various positions of increasing responsibility, including serving as Senior Vice President of Marketing-Packaged Products from October 2006 to October 2007, where he was responsible for product design, pricing, and consumer positioning. During this period, Mr. Ritterbush served as a member of Dreyer's Operating Committee, Dreyer's Graphics Development team, and a board member of the Starbuck's Ice Cream partnership. Mr. Ritterbush received his undergraduate degree in Business Administration, Marketing from San Diego State University.

We believe Mr. Ritterbush's qualifications to serve on our Board include his CEO leadership, as well as his experience in retail and national account foodservice, supply chain and manufacturing, marketing and consumer branding, millennial engagement, e-commerce, strategy formation and execution, turnaround experience, sustainability and corporate responsibility.

THE BOARD RECOMMENDS THAT STOCKHOLDERS VOTE "FOR" EACH OF THE NOMINEES NAMED ABOVE.

Directors Continuing in Office

Set forth below is biographical information for each director continuing in office and a summary of the specific experience, qualifications, attributes and skills which led our Board to conclude that the individual should serve on the Board at this time, in light of the Company's business and structure.

Name	Age	Director Since	Class	Term Expiration	Executive Committee	Audit Committee	Compensation Committee	Nominating and Corporate Governance Committee
Randy Clark	65	2012	III	2018	X	X	X	
Jeanne Farmer Grossman . .	67	2009	III	2018				
Michael H. Keown	55	2012	I	2019				
Charles F. Marcy.	67	2013	I	2019	X		X	Chair
Christopher P. Mottern	73	2013	I	2019	X	Chair		X

Randy E. Clark was appointed Chairman of the Board in December 2015. He is a retired foodservice executive. He has consulted for equity groups in the food industry since 2009 and has served on the Board of Trustees for Whitworth University since 2012. He served as President and Chief Executive Officer of Border Foods, Inc., the largest producer of green chile in the world and one of the largest producers of jalapeños in the United States, from 2008 to 2011. Mr. Clark's earlier experience includes serving as Chief Executive Officer of Fruit Patch, Inc., one of the largest distributors of stone fruits in the United States; President and Chief Executive Officer of Mike Yurosek & Son, LLC, a produce grower and processor; and Vice President, Sales, Marketing and Production with William Bolthouse Farms, a produce grower and processor. Mr. Clark was a Professor of Accounting and Marketing at the Master's College in Santa Clarita, California, from 1999 to 2003. Mr. Clark received his undergraduate degree from Cedarville College, an M.S. in Accounting from Kent State University, and a Doctorate in Organizational Leadership from Pepperdine University. Mr. Clark is a National Association of Corporate Directors ("NACD") Governance Fellow and has demonstrated his commitment to boardroom excellence by completing NACD's comprehensive corporate governance program for directors.

We believe Mr. Clark's qualifications to serve on our Board include his leadership as a former CEO, extensive background and experience in the foodservice business, IT, manufacturing and supply chain experience, involvement in sustainability and corporate responsibility, executive compensation experience, and his accounting and financial expertise.

Jeanne Farmer Grossman is a retired teacher. She is the sister of Carol Farmer Waite, who is a former director, and the late Roy E. Farmer, who served as Chairman of the Board from 2004 to 2005, Chief Executive Officer from 2003 to 2005, and President from 1993 to 2005, and the daughter of the late Roy F. Farmer, who served as Chairman of the Board from 1951 to 2004 and Chief Executive Officer from 1951 to 2003. Ms. Grossman received her undergraduate degree and teaching credentials from the University of California, Los Angeles. Ms. Grossman is an NACD Governance Fellow and has demonstrated her commitment to boardroom excellence by completing NACD's comprehensive corporate governance program for directors, completing UCLA Anderson School Director Education and Certification Program, attending a Financial Boot Camp Program, and attending in-house programs such as Coffee Hedging and Coffee & Tea Mastery Training.

We believe Ms. Grossman's qualifications to serve on our Board include her extensive knowledge of the Company's culture and sensitivity for Company core values, knowledge of the coffee and foodservice industries, extensive training in program creation and development, curriculum development, the development and evaluation of measurable objective protocol and individual/group task evaluation, as well as committee work in various areas including fundraising, staffing and outreach.

Michael H. Keown joined the Company as President and Chief Executive Officer on March 23, 2012. Prior to joining the Company, Mr. Keown served in various executive capacities at Dean Foods Company, a food and beverage company, from 2003 to March 2012. He was at WhiteWave Foods Company, a subsidiary of Dean Foods, from 2004 to March 2012, including as President, Indulgent Brands from 2006 to March 2012. He was also responsible for WhiteWave's alternative channel business comprised largely of foodservice. Mr. Keown served as President of the Dean Branded Products Group of Dean Foods from 2003 to 2004. Mr. Keown joined Dean Foods from The Coca-Cola Company, where he served as Vice President and General Manager of the Shelf Stable Division of The Minute Maid Company. Mr. Keown has over 25 years of experience in the Consumer Goods business, having held various positions with E.&J. Gallo Winery and The Procter & Gamble Company. He has served on the Board of Directors of Welch Foods Inc., a wholly owned subsidiary of the National Grape Cooperative Association, Inc., since June 2015, and currently serves on Welch's Audit, Compensation, and Nominating and Governance Committees. In October 2016, Mr. Keown was also appointed Vice Chairman of the Board of Directors of World Coffee Research, a collaborative, not-for-profit 501(c)(5) research organization created by the global coffee industry. Mr. Keown received his undergraduate degree in Economics from Northwestern University. Mr. Keown is an NACD Governance Fellow and has demonstrated his commitment to boardroom excellence by completing NACD's comprehensive corporate governance program for directors.

We believe Mr. Keown's qualifications to serve on our Board include his in-depth knowledge of food manufacturing, food processing and the foodservice business, marketing and consumer branding experience, expertise in global sourcing, sustainability and corporate responsibility, and his ability to provide a critical link between management and the Board of Directors thereby enabling the Board to provide its oversight function with the benefit of management's perspective of the business.

Charles F. Marcy is a food industry consultant. He served as CEO of Turtle Mountain, LLC, a privately held natural foods company, and the maker of the So Delicious brand of dairy free products from May 2013 until April 2015. Prior to this, he was a principal with Marcy & Partners, Inc., providing strategic planning and acquisition consulting to consumer products companies. Mr. Marcy served as President and Chief Executive Officer and a member of the Board of Directors of Healthy Food Holdings, a holding company for branded "better-for-you" foods and the maker of YoCrunch Yogurt and Van's Frozen Waffles from 2005 through April 2010. Previously, Mr. Marcy served as President, Chief Executive Officer and a Director of Horizon Organic Holdings, then a publicly traded company listed on NASDAQ with a leading market position in the organic food business in the United States and the United Kingdom, from 1999 to 2005. Mr. Marcy also previously served as President and Chief Executive Officer and a member of the Board of Directors of the Sealright Corporation, a manufacturer of food and beverage packaging and packaging systems, from 1995 to 1998. From 1993 to 1995, Mr. Marcy was President of the Golden Grain Company, a subsidiary of Quaker Oats Company and maker of the Near East brand of all-natural grain-based food products. From 1991 to 1993, Mr. Marcy was President of National Dairy Products Corp., the dairy division of Kraft General Foods. From 1974 to 1991, Mr. Marcy held various senior marketing and strategic planning roles with Sara Lee Corporation and Kraft General Foods. Mr. Marcy served as the Chairman of the Finance Committee on the Board of Trustees of Washington and Jefferson College for eleven years until 2014 and has served on the Board of Directors of B&G, Foods, Inc. ("B&G"), a manufacturer and distributor of shelf-stable food and household products across the United States, Canada and Puerto Rico and a publicly traded company listed on the New York Stock Exchange, since 2010. Mr. Marcy served on the Strategy Committee and currently serves as a member and Chairman of the Audit Committee and a member of the Compensation Committee of the Board of Directors of B&G. Mr. Marcy received his undergraduate degree in Mathematics and Economics from Washington and Jefferson College, and his MBA from Harvard Business School. Mr. Marcy is an NACD Board Leadership Fellow and has demonstrated his commitment to boardroom excellence by completing NACD's advanced corporate governance program for directors.

We believe Mr. Marcy's qualifications to serve on our Board include his leadership as a former CEO, extensive experience in the food industry, including foodservice, manufacturing, supply chain, marketing and regulatory experience, as well as his corporate governance and public company board and executive compensation experience.

Christopher P. Mottern is an independent business consultant. He served as President and Chief Executive Officer of Peet's Coffee & Tea, Inc., a specialty coffee and tea company, from 1997 to 2002 and a director of Peet's Coffee & Tea, Inc., from 1997 through 2004. From 1992 to 1996, Mr. Mottern served as President of The Heublein Wines Group, a manufacturer and marketer of wines, now part of Diageo plc, a multinational alcoholic beverage company. From 1986 through 1991, he served as President and Chief Executive Officer of Capri Sun, Inc., one of the largest single-service juice drink manufacturers in the United States. He has served as a director, including lead director, and member of the finance committee, of a number of private companies. Mr. Mottern received his undergraduate degree in Accounting from the University of Connecticut. Mr. Mottern is an NACD Governance Fellow and has demonstrated his commitment to boardroom excellence by completing NACD's comprehensive corporate governance program for directors.

We believe Mr. Mottern's qualifications to serve on our Board include his leadership as a former CEO, coffee industry, foodservice, manufacturing, supply chain and consumer branding experience, risk oversight experience, and financial and accounting expertise.

PROPOSAL NO. 2

RATIFICATION OF SELECTION OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

General

The Audit Committee of the Board of Directors has selected Deloitte & Touche LLP ("Deloitte") as the independent registered public accounting firm for the Company and its subsidiaries for the fiscal year ending June 30, 2018, and has further directed that management submit this selection for ratification by the stockholders at the Annual Meeting. Deloitte has served as the Company's independent registered public accounting firm since December 23, 2013. A representative of Deloitte is expected to be present at the Annual Meeting, will have the opportunity to make a statement if they so desire, and will be available to respond to appropriate questions.

Stockholder ratification of the selection of Deloitte as the Company's independent registered public accounting firm is not required by the By-Laws or otherwise. However, the Board is submitting the selection of Deloitte to stockholders for ratification because the Company believes it is a matter of good corporate governance practice. If the Company's stockholders fail to ratify the selection, the Audit Committee will reconsider whether or not to retain Deloitte but still may retain them. Even if the selection is ratified, the Audit Committee, in its discretion, may direct the appointment of a different independent registered public accounting firm at any time during the year if the Audit Committee determines that such a change would be in our best interest and that of our stockholders.

Vote Required

The affirmative vote of a majority of the shares of Common Stock and Series A Preferred Stock (on an as-converted basis voting together with the Common Stock as a single class) present in person or represented by proxy at the Annual Meeting and entitled to vote thereat is required to ratify the selection of Deloitte. Abstentions will have the same effect as votes "against" the ratification. Because brokers have discretionary authority to vote on the ratification, we do not expect any broker non-votes in connection with the ratification.

THE BOARD RECOMMENDS A VOTE "FOR" RATIFICATION OF THE SELECTION OF DELOITTE & TOUCHE LLP AS THE COMPANY'S INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM.

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

Security Ownership of Certain Beneficial Owners

The following table sets forth certain information regarding the beneficial ownership of the Company's voting securities as of October 23, 2017, by all persons (including any "group" as that term is used in Section 13(d)(3) of the Securities Exchange Act of 1934, as amended (the "Exchange Act")) known by the Company to be the beneficial owner of more than 5% of any class of the Company's voting securities as of such date, based on 16,843,270 shares of Common Stock and 14,700 shares of Series A Preferred Stock, representing 383,611 shares of Common Stock on an as-converted basis, outstanding as of October 23, 2017. Each share of Series A Preferred Stock entitles the holder(s) thereof to vote on an as-converted basis together with the holders of Common Stock as a single class. As of October 23, 2017, 100% of the shares of Series A Preferred Stock were owned by Boyd Coffee Company. For purposes of this table we have treated the Series A Preferred Stock as converted into Common Stock.

The amounts and percentages of shares beneficially owned are reported on the basis of SEC regulations governing the determination of beneficial ownership of securities. Under SEC rules, a person is deemed to be a "beneficial" owner of a security if that person has or shares voting power or investment power, which includes the power to dispose of or to direct the disposition of such security. A person is also deemed to be a beneficial owner of any securities of which that person has a right to acquire beneficial ownership within 60 days. Securities that can be so acquired are not deemed to be outstanding for purposes of computing any other person's percentage. Under these rules, more than one person may be deemed to be a beneficial owner of securities as to which such person has no economic interest.

Name and Address of Beneficial Owner(1)	Amount and Nature of Beneficial Ownership	Percent of Class(2)
Carol Farmer Waite(3)	3,162,258	18.4%
Richard F. Farmer(4)	2,817,018	16.4%
Jeanne Farmer Grossman(5)	1,206,209	7.0%
Farmer Bros. Co. Employee Stock Ownership Plan(6)	1,863,549	10.8%
Wellington Management Group LLP and affiliated entities(7)	1,703,676	9.9%
Trigran Investments, Inc., Douglas Granat, Lawrence A. Oberman, Steven G. Simon, Bradley F. Simon(8)	909,513	5.3%

(1) The address for Carol Farmer Waite, Richard F. Farmer, Jeanne Farmer Grossman and the ESOP is c/o Farmer Bros. Co., 1912 Farmer Brothers Drive, Northlake, Texas 76262. The address of Wellington Management Group LLP and affiliated entities is 280 Congress Street, Boston, Massachusetts 02210. The address of Trigran Investments, Inc. is 630 Dundee Road, Suite 230, Northbrook, Illinois 60062.

(2) Percent of class is calculated based on total outstanding voting securities of 17,226,881, including 16,843,270 shares of Common stock and 14,700 shares of Series A Preferred Stock, representing 383,611 shares of Common Stock on an as-converted basis, outstanding as of October 23, 2017, and may differ from the percent of class reported in statements of beneficial ownership filed with the SEC.

(3) Includes shares of Common Stock held in various family trusts of which Ms. Waite is the sole trustee, co-trustee, beneficiary and/or settlor as reported in a Schedule 13D/A filed with the SEC on August 18, 2017, including: (i) 417,986 shares as trustee of a trust for the benefit of her niece and nephews; (ii) 266,544 shares as sole trustee of the Carol L. Waite Trust, of which Ms. Waite is the sole settlor, trustee and beneficiary; and (iii) 2,477,728 shares indirectly beneficially owned as co-trustee of various trusts for the benefit of herself and family members, and over which she has shared voting and dispositive power with (x) Dr. Farmer as to 2,168,540 shares (also indicated in the table above as beneficially owned by Dr. Farmer) and (y) Ms. Grossman as to 309,188 shares (also indicated in the table above as beneficially owned by Ms. Grossman).

(4) Includes shares of Common Stock held in various family trusts of which Dr. Farmer is the sole trustee, co-trustee, beneficiary and/or settlor, including: (i) 636,358 shares directly owned through the Richard F. Farmer Revocable Trust dated December 29, 1995, of which Dr. Farmer is the sole settlor, trustee and beneficiary; and (ii) 2,180,660 shares indirectly beneficially owned as co-trustee of various trusts, for the benefit of himself and family members, and over which he has shared voting and dispositive power with (x) Ms. Waite as to 2,168,540 shares (also indicated in the table above as beneficially owned by Ms. Waite) and (y) Ms. Grossman as to 12,120 shares (also indicated in the table above as beneficially owned by Ms. Grossman).

(5) Includes shares of Common Stock held in various family trusts of which Ms. Grossman is the sole trustee, co-trustee, beneficiary and/or settlor, including: (i) 9,550 shares as trustee of a trust for the benefit of her daughter; (ii) 858,378 shares as sole trustee of the Jeanne F. Grossman Trust, dated August 22, 1997; (iii) 321,308 shares as co-trustee of various trusts for the benefit of herself and family members, and over which she has shared voting and dispositive power with (x) Dr. Farmer as to 12,120 shares (also indicated in the table above as beneficially owned by Dr. Farmer) and (y) Ms. Waite as to 309,188 shares

(also indicated in the table above as beneficially owned by Ms. Waite); (iv) 15,037 shares held directly by Ms. Grossman; and (v) 1,936 shares of unvested restricted stock.

(6) This information is based on the Company's records and includes 1,717,608 shares of Common Stock that are held in the ESOP and allocated to a participant's account ("allocated shares"), and 145,941 shares of Common Stock held in the ESOP but not allocated to any participant's account ("unallocated shares"), as of October 23, 2017, after giving effect to the allocation of shares to participant accounts for calendar year 2016. The ESOP Trustee votes allocated shares as directed by such participant or beneficiary of the ESOP. Under the terms of the ESOP, the ESOP Trustee will vote all of the unallocated shares and all of the allocated shares for which no voting directions are timely received by the ESOP Trustee, in its independent fiduciary discretion with respect to each item subject to a vote. The present members of the Administrative Committee of the Farmer Bros. Co. Qualified Employee Retirement Plans (the "Management Administrative Committee"), which administers the ESOP, are David G. Robson, Thomas J. Mattei, Jr., Carolyn Suzanne Gargis, Rene E. Peth and Brent Hollingsworth. Each member of the Management Administrative Committee disclaims beneficial ownership of the securities held by the ESOP except for those, if any, that have been allocated to the member as a participant in the ESOP.

(7) This information is based on a Schedule 13G filed with the SEC on June 12, 2017 by Wellington Management Group LLP and affiliated entities (the "Wellington Schedule 13G"). The Wellington Schedule 13G indicates that 1,703,676 shares of Common Stock are beneficially owned by Wellington Management Group LLP, Wellington Group Holdings LLP, Wellington Investment Advisors Holdings LLP, Wellington Management Company LLP and one or more of the following investment advisers (the "Wellington Investment Advisers"): Wellington Management Company LLP, Wellington Management Canada LLC, Wellington Management Singapore Pte Ltd, Wellington Management Hong Kong Ltd, Wellington Management International Ltd, Wellington Management Japan Pte Ltd and Wellington Management Australia Pty Ltd. Wellington Management Group LLP is the parent holding company of certain holding companies and the Wellington Investment Advisers. These securities are owned of record by clients of the Wellington Investment Advisers. Wellington Investment Advisors Holdings LLP controls directly, or indirectly through Wellington Management Global Holdings, Ltd., the Wellington Investment Advisers. Wellington Investment Advisors Holdings LLP is owned by Wellington Group Holdings LLP. Wellington Group Holdings LLP is owned by Wellington Management Group LLP.

(8) This information is based on a Form 13G/A filed with the SEC on February 13, 2017 by Trigran Investments, Inc., Douglas Granat, Lawrence A. Oberman, Steven G. Simon and Bradley F. Simon (the "Trigran Schedule 13G"). The Trigran Schedule 13G indicates that the reporting persons share voting and dispositive power over the indicated number of shares of Common Stock. Pursuant to the Trigran Schedule 13G, Douglas Granat, Lawrence A. Oberman, Steven G. Simon and Bradley F. Simon are the controlling shareholders and/or sole directors of Trigran Investments, Inc. and may be considered the beneficial owners of the shares of Common Stock beneficially owned by Trigran Investments, Inc.

Security Ownership of Directors and Executive Officers

The following table sets forth certain information regarding the beneficial ownership of the Company's voting securities as of October 23, 2017, by each of our current directors and director nominees, each of our executive officers required to be listed pursuant to Item 402 of Regulation S-K, and all of our current directors and executive officers as a group, based on 16,843,270 shares of Common Stock and 14,700 shares of Series A Preferred Stock, convertible into 383,611 shares of Common Stock, outstanding as of October 23, 2017. Each share of Series A Preferred Stock entitles the holder(s) thereof to vote on an as-converted basis together with the holders of Common Stock as a single class. For purposes of this table we have treated the Series A Preferred Stock as converted into Common Stock.

The amounts and percentages of shares beneficially owned are reported on the basis of SEC regulations governing the determination of beneficial ownership of securities. Under SEC rules, a person is deemed to be a "beneficial" owner of a security if that person has or shares voting power or investment power, which includes the power to dispose of or to direct the disposition of such security. A person is also deemed to be a beneficial owner of any securities of which that person has a right to acquire beneficial ownership within 60 days. Securities that can be so acquired are not deemed to be outstanding for purposes of computing any other person's percentage. Under these rules, more than one person may be deemed to be a beneficial owner of securities as to which such person has no economic interest.

Except as otherwise indicated in these footnotes, each of the directors, director nominees and executive officers listed has, to our knowledge, sole voting and investment power with respect to the shares of Common Stock.

Name of Beneficial Owner	Amount and Nature of Beneficial Ownership	Percent of Class(1)
Non-Employee Directors and Nominees:		
Hamideh Assadi(2)	12,581	*
Allison M. Boersma (Nominee)	—	—
Guenter W. Berger(3)	34,357	*
Randy E. Clark(4)	11,316	*
Jeanne Farmer Grossman(5)	1,206,209	7.0%
Charles F. Marcy(6)	10,577	*
Christopher P. Mottern(7)	14,577	*
David W. Ritterbush (Nominee)	—	—
Named Executive Officers:		
Continuing Named Executive Officers:		
Michael H. Keown(8)	264,014	1.5%
David G. Robson(9)	—	—
Ellen D. Iobst(10)	—	—
Thomas J. Mattei, Jr.(11)	20,968	*
Former Named Executive Officers:		
Isaac N. Johnston, Jr.(12)	408	*
Rene E. Peth(13)	9,614	*
Scott W. Bixby(14)	12,746	*
Barry C. Fischetto(15)	1,283	*
All directors and executive officers as a group (11 individuals)	1,595,838	9.3%

* Less than 1%

(1) Percent of class is calculated based on total outstanding voting securities of 17,226,881, including 16,843,270 shares of Common stock and 14,700 shares of Series A Preferred Stock, representing 383,611 shares of Common Stock on an as-converted basis, outstanding as of October 23, 2017, and may differ from the percent of class reported in statements of beneficial ownership filed with the SEC.

(2) Includes 1,936 unvested shares of restricted stock, including 1,607 shares of unvested restricted stock which would be cancelled on Ms. Assadi's last date of service as a director unless vesting of some or all of this amount is accelerated by the Board.

(3) Includes 1,936 unvested shares of restricted stock, including 1,607 shares of unvested restricted stock which would be cancelled on Mr. Berger's last date of service as a director unless vesting of some or all of this amount is accelerated by the Board.

(4) Includes 1,936 unvested shares of restricted stock.

(5) Includes shares of Common Stock held in various family trusts of which Ms. Grossman is the sole trustee, co-trustee, beneficiary and/or settlor, including: (i) 9,550 shares as trustee of a trust for the benefit of her daughter; (ii) 858,378 shares as sole trustee of the Jeanne F. Grossman Trust, dated August 22, 1997; (iii) 321,308 shares as co-trustee of various trusts for the benefit of herself and family members, and over which she has shared voting and dispositive power with (x) Dr. Farmer as to 12,120 shares (also indicated as beneficially owned by Dr. Farmer in the table above under the heading "Security Ownership of Certain Beneficial Owners") and (y) Ms. Waite as to 309,188 shares (also indicated as beneficially owned by Ms. Waite in the table above under the heading "Security Ownership of Certain Beneficial Owners"); (iv) 15,037 shares held directly by Ms. Grossman; and (v) 1,936 shares of unvested restricted stock.

(6) Includes 1,936 unvested shares of restricted stock.

(7) Includes 1,936 unvested shares of restricted stock.

(8) Includes 216,488 shares of Common Stock issuable upon exercise of options which are currently exercisable or which will become exercisable within 60 days and 2,454 shares of Common Stock beneficially owned by Mr. Keown through the ESOP, rounded to the nearest whole share.

(9) Mr. Robson joined the Company as Treasurer and Chief Financial Officer effective February 20, 2017. Pursuant to the terms of his employment agreement with the Company, Mr. Robson will be entitled to the following equity awards to be granted upon the expiration of the currently-applicable blackout period under our insider trading policy: (i) a number of non-qualified stock options determined by dividing $60,000, by the per share fair value of a non-qualified stock option (based on a Black-Scholes valuation or other appropriate option pricing methodology approved by the Compensation Committee) on the award date; and (ii) a number of shares of restricted stock determined by dividing $30,000, by the Fair Market Value (as defined in the long-term incentive plan) on the award date.

(10) Ms. Iobst joined the Company as Chief Operations Officer effective February 20, 2017, after having served as an independent consultant to the Company since April 2016. Pursuant to the terms of her employment agreement with the Company, Ms. Iobst will be entitled to the following equity awards to be granted upon the expiration of the currently-applicable blackout period under our insider trading policy: (i) a number of non-qualified stock options determined by dividing $48,000, by the per share fair value of a non-qualified stock option (based on a Black-Scholes valuation or other appropriate option pricing methodology approved by the Compensation Committee) on the award date; and (ii) a number of shares of restricted stock determined by dividing $24,000, by the Fair Market Value (as defined in the long-term incentive plan) on the award date.

(11) Includes 18,403 shares of Common Stock issuable upon exercise of options which are currently exercisable or which will become exercisable within 60 days and 1,837 shares of Common Stock beneficially owned by Mr. Mattei through the ESOP, rounded to the nearest whole share.

(12) Mr. Johnston resigned as Treasurer and Chief Financial Officer of the Company effective January 6, 2017.

(13) Includes 8,370 shares of Common Stock issuable upon exercise of options which are currently exercisable or which will become exercisable within 60 days and 1,244 shares of Common Stock beneficially owned by Ms. Peth through the ESOP, rounded to the nearest whole share. Ms. Peth, the Company's Vice President, Corporate Controller, is a non-executive level employee of the Company who served as interim principal financial and accounting officer from February 1, 2017 to February 20, 2017.

(14) Includes 12,746 shares of Common Stock issuable upon exercise of options which are currently exercisable. Mr. Bixby retired as an officer of the Company effective July 31, 2017 and his employment with the Company terminated on September 22, 2017.

(15) Mr. Fischetto resigned as the Company's Senior Vice President of Operations effective February 13, 2017.

CORPORATE GOVERNANCE

Director Independence

At least annually and in connection with any individuals being nominated to serve on the Board, the Board reviews the independence of each director or nominee and affirmatively determines whether each director or nominee qualifies as independent. The Board believes that stockholder interests are best served by having a number of objective, independent representatives on the Board. For this purpose, a director or nominee will be considered to be “independent” only if the Board affirmatively determines that the director or nominee has no relationship with respect to the Company that would interfere with the exercise of independent judgment in carrying out the responsibilities of a director.

In making its independence determinations, the Board reviewed transactions, relationships, behavior and arrangements between each director and nominee, or any member of his or her immediate family, and us or our subsidiaries based on information provided by the director or nominee, our records and publicly available information. The Board made the following independence determinations (the transactions, relationships and arrangements reviewed by the Board in making such determinations are set forth in the footnotes below):

Director	Status
Hamideh Assadi	Independent(1)
Allison M. Boersma (Nominee)	Independent
Guenter W. Berger	Independent(2)
Randy E. Clark	Independent(3)
Jeanne Farmer Grossman	Not Independent(4)
Michael H. Keown	Not Independent(5)
Charles F. Marcy	Independent
Christopher P. Mottern	Independent
David W. Ritterbush (Nominee)	Independent

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(1) Ms. Assadi was an employee of Farmer Bros. from 1983 to 2006, including serving as Tax Manager from 1995 to 2006, Cost Accounting Manager from 1990 to 1995, Assistant to Corporate Secretary from 1985 to 1990, and in Production and Inventory Control from 1983 to 1985. Ms. Assadi is entitled to certain retiree benefits generally available to Company retirees and is entitled to a death benefit provided by the Company to certain of its retirees and employees.

(2) Mr. Berger is the current Chairman Emeritus, former Chairman of the Board and former Chief Executive Officer of the Company. Mr. Berger is entitled to certain retiree benefits generally available to Company retirees and is entitled to a death benefit provided by the Company to certain of its retirees and employees.

(3) Mr. Clark is the current Chairman of the Board.

(4) Ms. Grossman is the sister of Carol Farmer Waite, a former director, and the sister of the late Roy E. Farmer and the daughter of the late Roy F. Farmer, both of whom were executive officers of the Company more than three years ago. Since January 2016, the Board has determined that, as a result of various considerations, Ms. Grossman is not independent under the NASDAQ listing standards.

(5) Mr. Keown is the Company’s President and Chief Executive Officer.

Board Meetings and Attendance

The Board held 12 meetings during fiscal 2017, including 4 regular meetings and 8 special meetings. During fiscal 2017, each director attended at least 75% of the total number of meetings of the Board of Directors (held during the period for which he or she served as a director) and committees of the Board on which he or she served (during the periods that he or she served). The independent directors generally meet in executive session in connection with each regularly scheduled Board meeting. Under the Company's Corporate Governance Guidelines, continuing directors are expected to attend the Company's annual meeting of stockholders absent a valid reason. All directors who were then serving were present at the 2016 Annual Meeting of Stockholders held on December 8, 2016 (the "2016 Annual Meeting").

Charters; Code of Conduct and Ethics; Corporate Governance Guidelines

The Board maintains charters for its committees, including the Audit Committee, Compensation Committee, and Nominating and Corporate Governance Committee. In addition, the Board has adopted a written Code of Conduct and Ethics for all employees, officers and directors. The Board maintains Corporate Governance Guidelines as a framework to promote the functioning of the Board and its committees and to set forth a common set of expectations as to how the Board should perform its functions. Current standing committee charters, the Code of Conduct and Ethics and the Corporate Governance Guidelines are available on the Company's website at *www.farmerbros.com*. Information contained on the website is not incorporated by reference in, or considered part of, this Proxy Statement.

Board Committees

The Board of Directors has three standing committees: the Audit Committee, Compensation Committee, and Nominating and Corporate Governance Committee. In addition, in fiscal 2017, the Board formed an Executive Committee to assist the Board in discharging its oversight responsibilities between regular Board meetings. Summary information about each of these committees is set forth below.

Additionally, from time to time, the Board has established *ad hoc* or other committees, on an interim basis, to assist the Board with its consideration of specific matters, and it expects to continue to do so as it may determine to be prudent and advisable in the future. In fiscal 2017, the Board continued in place the *ad hoc* executive search committee established in April 2016 and created an additional *ad hoc* executive search committee in December 2016. In addition, in fiscal 2017, the Board continued the Strategy Committee established in May 2016 until February 2017, when the Strategy Committee was disbanded upon the formation of the Executive Committee. In connection with the 2016 proxy contest, in September 2016, the Board formed an Annual Meeting Committee which continued through the 2016 Annual Meeting.

Audit Committee

The Audit Committee is a standing committee of the Board established in accordance with Section 3(a)(58)(A) of the Exchange Act. The Audit Committee's principal purposes are to oversee, on behalf of the Board, the accounting and financial reporting processes of the Company and the audit of the Company's financial statements. As described in its charter, the Audit Committee's responsibilities include assisting the Board in overseeing: (i) the integrity of the Company's financial statements; (ii) the independent auditor's qualifications and independence; (iii) the performance of the Company's independent auditor and internal audit function; (iv) the Company's compliance with legal and regulatory requirements relating to accounting and financial reporting matters; (v) the Company's system of disclosure controls and procedures, internal control over financial reporting that management has established, and compliance with ethical standards adopted by the Company; and (vi) the Company's framework and guidelines with respect to risk assessment and risk management, including the Company's cyber security risk. The Audit Committee is directly and solely responsible for the appointment, dismissal, compensation, retention and oversight of the work of any independent auditor engaged by the Company for the purpose of preparing or issuing an audit report or performing other audit, review or attest services for the Company. The independent auditor reports directly to the Audit Committee.

During fiscal 2017, the Audit Committee held five meetings. Christopher P. Mottern currently serves as Chair, and Hamideh Assadi and Randy E. Clark currently serve as members of the Audit Committee. All directors who currently serve on the Audit Committee meet the NASDAQ composition requirements, including the requirements regarding financial literacy and financial sophistication, and the Board has determined that all such directors are independent under the NASDAQ listing standards and the rules of the SEC regarding audit committee membership. The Board has determined that at least one member of the Audit Committee is an "audit committee financial expert" as defined in Item 407(d) of Regulation S-K under the Exchange Act. That person is Christopher P. Mottern, the Audit Committee Chair. Ms. Assadi intends to serve as a member of the Audit Committee through the end of her term as a director at the Annual Meeting.

Compensation Committee

The Compensation Committee is a standing committee of the Board. As described in its charter, the Compensation Committee's principal purposes are to discharge the Board's responsibilities related to compensation of the Company's executive officers and administer the Company's incentive and equity compensation plans. The Compensation Committee's objectives and philosophy with respect to the fiscal 2017 executive compensation program, and the actions taken by the Compensation Committee in fiscal 2017 with respect to the compensation of our Named Executive Officers, are described below under the heading "Compensation Discussion and Analysis."

The Compensation Committee also is responsible for evaluating and making recommendations to the Board regarding director compensation. In addition, the Compensation Committee is responsible for conducting an annual risk evaluation of the Company's compensation practices, policies and programs.

During fiscal 2017, the Compensation Committee held eight meetings. Hamideh Assadi currently serves as Chair, and Randy E. Clark and Charles F. Marcy currently serve as members of the Compensation Committee. Randy E. Clark served as Chair of the Compensation Committee through December 8, 2016. The Board has determined that all current Compensation Committee members are independent under the NASDAQ listing standards. Ms. Assadi intends to serve as a member and Chair of the Compensation Committee through the end of her term as a director at the Annual Meeting.

Compensation Consultant

The Compensation Committee has the authority to retain the services of outside consultants to assist it in performing its responsibilities. In fiscal 2017, the Compensation Committee engaged Meridian Compensation Partners, LLC ("Meridian") for, (i) with respect to the Compensation Committee, advisory and consulting services relating to the Company's executive officer and director compensation programs, consultation regarding short-term and long-term incentive plan design, and consultation regarding corporate governance practices and general Compensation Committee matters and processes, and (ii) with respect to the Nominating and Corporate Governance Committee, consultation regarding processes related to officer succession planning and performance assessment with respect to our President and Chief Executive Officer.

Meridian provided no other services to the Company or its affiliates during fiscal 2017 other than as described above. The Compensation Committee has determined that Meridian is "independent" according to the criteria required by the SEC in Rule 10C-1 of the Exchange Act.

Management's Role in Establishing Compensation

The compensation of the executive officers is determined by the Compensation Committee, taking into account the input and recommendations of our President and Chief Executive Officer regarding compensation for those executive officers reporting to him, and taking into account the input of the Nominating and Corporate Governance Committee regarding performance of our President and Chief Executive Officer. The Compensation Committee has sole authority for all final compensation determinations regarding our President and Chief Executive Officer. Our President and Chief Executive Officer, Chief Financial Officer and General Counsel routinely attend the meetings of the Compensation Committee to provide input, as requested by the Compensation Committee and, in the case of the General Counsel, to act as secretary for the meeting; however, no executive officer has any role in approving his or her own compensation, and neither our President and Chief Executive Officer nor any other executive officer is present during the portion of the meeting at which the Compensation Committee considers his or her own compensation. The Compensation Committee regularly meets in executive session, without members of the management team present, when discussing and approving executive compensation.

Nominating and Corporate Governance Committee

The Nominating and Corporate Governance Committee is a standing committee of the Board. The Nominating and Corporate Governance Committee's principal purposes are (i) monitoring the Company's corporate governance structure; (ii) assisting the Board in fulfilling its oversight responsibilities with respect to the management of risks associated with corporate governance; (iii) ensuring that the Board is appropriately constituted in order to meet its fiduciary obligations, including by identifying individuals qualified to become Board members and members of Board committees, recommending to the Board director nominees for the next annual meeting of stockholders or for appointment to vacancies on the Board, and recommending to the Board membership on Board committees (including committee chairs); (iv) leading the Board in its annual review of the Board's performance; (v) conducting the annual performance review of the Chief Executive Officer and communicating the results to the Board; and (vi) overseeing succession planning for senior management.

During fiscal 2017, the Nominating and Corporate Governance Committee met 11 times. Charles F. Marcy currently serves as Chair, and Guenter W. Berger and Christopher P. Mottern currently serve as members of the Nominating and Corporate Governance Committee. The Board has determined that all current Nominating and Corporate Governance Committee members are independent under the NASDAQ listing standards. Mr. Berger intends to serve as a member of the Nominating and Corporate Governance Committee through the end of his term as a director at the Annual Meeting.

Executive Committee

In February 2017, the Board formed the Executive Committee in order to assist the Board in effectively handling responsibilities between regular Board meetings. As described in its charter, the Executive Committee is authorized to exercise all powers and authority of the Board in the management of the business and affairs of the Company, subject to certain enumerated exceptions as set forth in its charter consistent with Delaware law. During fiscal 2017, the Executive Committee met three times. The current members of the Executive Committee are Randy E. Clark, Charles F. Marcy, and Christopher P. Mottern. Ms. Assadi served on the Executive Committee from February to April 2017.

Other Committees

In fiscal 2017, the Board continued in place the *ad hoc* executive search committee established in April 2016 and created an additional *ad hoc* executive search committee in December 2016, each of which continued through February 20, 2017. The April 2016 *ad hoc* executive search committee was composed of Randy E. Clark, Michael H. Keown, and Christopher P. Mottern. The December 2016 *ad hoc* executive search committee was composed of Hamideh Assadi, Randy E. Clark, and Christopher P. Mottern. Each of these committees was established to assist the Board in identifying and evaluating potential candidates for certain executive level positions within the Company. In fiscal 2017, in accordance with the Company's non-employee director compensation program, non-employee directors received per diem compensation for service on these *ad hoc* executive search committees, which amounts are included in the director compensation table below under the heading "Director Compensation—Director Compensation Table."

In addition, in fiscal 2017, the Board continued the Strategy Committee formed in May 2016 to assist the Board with identifying, developing, and refining the Company's corporate strategy. The Strategy Committee met three times in fiscal 2017 and was disbanded in February 2017 upon the formation of the Executive Committee. Randy E. Clark, Charles F. Marcy, and Christopher P. Mottern served as members of the Strategy Committee.

In connection with the 2016 proxy contest, in September 2016, the Board formed the Annual Meeting Committee which continued through the 2016 Annual Meeting. The purpose of the Annual Meeting Committee was to manage and oversee the Company's and the Board's review, consideration, evaluation, and response to communications, proposals, requests, and other related actions in connection with the 2016 Annual Meeting. The Annual Meeting Committee met 13 times in fiscal 2017. Randy E. Clark served as Chair, and Hamideh Assadi and Christopher P. Mottern served as members of the Annual Meeting Committee.

Director Qualifications and Board Diversity

The Nominating and Corporate Governance Committee is responsible for recommending to the Board criteria for membership on the Board (including criteria for consideration of candidates recommended by the Company's stockholders); identifying qualified individuals for Board membership; recommending to the Board nominees to stand for election at the annual meeting of stockholders, including consideration of recommendations from stockholders; recommending to the Board director nominees to fill vacancies on the Board as they arise; and recommending to the Board membership on Board committees (including committee chairs). The Corporate Governance Guidelines maintained by the Board include guidelines for selecting nominees to serve on the Board and considering stockholder recommendations for nominees. The Board seeks to be composed of individuals who have the highest personal and professional integrity, who have demonstrated exceptional ability and judgment and who are effective, in connection with the other members of the Board, in providing the diversity of skills, expertise and perspectives appropriate for the business and operations of the Company and serving the long-term interests of the Company's stockholders. All nominees should contribute substantially to the Board's oversight responsibilities and reflect the needs of the Company's business. The Nominating and Corporate Governance Committee believes that diversity has a place when choosing among candidates who otherwise meet the selection criteria, but the Company has not established a formal policy concerning diversity in Board composition.

In evaluating director candidates, the Nominating and Corporate Governance Committee and the Board may also consider the following criteria as well as any other factor that they deem to be relevant:

- The candidate's experience in corporate management, such as serving as an officer or former officer of a publicly held company;
- The candidate's experience as a board member of another publicly held company;
- The candidate's professional and academic experience relevant to the Company's industry;
- The strength of the candidate's leadership skills;

- The candidate's senior level experience in food manufacturing and distribution, with an emphasis on direct-store-delivery experience and expertise;
- The candidate's experience in finance and accounting and/or executive compensation practices; and
- Whether the candidate has the time required for preparation, participation and attendance at Board meetings and committee meetings, if applicable.

In addition, the Board will consider whether there are potential conflicts of interest with the candidate's other personal and professional pursuits and relationships.

The Board monitors the mix of specific experience, qualifications, and skills of its directors in order to ensure that the Board, as a whole, has the necessary tools to perform its oversight function effectively in light of the Company's business and structure.

The Nominating and Corporate Governance Committee evaluates each individual in the context of the Board as a whole, with the objective of recommending a group that can best perpetuate the success of the Company's business and represent stockholder interests through the exercise of sound judgment, using its diversity of experience. Prior to nominating a sitting director for reelection, the Nominating and Corporate Governance Committee will consider, among other things, the director's past attendance at, and participation in, meetings of the Board and its committees, the director's formal and informal contributions to the Board and its committees, and the director's adherence to the Corporate Governance Guidelines and other Board approved policies.

The Nominating and Corporate Governance Committee is responsible for evaluating and recommending to the Board any changes regarding the composition, size, structure, and practices of the Board and its committees. In connection with the annual nomination of directors, the Nominating and Corporate Governance Committee reviews with the Board the composition of the Board as a whole and recommends, if necessary, measures to be taken so that the Board reflects the appropriate balance of knowledge, experience, skills, background, and diversity advisable for the Board as a whole. The Nominating and Corporate Governance Committee periodically undertakes a skills and experience evaluation to assist the committee in planning director education programs and to identify desired skill and experience for future director nominees. The background of each director and nominee is described above under "Proposal No. 1—Election of Directors."

For purposes of identifying nominees for the Board of Directors, the Nominating and Corporate Governance Committee may rely on professional and personal contacts of the Board and senior management. If necessary, the Nominating and Corporate Governance Committee may explore alternative sources for identifying nominees, including engaging, as appropriate, one or more third-party search firms to assist in identifying qualified candidates. The process may also include interviews and additional background and reference checks for non-incumbent nominees, at the discretion of the Nominating and Corporate Governance Committee. In 2017, the Nominating and Corporate Governance Committee retained national search firm Spencer Stuart to assist with identifying potential director nominees. The functions performed by Spencer Stuart included identifying qualified candidates, conducting interviews and background checks, and presenting qualified candidates to the Nominating and Corporate Governance Committee for consideration.

The Nominating and Corporate Governance Committee will consider recommendations for director nominees from Company stockholders. Biographical information and contact information for proposed nominees should be sent to Farmer Bros. Co., 1912 Farmer Brothers Drive, Northlake, Texas 76262, Attention: Secretary. The Nominating and Corporate Governance Committee will evaluate candidates proposed by stockholders in light of the criteria described above.

Board Leadership Structure

Under our By-Laws, the Board of Directors, in its discretion, may choose a Chairman of the Board of Directors. If there is a Chairman of the Board of Directors, such person may exercise such powers as provided in the By-Laws or assigned by the Board of Directors. Randy E. Clark was appointed Chairman of the Board of Directors in December 2015. As described above under "Proposal No. 1—Election of Directors," Mr. Clark has served on our Board of Directors since 2012.

Notwithstanding the current separation of Chairman of the Board and Chief Executive Officer, our Chairman of the Board is generally responsible for soliciting and collecting agenda items from other members of the Board and the Chief Executive Officer, and the Chief Executive Officer is generally responsible for leading discussions during Board meetings. This structure allows for effective and efficient Board meetings and information flow on important matters affecting the Company. Other than Mr. Keown and Ms. Grossman, all members of the Board are independent and each of the Audit, Compensation and Nominating and Corporate Governance Committees of the Board are composed solely of independent directors. Due principally to the limited size of the Board, the Board has not formally designated a lead independent director and believes that as a result thereof, non-employee director and executive sessions of the Board, which are attended solely by non-employee directors or independent directors, as applicable, result in an open and free flow of discussion of any and all matters that any director may believe relevant to the Company and/or its management.

Although the roles of Chairman and Chief Executive Officer are currently filled by different individuals, no single leadership model is right for all companies at all times, and the Company has no bylaw or policy in place that mandates this leadership structure. The Nominating and Corporate Governance Committee will evaluate and recommend to the Board any changes in the Board's leadership structure.

Board's Role in Risk Oversight

The Board of Directors recognizes that although management is responsible for identifying risk and risk controls related to business activities and developing programs and recommendations to determine the sufficiency of risk identification and the appropriate manner in which to control risk, the Board plays a critical role in the oversight of risk. The Board implements its risk oversight responsibilities by having management provide periodic briefing and informational sessions on the significant risks that the Company faces and how the Company is seeking to control risk if and when appropriate. In some cases, a Board committee is responsible for oversight of specific risk topics. For example, the Audit Committee has oversight responsibility of risks associated with financial accounting and audits, internal control over financial reporting, cyber security, and the Company's major financial risk exposures, including risks relating to commodity risk and hedging programs. The Compensation Committee has oversight responsibility of risks relating to the Company's compensation policies and practices. At each regular meeting, or more frequently as needed, the Board of Directors considers reports from the Audit Committee and Compensation Committee which provide detail on risk management issues and management's response. The Board of Directors as a whole, examines specific business risks in its periodic reviews of the individual business units and also of the Company as a whole, as part of its regular reviews, including as part of the strategic planning process and annual budget review and approval. Beyond formal meetings, the Board and its committees have regular access to senior executives, including the Company's Chief Executive Officer and Chief Financial Officer. The Company believes that its leadership structure promotes effective Board oversight of risk management because the Board directly, and through its various committees, is regularly provided by management with the information necessary to appropriately monitor, evaluate and assess the Company's overall risk management, and all directors are involved in the risk oversight function.

Compensation-Related Risk

As part of its risk oversight role, our Compensation Committee annually considers whether our compensation policies and practices for all employees, including our executive officers, create risks that are reasonably likely to have a material adverse effect on our Company. In fiscal 2017, the Compensation Committee noted several design features of our compensation programs that reduce the likelihood of excessive risk-taking, including, but not limited to, the following:

- Variable incentive awards represent a significant portion of executive officer total direct compensation, serving as retention tools and incentivizing performance with a balanced mix of cash annual incentive awards and longer-term equity incentive compensation in the form of stock options that are wholly subject to time-based vesting and partially subject to performance-based vesting.
- Our Compensation Committee periodically reviews comparative compensation data to maintain competitive compensation levels in light of our industry, annual revenue, significant founding family share ownership and/or other business characteristics.
- Our executive officers and non-employee directors are subject to stock ownership guidelines which are structured to align their interests with those of our broader stockholder base and emphasize principles of risk management and focus on long-term growth.
- Annual cash incentive awards are subject to threshold achievement of Company-wide performance goals, have limits on their payouts, can be earned on a graded basis (rather than "all or nothing") and do not provide for minimum guaranteed payouts.
- We maintain a claw-back policy, allowing the Compensation Committee to seek recoupment of certain incentive compensation in the event of a material financial restatement as a result of fraud or misconduct.
- Our insider trading policy includes an anti-hedging policy.

Communication with the Board

The Company's annual meeting of stockholders provides an opportunity each year for stockholders to ask questions of, or otherwise communicate directly with, members of the Board on appropriate matters. Stockholders may communicate in writing with any particular director, any committee of the Board or the directors as a group, by sending such written communication to the Secretary of the Company at the Company's principal executive offices, 1912 Farmer Brothers Drive, Northlake, Texas 76262. The envelope must contain a clear notation indicating that the enclosed letter is a "Stockholder-Board Communication" or "Stockholder-Director Communication." All such letters must identify the author as a stockholder of the Company and clearly state whether the intended recipient is a particular director, a committee of the Board, or the directors as a group.

Copies of written communications received at such address will be collected, organized and reviewed regularly by the Secretary and provided to the Board or the relevant director unless such communications are considered, in the reasonable judgment of the Secretary, to be inappropriate for submission to the intended recipient(s). Examples of stockholder communications that would be considered inappropriate for submission to the Board include, without limitation, customer complaints, solicitations, communications that do not relate directly or indirectly to the Company's business, or communications that relate to improper or irrelevant topics.

The Secretary or his or her designee may analyze and prepare a response to the information contained in communications received and may deliver a copy of the communication to other Company employees or agents who are responsible for analyzing or responding to complaints or requests. Communications concerning possible director nominees submitted by any of the Company's stockholders will be forwarded to the members of the Nominating and Corporate Governance Committee.

EXECUTIVE OFFICERS

The following table sets forth the executive officers of the Company as of the date hereof. At each annual meeting of the Board, the Board formally re-appoints the executive officers, and all executive officers serve at the pleasure of the Board. No executive officer has any family relationship with any director or nominee, or any other executive officer.

Name(1)	Age	Title	Executive Officer Since
Michael H. Keown	55	President and Chief Executive Officer	2012
David G. Robson	51	Treasurer and Chief Financial Officer	2017
Ellen D. Iobst	58	Chief Operations Officer	2017
Scott A. Siers	54	Senior Vice President and General Manager—Direct Ship	2017
Thomas J. Mattei, Jr.	47	General Counsel and Assistant Secretary	2015

Michael H. Keown joined the Company as President and Chief Executive Officer on March 23, 2012. Prior to joining the Company, Mr. Keown served in various executive capacities at Dean Foods Company, a food and beverage company, from 2003 to March 2012. He was at WhiteWave Foods Company, a subsidiary of Dean Foods, from 2004 to March 2012, including as President, Indulgent Brands from 2006 to March 2012. He was also responsible for WhiteWave's alternative channel business comprised largely of foodservice. Mr. Keown served as President of the Dean Branded Products Group of Dean Foods from 2003 to 2004. Mr. Keown joined Dean Foods from The Coca-Cola Company, where he served as Vice President and General Manager of the Shelf Stable Division of The Minute Maid Company. Mr. Keown has over 25 years of experience in the Consumer Goods business, having held various positions with E.&J. Gallo Winery and The Procter & Gamble Company. He has served on the Board of Directors of Welch Foods Inc., a wholly owned subsidiary of the National Grape Cooperative Association, Inc., since June 2015, and currently serves on Welch's Audit, Compensation, and Nominating and Governance Committees. In October 2016, Mr. Keown was also appointed Vice Chairman of the Board of Directors of World Coffee Research, a collaborative, not-for-profit 501(c)(5) research organization created by the global coffee industry. Mr. Keown received his undergraduate degree in Economics from Northwestern University.

David G. Robson joined the Company as Treasurer and Chief Financial Officer effective February 20, 2017. Prior to joining the Company, Mr. Robson served as the Chief Financial Officer of PIRCH, a curator and retailer of kitchen, bath and outdoor home brands, from September 2014 to September 2016. While at PIRCH, Mr. Robson oversaw all aspects of accounting, financial planning and analysis, treasury, merchandise planning and legal, with responsibility for developing strategies, processes and operating priorities to upscale a high growth retailer while building strong finance and merchandising teams. From January 2012 to September 2014, Mr. Robson was the Chief Financial Officer of U.S. AutoParts, an online provider of auto parts and accessories, where he was responsible for managing accounting, financial planning and analysis, treasury and investment decisions, acquisition activities, public reporting, investor relations, and merchandise planning and procurement. Prior to that, Mr. Robson served as the Executive Vice President and Chief Financial Officer of Mervyns LLC, a former discount department store chain, from 2007 to 2011. From 2001 to 2007, Mr. Robson served as the Senior Vice President of Finance and Principal Accounting Officer for Guitar Center, Inc. Mr. Robson began his career in public accounting with the accounting firm Deloitte & Touche LLP. Mr. Robson graduated with a B.S. degree in Business Administration: Accounting and Finance from the University of Southern California and is a certified public accountant (inactive) in the State of California.

Ellen D. Iobst joined the Company as Chief Operations Officer effective February 20, 2017. Prior to becoming an employee of the Company, Ms. Iobst served as an independent consultant to the Company, reporting directly to the CEO, from April 2016 until her hire in February 2017. During this consulting period, Ms. Iobst focused on strategic initiatives relating to coffee manufacturing and sourcing, coffee equipment, supply chain improvement, acquisitions, and project implementation. Ms. Iobst's supply chain expertise includes state-of-the art manufacturing, lean manufacturing, supply chain and logistics optimization, purchasing, engineering and technical services, with executive experience in acquisitions and divestitures, site start up and closures, sustainability, and risk management. Prior to becoming a consultant to the Company, Ms. Iobst was the SVP, Supply Chain and Chief Sustainability Officer at Sunny Delight Beverages Co., a producer, distributor, and marketer of juices, juice drinks, and flavored waters, from August 2004 to October 2015. As one of the founding managers of Sunny Delight, she created and led a team of 600 people including manufacturing (5 plants), contract manufacturing, supply chain/logistics, purchasing/risk management, engineering/capital management and technical services, and provided leadership for the company's sustainability program. Ms. Iobst's other experience includes over 20 years with Procter & Gamble, a multinational consumer goods company, serving in a variety of roles relating to supply chain operations, plant management and human resources. Ms. Iobst graduated with a B.S. in Chemical Engineering from Lehigh University.

Scott A. Siers was promoted to the Company's executive management team as Senior Vice President and General Manager—Direct Ship effective February 20, 2017 after having served as the Company's Senior Vice President, National Account Sales since February 2013. Mr. Siers' responsibilities include general management and leadership of the Company's national sales/direct ship organization, including strategy, planning, organizational design and process improvement. Mr. Siers manages sales across all channels of trade, while overseeing the Company’s Silver LEED Certified manufacturing facility in Portland, Oregon and leading the Company’s corporate sustainability programs. Prior to joining the Company, Mr. Siers was Vice President, Business Development at McLane Company, a supply chain services company, from 2009 to September 2012, with responsibility for change management, new business sales and marketing. Mr. Siers' other experience includes various roles with PepsiCo, including as Vice President, Industry Relations & Business Development, where he led strategy and execution of industry relations and business development for all PepsiCo brands within the foodservice industry, and Vice President, National Accounts & Chief Customer Officer, where he led the national sales organization, as well as experience with Tropicana Products, Inc., where he served as Vice President, General Manager —US Sales. Mr. Siers graduated with a B.S. in Marketing from Western Kentucky University.

Thomas J. Mattei, Jr. was promoted to General Counsel effective December 4, 2014 and appointed Assistant Secretary effective August 6, 2015. Mr. Mattei joined the Company in January 2013 as Vice President and Corporate Counsel. Prior to joining the Company, Mr. Mattei was in private practice with Weintraub Tobin Chediak Coleman Grodin Law Corporation and Weissmann Wolff Bergman Coleman Grodin & Evall LLP in Beverly Hills, CA, from July 2004 to December 2012, with primary responsibilities in corporate, finance and real estate transactional matters. From October 1999 to July 2004, Mr. Mattei was a Corporate Associate at Latham & Watkins LLP in Los Angeles, CA, with primary responsibilities in securities, mergers and acquisitions, and general corporate matters. Mr. Mattei received his undergraduate degree in Public Policy from Duke University and his Juris Doctor from the University of Virginia School of Law.

COMPENSATION DISCUSSION AND ANALYSIS

This Compensation Discussion and Analysis describes our executive compensation philosophy, objectives, and programs, the decisions made under those programs and factors considered by our Compensation Committee in fiscal 2017 with respect to the compensation of our Named Executive Officers.

Fiscal 2017 Named Executive Officers

In fiscal 2017, our named executive officers consisted of four continuing executive officers, three former executive officers, and one individual who is a current non-executive level employee of the Company who served as interim principal financial and accounting officer in fiscal 2017 pending the search for a permanent Chief Financial Officer, as set forth in the table below (our "Named Executive Officers"):

Continuing Named Executive Officers Included Among Fiscal 2017 Named Executive Officers(1)	Former Named Executive Officers Included Among Fiscal 2017 Named Executive Officers
Michael H. Keown President and Chief Executive Officer	**Isaac N. Johnston, Jr. (4)** Former Treasurer and Chief Financial Officer
David G. Robson (2) Treasurer and Chief Financial Officer	**Rene E. Peth (5)** Current Vice President, Corporate Controller Former Interim Principal Financial and Accounting Officer
Ellen D. Iobst (3) Chief Operations Officer	**Scott W. Bixby (6)** Former Senior Vice President and General Manager—Direct Store Delivery
Thomas J. Mattei, Jr. General Counsel and Assistant Secretary	**Barry C. Fischetto (7)** Former Senior Vice President of Operations

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(1) Excludes Scott A. Siers who was promoted to the Company's executive management team as Senior Vice President and General Manager—Direct Ship effective February 20, 2017 after having served as the Company's Senior Vice President, National Account Sales since February 2013.
(2) Mr. Robson joined the Company as Treasurer and Chief Financial Officer effective February 20, 2017.
(3) Ms. Iobst joined the Company as Chief Operations Officer effective February 20, 2017, after having served as an independent consultant to the Company since April 2016.
(4) Mr. Johnston resigned as Treasurer and Chief Financial Officer of the Company effective January 6, 2017.
(5) Ms. Peth, the Company's Vice President, Corporate Controller, is a non-executive level employee of the Company who served as interim principal financial and accounting officer from February 1, 2017 to February 20, 2017.
(6) Mr. Bixby retired as an officer of the Company effective July 31, 2017 and his employment with the Company terminated on September 22, 2017.
(7) Mr. Fischetto resigned as the Company's Senior Vice President of Operations effective February 13, 2017.

Executive Summary

Our executive compensation programs are designed to attract, retain, and motivate talented executives, to reward positive results for the Company and our stockholders, and to motivate executives to achieve our short-term and long-term goals by emphasizing "at risk" performance-based compensation in balance with fixed compensation. We believe that this structure appropriately focuses our executive officers on the creation of long-term value without creating undue risk-taking behavior.

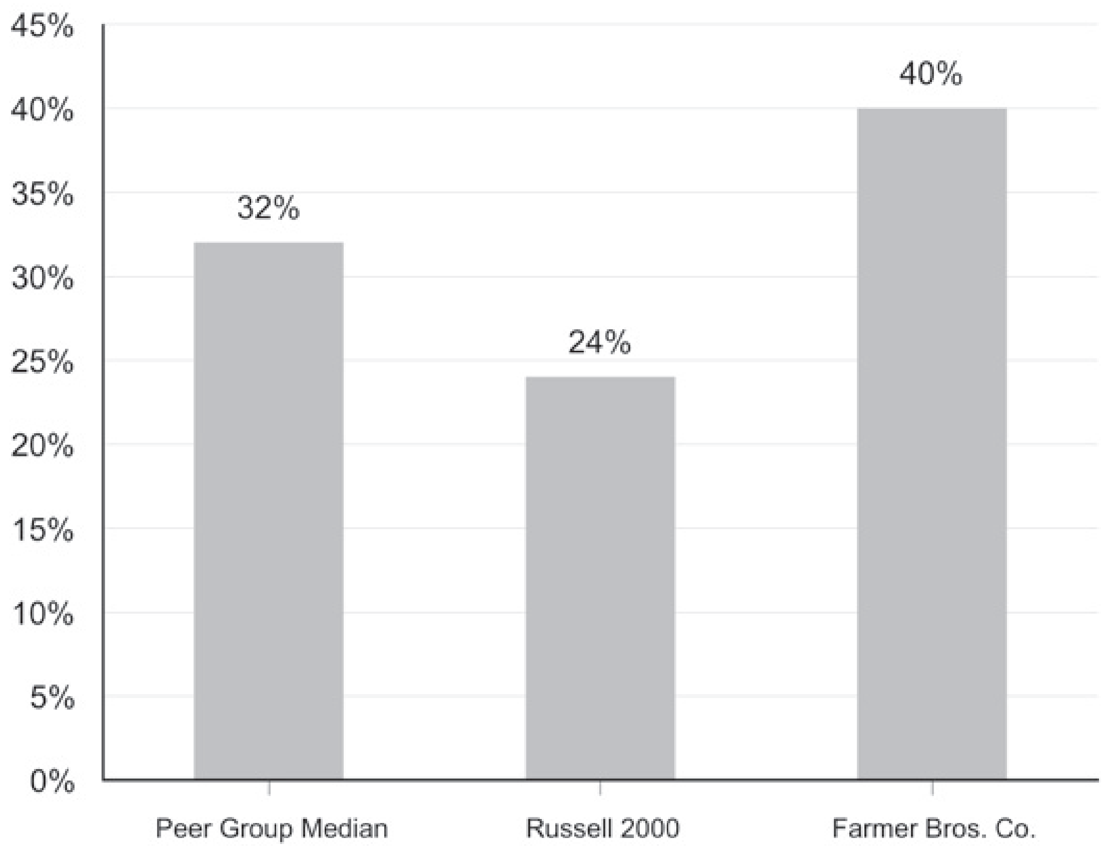
In fiscal 2017, our Compensation Committee evaluated Company performance for compensatory purposes in two primary ways: (i) modified net income and (2) modified operating cash flow. In fiscal 2017, we failed to achieve our modified net income and modified operating cash flow goals, with our modified net income falling short of threshold by $2.6 million and our modified operating cash flow falling short of threshold by $4.1 million. As a result of our failure to achieve a threshold level of modified net income in fiscal 2017, none of our Named Executive Officers received a payout under our annual cash incentive plan for fiscal 2017 performance. Ms. Peth received a payout in fiscal 2017 under a short-term incentive plan for non-executive employees.

In addition, the Company continued to refine its executive compensation program by making changes to the fiscal 2018 short- and long-term incentive programs. In the short-term incentive plan, for fiscal 2018 we have established a performance funding structure that will establish a maximum limit of the opportunity available under the program, and actual awards will be based on the

Company's achievement of targets for adjusted EBITDA and free cash flow along with the relative achievement of individual executive officer objectives as well as a separate set of goals aimed at the successful and rapid integration of the acquired business of Boyd Coffee Company. For fiscal 2018 long-term incentives, the Company adopted a new performance share vehicle to directly align long-term incentive awards with the Company's strategy of incentivizing profitable growth. Fiscal 2018 long-term incentive awards will be awarded as 50% performance shares based on coffee sales in pounds and adjusted EBITDA over a full three-year period, and 50% in stock options.

Our history of delivering sustained returns to stockholders continued in fiscal 2017. The chart below shows that our three-year cumulative Total Shareholder Return ("TSR") has continued to outperform our peer group (made up of our peer group companies, described below) as well as the Russell 2000.

3-Year Cumulative TSR as of June 30, 2017



Farmer Bros.' 3-year cumulative TSR, as of the Company's fiscal year-end of June 30, 2017, strongly exceeded the median of the Company's peer group and the Russell 2000. Peer group TSR data in the chart above excludes Boulder Brands, Inc. and Diamond Foods, Inc., which were each acquired. The Russell 2000 index median TSR is based on the 2017 constituent companies.

Compensation Policies and Practices—Good Governance

Consistent with our commitment to strong corporate governance, in fiscal 2017 our Board followed the compensation policies and practices described below to drive performance and serve our stockholders' long-term interests:

What We Do

✓ Our Compensation Committee is composed solely of independent directors, and regularly meets in executive session without members of management present.

✓ Our Compensation Committee retains an independent compensation consultant to provide it with advice on matters related to executive compensation.

✓ Our Compensation Committee periodically reviews and assesses the potential risks of our compensation policies and

✓ The structure of our executive compensation program includes a mix of cash and equity-based compensation, with an emphasis on performance-based compensation.

✓ The competitiveness of our executive compensation program is assessed by comparison to the compensation programs of peer group companies that are similar to us in terms of industry, annual revenue, significant founding family share ownership and/or other business characteristics.

✓ Our claw-back policy requires the Board to recoup certain incentive compensation in the event of a material restatement of the Company's financial results due to fraud or misconduct.

✓ We maintain meaningful stock ownership guidelines for directors and executive officers that promote a long-term stockholder perspective.

What We Do Not Do

✗ We do not provide for excise tax gross-ups in connection with severance or other payments or benefits arising in connection with a change in control.

✗ We do not provide for "single trigger" change in control payments or benefits.

✗ We do not provide guaranteed base salary increases or guaranteed bonuses.

✗ We do not provide supplemental pension ("SERP") benefits to our Named Executive Officers.

✗ We do not provide excessive perquisites.

✗ We do not permit (absent stockholder approval in the case of repricing/exchanging), and have not engaged in, the practice of backdating or re-pricing/exchanging stock options.

✗ We do not allow directors or executive officers to hedge or short sell Company stock.

✗ We do not allow directors or executive officers to pledge shares as collateral for a loan or in a margin account.

Fiscal 2017 Stockholder Advisory Vote on Executive Compensation and Key Compensation Program Enhancements

In December 2016, we held a stockholder advisory vote to approve the compensation of our named executive officers (the "say-on-pay proposal"). Our stockholders approved the compensation of our named executive officers, with approximately 67% of the shares present or represented by proxy at the 2016 Annual Meeting and entitled to vote thereat, casting votes in favor of the say-on-pay proposal, an increase from an approval rate of approximately 60% in fiscal 2015. The voting results with respect to the fiscal 2016 say-on-pay proposal reflected the responses of a group of stockholders, led by Carol Farmer Waite, who ran a proxy contest at the 2016 Annual Meeting, that had a stated agenda to oppose the proposals recommended by the Board, including the say-on-pay proposal, without regard to substance.

The Compensation Committee reviews the results of the annual vote on the say-on-pay proposal, and determines whether to make any adjustments to the Company's executive compensation policies and practices. In light of the increase in stockholder support in fiscal 2016 compared to the prior year's advisory vote results, the Compensation Committee determined that the enhancements to the Company's executive compensation programs and practices in fiscal 2016 were successful in further aligning the Company with stockholders in its executive compensation practices. In fiscal 2017, the Compensation Committee continued those enhancements and made the following additional enhancements to our compensation programs and practices:

- limited base salary increases to a modest 2% for those Named Executive Officers receiving increases;
- adopted the Farmer Bros. Co. 2017 Long-Term Incentive Plan (the "2017 Plan"), which was approved by our stockholders at a special meeting on June 20, 2017, which succeeded the Company's prior long-term incentive plans, the Farmer Bros. Co. Amended and Restated 2007 Long-Term Incentive Plan (the "2007 LTIP") and the Farmer Bros. Co. 2007 Omnibus Plan (collectively, the "Prior Plans"), to further align with market-competitive practices while allowing for efficient use of shares in the plan;
- continued to include performance-based vesting conditions in annual equity awards, subject to rigorous performance metrics for the fiscal 2017 grant and a forfeiture provision whereby 20% of each such grant would be subject to forfeiture if an applicable modified net income target was not attained;
- set rigorous performance goals under the Farmer Bros. Co. 2005 Incentive Compensation Plan, as amended (the "STIP"), requiring a higher level of threshold achievement of Company-wide performance measures in order to receive a bonus payout under the plan to further align with our compensation philosophy and business objectives; and
- continued review of potential modifications to our short- and long-term incentive plans and programs to further align our incentive programs with market-competitive practices and the Company's strategic goals.

The Compensation Committee will continue to consider the outcome of our say-on-pay votes when making future compensation decisions for the named executive officers. In addition, when determining how often to hold future say-on-pay votes to approve the compensation of our named executive officers, the Board took into account the strong preference for an annual vote expressed by our stockholders at our 2011 Annual Meeting. Accordingly, the Board determined that we will continue to hold say-on-pay votes to approve the compensation of our named executive officers every year, subject to consideration of the outcome of the vote on Proposal No. 4 to approve the frequency of future stockholder advisory votes to approve the compensation paid to our named executive officers. While that vote is non-binding, the Board and the Compensation Committee value the opinions that stockholders express in their votes and in any additional dialogue, and will consider the outcome of the vote and those opinions when determining the frequency with which advisory votes on executive compensation should be held. The Board may decide that it is in our and our stockholders' best interests to hold an advisory vote on executive compensation more or less frequently than the option approved by our stockholders.

Executive Compensation Philosophy and Objectives

Our Compensation Committee recognizes that effective compensation strategies are critical to retaining and incentivizing key employees who contribute to the Company's long-term success and, as such, create long-term value for our stockholders. To that end, our executive compensation program is designed to achieve the following primary objectives:

- attract, retain, and motivate talented executives;
- motivate executive officers to achieve our short-term and long-term goals by providing "at risk" compensation, the value of which is ultimately based on our future performance, without creating undue risk-taking behavior nor unduly emphasizing short-term performance over long-term value creation;
- reward positive results for the Company and our stockholders; and
- maintain total compensation and relative amounts of salary, annual, and long-term incentive compensation competitive with those amounts paid by peer companies selected by the Compensation Committee.

Oversight of the Executive Compensation Program

Compensation Committee

Under its charter, the Compensation Committee has the duty, among other things, to assess the overall executive compensation structure of the Company, including the compensation for our President and Chief Executive Officer and each of our other executive officers. In exercising this authority, the Compensation Committee determines the forms and amount of executive compensation appropriate to achieve the Compensation Committee's strategic objectives, including base salary, bonus, incentive or performance-based compensation, equity awards and other benefits.

Compensation Consultant

The Compensation Committee has the authority to retain the services of outside consultants to assist it in performing its responsibilities. In fiscal 2017, the Compensation Committee engaged Meridian for, (i) with respect to the Compensation Committee, advisory and consulting services relating to the Company's executive officer and director compensation programs, consultation regarding short-term and long-term incentive plan design, and consultation regarding corporate governance practices and general Compensation Committee matters and processes, and (ii) with respect to the Nominating and Corporate Governance Committee, consultation regarding processes related to officer succession planning and performance assessment with respect to our President and Chief Executive Officer.

Meridian provided no other services to the Company or its affiliates during fiscal 2017 other than as described above. The Compensation Committee has determined that Meridian is "independent" according to the criteria required by the SEC in Rule 10C-1 of the Exchange Act.

Management's Role in Establishing Compensation

The compensation of the executive officers is determined by the Compensation Committee, taking into account the input and recommendations of our President and Chief Executive Officer regarding compensation for those executive officers reporting to him, and taking into account the input of the Nominating and Corporate Governance Committee regarding performance of our President and Chief Executive Officer. The Compensation Committee has sole authority for all final compensation determinations regarding our President and Chief Executive Officer. Our President and Chief Executive Officer, Chief Financial Officer and General Counsel routinely attend the meetings of the Compensation Committee to provide input, as requested by the Compensation Committee and, in the case of the General Counsel, to act as secretary for the meeting; however, no executive officer has any role in approving his or her own compensation, and neither our President and Chief Executive Officer nor any other executive officer is present during the portion of the meeting at which the Compensation Committee considers his or her own compensation. The Compensation Committee regularly meets in executive session, without members of the management team present, when discussing and approving executive compensation.

Benchmarking and Peer Group Companies

The Compensation Committee compares the pay levels and programs for the Company's executive officers to compensation information from a relevant peer group as well as information from published survey sources. The Compensation Committee uses this comparative data as a reference point in its review and determination of executive compensation, but also considers competitive compensation practices and other relevant factors based on the members' collective experience in setting pay. Accordingly, the Compensation Committee does not generally establish compensation at specific benchmark percentiles.

When setting compensation, the Compensation Committee considers other factors in addition to market data, including:

- individual performance;
- impact on long-term stockholder value creation;
- impact on development and execution of Company strategy;
- experience and tenure in role; and
- scope of responsibility.

In fiscal 2017, the Compensation Committee continued to use the following peer group, developed and approved in fiscal 2016, with the assistance of Meridian, for purposes of comparing the compensation levels of our Named Executive Officers relative to our peers:

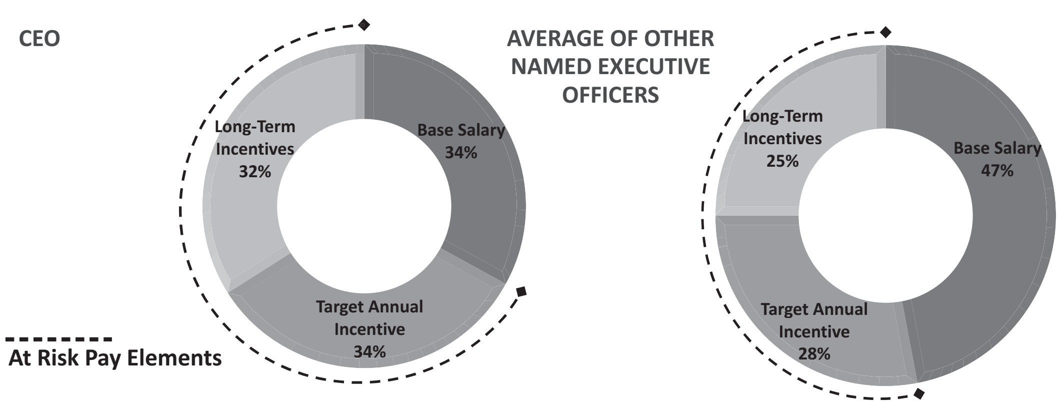
- B&G Foods, Inc.
- Boston Beer Company, Inc.
- Boulder Brands, Inc.
- Calavo Growers, Inc.
- Cal-Maine Foods, Inc.
- Chef's Warehouse Inc.
- Craft Brew Alliance Inc.
- Diamond Foods, Inc.
- Inventure Foods Inc.
- J & J Snack Foods Corp.
- Lancaster Colony Corporation
- MGP Ingredients Inc.
- National Beverage Corp.
- Omega Protein Corp.
- John B. Sanfilippo & Son, Inc.
- Seneca Foods Corp.
- Sunopta Inc.
- Tootsie Roll Industries, LLC

The Compensation Committee found this peer group to be appropriate because it represented a meaningful sample of comparable companies in terms of, as applicable, industry, annual revenue, significant founding family share ownership and other business characteristics. For purposes of fiscal 2018 executive compensation, the Compensation Committee has modified this peer group to remove Boulder Brands, Inc. and Diamond Foods, Inc., which were each acquired, and to add Amplify Snack Brands, Inc. and Snyder's-Lance, Inc.

Fiscal 2017 Named Executive Officer Compensation Mix

In fiscal 2017, the Compensation Committee's compensation decisions with respect to our Named Executive Officers once again reflected strong alignment between pay and performance. We believe that our fiscal 2017 compensation programs were therefore also strongly aligned with the long-term interests of our stockholders.

The following charts illustrate, with respect to our Chief Executive Officer and with respect to our other Named Executive Officers at the beginning of fiscal 2017 (Messrs. Johnston, Bixby, Fischetto, and Mattei) as a group, the base salary, target annual cash incentive compensation, and target long-term equity incentive compensation as a percentage of target total direct compensation for fiscal 2017. As shown below, a significant portion of Named Executive Officer targeted direct compensation is "at risk" variable compensation rather than fixed compensation, reflecting our philosophy of aligning Named Executive Officer compensation with performance generally and stockholder value creation specifically.



Key Elements of Fiscal 2017 Executive Compensation Program

Below are the key elements of the Company's executive compensation program. While we believe that the components of our compensation program function together to support our recruitment, retention, performance and stockholder alignment goals, the principal purposes of each component of the program are as follows:

What We Pay	Why and How We Pay It
Base Salary	• Base salary comprises fixed cash compensation that is designed to provide a reasonable level of fixed income and corresponding day-to-day financial stability, based on role, individual performance, scope of responsibility, leadership skills and experience. • Base salaries are reviewed annually and adjusted when appropriate (increases are neither fixed nor guaranteed). • Competitive base salaries are a key component of attracting and retaining executive talent.
Annual Cash Incentives	• Annual cash incentives constitute variable "at risk" compensation, payable in cash based on Company-wide and individual performance. These awards are designed to reward achievement of annual financial objectives as well as near-term strategic objectives that create momentum that is expected to foster the long-term success of the Company's business. • Company-wide metrics and targets are derived from, and intended to promote, our near-term business strategy. • Individual targets are consistent with our focus on both quantitative and qualitative priorities and thereby reward both attainment of objective metrics and individual contributions.
Long-Term Incentives—Time- and Performance-Vesting Stock Options	• Stock options subject to both performance- and time-based vesting conditions are designed to create direct alignment with stockholder objectives, provide a focus on long-term value creation, retain critical talent over extended timeframes and enable key employees to share in value creation. • Performance-based stock option metrics and targets align with long-term business strategy as well as stock price appreciation.
Severance Benefits	• Severance benefits provide income and health insurance protection to our Named Executive Officers in connection with certain involuntary terminations of employment. These severance benefits are designed to enable the Named Executive Officers to focus on the best interests of the Company and its stockholders, including in circumstances that may jeopardize the individual's job security. • Enhanced severance benefits are available if the termination of employment occurs in connection with a change in control to ensure continued focus on the best alternatives for the Company and its stockholders, free from distractions caused by personal uncertainties associated with the heightened risk to job security that arises for senior executives in the transactional context. • Severance benefits are also key to attracting and retaining key talent.
Retirement and Welfare Benefits	• A standard complement of retirement, health, welfare and insurance benefits, offered to our Named Executive Officers on terms generally similar to those available to other employees, provides important protections and stability for our Named Executive Officers and their families that help enable our Named Executive Officers to remain focused on their work responsibilities. • These are generally low-cost benefits with a higher perceived value that are intended to help keep our overall compensation package competitive.
Perquisites	• We provide limited perquisites such as an automobile allowance or use of a Company car and fuel card, as well as relocation assistance, each intended to facilitate the operation of the Company's business and to assist the Company in recruiting and retaining key executives. • These are also low-cost benefits with a higher perceived value that are intended to help keep our overall compensation package competitive.

Compensation for Rene E. Peth, Vice President, Corporate Controller (Former Interim Principal Financial and Accounting Officer)

Ms. Peth, the Company's Vice President, Corporate Controller, is a non-executive level employee of the Company who served as interim principal financial and accounting officer from February 1, 2017 to February 20, 2017, pending the search for a permanent

Chief Financial Officer. Ms. Peth is an active employee of the Company. She received no additional or special compensation for her service as interim principal financial and accounting officer, nor did her title change to reflect her role as interim principal financial and accounting officer.

The proxy rules require that we disclose the compensation of all individuals serving as our principal financial officer or acting in a similar capacity during the last completed fiscal year in the tables below and discuss their compensation in this Compensation Discussion and Analysis. This requirement applies to Ms. Peth despite the fact that she served as interim principal financial and accounting officer for a relatively short period and is not an executive-level employee. This section describes Ms. Peth's fiscal 2017 compensation. Descriptions of the compensation programs and compensation outcomes for our other Named Executive Officers may be found in the remaining narrative of this Compensation Discussion and Analysis section.

The Compensation Committee has purview over compensation matters covering our executive level employees. As a non-executive level employee, Ms. Peth's fiscal 2017 compensation was determined by management rather than the Compensation Committee, including the determination of any merit increase in base salary, the establishment of annual incentive performance goals, the evaluation of achieved performance against those goals, the determination of the level of incentive payouts, and the grant and mix of equity awards.

The Company made the following determinations regarding Ms. Peth's fiscal 2017 compensation:

- Ms. Peth' annual base salary was increased from $200,000 to $214,000 in recognition of her prior year performance.
- Ms. Peth's target bonus opportunity under a short-term incentive plan for non-executive employees was set at 40% of her annual base salary. The Company set the performance goals under this plan based on achievement of individual goals and Company-wide performance goals based on modified net income and modified operating cash flow, similar to the STIP for executive officers, however modified net income for purposes of the non-executive employee plan also excluded the effect of restructuring and other transition expenses related to the reorganization of our DSD operations. Based on achievement against these performance goals, Ms. Peth earned an annual incentive award equal to approximately 62% of her target opportunity of $85,600, or $53,463.
- On November 10, 2016, the Company granted Ms. Peth 3,756 performance-based stock options with performance goals and vesting criteria consistent with the terms of the other annual-cycle employee stock option awards in fiscal 2017 and as described in the Long-Term Incentives section below. This stock option award amount was determined by management and was approved by the Compensation Committee, as administrator of the Company's long-term incentive plan. In fiscal 2017, the Company failed to achieve the modified net income target associated with the stock options granted in fiscal 2017 which will result in the forfeiture of 20% of the shares awarded to Ms. Peth.

Base Salary

Consistent with the established executive compensation philosophy and objectives described above, and informed by the peer comparisons provided by Meridian, the Compensation Committee set fiscal 2017 annual base salaries for the Named Executive Officers as shown in the following table.

Name(1)	Fiscal 2017 Annual Base Salary(2)	Fiscal 2016 Annual Base Salary	Annual Base Salary Percentage Change
Continuing Named Executive Officers:			
Michael H. Keown	$ 517,140	$ 507,000	2%
David G. Robson	$ 350,000	$ —	—%
Ellen D. Iobst	$ 335,000	$ —	—%
Thomas J. Mattei, Jr.	$ 306,000	$ 300,000	2%
Former Named Executive Officers:			
Isaac N. Johnston, Jr.	$ 357,000	$ 350,000	2%
Scott W. Bixby	$ 306,000	$ 300,000	2%
Barry C. Fischetto	$ 300,000	$ 300,000	0%

(1) Excludes Ms. Peth, a non-executive level employee, who served as interim principal financial and accounting officer from February 1, 2017 to February 20, 2017.
(2) Annual base salary as of the end of the applicable fiscal year or last day of employment, as applicable. Actual annual base salary prorated to effective start date or separation date. Increases in fiscal 2017 base salaries for Messrs. Keown, Mattei, Johnston and Bixby reflected adjustments approved by the Compensation Committee and were effective September 5, 2016.

Annual Cash Incentives

Fiscal 2017 awards under the STIP were designed to provide the Named Executive Officers with annual cash compensation based on achievement of short-term Company-wide and individual performance targets during fiscal 2017. The STIP places a significant portion of each Named Executive Officer's annual cash compensation "at risk" and is designed to align the near-term focus of our Named Executive Officers with our business goals for the relevant period. The Compensation Committee believes that the fiscal 2017 performance metrics under the STIP represented challenging, yet achievable, goals that effectively incentivized the Named Executive Officers.

The performance metrics by which performance was measured under the STIP for fiscal 2017, namely modified net income and modified operating cash flow, were generally similar to those for fiscal 2016. However, the fiscal 2017 dollar values for the target modified net income and target modified operating cash flow goals under the STIP, which are described in greater detail below, were higher (and therefore more difficult to achieve) as compared to fiscal 2016. In fiscal 2017, Company-wide performance goals accounted for 90% of the annual incentive opportunity at target, and individual performance goals accounted for 10% of the annual incentive opportunity at target.

Fiscal 2017 Company-Wide Performance Goals

For fiscal 2017 the Compensation Committee used modified net income and modified operating cash flow as the relevant performance metrics and set goals relating to such metrics (described below) which, if achieved, the Compensation Committee believed would reflect a meaningful improvement in Company profitability and value accretion to our stockholders.

For this purpose,

- "modified net income" was defined as net income (GAAP) before taxes and excluding any gains or losses from sales of assets (in addition, in fiscal 2017, the Compensation Committee determined that "modified net income" would be increased by the amount of a LIFO entry that related to fiscal 2016 and was recorded for accounting purposes in fiscal 2017);
- "modified operating cash flow" was defined as net income (GAAP) after taking into account adjustments for the following items: (i) depreciation and amortization, (ii) provision for doubtful accounts, and (iii) changes in: (a) accounts and notes receivable, (b) inventories, (c) income tax receivables, (d) prepaid expenses, (e) other assets, (f) accounts payable, and (g) accrued payroll expenses and other current liabilities; and
- in each case, we excluded the effect of restructuring and other transition expenses related to the relocation of the Company's corporate headquarters to Northlake, Texas and non-recurring 2016 proxy contest-related expenses in excess of the level of expenses normally incurred for an annual meeting of stockholders.

In fiscal 2017, our Named Executive Officers were eligible to earn bonuses under the STIP ranging from 50% of the applicable Named Executive Officer's target annual bonus for threshold performance (defined as performance at 80% of target performance) and increasing to 200% of the applicable Named Executive Officer's target annual bonus for maximum performance achievement (defined as performance at 140% of target performance), with payouts for performance between threshold and target, and between target and maximum determined by linear interpolation. Performance below threshold for the modified net income goal would result in no payout. The following table shows achievement compared to Company-wide performance goals for fiscal 2017 under the STIP.

Metric	Weighting	Threshold Goal (80% of Target Performance)	Target Goal	Maximum Goal (140% of Target Performance)	Actual Achievement	Actual Achievement Compared to Target Performance	Earned Payout for Fiscal 2017 STIP Goals
Modified Net Income	80%	$ 19,120,000	$23,900,000	$33,460,000	$16,503,000	69.1%	$ 0
Modified Operating Cash Flow	20%	$ 36,537,600	$45,672,000	$63,940,800	$32,420,000	71.0%	$ 0
Weighted Company-wide Performance Goals						69.7%	

Fiscal 2017 Individual Performance Goals

Under the STIP, the weighted achievement percentages for the Company-wide performance goals govern the overall level of achievement of the individual performance goals. Specifically, performance against individual performance goals is determined by multiplying the payout as a percentage of target annual bonus for Company-wide performance by the aggregate weighted achievement percentage for the applicable Named Executive Officer's individual goals. The significant accomplishments considered by our Compensation Committee in determining the individual performance component of our Named Executive Officers' fiscal 2017 annual cash incentive awards under the STIP are summarized below:

Name(1)	Individual Performance Accomplishments for Fiscal 2017
Michael H. Keown	• Completed corporate relocation plan. • Delivered long-term strategic plan. • Directed organization development, senior leadership team succession planning and talent mapping. • Directed execution of initiatives to build organization engagement and productivity.
David G. Robson	• Provided finance and strategic leadership to senior management team. • Enhanced finance and IT staffing, resources, and financial reporting process. • Led and enhanced investor relations program.
Ellen D. Iobst	• Executed and completed corporate relocation plan and start-up of operations at Northlake, Texas facility. • Implemented supply chain improvements in delivery, transportation, procurement and fill rate. • Led initiatives to improve safety, quality and productivity. • Developed long-term Operations strategic plan.
Thomas J. Mattei, Jr.	• Closed sale of our Torrance facility. • Implemented commercial improvements in RFP process, standardized forms and legal department outreach. • Developed and implemented dispute tracking system. • Led improvements in risk and safety to reduce insurance premium expense and potential risk exposure.
Scott W. Bixby	• Substantially achieved DSD annual operating plan goals for revenue, volume and gross profit. • Deployed enhanced DSD operational processes and controls. • Implemented DSD restructuring plan to a channel-based selling organization. • Executed enhanced field sales training and mobile sales deployment.

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(1) Table excludes: (a) Mr. Johnston, who resigned as Treasurer and Chief Financial Officer of the Company effective January 6, 2017 and was not eligible to receive a fiscal 2017 bonus under the STIP; (b) Ms. Peth, a non-executive level employee, who did not participate in the STIP in fiscal 2017 and who participated in a short-term incentive plan for non-executive employees; and (c) Mr. Fischetto, who resigned as the Company's Senior Vice President of Operations effective February 13, 2017. Although Mr. Fischetto was entitled to a prorated bonus award under the STIP for fiscal 2017 in accordance with the terms of his confidential general release and separation agreement with the Company, no such payment was received due to the Company's failure to achieve a threshold level of modified net income under the STIP for fiscal 2017 performance.

As a result of the Company's failure to achieve a threshold level of modified net income in fiscal 2017, none of our Named Executive Officers received a payout under the STIP for fiscal 2017 performance. Ms. Peth received a payout in fiscal 2017 under a short-term incentive plan for non-executive employees.

Name(1)	Fiscal 2017 Target Award	Fiscal 2017 Target Award as Percentage of Fiscal 2017 Base Salary	Payout as Percentage of Target Company-wide Performance (90% Weight)	Payout as Percentage of Target Individual Performance (10% Weight)(2)	Fiscal 2017 Payout
Michael H. Keown	$517,140	100.0%	0%	93%	$0
David G. Robson(3)	$245,000	70.0%	0%	100%	$0
Ellen D. Iobst(3)	$201,000	60.0%	0%	85%	$0
Thomas J. Mattei, Jr.	$168,300	55.0%	0%	100%	$0
Scott W. Bixby	$168,300	55.0%	0%	88%	$0

(1) Table excludes: (a) Mr. Johnston, who resigned as Treasurer and Chief Financial Officer of the Company effective January 6, 2017 and was not eligible to receive a fiscal 2017 bonus under the STIP; (b) Ms. Peth, a non-executive level employee, who did not participate in the STIP in fiscal 2017 and who participated in a short-term incentive plan for non-executive employees; and (c) Mr. Fischetto, who resigned as the Company's Senior Vice President of Operations effective February 13, 2017. Although Mr. Fischetto was entitled to a prorated bonus award under the STIP for fiscal 2017 in accordance with the terms of his confidential general release and separation agreement with the Company, no such payment was received due to the Company's failure to achieve a threshold level of modified net income under the STIP for fiscal 2017 performance.

(2) Percentages shown in this column are rounded to the nearest whole percent.

(3) Mr. Robson and Ms. Iobst commenced employment with the Company effective February 20, 2017 with the amount of any payout under the STIP for fiscal 2017 to be prorated based on the employment start date.

Key Fiscal 2018 Compensation Decisions

For purposes of fiscal 2018 short-term incentive award funding, the Compensation Committee has approved a performance funding structure under the 2017 Plan designed to allow the qualification of short-term incentive compensation awards under Section 162(m) of the Internal Revenue Code (the "Code"), to preserve the deductibility of compensation under our incentive compensation programs.

For fiscal 2018 we have established a maximum annual cash incentive opportunity for the program, generally, and for each of our executive officers that participate in this plan. Actual annual short-term incentive compensation awards will be based on the Company's achievement of targets for adjusted EBITDA and free cash flow (collectively weighted at 90%) along with the relative achievement by each executive officer of individual goals and objectives approved by the Compensation Committee (weighted at 10%). In addition, the Compensation Committee approved a separate set of goals for fiscal 2018 to help ensure successful and rapid integration of the acquired business of Boyd Coffee Company, including specific goals related to customer retention, integration of certain designated operating functions, and assuming the production of designated products at our facilities. More details about our fiscal 2018 annual incentive programs will be provided in our fiscal 2018 proxy filing.

Long-Term Incentives

To date, the Compensation Committee has granted stock option awards and restricted stock awards under the Prior Plans.

- Stock options are designed to incentivize our Named Executive Officers by providing them with an opportunity to share, along with stockholders, in the long-term performance of the Company's Common Stock. Stock options only confer realizable value to the extent that our stock price increases subsequent to the grant of the stock option, thus incentivizing our Named Executive Officers to work toward increased share price goals and aligning their interests with those of our stockholders. Annual normal-cycle long-term incentive awards to executive officers have consisted exclusively of performance-based stock options since December 2013.

- Restricted stock awards confer both the existing share value and future stock price appreciation on our Named Executive Officers and therefore also align their interests with those of the Company's stockholders, while further enabling us to grant incentives providing existing value and future appreciation opportunity if the awards vest.

Awards of time-based restricted stock to executive officers have been limited to sign-on equity awards since December 2013.

Our practice, beginning in fiscal 2017, is to grant annual equity incentive grants in the first quarter of the fiscal year in order to align, more closely, the timing of annual equity incentive grants with the full performance period and thus bring grant practice more in line with market practice, with interim grants for new hires and promotions after the annual grant date, in each case, granted outside the applicable blackout period under our insider trading policy.

Annual Stock Option Awards

In fiscal 2017, the stock options granted to our Named Executive Officers under the 2007 LTIP as part of the Named Executive Officers' annual long-term incentive award were subject to both time-based and performance-based vesting conditions, with 20% of each such grant subject to forfeiture if an applicable modified net income target was not attained. Modified Net Income was defined as net income (GAAP) before taxes (i) increased by the amount of a LIFO entry that related to fiscal 2016 and was recorded for accounting purposes in fiscal 2017 and (ii) excluding (a) any gains or losses from sales of assets, (b) the effect of restructuring and other transition expenses related to the relocation of the Company's corporate headquarters to Northlake, Texas, and (c) non-recurring 2016 proxy contest-related expenses in excess of the level of expenses normally incurred for an annual meeting of stockholders.

The stock options have an exercise price of $32.85, which was the closing price of our Common Stock as reported on the NASDAQ Global Select Market on the date of grant. One-third of the total number of shares subject to each such stock option vest ratably on each of the first three anniversaries of the grant date, contingent on continued employment, and subject to accelerated vesting in certain circumstances.

In fiscal 2017, the Company failed to achieve modified net income of at least $23,900,000 which will result in the forfeiture of 20% of the shares subject to each such stock option.

The following table sets forth the stock options granted to each of our Named Executive Officers under the 2007 LTIP on November 10, 2016:

Name(1)	Fiscal 2017 Annual Stock Option Grant (# of Option Shares Granted)(2)	# of Option Shares to be Forfeited(2)	# of Option Shares that Will Continue to Vest
Michael H. Keown	41,331	8,265	33,066
Thomas J. Mattei, Jr.	9,768	1,953	7,815

(1) Table excludes: (a) Mr. Robson and Ms. Iobst, who are entitled to certain new hire equity awards as described below under "New Hire Restricted Stock Awards and Stock Option Awards"; (b) Messrs. Johnston, Bixby and Fischetto who received stock option grants under the 2007 LTIP on November 10, 2016 covering 18,786, 15,030 and 15,030 shares, respectively, which stock options were unvested and forfeited upon their separation from employment with the Company; and (c) Ms. Peth, a non-executive level employee, who received a stock option grant under the 2007 LTIP on November 10, 2016 covering 3,756 shares subject to the same vesting terms as the grants made to the Named Executive Officers named in the table above.

(2) Amounts shown in table reflect fiscal 2017 annual stock option grant. Due to the Company's failure to achieve modified net income of at least $23,900,000 in fiscal 2017, 20% of the shares subject to each such stock option will be forfeited. Similarly, 20% of the shares subject to the award to Ms. Peth will be forfeited.

New Hire Restricted Stock Awards and Stock Option Awards

In connection with their employment, pursuant to the terms of their respective employment agreements with the Company, Mr. Robson and Ms. Iobst will each be entitled to the following equity awards to be granted upon the expiration of the currently-applicable blackout period under our insider trading policy:

(i) a number of non-qualified stock options determined by dividing $60,000, in the case of Mr. Robson, and $48,000, in the case of Ms. Iobst, by the per share fair value of a non-qualified stock option (based on a Black-Scholes valuation or other appropriate option pricing methodology approved by the Compensation Committee) on the award date; and

(ii) a number of shares of restricted stock determined by dividing $30,000, in the case of Mr. Robson, and $24,000, in the case of Ms. Iobst, by the Fair Market Value (as defined in the long-term incentive plan) on the award date.

The stock options will have a seven (7) year term with an exercise price equal to the Fair Market Value on the award date. Provided the recipient is then employed by the Company, the awards will vest as follows: (i) the stock option award will vest ratably over three years on each anniversary of the award date; and (ii) the restricted stock award will vest in its entirety on the third anniversary of the award date.

2017 Plan

On June 20, 2017 (the "Effective Date"), the Company's stockholders approved the 2017 Plan. The 2017 Plan succeeded 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 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. 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 is administered by the Board or another Board committee or subcommittee, as may be determined by the Board from time to time. The 2017 Plan includes annual limits on certain awards that may be granted to any individual participant. The 2017 Plan also 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 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 re-pricings of any outstanding stock options or stock appreciation rights granted under the 2017 Plan. The 2017 Plan will expire on June 20, 2027.

Key Fiscal 2018 Compensation Decisions

The long-term incentive program has been modified for fiscal 2018 in order to incentivize value creation through profitable growth, directly aligning long-term incentive awards with the Company's business strategy and stockholder interests. Fiscal 2018 long-term incentives will be awarded 50% in performance-based restricted stock units (PBRSUs) and 50% in stock options. PBRSUs will be earned based on the achievement of coffee sales (measured by pounds of coffee sold) and adjusted EBITDA, both measured over a full three-year performance period. The NQOs will vest over a three-year period based on continued employment over the period, subject to accelerated vesting in certain circumstances. More details about our fiscal 2018 long-term incentive awards will be provided in our fiscal 2018 proxy filing.

Change in Control Severance Agreements; Employment Agreements

The Company has entered into change in control severance agreements with each of the continuing Named Executive Officers, pursuant to which they are entitled to receive severance benefits upon the occurrence of certain qualifying terminations of employment in connection with a change in control or threatened change in control. The events that trigger payment are generally those related to (i) termination of employment by the Company other than for cause, disability or death, or (ii) resignation for good reason. These agreements were entered into, and continue in effect, to achieve the following objectives: (a) assure the Named Executive Officers' full attention and dedication to the Company, free from distractions caused by personal uncertainties and risks related to a pending or threatened change in control; (b) assure the Named Executive Officers' objectivity with respect to stockholders' interests in a change in control scenario; (c) assure the fair treatment of the Named Executive Officers in case of involuntary termination following a change in control or in connection with a threatened change in control; and (d) attract and retain key talent during uncertain times. The agreements are structured so that payments and benefits are provided only if there is both a change in control or threatened change in control and a qualifying termination of employment ("double trigger"), either by us (other than for "Cause," "Disability" or death), or by the Named Executive Officer for "Good Reason" (as each is defined in the change in control severance agreements). Ms. Peth, as a non-executive level employee, is party to a similar change in control severance agreement for key non-executive employees. A more detailed description of the severance benefits to which our continuing Named Executive Officers are entitled in connection with a change in control or threatened change in control is set forth below under the heading "Named Executive Officer Compensation—Change in Control and Termination Arrangements."

The Company has also entered into employment agreements with each of the continuing Named Executive Officers. Pursuant to the terms of their employment agreements, the Named Executive Officers are entitled to receive certain benefits upon their termination of employment without cause or resignation for good reason in the absence of a change in control or threatened change in control. The Company believes such benefits were necessary to attract and retain the Named Executive Officers and to secure their services at agreed-upon terms. The termination-related payments and benefits under the Named Executive Officers' change in control severance agreements are in lieu of, and not in addition to, the termination-related payments and benefits under their employment agreements. A more detailed description of the benefits to which these Named Executive Officers are entitled in connection with their termination is set forth below under the heading "Named Executive Officer Compensation—Change in Control and Termination Arrangements."

The Company was also party to employment agreements with each of Mr. Johnston, Mr. Bixby and Mr. Fischetto. Mr. Johnston resigned as Treasurer and Chief Financial Officer of the Company effective January 6, 2017. Mr. Bixby retired as an officer of the Company effective July 31, 2017 and his employment with the Company terminated on September 22, 2017. Mr. Fischetto resigned as the Company's Senior Vice President of Operations effective February 13, 2017.

Effective February 13, 2017, the Company and Mr. Fischetto entered into a confidential general release and separation agreement pursuant to which Mr. Fischetto became entitled to receive six months of severance pay ($150,000), subject to applicable withholdings, determined in accordance with the Company's standard policies and procedures and payable in regular installments on the Company's regular pay days; (ii) subsidized COBRA continuation coverage for six months following the termination date; and (iii) a prorated bonus award under the STIP subject to the Company satisfying its threshold requirements and the degree of achievement of Company performance goals under the STIP for fiscal 2017, with individual goals deemed to be achieved at 100%. Receipt of the foregoing payments and benefits was conditioned upon Mr. Fischetto having executed a general release of claims in favor of the Company.

ESOP Allocation

Our Named Executive Officers participate in the Company's ESOP in the same manner as all other eligible employees. ESOP Company contributions (which may be in the form of Common Stock or cash) are allocated in accordance with a formula based on participant compensation. A participant's interest in the ESOP becomes 100% vested after five years of service to the Company, subject to accelerated vesting in certain limited circumstances.

In fiscal 2017, the Named Executive Officers received the following ESOP allocations in shares of Common Stock based on compensation earned during calendar year 2016:

Name(1)	ESOP Allocation (# of Shares)
Michael H. Keown	284
Scott W. Bixby(2)	284
Thomas J. Mattei, Jr.	284

(1) Table excludes: (a) Mr. Robson and Ms. Iobst who were not employed by the Company in calendar year 2016; (b) Messrs. Johnston and Fischetto who forfeited their ESOP allocations due to their separation from employment with the Company in fiscal 2017 and failure to satisfy applicable vesting conditions; and (c) Ms. Peth, a non-executive level employee, who received an ESOP allocation of 284 shares of Common Stock in fiscal 2017 (based on compensation earned during calendar year 2016).

(2) Mr. Bixby subsequently forfeited the ESOP award shown in the table above upon termination of his employment with the Company on September 22, 2017 for failure to satisfy applicable vesting conditions.

Retirement and Welfare Benefits

The Named Executive Officers receive the same welfare benefits as those received by our employees generally, including medical, dental, life, disability and accident insurance. The Company also offers a supplemental disability plan to higher income staff members, including our Named Executive Officers, which allows them to buy an additional amount of disability coverage at their own expense.

The Named Executive Officers are eligible on the same basis as our employees generally to participate in the Company's 401(k) plan. The value of the Named Executive officers' 401(k) plan balances depends solely on the performance of investment alternatives selected by the applicable Named Executive Officer from among the alternatives offered to all participants. All investment options in the 401(k) plan are market-based, meaning there are no "above-market" or guaranteed rates of return. In fiscal 2017, the Company offered a discretionary match of the employees' annual contributions under the 401(k) plan equal to 50% of an employee's annual contribution, up to 6% of the employee's eligible income. 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 limited circumstances.

Subject to applicable plan provisions, upon certain events of retirement, Named Executive Officers are eligible to receive retiree medical insurance benefits on the same terms as other retiring Company employees.

Perquisites

We limit the perquisites available to our Named Executive Officers; however we believe that offering certain perquisites facilitates the operation of our business, allows our Named Executive Officers to better focus their time, attention and capabilities on our business, and assists the Company in recruiting and retaining key executives. We also believe that the perquisites offered to our Named Executive Officers are generally consistent with practices among companies in our peer group.

The perquisites and other benefits available to Named Executive Officers consist of an automobile allowance or use of a Company car and fuel card, and relocation assistance.

It is the Company's and the Compensation Committee's intention to continually assess business needs and evolving practices to ensure that perquisite offerings are competitive and reasonable.

Compensation Policies and Practices

Stock Ownership Guidelines

The Board has adopted Stock Ownership Guidelines to further align the interests of the Company's executive officers with the interests of the Company's stockholders. Under the stock ownership guidelines, an executive officer is not permitted to sell any shares of Common Stock received as a result of grants under the Company's long-term incentive plans unless the executive officer achieves and maintains the applicable threshold share ownership level set forth in the table below. Further, under the stock ownership guidelines, a non-employee director is expected to own and hold during his or her service as a Board member a number of shares of Common Stock with a value of at least $150,000, and is not permitted to sell any shares of Common Stock received as grants under the Company's long-term incentive plans unless and until the non-employee director achieves and maintains this threshold share ownership level.

Shares of Common Stock that count toward satisfaction of these guidelines include: (i) shares of Common Stock owned outright by the executive officer or non-employee director and his or her immediate family members who share the same household, whether held individually or jointly; (ii) restricted stock or restricted stock units (whether or not the restrictions have lapsed); (iii) ESOP shares (with respect to executive officers only); (iv) shares of Common Stock held in trust for the benefit of the executive officer or non-employee director or his or her family; and (v) shares of Common Stock issuable under vested options held by the executive officer or non-employee director.

Position	Value of Shares Owned
Chief Executive Officer	3x base salary
Other Executive Officers	1x base salary
Non-Employee Directors	$150,000

Insider Trading Policy (Including Anti-Hedging and Anti-Pledging Policies)

Our insider trading policy prohibits all employees, officers, directors, consultants and other associates of the Company and certain of their family members from, among other things, purchasing or selling any type of security, whether the issuer of that security is the Company or any other company, while aware of material, non-public information relating to the issuer of the security or from providing such material, non-public information to any person who may trade while aware of such information. The insider trading policy also prohibits employees from engaging in short sales with respect to our securities, purchasing or pledging Company stock on margin and entering into derivative or similar transactions (i.e., puts, calls, options, forward contracts, collars, swaps or exchange agreements) with respect to our securities. We also have procedures that require trades by certain insiders, including our directors and executive officers, to be pre-cleared by appropriate Company personnel. Additionally, such insiders are generally prohibited from conducting transactions involving the purchase or sale of the Company's securities from 12:01 a.m. New York City time on the fifteenth calendar day before the end of each of the Company's four fiscal quarters (including fiscal year end) through 11:59 p.m. New York City time on the second business day following the date of the public release containing the Company's quarterly (including annual) results of operations.

Clawback Policy on Executive Compensation in Restatement Situations

In the event of a material restatement of the financial results of the Company, the Board, or the appropriate committee thereof, will review all bonuses and other incentive and equity compensation awarded to the Company's executive officers on the basis of having met or exceeded performance targets for performance periods that occurred during the restatement period. If such bonuses and other incentive and equity compensation would have been lower had they been calculated based on such restated results, the Board, or the appropriate committee thereof, will, to the extent permitted by governing law and as appropriate under the circumstances, seek to recover for the benefit of the Company all or a portion of such bonuses and incentive and equity compensation awarded to executive officers whose fraud or misconduct caused or partially caused such restatement, as determined by the Board, or the appropriate committee thereof.

Taxes and Accounting Standards

Tax Deductibility Under Section 162(m)

Section 162(m) of the Code disallows a federal tax deduction to public companies for compensation greater than $1 million paid in any tax year to specified executive officers unless the compensation is "qualified performance-based compensation" under that section.

Certain of our compensation and benefit plans are designed to permit us to grant awards that may qualify as "qualified performance-based compensation"; however, it is possible that awards intended to qualify for the tax deduction may not so qualify if all requirements of the "qualified performance-based compensation" exemption are not met. Furthermore, although the Compensation Committee may take action intended to limit the impact of Section 162(m) of the Code, it also believes that the tax deduction is only one of several relevant considerations in setting compensation. The Compensation Committee believes that the tax deduction limitation should not be permitted to compromise the ability to design and maintain executive compensation arrangements that will attract and retain executive talent. Accordingly, achieving the desired flexibility in the design and delivery of compensation may result in compensation that in certain cases is not deductible for federal income tax purposes.

Accounting Standards

Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 718 requires us to recognize an expense for the fair value of equity-based compensation awards. Grants of stock options and restricted stock, under the Company's long-term incentive plans are accounted for under FASB ASC Topic 718. The Compensation Committee considers the accounting implications of significant compensation decisions, especially in connection with decisions that relate to our equity award program. As accounting standards change, the Company may revise certain programs to appropriately align accounting expenses of our equity awards with our overall executive compensation philosophy and objectives.

COMPENSATION COMMITTEE REPORT

The Compensation Committee has reviewed and discussed the Compensation Discussion and Analysis with management and, based on the review and discussions, recommended to the Board of Directors that the Compensation Discussion and Analysis be included in this Proxy Statement and incorporated by reference in the Company's 2017 Form 10-K.

Compensation Committee
of the Board of Directors

Hamideh Assadi, Chair
Randy E. Clark
Charles F. Marcy

NAMED EXECUTIVE OFFICER COMPENSATION

Summary Compensation Table

The following table sets forth summary information concerning compensation awarded to, earned by, or paid to each of our Named Executive Officers for all services rendered in all capacities to the Company and its subsidiaries in the last three fiscal years. For a complete understanding of the table, please read the footnotes and narrative disclosures that follow the table.

A	B	C	D	E	F	G	H	I
Name and Principal Position	**Fiscal Year**	**Salary ($)**	**Bonus ($)**	**Stock Awards ($)**	**Option Awards ($)**	**Non-Equity Incentive Plan Compensation ($)**	**All Other Compensation ($)(1)**	**Total ($)**
Continuing Named Executive Officers(2):								
Michael H. Keown	2017	534,690	—	—	472,000	—	16,541	1,023,231
President and CEO	2016	507,000	659,100	—	799,503	677,109	25,391	2,668,103
	2015	500,231	125,365	—	507,184	—	20,091	1,152,871
David G. Robson(3) . . .	2017	121,154	—	—	—	—	74,184	195,338
Treasurer and CFO								
Ellen D. Iobst(4)	2017	115,962	—	—	—	—	372,891	488,853
Chief Operations Officer								
Thomas J. Mattei, Jr.	2017	316,383	—	—	111,551	—	16,541	444,475
General Counsel and Assistant Secretary	2016	287,893	325,000	—	99,931	220,660	115,075	1,048,559
	2015	244,711	24,567	—	43,510	—	57,540	370,328
Former Named Executive Officers:								
Isaac N. Johnston, Jr.(5) .	2017	193,114	—	—	214,536	—	19,182	426,832
Former Treasurer and CFO	2016	241,640	—	83,336	222,791	248,717	—	796,485
Rene E. Peth(6) .	2017	215,924	—	—	42,894	53,463	16,541	328,822
VP, Corporate Controller (Former Interim Principal Financial and Accounting Officer)								
Scott W. Bixby(7).	2017	314,384	—	—	171,643	—	16,541	502,568
Former SVP, GM DSD	2016	298,850	—	—	149,897	216,546	292,685	957,977
	2015	15,000	3,649	66,688	133,334	—	—	218,671
Barry C. Fischetto(8) . .	2017	156,652	—	—	171,643	—	194,080	522,375
Former SVP of Operations	2016	295,208	—	—	199,862	223,054	113,848	831,972
	2015	160,385	23,639	66,663	133,377	—	35,240	419,304

(1) For a detailed summary of the amounts shown in this column see discussion under the heading "All Other Compensation (Column H)," below.

(2) Excludes Scott A. Siers who was promoted to the Company's executive management team as Senior Vice President and General Manager—Direct Ship effective February 20, 2017 after having served as the Company's Senior Vice President, National Account Sales since February 2013.

(3) Mr. Robson joined the Company as Treasurer and Chief Financial Officer effective February 20, 2017.

(4) Ms. Iobst joined the Company as Chief Operations Officer effective February 20, 2017, after having served as an independent consultant to the Company since April 2016. The amounts shown in the table for fiscal 2017 reflect Ms. Iobst's compensation for all services rendered in all capacities to the Company for the full fiscal year.

(5) Mr. Johnston resigned as Treasurer and Chief Financial Officer of the Company effective January 6, 2017.

(6) Ms. Peth, the Company's Vice President, Corporate Controller, is a non-executive level employee of the Company who served as interim principal financial and accounting officer from February 1, 2017 to February 20, 2017.

(7) Mr. Bixby retired as an officer of the Company effective July 31, 2017 and his employment with the Company terminated on September 22, 2017.

(8) Mr. Fischetto resigned as the Company's Senior Vice President of Operations effective February 13, 2017.

Salary (Column C)

The amounts reported in column C represent base salaries earned by each of the Named Executive Officers for the fiscal year indicated, prorated based on applicable start or separation dates during the fiscal year. The amounts shown include amounts contributed by the employee to the Company's 401(k) plan. Fiscal 2017 salary included one extra pay period.

Bonus (Column D)

All non-equity incentive plan compensation for services performed during the fiscal year by the Named Executive Officers under the STIP, or, in the case of Ms. Peth, under a short-term incentive plan for non-executive employees, is shown in column G.

Stock Awards (Column E)

No stock awards were granted to any Named Executive Officer in fiscal 2017. In connection with their employment in fiscal 2017, pursuant to the terms of their respective employment agreements with the Company, Mr. Robson and Ms. Iobst will each be entitled to an award of restricted stock, with the number of shares of restricted stock determined by dividing $30,000, in the case of Mr. Robson, and $24,000, in the case of Ms. Iobst, by the Fair Market Value (as defined in the long-term incentive plan) on the award date, such grant to be made upon the expiration of the currently-applicable blackout period under our insider trading policy.

Option Awards (Column F)

The amounts reported in column F for fiscal 2017 represent the aggregate grant date fair value of stock option awards computed in accordance with FASB ASC Topic 718, which, in the case of stock options subject to performance-based vesting conditions granted in fiscal 2017, is based on the probable outcome of the performance conditions to which such awards are subject. A discussion of the assumptions used in calculating the amounts in this column may be found in Note 18 to our audited consolidated financial statements for the fiscal year ended June 30, 2017 included in our 2017 Form 10-K, except that, as required by applicable SEC rules, we did not reduce the amounts in this column for any risk of forfeiture relating to service-based (time-based) vesting conditions. In fiscal 2017, the Company failed to achieve the modified net income target associated with the stock options granted in fiscal 2017 which will result in the forfeiture of 20% of the shares subject to each such stock option. Additionally, the stock options granted to Messrs. Johnston, Bixby and Fischetto in fiscal 2017 were subsequently cancelled upon their separation from employment with the Company. For further information on these awards, see the Grants of Plan-Based Awards Table and Outstanding Equity Awards at Fiscal Year-End Table in this Proxy Statement.

In connection with their employment in fiscal 2017, pursuant to the terms of their respective employment agreements with the Company, Mr. Robson and Ms. Iobst will each be entitled to a grant of non-qualified stock options determined by dividing $60,000, in the case of Mr. Robson, and $48,000, in the case of Ms. Iobst, by the per share fair value of a non-qualified stock option (based on a Black-Scholes valuation or other appropriate option pricing methodology approved by the Compensation Committee) on the award date, such grant to be made upon the expiration of the currently-applicable blackout period under our insider trading policy.

Non-Equity Incentive Plan Compensation (Column G)

The amounts reported in column G represent the aggregate dollar value of the annual incentives paid to the Named Executive Officers under the STIP for the fiscal years indicated. The amount reported in column G for Ms. Peth represents the aggregate dollar value of the annual incentive paid to Ms. Peth under a short-term incentive plan for non-executive employees. In accordance with SEC rules, the actual annual incentive amounts earned by the Named Executive Officers are reflected in the Summary Compensation Table in the fiscal year earned, even though these annual incentive amounts are paid in the subsequent fiscal year. As a result of the Company's failure to achieve a threshold level of modified net income in fiscal 2017, none of our Named Executive Officers received a payout under the STIP for fiscal 2017 performance. Ms. Peth received a payout in fiscal 2017 under a short-term incentive plan for non-executive employees.

All Other Compensation (Column H)

The amounts reported in column H for fiscal 2017 include the following:

All Other Compensation

	Perquisites and Other Personal Benefits ($)		Tax Gross-Up Payments ($)(1)	ESOP Allocation (2) ($)	Company Contributions to 401(k) Plan (3) ($)	Payments for Accumulated Paid Days Off(4) ($)	Other Payments ($)		Total ($)
Continuing Named Executive Officers:									
Michael H. Keown.	—	(5)	—	8,591	7,950	—	—		16,541
David G. Robson	45,416	(6)	28,768	—	—	—	—		74,184
Ellen D. Iobst	18,744	(7)	10,981	—	—	—	343,166	(8)	372,891
Thomas J. Mattei, Jr. . . .	—	(9)	—	8,591	7,950	—	—		16,541
Former Named Executive Officers:									
Isaac N. Johnston, Jr. . . .	—	(10)	—	—	7,950	11,232	—		19,182
Rene E. Peth.	—	(11)	—	8,591	7,950	—	—		16,541
Scott W. Bixby.	—	(12)	—	8,591	7,950	—	—		16,541
Barry C. Fischetto	—	(13)	—	—	7,950	35,152	150,978	(14)	194,080

(1) Represents tax gross-up payments associated with certain relocation assistance payments and benefits, and temporary living expenses disclosed in the column "Perquisites and Other Personal Benefits."

(2) Represents the dollar value of ESOP shares allocated to each Named Executive Officer based on compensation earned during calendar 2016 calculated on the basis of the closing price of our Common Stock on June 30, 2017 ($30.25). A participant's interest in the ESOP becomes 100% vested after five years of service to the Company, subject to accelerated vesting in certain limited circumstances. Mr. Robson and Ms. Iobst were not employed by the Company in calendar year 2016. Messrs. Johnston and Fischetto forfeited their ESOP allocations due to their separation from employment with the Company in fiscal 2017 and failure to satisfy applicable vesting conditions. Mr. Bixby subsequently forfeited the ESOP award shown in the table above upon termination of his employment with the Company on September 22, 2017 for failure to satisfy applicable vesting conditions.

(3) Represents the Company's discretionary matching contribution under the 401(k) plan. 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 limited circumstances. Messrs. Johnston, Bixby and Fischetto forfeited a portion of the Company's discretionary matching contributions under the 401(k) plan due to their separation from employment with the Company in fiscal 2017 and failure to satisfy applicable vesting conditions.

(4) Represents payments for accumulated paid days off in connection with termination of employment.

(5) The total value of all perquisites and other personal benefits received by Mr. Keown did not exceed $10,000 in fiscal 2017 and has been excluded from the table.

(6) Consists of relocation assistance payments and benefits ($43,754), and an auto allowance ($1,662) received by Mr. Robson.

(7) Consists of relocation assistance payments and benefits ($11,195), reimbursement of temporary living expenses ($5,487), an auto allowance ($1,662), and use of a Company car ($400) received by Ms. Iobst.

(8) Consists of consulting fees ($343,166) including reimbursement of certain travel-related expenses, net of payments of $500 per month by the consulting firm under a related personal property lease for the use of certain Company equipment received

by Ms. Iobst's consulting firm, Iobst Supply Chain Consulting LLC, in fiscal 2017 under the terms of her consulting agreement with the Company prior to becoming an employee of the Company effective February 20, 2017.

(9) The total value of all perquisites and other personal benefits received by Mr. Mattei did not exceed $10,000 in fiscal 2017 and has been excluded from the table.

(10) The total value of all perquisites and other personal benefits received Mr. Johnston did not exceed $10,000 in fiscal 2017 and has been excluded from the table.

(11) The total value of all perquisites and other personal benefits received by Ms. Peth did not exceed $10,000 in fiscal 2017 and has been excluded from the table.

(12) The total value of all perquisites and other personal benefits received by Mr. Bixby did not exceed $10,000 in fiscal 2017 and has been excluded from the table.

(13) The total value of all perquisites and other personal benefits received by Mr. Fischetto did not exceed $10,000 in fiscal 2017 and has been excluded from the table.

(14) Represents amounts paid and accrued to Mr. Fischetto in connection with his termination of employment effective February 13, 2017 representing six months of severance pay ($150,000) and subsidized COBRA continuation coverage for one month following the termination date ($978).

Total Compensation (Column I)

The amounts reported in column I are the sum of columns C through H for each of the Named Executive Officers.

Employment Agreements and Arrangements

Severance Agreements

The Company has entered into change in control severance agreements with each of the continuing Named Executive Officers (the “Severance Agreements”), pursuant to which such Named Executive Officers are entitled to receive severance benefits upon termination of employment other than for “Cause,” “Disability” or death, or termination due to resignation from employment for “Good Reason,” in each case, in connection with a “Change in Control” or “Threatened Change in Control” (as each such term is defined in the applicable Severance Agreement). The Severance Agreements are structured so that payments and benefits are provided only if there is both a change in control or threatened change in control and a qualifying termination of employment (“double trigger”). Ms. Peth, as a non-executive level employee, is party to a similar change in control severance agreement for key non-executive employees. A more detailed description of the severance benefits to which our continuing Named Executive Officers are entitled in connection with a change in control or threatened change in control is set forth below under the heading “Change in Control and Termination Arrangements.”

Employment Agreements

Continuing Named Executive Officers

The Company has also entered into employment agreements with each of the continuing Named Executive Officers (the “Employment Agreements”). The Employment Agreements provide for an initial annual base salary which may be adjusted upward or downward by the Company from time to time, subject to a minimum annual base salary as specified in the employment agreement. The Employment Agreements further provide that the Named Executive Officer is entitled to participate in the Company’s short-term incentive plan, with a specified target award equal to a percentage of such Named Executive Officer’s annual base salary. Additionally, the Employment Agreements provide for grants under the Company’s long-term incentive plan as determined by the Compensation Committee, in some cases, upon the commencement of employment as an inducement to joining the Company. In certain cases, the Named Executive Officers have been entitled to specified relocation benefits. Each Named Executive Officer is entitled to all benefits and perquisites provided by the Company to its senior executives, including paid days off, group health insurance, life insurance, 401(k) plan, ESOP, cell phone, Company credit card, Company gas card, expense reimbursement and an automobile allowance. The Employment Agreements contain no specified term of employment, but rather the Named Executive Officer’s employment may be terminated by the Company at any time with or without “Cause” or upon the Named Executive Officer’s resignation with or without “Good Reason,” or due to death or “Permanent Incapacity” (as each such term is defined in the applicable Employment Agreement). Each of the Employment Agreements contains customary provisions protecting our confidential information and intellectual property. They also contain restrictions, for a period of two years following any termination of employment, on the Named Executive Officer’s ability to solicit any customer or prospective customer of the Company or any person employed by the Company to leave the Company. The Employment Agreements require that all disputes between the applicable Named Executive Officer and the Company arising under or in connection with their Employment Agreement shall be subject to resolution through arbitration. Upon certain qualifying terminations of employment, the Named Executive Officers may be entitled to certain termination-related payments and benefits. A more detailed description of the termination-related payments and benefits to which our continuing Named Executive Officers are entitled under their Employment Agreements is set forth below under the heading “Change in Control and Termination Arrangements.”

Former Named Executive Officers

The Company was also party to employment agreements with each of Mr. Johnston, Mr. Bixby and Mr. Fischetto. Mr. Johnston resigned as Treasurer and Chief Financial Officer of the Company effective January 6, 2017. Mr. Bixby retired as an officer of the Company effective July 31, 2017 and his employment with the Company terminated on September 22, 2017. Mr. Fischetto resigned as the Company’s Senior Vice President of Operations effective February 13, 2017.

Effective February 13, 2017, the Company and Mr. Fischetto entered into a confidential general release and separation agreement pursuant to which Mr. Fischetto became entitled to receive six months of severance pay ($150,000), subject to applicable withholdings, determined in accordance with the Company’s standard policies and procedures and payable in regular installments on the Company’s regular pay days; (ii) subsidized COBRA continuation coverage for six months following the termination date; and (iii) a pro rated bonus award under the STIP subject to the Company satisfying its threshold requirements and the degree of achievement of Company performance goals under the STIP for fiscal 2017, with individual goals deemed to be achieved at 100%. Receipt of the foregoing payments and benefits was conditioned upon Mr. Fischetto having executed a general release of claims in favor of the Company. Although Mr. Fischetto was entitled to a prorated bonus award under the STIP for fiscal 2017 in accordance with the terms of his confidential general release and separation agreement with the Company, no such payment was received due to the Company’s failure to meet a threshold level of modified net income under the STIP for fiscal 2017 performance.

Grants of Plan-Based Awards

The following table sets forth summary information regarding all grants of plan-based awards made to our Named Executive Officers in fiscal 2017.

Name	Plan	Grant Date	Date of Compensation Committee Action	Estimated Future Payouts Under Non-Equity Incentive Plan Awards(1) Threshold ($)	Target ($)	Maximum ($)	Estimated Future Payouts Under Equity Incentive Plan Awards (#)(2)	All Other Stock Awards: Number of Shares of Stock or Units (#)	All Other Option Awards: Number of Securities Underlying Options (#)	Exercise or Base Price of Option Awards ($/Sh)(3)	Grant Date Fair Value of Stock and Option Awards ($)(4)
Continuing Named Executive Officers:											
Michael H. Keown											
	STIP	—	—	258,570	517,140	1,034,280	—	—	—	—	—
	2007 LTIP	11/10/16	09/21/16	—	—	—	41,331	—	—	32.85	472,000
David G. Robson(5)											
	STIP	—	—	122,500	245,000	490,000	—	—	—	—	—
Ellen D. Iobst(5)											
	STIP	—	—	100,500	201,000	402,000	—	—	—	—	—
Thomas J. Mattei, Jr.											
	STIP	—	—	84,150	168,300	336,600	—	—	—	—	—
	2007 LTIP	11/10/16	09/21/16	—	—	—	9,768	—	—	32.85	111,551
Former Named Executive Officers:											
Isaac N. Johnston, Jr. (6)											
	STIP	—	—	124,950	249,900	499,800	—	—	—	—	—
	2007 LTIP	11/10/16	09/21/16	—	—	—	18,786	—	—	32.85	214,536
Rene E. Peth(7)											
	MIP	—	—	42,800	85,600	171,200	—	—	—	—	—
	2007 LTIP	11/10/16	09/21/16	—	—	—	3,756	—	—	32.85	42,894
Scott W. Bixby(8)											
	STIP	—	—	84,150	168,300	336,600	—	—	—	—	—
	2007 LTIP	11/10/16	09/21/16	—	—	—	15,030	—	—	32.85	171,643
Barry C. Fischetto(9)											
	STIP	—	—	82,500	165,000	330,000	—	—	—	—	—
	2007 LTIP	11/10/16	09/21/16	—	—	—	15,030	—	—	32.85	171,643

(1) Represents annual cash incentive opportunities based on fiscal 2017 performance under the indicated plan. These opportunities for our executive officers are approved each fiscal year by the Compensation Committee. The actual amount of each Named Executive Officer's award is based on the achievement of certain performance measures as discussed in this Proxy Statement under the heading "Compensation Discussion and Analysis—Annual Cash Incentives." The actual amount of Ms. Peth's award is based on the achievement of certain performance measures under a short-term incentive plan for non-executive employees. As a result of the Company's failure to achieve a threshold level of modified net income in fiscal 2017, none of our Named Executive Officers received a payout under the STIP for fiscal 2017 performance. Ms. Peth received a payout in fiscal 2017 under a short-term incentive plan for non-executive employees. Annual cash incentive awards earned by our Named Executive Officers for performance in respect of prior fiscal years were paid during the first quarter of the following fiscal year. Such earned awards are shown in the "Non-Equity Incentive Plan Compensation" column of the Summary Compensation Table. With respect to Mr. Johnston, Ms. Peth and Mr. Fischetto, see footnotes (6), (7) and (9), respectively, below.

(2) Stock options granted to our Named Executive Officers in fiscal 2017 under the 2007 LTIP as part of the Named Executive Officers' annual long-term incentive award vest in equal ratable installments on each of the first three anniversaries of the date of grant, contingent on continued employment through the applicable vesting date, and subject to accelerated vesting in certain circumstances. Further, 20% of the shares of Common Stock subject to the stock option are subject to forfeiture if the Company fails to achieve modified net income of at least $23,900,000 in the fiscal year during which the award is granted. In fiscal 2017, the Company failed to achieve the modified net income target which will result in the forfeiture of 20% of the

shares subject to each such stock option. With respect to Mr. Johnston, Mr. Bixby and Mr. Fischetto, see footnotes (6), (8) and (9), respectively, below.

(3) Exercise price of stock option awards is equal to the closing price of the Company's Common Stock on the date of grant.

(4) Reflects the grant date fair value of stock option awards computed in accordance with FASB ASC Topic 718. A discussion of the assumptions used in calculating the amounts in this column may be found in Note 18 to our audited consolidated financial statements for the fiscal year ended June 30, 2017, included in our 2017 Form 10-K, except that, as required by applicable SEC rules, we did not reduce the amounts in this column for any risk of forfeiture relating to service-based (time-based) vesting conditions. The amount reported for stock option awards subject to performance-based vesting conditions is based upon the probable outcome of such conditions as of the grant date. In fiscal 2017, the Company failed to achieve the modified net income target which will result in the forfeiture of 20% of the shares subject to each such stock option. With respect to Mr. Johnston, Mr. Bixby and Mr. Fischetto, see footnotes (6), (8) and (9), respectively, below.

(5) Mr. Robson and Ms. Iobst joined the Company effective February 20, 2017 as Treasurer and Chief Financial Officer and Chief Operations Officer, respectively. Pursuant to the terms of their respective employment agreements with the Company, Mr. Robson and Ms. Iobst will each be entitled to the following equity awards to be granted upon the expiration of the currently-applicable blackout period under our insider trading policy: (i) a number of non-qualified stock options determined by dividing $60,000, in the case of Mr. Robson, and $48,000, in the case of Ms. Iobst, by the per share fair value of a non-qualified stock option (based on a Black-Scholes valuation or other appropriate option pricing methodology approved by the Compensation Committee) on the award date; and (ii) a number of shares of restricted stock determined by dividing $30,000, in the case of Mr. Robson, and $24,000, in the case of Ms. Iobst, by the Fair Market Value (as defined in the long-term incentive plan) on the award date. Such awards have not yet been granted and, therefore, are not shown in the table.

(6) Mr. Johnston resigned as Treasurer and Chief Financial Officer of the Company effective January 6, 2017. As a result, Mr. Johnston was not eligible to receive a fiscal 2017 bonus under the STIP and forfeited the unvested stock options shown in the table above upon his separation from employment with the Company.

(7) Ms. Peth, the Company's Vice President, Corporate Controller, served as interim principal financial and accounting officer from February 1, 2017 to February 20, 2017. As a non-executive level employee, Ms. Peth did not participate in the STIP in fiscal 2017. Amounts shown in the table reflect Ms. Peth's short-term incentive compensation under the Company's Management Incentive Plan, a non-executive employee plan.

(8) Mr. Bixby retired as an officer of the Company effective July 31, 2017 and his employment with the Company terminated on September 22, 2017. As a result, Mr. Bixby forfeited the unvested stock options shown in the table above upon his separation from employment with the Company.

(9) Mr. Fischetto resigned as the Company's Senior Vice President of Operations effective February 13, 2017. Although Mr. Fischetto was entitled to a prorated bonus award under the STIP for fiscal 2017 in accordance with the terms of his confidential general release and separation agreement with the Company, no such payment was received due to the Company's failure to meet a threshold level of modified net income under the STIP for fiscal 2017 performance. Mr. Fischetto forfeited the unvested stock options shown in the table above upon his separation from employment with the Company.

Outstanding Equity Awards at Fiscal Year-End

The following table sets forth summary information regarding the outstanding equity awards at June 30, 2017 granted to each of our Named Executive Officers.

	Option Awards					Stock Awards			
Name	Number of Securities Underlying Unexercised Options Exercisable (#)	Number of Securities Underlying Unexercised Options Unexercisable (#)	Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Unearned Options (#)	Option Exercise Price ($)	Option Expiration Date	Number of Shares or Units of Stock That Have Not Vested (#)	Market Value of Shares or Units of Stock That Have Not Vested ($)	Equity Incentive Plan Awards: Number of Unearned Shares, Units or Other Rights That Have Not Vested (#)	Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested ($)
Continuing Named Executive Officers:									
Michael H. Keown	22,000(1)	—	—	6.96	05/11/19	—	—	—	—
	70,000(1)	—	—	11.81	12/07/19	—	—	—	—
	45,470(2)	—	—	21.33	12/12/20	—	—	—	—
	33,268(3)	—	16,634(3)	23.44	02/09/22	—	—	—	—
	8,366(4)	—	16,732(4)	29.48	12/03/22	—	—	—	—
	7,620(5)	—	15,242(5)	29.48	12/03/22	—	—	—	—
	—	—	41,331(6)	32.85	11/10/23	—	—	—	—
David G. Robson	—	—	—	—	—	—	—	—	—
Ellen D. Iobst	—	—	—	—	—	—	—	—	—
Thomas J. Mattei, Jr.	2,720(1)	—	—	13.09	02/27/20	—	—	—	—
	3,760(2)	—	—	21.33	12/12/20	—	—	—	—
	2,854(3)	—	1,427(3)	23.44	02/09/22	—	—	—	—
	2,906(4)	—	5,814(4)	29.48	12/03/22	—	—	—	—
	—	—	9,768(6)	32.85	11/10/23	—	—	—	—
Former Named Executive Officers:									
Isaac N. Johnston, Jr.(9)	—	—	—	—	—	—	—	—	—
Rene E. Peth	2,413(1)	—	—	21.00	02/13/21	—	—	—	—
	1,799(3)	—	900(3)	23.44	02/09/22	—	—	—	—
	1,453(4)	—	2,907(4)	29.48	12/03/22	—	—	—	—
	—	—	3,756(6)	32.85	11/10/23	—	—	—	—
Scott W. Bixby(10)	8,386(1)	4,194(1)	—	24.41	05/27/22	—	—	—	—
	4,360(4)	—	8,720(4)	29.48	12/03/22	—	—	—	—
	—	—	15,030(6)	32.85	11/10/23	—	—	—	—
	—	—	—	—	—	2,732(7)	82,643(8)	—	—
Barry C. Fischetto(11)	—	—	—	—	—	—	—	—	—

(1) Stock options vest in equal ratable installments on each of the first three anniversaries of the date of grant, contingent on continued employment through the applicable vesting date, and subject to accelerated vesting in certain circumstances.

(2) Stock options vest over a three-year period with one-third of the total number of shares of Common Stock subject to each such stock option vesting on the first anniversary of the grant date based on the Company's achievement of a modified net income target for the first fiscal year of the performance period as approved by the Compensation Committee, and the remaining two-thirds of the total number of shares of Common Stock subject to each such stock option vesting on the third anniversary of the grant date based on the Company's achievement of a cumulative modified net income target for all three years during the performance period as approved by the Compensation Committee, in each case, contingent on continued employment through the applicable vesting date, and subject to accelerated vesting in certain circumstances.

(3) Stock options vest over a three-year period with one-third of the total number of shares of Common Stock subject to each such stock option vesting on each anniversary of the grant date based on the Company's achievement of a modified net income target for each fiscal year of the performance period as approved by the Compensation Committee, as well as an ability for each such tranche of each grant to vest in the subsequent fiscal years of the performance period (if applicable) based upon achievement of cumulative modified net income equal to the sum of the individual targets for the fiscal years being accumulated, in each case, contingent on continued employment on the applicable vesting date, and subject to accelerated vesting in certain circumstances.

(4) Stock options vest in equal ratable installments on each of the first three anniversaries of the date of grant, contingent on continued employment through the applicable vesting date, and subject to accelerated vesting in certain circumstances. Further 20% of the shares of Common Stock subject to each such stock option are subject to forfeiture if the Company fails to achieve modified net income of at least $15,232,000 in the fiscal year during which the award is granted. The Company met the first-year modified net income goal during fiscal 2016 with respect to these stock options, such that all of the shares of Common Stock subject to these stock options will continue to vest subject to and in accordance with the three-year vesting schedule described above.

(5) Stock options vest as follows: 7,620 shares of Common Stock subject to the stock option vest on the first anniversary of the date of grant, and 7,621 shares of Common Stock subject to the stock option vest on each of December 3, 2017 and December 3, 2018, in each case, contingent on continued employment through the applicable vesting date, and subject to accelerated vesting in certain circumstances. Further, 20% of the shares of Common Stock subject to the stock option are subject to forfeiture if the Company fails to achieve modified net income of at least $15,232,000 in the fiscal year during which the award is granted. The Company met the first-year modified net income goal with respect to this stock option, such that all of the shares of Common Stock subject to this stock option will continue to vest subject to and in accordance with the service-based vesting schedule described above.

(6) Stock options vest in equal ratable installments on each of the first three anniversaries of the date of grant, contingent on continued employment through the applicable vesting date, and subject to accelerated vesting in certain circumstances. Further 20% of the shares of Common Stock subject to each such stock option are subject to forfeiture if the Company fails to achieve modified net income of at least $23,900,000 in the fiscal year during which the award is granted. In fiscal 2017, the Company failed to achieve the modified net income target which will result in the forfeiture of 20% of the shares subject to each such stock option.

(7) Restricted stock cliff vests on the third anniversary of the date of grant, contingent on continued employment through the vesting date, and subject to accelerated vesting in certain circumstances.

(8) The market value was calculated by multiplying the closing price of our Common Stock on June 30, 2017 ($30.25) by the number of shares of unvested restricted stock.

(9) Mr. Johnston resigned as Treasurer and Chief Financial Officer of the Company effective January 6, 2017. Under the terms of Mr. Johnston's applicable equity award agreements, effective upon Mr. Johnston's termination of employment, (i) all then unvested stock options were cancelled; (ii) all then remaining shares of restricted stock were immediately forfeited; and (iii) Mr. Johnston had three (3) months following termination of employment to exercise any vested stock options. Accordingly, Mr. Johnston had no equity awards outstanding at June 30, 2017.

(10) Mr. Bixby retired as an officer of the Company effective July 31, 2017 and his employment with the Company terminated on September 22, 2017. Under the terms of Mr. Bixby's applicable equity award agreements, effective upon Mr. Bixby's termination of employment, (i) all then unvested stock options were cancelled; (ii) all then remaining shares of restricted stock were immediately forfeited; and (iii) Mr. Bixby will have three (3) months following termination of employment to exercise any vested stock options.

(11) Mr. Fischetto resigned as the Company's Senior Vice President of Operations effective February 13, 2017. Under the terms of Mr. Fischetto's applicable equity award agreements, effective upon Mr. Fischetto's termination of employment, (i) all then unvested stock options were cancelled; (ii) all then remaining shares of restricted stock were immediately forfeited; and (iii) Mr. Fischetto had three (3) months following termination of employment to exercise any vested stock options. Accordingly, Mr. Fischetto had no equity awards outstanding at June 30, 2017.

Option Exercises and Stock Vested

The following table summarizes the option exercises and vesting of stock awards for each of our Named Executive Officers for the fiscal year ended June 30, 2017.

Name	Option Awards(1)		Stock Awards	
	Number of Securities Acquired on Exercise(#)	Value Realized on Exercise($)	Number of Shares Acquired on Vesting(#)	Value Realized on Vesting($)
Continuing Named Executive Officers:				
Michael H. Keown	36,000	942,360	—	—
David G. Robson	—	—	—	—
Ellen D. Iobst	—	—	—	—
Thomas J. Mattei, Jr.	—	—	—	—
Former Named Executive Officers:				
Isaac N. Johnston, Jr.	5,886	19,988	—	—
Rene E. Peth	—	—	—	—
Scott W. Bixby	—	—	—	—
Barry C. Fischetto	14,561	118,654	—	—

(1) If a Named Executive Officer used share withholding to pay the exercise price of stock options or to satisfy the tax obligations with respect to the vesting of restricted stock, the number of shares actually acquired was less than the amounts shown.

Change in Control and Termination Arrangements

Change in Control Agreements

The Company has entered into a Severance Agreement with each of the continuing Named Executive Officers. The Severance Agreements provide certain severance benefits in the event of a termination of employment in connection with a Change in Control (as defined below).

Under each of the Severance Agreements, a “Change in Control” generally will be deemed to have occurred at any of the following times: (i) upon the acquisition by any person, entity or group of beneficial ownership of 50% or more of either the then outstanding Common Stock or the combined voting power of the Company’s then outstanding securities entitled to vote generally in the election of directors; (ii) at the time individuals who were members of the Board at the effective time of the applicable Severance Agreement (or whose election, or nomination for election, was approved by a vote of at least a majority of the members of the Board at the effective time of the applicable Severance Agreement, but excluding any such individual whose initial election or assumption of office occurs as a result of either an actual or threatened election contest) (the “Incumbent Board”) cease for any reason to constitute at least a majority of the Board; or (iii) 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 (other than any transaction with respect to which persons who were the stockholders of the Company immediately prior to such transaction continue to hold shares of Common Stock representing at least 50% of the outstanding Common Stock of the Company or such surviving entity or parent or affiliate thereof immediately after such transaction). Further, a “Threatened Change in Control” generally will be deemed to have occurred upon the first day that any bona fide pending tender offer for any class of the Company’s outstanding shares of Common Stock, any pending bona fide offer to acquire the Company by merger or consolidation, or any other pending action or plan to effect, or which would lead to, a Change in Control, as determined by the Incumbent Board, becomes manifest, and will continue in effect when such action is abandoned or a Change in Control occurs.

In the event of a Named Executive Officer’s termination of employment other than for “Cause” or due to death or “Disability”, or in the event of a Named Executive Officer’s resignation for “Good Reason” (each, as defined in the Severance Agreements), in each case, in connection with a Change in Control or Threatened Change in Control, each of the Named Executive Officers will be entitled to the payments and benefits shown in the tables below.

Each Severance Agreement provides that while the relevant Named Executive Officer is receiving compensation and benefits thereunder, that Named Executive Officer will not in any manner attempt to induce or assist others to attempt to induce any officer, employee, customer or client of the Company to terminate its association with the Company, nor do anything directly or indirectly to interfere with the relationship between the Company and any such persons or concerns. In the event such Named Executive Officer breaches this provision, all compensation and benefits under the Severance Agreement will immediately cease.

Ms. Peth, as a non-executive level employee, is party to a similar change in control severance agreement for key non-executive employees as shown in the applicable table and described in the narrative following the tables below.

Employment Agreements

The Company has entered into an Employment Agreement with each of the continuing Named Executive Officers. Under the Employment Agreements, upon a Named Executive Officer's termination of employment without "Cause" or upon the Named Executive Officer's resignation with "Good Reason" (each, as defined in the applicable Employment Agreement), the Named Executive Officer will be entitled to the payments and benefits shown in the tables below. Receipt of any severance amounts under any Employment Agreement is conditioned upon execution of a general release of claims in favor of the Company. Notwithstanding the foregoing, if the Named Executive Officer becomes eligible for severance benefits under the Severance Agreement described above, the benefits provided under that agreement will be in lieu of, and not in addition to, the severance benefits under the Named Executive Officer's Employment Agreement.

Potential Payments Upon Termination or Change in Control

The following tables describe potential payments and benefits upon termination (including resignation, severance, retirement or a constructive termination) or a change in control to which the Named Executive Officers would be entitled. The actual amount of payments and benefits can only be determined at the time of such a termination or change in control and therefore the actual amounts may vary from the estimated amounts in the tables below. Descriptions of how such payments and benefits are determined under the circumstances, material conditions and obligations applicable to the receipt of payments or benefits and other material factors regarding such agreements, as well as other material assumptions that we have made in calculating the estimated compensation, follow these tables.

The estimated amount of compensation payable to each Named Executive Officer in each situation is listed in the tables below and, with respect to each Named Executive Officer other than Mr. Johnston, Mr. Fischetto, and Mr. Bixby, assumes that the termination and/or change in control of the Company occurred at June 30, 2017.

Mr. Johnston resigned as Treasurer and Chief Financial Officer of the Company effective January 6, 2017 and was not entitled to any severance payments or other benefits under the terms of his employment agreement. Accordingly, no tabular disclosure is provided below for Mr. Johnston.

Mr. Fischetto resigned as Senior Vice President of Operations of the Company effective February 13, 2017. In accordance with SEC rules, the tabular disclosure below shows the severance payments and benefits actually paid to, or accrued in connection with, Mr. Fischetto's termination of employment under the terms of his confidential general release and separation agreement with the Company.

Mr. Bixby retired as an officer of the Company effective July 31, 2017 and his employment with the Company terminated on September 22, 2017. In accordance with SEC guidance, disclosure may be provided only for the actual triggering event and payments and not for additional scenarios that can no longer occur. Accordingly, no tabular disclosure is provided below for Mr. Bixby because he was not entitled to any severance payments or other benefits under the terms of his employment agreement.

Michael H. Keown	Death	Disability	Retirement	Change in Control and Involuntarily Terminated or Resignation for Good Reason within 24 Months of Change in Control	Threatened Change in Control and Involuntarily Terminated or Resignation for Good Reason	Termination Without Cause or Resignation With Good Reason
Base Salary Continuation	$ —	$ —	$ —	$ 1,034,280	$ 1,034,280	$ 517,140
Annual Incentive Payments	$ 517,140	$ 517,140	$ —	$ 517,140	$ 517,140	$ 517,140
Value of Accelerated Stock Options	$1,095,442	$ 1,095,442	$ —	$ —	$ —	$ —
Value of Accelerated Restricted Stock	$ —	$ —	$ —	$ —	$ —	$ —
Vested ESOP Shares/Value of Continued ESOP Participation	$ 74,234	$ 74,234	$ 74,234	$ 91,416	$ 91,416	$ 74,234
Health and Dental Insurance	$ —	$ —	$ —	$ 22,710	$ 22,710	$ 11,355
Outplacement Services	$ —	$ —	$ —	$ 25,000	$ 25,000	$ —
Total Pre-Tax Benefit	$1,686,816	$ 1,686,816	$ 74,234	$ 1,690,546	$ 1,690,546	$ 1,119,869

David G. Robson	Death	Disability	Retirement	Change in Control and Involuntarily Terminated or Resignation for Good Reason within 24 Months of Change in Control	Threatened Change in Control and Involuntarily Terminated or Resignation for Good Reason	Termination Without Cause or Resignation With Good Reason
Base Salary Continuation	$ —	$ —	$ —	$ 700,000	$ 700,000	$ 350,000
Annual Incentive Payments	$ 87,260	$ 87,260	$ —	$ 87,260	$ 87,260	$ —
Value of Accelerated Stock Options	$ —	$ —	$ —	$ —	$ —	$ —
Value of Accelerated Restricted Stock	$ —	$ —	$ —	$ —	$ —	$ —
Vested ESOP Shares/Value of Continued ESOP Participation	$ —	$ —	$ —	$ —	$ —	$ —
Health and Dental Insurance	$ —	$ —	$ —	$ 22,232	$ 22,232	$ 11,116
Outplacement Services	$ —	$ —	$ —	$ 25,000	$ 25,000	$ —
Total Pre-Tax Benefit	$ 87,260	$ 87,260	$ —	$ 834,492	$ 834,492	$ 361,116

Ellen D. Iobst	Death	Disability	Retirement	Change in Control and Involuntarily Terminated or Resignation for Good Reason within 24 Months of Change in Control	Threatened Change in Control and Involuntarily Terminated or Resignation for Good Reason	Termination Without Cause or Resignation With Good Reason
Base Salary Continuation	$ —	$ —	$ —	$ 670,000	$ 670,000	$ 335,000
Annual Incentive Payments	$ 71,589	$ 71,589	$ —	$ 71,589	$ 71,589	$ —
Value of Accelerated Stock Options	$ —	$ —	$ —	$ —	$ —	$ —
Value of Accelerated Restricted Stock	$ —	$ —	$ —	$ —	$ —	$ —
Vested ESOP Shares/Value of Continued ESOP Participation	$ —	$ —	$ —	$ —	$ —	$ —
Health and Dental Insurance	$ —	$ —	$ —	$ 22,232	$ 22,232	$ 11,116
Outplacement Services	$ —	$ —	$ —	$ 25,000	$ 25,000	$ —
Total Pre-Tax Benefit	$ 71,589	$ 71,589	$ —	$ 788,821	$ 788,821	$ 346,116

Thomas J. Mattei, Jr.	Death	Disability	Retirement	Change in Control and Involuntarily Terminated or Resignation for Good Reason within 24 Months of Change in Control	Threatened Change in Control and Involuntarily Terminated or Resignation for Good Reason	Termination Without Cause or Resignation With Good Reason
Base Salary Continuation	$ —	$ —	$ —	$ 612,000	$ 612,000	$ 306,000
Annual Incentive Payments	$ 168,300	$ 168,300	$ —	$ 168,300	$ 168,300	$ —
Value of Accelerated Stock Options	$ 189,161	$ 189,161	$ —	$ —	$ —	$ —
Value of Accelerated Restricted Stock	$ —	$ —	$ —	$ —	$ —	$ —
Vested ESOP Shares/Value of Continued ESOP Participation	$ 55,569	$ 55,569	$ —	$ —	$ —	$ —
Dental Insurance	$ —	$ —	$ —	$ 1,042	$ 1,042	$ 521
Outplacement Services	$ —	$ —	$ —	$ 25,000	$ 25,000	$ —
Total Pre-Tax Benefit	$ 413,030	$ 413,030	$ —	$ 806,342	$ 806,342	$ 306,521

Rene E. Peth	Death	Disability	Retirement	Change in Control and Involuntarily Terminated or Resignation for Good Reason within 24 Months of Change in Control	Threatened Change in Control and Involuntarily Terminated or Resignation for Good Reason	Termination Without Cause or Resignation With Good Reason
Base Salary Continuation	$ —	$ —	$ —	$ 214,000	$ 214,000	$ —
Annual Incentive Payments	$ —	$ —	$ —	$ 85,600	$ 85,600	$ —
Value of Accelerated Stock Options	$ 91,846	$ 91,846	$ —	$ —	$ —	$ —
Value of Accelerated Restricted Stock	$ —	$ —	$ —	$ —	$ —	$ —
Vested ESOP Shares/Value of Continued ESOP Participation	$ 29,040	$ 29,040	$ —	$ —	$ —	$ —
Health and Dental Insurance	$ —	$ —	$ —	$ 10,818	$ 10,818	$ —
Outplacement Services	$ —	$ —	$ —	$ 15,000	$ 15,000	$ —
Total Pre-Tax Benefit	$ 120,886	$ 120,886	$ —	$ 325,418	$ 325,418	$ —

Barry C. Fischetto	Death	Disability	Retirement	Change in Control and Involuntarily Terminated or Resignation for Good Reason within 24 Months of Change in Control	Threatened Change in Control and Involuntarily Terminated or Resignation for Good Reason	Termination Without Cause or Resignation With Good Reason
Base Salary Continuation	$ —	$ —	$ —	$ —	$ —	$ 150,000
Annual Incentive Payments	$ —	$ —	$ —	$ —	$ —	$ —
Value of Accelerated Stock Options	$ —	$ —	$ —	$ —	$ —	$ —
Value of Accelerated Restricted Stock	$ —	$ —	$ —	$ —	$ —	$ —
Vested ESOP Shares/Value of Continued ESOP Participation	$ —	$ —	$ —	$ —	$ —	$ —
Health and Dental Insurance	$ —	$ —	$ —	$ —	$ —	$ 948
Outplacement Services	$ —	$ —	$ —	$ —	$ —	$ —
Total Pre-Tax Benefit	$ —	$ —	$ —	$ —	$ —	$ 150,948

Base Salary Continuation

Severance Agreements

Under each Severance Agreement, if (i) a Change in Control occurs and a Named Executive Officer's employment is terminated within the two years following the occurrence of the Change in Control by the Company other than for Cause, Disability or death, or is terminated due to the Named Executive Officer's resignation for Good Reason, or (ii) a Threatened Change in Control occurs and the executive officer's employment is terminated during the "Threatened Change in Control Period" (as defined in the Severance Agreement) by the Company other than for Cause, Disability or death, or is terminated due to the Named Executive Officer's Resignation for Good Reason (each, a "Change in Control Qualifying Termination"), such Named Executive Officer will be entitled to base salary continuation for a period of 24 months, such payment to be made in installments in accordance with the Company's standard payroll practices over such period. The severance agreement for key non-executive employees to which Ms. Peth is a party provides for base salary continuation for a period of 12 months rather than 24 months.

Employment Agreements

Under the Employment Agreements, upon a termination of employment by the Company without Cause or resignation by the Named Executive Officer for Good Reason (a "Non-Change in Control Qualifying Termination"), the Named Executive Officer will continue to receive his or her base salary for a period of one year from the effective termination date, such payment to be made in installments in accordance with the Company's standard payroll practices over such period.

Severance—Mr. Fischetto

Effective February 13, 2017, the Company and Mr. Fischetto entered into a confidential general release and separation agreement pursuant to which Mr. Fischetto became entitled to receive six months of severance pay ($150,000), subject to applicable withholdings, determined in accordance with the Company's standard policies and procedures and payable in regular installments on the Company's regular pay days. Receipt of the payments was conditioned upon Mr. Fischetto having executed a general release of claims in favor of the Company.

Bonus and Annual Incentive Payments

Severance Agreements

Under each Severance Agreement, if a Change in Control Qualifying Termination occurs, the Named Executive Officer will receive a lump sum payment equal to 100% of the executive officer's target annual cash bonus for the fiscal year in which the date of termination occurs (or, if no target annual cash bonus has been assigned as of the date of termination, the average annual cash bonus paid to such Named Executive Officer for the last three completed fiscal years or for the number of completed fiscal years such person has been in the employ of the Company if fewer than three). The severance agreement for non-executive employees to which Ms. Peth is a party provides a similar benefit. Amounts shown in the table for Mr. Robson and Ms. Iobst are prorated based on their employment start date.

Employment Agreements

Under the Employment Agreements, if a Named Executive Officer's employment is terminated due to death or Permanent Incapacity, the Named Executive Officer, or his or her estate in the event of his or her death, will receive an amount equal to his or her target annual cash bonus for the fiscal year in which the termination is effective, prorated for the partial fiscal year ending on the effective termination date. Payment of such amount will be made in a lump sum within 30 days after any such death or termination. Amounts shown in the table for Mr. Robson and Ms. Iobst are prorated based on their employment start date.

Additionally, under the Employment Agreements, if a Non-Change in Control Qualifying Termination Occurs, the Named Executive Officer will receive a bonus for the fiscal year in which the date of termination is effected based on the amount of his or her target annual cash bonus award for such fiscal year and, in the case of all of the Named Executive Officers other than Mr. Keown, the degree of achievement of performance criteria under the plan, with individual performance criteria deemed to be achieved at 100%, prorated for the partial fiscal year ending on the effective termination date. Payment of such amount will be made in a lump sum at the same time as annual bonuses are paid to the Company's senior executives under the plan for the fiscal year but in no event later than two and one-half (2-1/2) months following the end of the Company's fiscal year in which the separation from service occurs. As a result of the Company's failure to achieve a threshold level of modified net income in fiscal 2017, the amounts shown in the table above assume no payout under the STIP for fiscal 2017 performance for all of the Named Executive Officers other than Mr. Keown.

Annual Incentive Payment—Mr. Fischetto

Although Mr. Fischetto was entitled to a prorated bonus award under the STIP for fiscal 2017 in accordance with the terms of his confidential general release and separation agreement with the Company, no such payment was received due to the Company's failure to achieve a threshold level of modified net income under the STIP for fiscal 2017 performance.

Value of Accelerated Vesting of Stock Options and Restricted Stock

Under the terms of the Named Executive Officers' outstanding stock option and restricted stock awards, in the event of death or "Disability" (as defined in the 2007 LTIP), a pro rata portion (determined based on the actual number of service days during the vesting period divided by the total number of days during the vesting period) of any unvested stock options and restricted stock will be deemed to have vested immediately prior to the date of death or Disability and, in the case of the restricted stock, will no longer be subject to forfeiture.

The value of accelerated equity awards shown in the tables above was calculated using the closing price of our Common Stock on June 30, 2017 ($30.25), as required by applicable SEC rules.

Under the 2007 LTIP, the plan administrator also has discretionary authority regarding accelerated vesting upon termination other than by reason of death or Disability, or in connection with a Change in Control (as defined in the 2007 LTIP). The amounts in the tables above assume such discretionary authority was not exercised. Additionally, under the 2007 LTIP, unless otherwise provided in any applicable award agreement, if a Change in Control occurs and a participant's awards are not continued, converted, assumed or replaced by the Company or a parent or subsidiary of the Company, or a Successor Entity (as defined in the 2007 LTIP), such awards will become fully exercisable and/or payable, and all forfeiture, repurchase and other restrictions on such awards will lapse immediately prior to such Change in Control. The amounts in the tables above assume such awards were continued, converted, assumed or replaced in connection with a Change in Control.

Vested ESOP Shares/Value of Continued ESOP Participation

Under each Severance Agreement, if a Change in Control Qualifying Termination occurs, subject to eligibility provisions of the ESOP, the Named Executive Officer will continue to participate in the ESOP during the 24-month period following the date of termination unless the Named Executive Officer commences other employment prior to the end of the 24-month period, in which case, such participation will end on the date of the Named Executive Officer commences new employment. In addition, upon termination of employment for any reason, including death, disability, retirement or other termination, the Named Executive Officer will be entitled to his or her vested benefits under the ESOP. Estimated ESOP benefits shown in the tables above reflect the value of vested allocated shares in the ESOP plus, in the case of a Change in Control Event, an annual allocation of ESOP shares to qualified employees, assuming sufficient shares are available for allocation under the ESOP. The estimated value of the ESOP shares is based on $30.25 per share, the closing price of our Common Stock on June 30, 2017.

Participants become 100% vested under the ESOP upon death, disability and, subject to certain eligibility requirements, retirement.

Health and Dental Insurance

Severance Agreements

Under each Severance Agreement, if a Change in Control Qualifying Termination occurs, the health, dental, and life insurance benefits coverage provided to the Named Executive Officer at his or her date of termination will be continued by the Company during the 24-month period following the Named Executive Officer's date of termination unless he or she commences employment prior to the end of the 24-month period and qualifies for substantially equivalent insurance benefits with his or her new employer, in which case such insurance coverage will end on the date of qualification. The Company will generally provide for such insurance coverage at its expense at the same level and in the same manner as in effect at the applicable date of termination. Any additional coverage the Named Executive Officer had at the time of termination, including dependent coverage, will also be continued for such period on the same terms, to the extent permitted by the applicable policies or contracts. If the terms of any benefit plan do not permit such continued coverage, the Company will arrange for other coverage at its expense providing substantially similar benefits. Estimated payments shown in the tables above represent the current net annual cost to the Company of the Named Executive Officer's participation in the Company's health and/or dental insurance program offered to all non-union employees. The severance agreement for key non-executive employees to which Ms. Peth is a party provides for benefits continuation on similar terms for a period of 12 months rather than 24 months.

Employment Agreements

Under the Employment Agreements, if a Non-Change in Control Qualifying Termination occurs, the Named Executive Officer will continue to receive partially Company-paid COBRA coverage under the Company's health care plan for a period of one year after the effective termination date.

Benefits Continuation—Mr. Fischetto

Under the terms of his confidential general release and separation agreement with the Company, Mr. Fischetto was entitled to subsidized COBRA continuation coverage for six months following the termination date of his employment. Mr. Fischetto elected one month of COBRA continuation coverage. Accordingly, the amount for one month is shown in the table above.

Company Benefit Plans

The tables and discussion above do not reflect the value of disability benefits under the Company's group health plan or the value of retiree medical, vision and dental insurance benefits and group life insurance, if any, that would be provided to each Named

Executive Officer following termination of employment, because, in each case, these benefits are generally available to all regular Company employees similarly situated in age, years of service and date of hire and do not discriminate in favor of the Named Executive Officers.

Outplacement Services

Under each Severance Agreement, if a Change in Control Qualifying Termination occurs, the Company will provide the Named Executive Officer with outplacement services at the expense of the Company, in an amount up to $25,000. The severance agreement for key non-executive employees to which Ms. Peth is a party provides similar benefits in an amount up to $15,000.

PROPOSAL NO. 3

ADVISORY VOTE TO APPROVE THE COMPENSATION PAID TO OUR NAMED EXECUTIVE OFFICERS

As required by Section 14A(a)(1) of the Exchange Act, which was added under the Dodd-Frank Wall Street Reform and Consumer Protection Act, we are seeking your vote, on an advisory (non-binding) basis, on the compensation paid to our Named Executive Officers as described in the Compensation Discussion and Analysis and the compensation tables and accompanying narrative disclosure, as provided on pages 25 through 58 of this Proxy Statement. Under its charter, pursuant to the powers delegated by the Board, the Compensation Committee has the sole authority to determine and approve compensation for our Named Executive Officers. Consistent with our compensation philosophy and objectives, our executive compensation program for our Named Executive Officers has been designed to align the interest of our Named Executive Officers with those of our stockholders, and to reward our leadership for, and incentivize them towards, increasing stockholder value.

We urge our stockholders to review the Compensation Discussion and Analysis section of this Proxy Statement and the related executive compensation tables for more information.

Vote Required

The approval of the advisory (non-binding) vote to approve the compensation paid to our Named Executive Officers requires the affirmative vote of a majority of the shares of Common Stock and Series A Preferred Stock (on an as-converted basis voting together with the Common Stock as a single class) present or represented by proxy at the Annual Meeting and entitled to vote thereat. Abstentions will have the same effect as votes “against” the proposal. Broker non-votes will not affect the outcome of the vote to approve the compensation paid to the Company’s named executive officers because shares held by a bank, broker or other nominee who has not received instructions from the beneficial owner of the shares as to how the shares are to be voted are not entitled to vote on such proposal at the Annual Meeting.

The say-on-pay vote is advisory, and therefore, not binding on the Board or the Compensation Committee. While the vote is non-binding, the Board and the Compensation Committee value the opinions that stockholders express in their votes and in any additional dialogue and will consider the outcome of the vote and those opinions when making future compensation decisions.

We currently conduct annual advisory votes on executive compensation. Unless the Board modifies this policy, the next advisory vote on executive compensation will be held at our 2018 Annual Meeting of Stockholders.

Recommendation

The Board believes that the information provided above and within the Compensation Discussion and Analysis section of this Proxy Statement demonstrates that our executive compensation program was designed appropriately, has taken into account the opinions expressed by our stockholders, and aligns our executives’ interests with our stockholders’ interests to support long-term value creation.

The following resolution will be submitted for a stockholder vote at the Annual Meeting:

“Resolved, that the Company’s stockholders approve, on an advisory basis, the compensation paid to the Company’s Named Executive Officers, as disclosed pursuant to Securities and Exchange Commission rules in the Compensation Discussion and Analysis, the compensation tables and the accompanying narrative disclosure, in this Proxy Statement.”

THE BOARD OF DIRECTORS RECOMMENDS A VOTE “FOR” THE APPROVAL OF THE ADVISORY (NON-BINDING) RESOLUTION TO APPROVE THE COMPENSATION PAID TO THE COMPANY’S NAMED EXECUTIVE OFFICERS.

PROPOSAL NO. 4

ADVISORY VOTE TO APPROVE THE FREQUENCY OF FUTURE STOCKHOLDER ADVISORY VOTES TO APPROVE THE COMPENSATION PAID TO OUR NAMED EXECUTIVE OFFICERS

As part of the Board's commitment to excellence in corporate governance, and as required by Section 14A(a)(2) of the Exchange Act, which was added under the Dodd-Frank Wall Street Reform and Consumer Protection Act, the Board is providing our stockholders with an opportunity to indicate how frequently they believe we should seek an advisory vote on the compensation of our named executive officers. In this Proposal No. 4, we are seeking an advisory, non-binding determination from our stockholders as to the frequency with which stockholders would have an opportunity to provide an advisory approval of our executive compensation program. We are providing stockholders the option of selecting a frequency of one, two or three years, or abstaining. Our current practice is to provide advisory votes to approve the compensation of our named executive officers every year.

In 2011, the Board adopted a policy providing for annual advisory votes on executive compensation, and the Board continues to believe than an advisory vote on executive compensation that occurs every year is most appropriate for the Company. We believe that it is important to give our stockholders the opportunity to provide us with their direct input on our compensation philosophy, policies and practices as disclosed in the proxy statement each year. The Board believes that annual votes will facilitate the highest level of accountability to and communication with our stockholders. Further, an annual vote clearly ties the advisory vote on executive compensation to the current year's compensation disclosure and avoids the potential for confusion that exists with a biennial or triennial vote as to which year stockholders are being asked to evaluate and vote on.

Vote Required

The advisory (non-binding) vote to approve the frequency of future stockholder advisory votes to approve the compensation paid to the Company's named executive officers requires the affirmative vote of a majority of the shares of Common Stock and Series A Preferred Stock (on an as-converted basis voting together with the Common Stock as a single class) present or represented by proxy at the Annual Meeting and entitled to vote thereat. If none of the frequency alternatives (one year, two years or three years) receives the vote of a majority of the shares present or represented by proxy and entitled to vote on the matter, we will consider the highest number of votes cast by stockholders to be the frequency that has been selected by our stockholders. Abstentions will have no effect on the proposal. Broker non-votes will not affect the outcome of the proposal because shares held by a bank, broker or other nominee who has not received instructions from the beneficial owner of the shares as to how the shares are to be voted on the proposal are not entitled to vote on such proposal at the Annual Meeting.

Consistent with current rules of the SEC under the Exchange Act, our proxy holders will have discretionary authority to vote in accordance with the Board's frequency vote recommendation for proxy cards that are returned with no selection made relating to the frequency vote.

While the vote is non-binding, the Board and the Compensation Committee value the opinions that stockholders express in their votes and in any additional dialogue, and will consider the outcome of the vote and those opinions when determining the frequency with which advisory votes on executive compensation should be held. The Board may decide that it is in our and our stockholders' best interests to hold an advisory vote on executive compensation more or less frequently than the option approved by our stockholders.

Recommendation

For the reasons discussed above, our Board has determined that an advisory vote on executive compensation that occurs every year is the most appropriate alternative for the Company, and therefore, our Board recommends that you vote for a one-year interval for the advisory vote on executive compensation. Stockholders are not voting to approve or disapprove the Board's recommendation, but rather to indicate their choice among these frequency options. Stockholders will be able to specify one of four choices for this proposal on the proxy card: one year, two years, or three years, or abstain.

THE BOARD OF DIRECTORS RECOMMENDS THAT STOCKHOLDERS VOTE, ON AN ADVISORY (NON-BINDING) BASIS TO HAVE VOTES ON EXECUTIVE COMPENSATION EVERY "ONE YEAR" FOR THE REASONS STATED ABOVE.

DIRECTOR COMPENSATION

The compensation program for our non-employee directors is intended to fairly compensate our non-employee directors for the time and effort required of a director given the size and complexity of the Company's operations. Portions of the compensation program utilize our stock in order to further align the interests of the directors with all other stockholders of the Company and to motivate the directors to focus on the long-term financial interest of the Company.

Non-employee members of the Board receive a combination of cash and stock-based compensation. Directors who are Company employees are not paid any additional fees for serving on the Board or for attending Board meetings.

Cash Compensation

In fiscal 2017, each non-employee director received an annual retainer of $37,000, payable quarterly in advance, and meeting fees of $2,000 for each Board meeting and $2,500 for each Compensation Committee, Audit Committee or Nominating and Corporate Governance Committee meeting attended; provided if more than one meeting (Board or committee) was held and attended on the same date, maximum meeting fees were $4,500.

In fiscal 2017, the Board formed an Executive Committee to assist the Board in discharging its oversight responsibilities between regular Board meetings. Additionally, in fiscal 2017, the Board continued in place the *ad hoc* executive search committee established in April 2016 and created an additional *ad hoc* executive search committee in December 2016. In addition, in fiscal 2017, the Board continued the Strategy Committee established in May 2016 until February 2017 when the Strategy Committee was disbanded upon the formation of the Executive Committee. In connection with the 2016 proxy contest, in September 2016, the Board formed the Annual Meeting Committee which continued through the 2016 Annual Meeting. The Company-paid meeting fees or per diem fees for service on each such committee were $1,500 per meeting/per diem for the search committees, $2,500 per meeting/per diem for the Strategy Committee, and $2,000 per meeting/per diem for the Executive Committee, subject to the limitation on maximum meeting fees described in the preceding sentence. Ms. Assadi and Mr. Mottern each received a one-time cash retainer of $20,000 for service on the Annual Meeting Committee. Mr. Clark received a one-time cash retainer of $30,000 for service on, and acting as Chair of, the Annual Meeting Committee.

The non-employee director compensation program further allows for the payment of additional per diem fees associated with Board or committee service beyond the service which is intended to be covered by the annual retainer and per meeting fees, to the extent such service is pre-approved by the Board and the fee therefor is approved by the Chairman of the Board or committee chair, as applicable.

The Chairman of the Board received an additional annual retainer of $20,000. Mr. Berger received an annual retainer as Chairman Emeritus of the Board of $10,000. In addition, the committee chairs received additional annual retainers, as follows: (i) Audit Committee, $15,000; and (ii) Compensation Committee and Nominating and Corporate Governance Committee, $7,500. Board members also received payment or reimbursement of reasonable travel expenses from outside the greater Dallas-Fort Worth area, in accordance with Company policy, incurred in connection with attendance at Board and committee meetings, as well as payment or reimbursement of amounts incurred in connection with director continuing education.

Equity Compensation

In fiscal 2017, each non-employee director received a grant of restricted stock under the 2007 LTIP having a grant-date value equal to $30,000, such grant to cliff vest on the first anniversary of the date of grant subject to continued service to the Company through the vesting date and the acceleration provisions of the 2007 LTIP and restricted stock agreement. The annual grant of restricted stock is generally made on the date on which the Company holds its annual meeting of stockholders or such other date as the Board may determine, in each case, subject to any blackout period under the Company's insider trading policy. Each non-employee director receives a number of shares of restricted stock with a grant-date fair value of approximately $30,000, determined based on the closing price per share of our Common Stock on the date such grant is made. In fiscal 2017, the annual grant of restricted stock was made on December 8, 2016. Each non-employee director received a grant of 851 shares of restricted stock based on the closing price per share of our Common Stock on December 8, 2016 ($35.25).

Stock Ownership Guidelines

Under the Company's stock ownership guidelines, a non-employee director is expected to own and hold during his or her service as a Board member a number of shares of Common Stock with a value of at least $150,000, and is not permitted to sell any shares of Common Stock received as grants under the Company's long-term incentive plans unless and until the non-employee director achieves and maintains this threshold share ownership level.

Shares of Common Stock that count toward satisfaction of these guidelines include (to the extent applicable): (i) shares of Common Stock owned outright by the non-employee director and his or her immediate family members who share the same household, whether held individually or jointly; (ii) restricted stock or restricted stock units (whether or not the restrictions have lapsed); (iii) shares of Common Stock held in trust for the benefit of the non-employee director or his or her family; and (iv) shares of Common Stock issuable under vested options held by the non-employee director.

Director Compensation Table

The following table shows fiscal 2017 non-employee director compensation:

Director(1)	Fees Earned or Paid in Cash ($)(2)	Stock Awards ($)(3)	Change in Pension Value ($)(4)	All Other Compensation ($)(5)	Total ($)
Hamideh Assadi	123,250	29,998	—	2,426	155,674
Guenter W. Berger	103,000	29,998	—	17,597	150,595
Randy E. Clark	182,750	29,998	—	—	212,748
Jeanne Farmer Grossman	65,000	29,998	—	—	94,998
Charles F. Marcy	129,500	29,998	—	—	159,498
Christopher P. Mottern	178,500	29,998	—	—	208,498

(1) Mr. Keown, the Company's President and Chief Executive Officer, is not included in this table since he received no additional compensation for his service as a director in fiscal 2017.

(2) Represents quarterly retainer, special retainer, meeting fees and per diem fees described above under "Cash Compensation."

(3) Represents the full grant date fair value of restricted stock granted to each non-employee director in fiscal 2017, computed in accordance with FASB ASC Topic 718. A discussion of the assumptions used in calculating the amounts in this column may be found in Note 18 to our audited consolidated financial statements for the fiscal year ended June 30, 2017, included in our 2017 Form 10-K, except that, as required by applicable SEC rules, we did not reduce the amounts in this column for any risk of forfeiture relating to service-based (time-based) vesting conditions.

The aggregate number of shares of restricted stock outstanding at June 30, 2017 for each non-employee director were as follows: Ms. Assadi, 1,936 shares; Mr. Berger, 1,936 shares; Mr. Clark, 1,936 shares; Ms. Grossman, 1,936 shares; Mr. Marcy, 1,936 shares; and Mr. Mottern, 1,936 shares, including, in the case of each of Ms. Assadi and Mr. Berger, 1,607 shares which would be cancelled on their last date of service as a director unless vesting of some or all of this amount is accelerated by the Board.

(4) Represents the aggregate change in the actuarial present value of the accumulated benefit under all defined benefit and actuarial pension plans from the pension plan measurement date used for financial statement reporting purposes with respect to the Company's audited consolidated financial statements for the fiscal year ended June 30, 2016 to the pension plan measurement date used for financial statement reporting purposes with respect to the Company's audited consolidated financial statements for the fiscal year ended June 30, 2017. The aggregate change in the actuarial present value of the accumulated benefit under the Company's defined benefit pension plan for Ms. Assadi and Mr. Berger was ($20,047) and ($65,652), respectively, due to a higher discount rate and payment of benefits to Ms. Assadi and Mr. Berger under the plan in fiscal 2017.

(5) All Other Compensation for Ms. Assadi includes life insurance premiums paid by the Company under the Company's postretirement death benefit plan ($2,030) and the economic benefit of the associated life insurance policy ($396). All Other Compensation for Mr. Berger includes life insurance premiums paid by the Company under the Company's postretirement death benefit plan ($14,357) and the economic benefit of the associated life insurance policy ($3,240).

Director Indemnification

Under Farmer Bros.' Certificate of Incorporation and By-Laws, the current and former directors are entitled to indemnification and advancement of expenses from the Company to the fullest extent permitted by Delaware corporate law. The Board of Directors has approved a form of Indemnification Agreement ("Indemnification Agreement") to be entered into between the Company and its directors and officers. The Company's Board of Directors may from time to time authorize the Company to enter into additional indemnification agreements with future directors and officers of the Company.

The Indemnification Agreements provide, among other things, that the Company will, to the extent permitted by applicable law, indemnify and hold harmless each indemnitee if, by reason of his or her corporate status as a director, officer, trustee, general partner, managing member, fiduciary, employee or agent of the Company or of any other enterprise which such person is or was serving at the request of the Company, such indemnitee was, is or is threatened to be made, a party to or a participant (as a witness or otherwise) in any threatened, pending or completed proceeding, whether formal or informal, whether brought in the right of the

Company or otherwise and whether of a civil, criminal, administrative or investigative nature, against all expenses, judgments, fines, penalties and amounts paid in settlement actually and reasonably incurred by him or her or on his or her behalf in connection with such proceeding. In addition, the Indemnification Agreements provide for the payment, advancement or reimbursement of expenses incurred by the indemnitee in connection with any such proceeding to the fullest extent permitted by applicable law. The Indemnification Agreements also provide that, in the event of a Potential Change in Control (as defined in the Indemnification Agreements), the Company will, upon request by the indemnitee, create a trust for the benefit of the indemnitee and fund such trust in an amount sufficient to satisfy expenses reasonably anticipated to be incurred in connection with investigating, preparing for, participating in or defending any proceedings, and any judgments, fines, penalties and amounts paid in settlement in connection with any proceedings. The Indemnification Agreements do not exclude any other rights to indemnification or advancement of expenses to which the indemnitee may be entitled, including any rights arising under the Certificate of Incorporation or By-Laws of the Company, or the Delaware General Corporation Law. The Company is also obligated to maintain directors' and officers' liability insurance coverage, including tail coverage under certain circumstances.

CERTAIN RELATIONSHIPS AND RELATED PERSON TRANSACTIONS

Review and Approval of Related Person Transactions

Under the Company's written Policies and Procedures for the Review, Approval or Ratification of Related Person Transactions, a related person transaction may be consummated or may continue only if the Audit Committee approves or ratifies the transaction in accordance with the guidelines set forth in the policy. The policy applies to: (i) any person who is, or at any time since the beginning of the Company's last fiscal year was, a director, nominee for director or executive officer of the Company; (ii) any person who is known to be the beneficial owner of more than 5% of any class of the Company's voting securities; and (iii) any immediate family member, as defined in the policy, of, or sharing a household with, any of the foregoing persons. For purposes of the policy, a related person transaction includes, but is not limited to, any financial transaction, arrangement or relationship or any series of similar transactions, arrangements or relationships, specifically including indebtedness and guarantees of indebtedness and transactions involving employment, consulting or similar arrangements, between the Company and any of the foregoing persons since the beginning of the Company's last fiscal year, or any currently proposed transaction in which the Company was or is to be a participant or a party, in which the amount involved exceeds $120,000, and in which any of the foregoing persons had or will have a direct or indirect material interest.

The Company will maintain a related person master list to assist in identifying related person transactions, which will be distributed by the Company's General Counsel to the Company's executive officers; the function or department managers responsible for purchasing goods or services for the Company and its subsidiaries; the director of accounts payable and the director of accounts receivable for the Company and its subsidiaries; and any other persons whom the Audit Committee, the Chief Compliance Officer or the General Counsel may designate.

Upon referral by the Chief Compliance Officer, General Counsel or Secretary of the Company, any proposed related person transaction will be reviewed by the Audit Committee for approval or disapproval based on the following:

- The materiality of the related person's interest, including the relationship of the related person to the Company, the nature and importance of the interest to the related person, the amount involved in the transaction, whether the transaction has the potential to present a conflict of interest, whether there are business reasons for the Company to enter the transaction, and whether the transaction would impair the independence of any independent director;
- Whether the terms of the transaction, in the aggregate, are comparable to those that would have been reached by unrelated parties in an arm's length transaction;
- The availability of alternative transactions, including whether there is another person or entity that could accomplish the same purposes as the transaction and, if alternative transactions are available, there must be a clear and articulable reason for the transaction with the related person;
- Whether the transaction is proposed to be undertaken in the ordinary course of the Company's business, on the same terms that the Company offers generally in transactions with persons who are not related persons; and
- Such additional factors as the Audit Committee determines relevant.

Following review, the Audit Committee will approve or ratify in writing any related person transaction determined by the Audit Committee to be in, or not inconsistent with, the best interests of the Company and its stockholders.

The Audit Committee may impose conditions or guidelines on any related person transaction, including, but not limited to: (i) conditions relating to on-going reporting to the Audit Committee and other internal reporting; (ii) limitations on the amount involved in the transaction; (iii) limitations on the duration of the transaction or the Audit Committee's approval of the transaction; and (iv) other conditions for the protection of the Company and to avoid conferring an improper benefit, or creating the appearance of a conflict of interest. Any member of the Audit Committee who has or whose immediate family member has an interest in the transaction under discussion will abstain from voting on the approval of the related person transaction, but may, if so requested by the Chair of the Audit Committee, participate in some or all of the Audit Committee's discussions of the related person transaction.

The Audit Committee will direct the Company's executive officers to disclose all related person transactions approved by the Audit Committee to the extent required under applicable accounting rules, Federal securities laws, SEC rules and regulations, and NASDAQ rules.

Related Person Transactions

Since the beginning of fiscal 2017, related person transactions reviewed and approved and/or ratified by the Audit Committee include the following:

Jonathan Michael Waite, the son of Carol Farmer Waite who is the beneficial owner of more than 5% of the Company's voting securities, served as a non-executive employee of the Company in the position of Vice President, Construction Management through January 31, 2017, when his position was eliminated. Mr. Waite's fiscal 2017 compensation (including salary, stock based compensation, auto allowance, life insurance premium paid by the Company under the Company's postretirement death benefit plan and the economic benefit of the associated life insurance policy, ESOP allocation, 401(k) matching contribution and change in pension value) through January 31, 2017 was $186,688. The Company and Mr. Waite entered into a confidential general release and separation agreement pursuant to which Mr. Waite became entitled to receive: (i) severance benefits of approximately $221,022, less applicable taxes and withholdings, over a 13-month period; (ii) a prorated bonus award under the Company's short-term incentive plan for non-executive employees subject to the Company satisfying its threshold requirements and the degree of achievement of Company performance goals under the plan for fiscal 2017, with individual goals deemed to be achieved at 100%; and (iii) payment of a lump-sum cash retention bonus ($260,000, less applicable taxes and withholdings) in connection with the Company's corporate relocation plan. Based on achievement of the performance goals under the short-term incentive plan, Mr. Waite received a payout of $32,403, which was equal to approximately 62% of his target opportunity of $52,348 under the plan. Receipt of severance and the foregoing benefits was conditioned upon, among other things, Mr. Waite having executed a general release of claims in favor of the Company.

In fiscal 2017, the Company made financial contributions to World Coffee Research ("WCR"), a collaborative, not-for-profit 501(c)(5) research organization created by the global coffee industry of which Mr. Keown is the Vice Chairman of the Board of Directors, in the amount of approximately $110,000. The Audit Committee has approved financial contributions by the Company to WCR of up to $200,000 in fiscal 2018. The Audit Committee has determined that Mr. Keown has no direct or indirect material interest in the Company's financial contributions to WCR and his interest therein arises solely due to his service as Vice Chairman of the Board of Directors of WCR.

Ms. Iobst joined the Company as Chief Operations Officer effective February 20, 2017, after having served as an independent consultant to the Company since April 2016. Compensation received by Ms. Iobst in fiscal 2017 under the terms of her consulting agreement with the Company is included in the Summary Compensation Table above and described in the narrative disclosures that follow that table. This consulting agreement was terminated upon Ms. Iobst becoming an executive officer of the Company.

AUDIT MATTERS

Audit Committee Report

The Audit Committee has reviewed and discussed with management the Company's audited consolidated financial statements as of and for the fiscal year ended June 30, 2017.

The Audit Committee has discussed with Deloitte the matters required to be discussed by the Statement on Auditing Standards No. 16, "Communications with Audit Committees," as adopted by the Public Company Accounting Oversight Board.

The Audit Committee has received the written disclosures and the letter from Deloitte required by applicable requirements of the Public Company Accounting Oversight Board regarding Deloitte's communications with the Audit Committee concerning independence, and has discussed with Deloitte that firm's independence.

Based on the reviews and discussions referred to above, the Audit Committee recommended to the Board of Directors that the audited consolidated financial statements referred to above be included in the Company's 2017 Form 10-K for filing with the SEC.

Audit Committee of the Board of Directors

Christopher P. Mottern, Chair
Hamideh Assadi
Randy E. Clark

Independent Registered Public Accounting Firm Fees

The following table sets forth the aggregate fees billed by Deloitte for fiscal 2017 and 2016 for audit and non-audit services (as well as all "out-of-pocket" costs incurred in connection with these services) and are categorized as Audit Fees, Audit-Related Fees, Tax Fees and All Other Fees. The nature of the services provided in each such category is described following the table. The Audit Committee approved all audit and permissible non-audit services provided by Deloitte in accordance with the pre-approval policies and procedures described below.

Type of Fees	Fiscal 2017	Fiscal 2016
Audit Fees	$ 964,000	$ 841,000
Audit-Related Fees	—	—
Tax Fees	111,274	34,964
All Other Fees	2,020	39,686
Total Fees	$ 1,077,294	$ 915,650

Audit Fees

"Audit Fees" are fees paid for the audit of the Company's annual consolidated financial statements included in its Form 10-K and review of financial statements included in the Form 10-Q's, for the audit of the Company's internal control over financial reporting, and for services that are normally provided by the auditor in connection with statutory and regulatory filings or engagements. Audit fees for fiscal 2017 consisted of fees rendered by Deloitte associated with the audit of the Company's fiscal 2017 annual financial statements, the audit of internal control over financial reporting in fiscal 2017, the review of the Company's quarterly reports on Form 10-Q, and services associated with an SEC registration statement. Audit fees for fiscal 2016 consisted of $841,000 of fees rendered by Deloitte associated with the audit of the Company's fiscal 2016 annual financial statements, the audit of internal control over financial reporting in fiscal 2016, and services associated with an SEC registration statement.

Audit-Related Fees

"Audit-Related Fees" are fees for assurance and related services that are reasonably related to the performance of the audit or review of the Company's financial statements and are not reported under "Audit Fees." These services include consultations regarding implementation of accounting transactions or standards. In fiscal 2017 and 2016, the Company paid no fees to Deloitte in this category.

Tax Fees

"Tax Fees" are fees for tax compliance, tax advice and tax planning, including state tax representation and miscellaneous consulting on federal and state taxation matters. Tax fees for fiscal 2017 consisted of $111,274 in fees paid to Deloitte for tax due diligence services, tax compliance and advisory services, and certain tax services in connection with the Company's 2016 federal and state income tax returns. Tax fees for fiscal 2016 consisted of $34,964 in fees paid to Deloitte for tax compliance and advisory services and certain tax services in connection with the Company's 2015 federal and state income tax returns.

All Other Fees

"All Other Fees" are fees for any services not included in the first three categories. All other fees in fiscal 2017 consisted of subscription fees paid to Deloitte for an online accounting research tool, in the amount of $2,020. All other fees in fiscal 2016 consisted of (i) subscription fees paid to Deloitte for an online accounting research tool, in the amount of $2,132, and (ii) M&A fees paid to Ernst & Young LLP, the Company's former principal auditor, in the amount of $37,544 for transaction advisory services.

Pre-Approval of Audit and Non-Audit Services

Under the Farmer Bros. Co. Audit and Non-Audit Services Pre-Approval Policy, the Audit Committee must pre-approve all audit and non-audit services provided by the independent auditor. The policy, as described below, sets forth the procedures and conditions for such pre-approval of services to be performed by the independent auditor. The policy utilizes both a framework of general pre-approval for certain specified services and specific pre-approval for all other services. Unless a type of service has received general pre-approval, it will require specific pre-approval by the Audit Committee if it is to be provided by the independent auditor. Any proposed services exceeding pre-approved cost levels or budgeted amounts will also require specific pre-approval by the Audit Committee.

In the first quarter of each year, the Audit Committee is asked to pre-approve the engagement of the independent auditor and the projected fees for audit services for the current fiscal year. The Audit Committee is also asked to provide general pre-approval for certain audit-related services (assurance and related services that are reasonably related to the performance of the auditor's review of the financial statements or that are traditionally performed by the independent auditor) and tax services (such as tax compliance, tax planning and tax advice) for the current fiscal year consistent with the SEC's rules on auditor independence. If the Company wishes to engage the independent auditor for additional services that have not been generally pre-approved as described above, then such engagement will be presented to the Audit Committee for pre-approval at its next regularly scheduled meeting. Pre-approval of any engagement by the Audit Committee is required before the independent auditor may commence any engagement.

In fiscal 2017, there were no fees paid to Deloitte under a *de minimis* exception to the rules that waive pre-approval for certain non-audit services.

OTHER MATTERS

Annual Report and Form 10-K

The 2017 Annual Report to Stockholders (which includes the Company's 2017 Form 10-K) accompanies this Proxy Statement. The 2017 Annual Report is neither incorporated by reference in this Proxy Statement nor part of the proxy soliciting material. **Stockholders may obtain, without charge, a copy of the Company's 2017 Form 10-K, filed with the SEC, including the financial statements included therein, without the accompanying exhibits, by writing to: Farmer Bros. Co., 1912 Farmer Brothers Drive, Northlake, Texas 76262, Attention: Chief Financial Officer. The Company's 2017 Form 10-K is also available online at the Company's website, *www.farmerbros.com*. A list of exhibits is included in the Company's 2017 Form 10-K and exhibits are available from the Company upon the payment of the Company's reasonable expenses in furnishing them.**

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Exchange Act requires the Company's executive officers and directors, and persons who own more than 10% of a registered class of the Company's equity securities (collectively, "Reporting Persons"), to file reports of ownership and changes in ownership with the SEC. Reporting Persons are required by SEC regulations to furnish the Company with copies of all forms they file pursuant to Section 16(a). As a practical matter, the Company assists its directors and executive officers by monitoring transactions and completing and filing Section 16 reports on their behalf. To the Company's knowledge, based solely on a review of the copies of such reports furnished to the Company and written representations from certain reporting persons that no other reports were required during the fiscal year ended June 30, 2017, its officers, directors and ten percent stockholders complied with all applicable Section 16(a) filing requirements, with the exception of the members of a "group" for the purposes of Section 13(d)(3) of the Exchange Act identified in a Schedule 13D/A (Amendment No. 3) filed with the SEC on August 29, 2016 and a Schedule 13D/A (Amendment No. 4) filed with the SEC on September 8, 2016 (collectively, the "Waite Group Schedule 13D/A"), including Carol Farmer Waite, as trustee, co-trustee, and/or sole beneficiary of certain family trusts named in the Waite Group Schedule 13D/A; Jonathan Michael Waite, as trustee and sole beneficiary of the 2012 Waite Irrevocable Trust; and individuals Suzanna Waite, Austin Waite, Emily Waite, Scott Grossman, Brett Grossman, Brynn Grossman, Tom Mortensen, John Samore, Jr. and Jennifer Gonzalez-Yousef (Mr. Samore and Ms. Gonzalez-Yousef each signed the Waite Group Schedule 13D/A but reported that they beneficially owned no shares of the Company's Common Stock), who did not timely file or failed to file such reports upon becoming members of the identified Section 13(d)(3) group.

Stockholder Proposals and Nominations

Proposals Pursuant to Rule 14a-8

Pursuant to Rule 14a-8 under the Exchange Act, stockholders may present proper proposals for inclusion in the Company's Proxy Statement and form of proxy for consideration at the Company's 2018 Annual Meeting of Stockholders. To be eligible for inclusion in the Company's 2018 Proxy Statement, stockholder proposals must be received by the Company at its principal executive offices no later than July 2, 2018 and must otherwise comply with Rule 14a-8. While the Board will consider stockholder proposals, the Company reserves the right to omit from the Company's proxy statement stockholder proposals that it is not required to include under the Exchange Act, including Rule 14a-8.

Proposals and Nominations Pursuant to the Company's By-Laws

The Company's By-Laws contain an advance notice provision with respect to matters to be brought at an annual meeting of stockholders, including nominations, and not included in the Company's Proxy Statement. A stockholder who desires to nominate a director or bring any other business before the stockholders at the 2018 Annual Meeting must notify the Company in writing, must cause such notice to be delivered to or received by the Secretary of the Company no earlier than August 9, 2018, and no later than September 8, 2018, and must comply with the other provisions of the Company's By-Laws summarized below; provided, however, that in the event that the 2018 Annual Meeting is called for a date that is not within 30 days before or after the anniversary date of the 2017 Annual Meeting of Stockholders, notice by the stockholder in order to be timely must be so received not later than the close of business on the 10th day following the day on which notice of the date of the 2018 Annual Meeting was mailed or public disclosure of the date of the 2018 Annual Meeting was made, whichever first occurs.

The By-Laws provide that nominations may be made by the Board, by a committee appointed by the Board or any stockholder entitled to vote in the election of directors generally. Stockholders must provide actual written notice of their intent to make nomination(s) to the Secretary of the Company within the timeframes described above. Each such notice must set forth (a) as to each person whom the stockholder proposes to nominate for election as a director (i) the name, age, business address and residence address of the person, (ii) the principal occupation or employment of the person, (iii) the class or series and number of shares of capital stock of the Company which are owned beneficially or of record by the person, and (iv) any other information relating to the person that would be required to be disclosed in a proxy statement or other filings required to be made in connection with solicitations of proxies for election of directors pursuant to Section 14 of the Exchange Act and the rules and regulations promulgated thereunder; and (b) as to the stockholder giving notice (i) the name and record address of such stockholder, (ii) the class or series and number of shares of capital stock of the Company which are owned beneficially or of record by such stockholder, (iii) a description of all arrangements or understandings between such stockholder and each proposed nominee and any other person or persons (including their names) pursuant to which the nomination(s) are to be made by such stockholder, (iv) a representation that such stockholder intends to appear in person or by proxy at the meeting to nominate the persons named in its notice, and (v) any other information relating to such stockholder that would be required to be disclosed in a proxy statement or other filings required to be made in connection with the solicitation of proxies for election of directors pursuant to Section 14 of the Exchange Act and the rules and regulations promulgated thereunder. Such notice must be accompanied by a written consent of each proposed nominee to being named as a nominee and to serve as a director if elected.

The notice given by a stockholder regarding other business to be brought before an annual meeting of stockholders must be provided within the time frames described above and set forth (a) a brief description of the business desired to be brought before the annual meeting and the reason for conducting such business at the annual meeting, (b) the name and record address of such stockholder, (c) the class and number of shares of stock of the Company which are owned beneficially or of record by such stockholder, (d) a description of all arrangements or understandings between such stockholder and any other persons (including their names) in connection with the proposal and any material interest of such stockholder in such business, and (e) a representation that such stockholder intends to appear in person or by proxy at the annual meeting to bring such business before the meeting.

You may write to the Secretary of the Company at the Company's principal executive offices, 1912 Farmer Brothers Drive, Northlake, Texas 76262, to deliver the notices discussed above and for a copy of the relevant provisions of the Company's By-Laws regarding the requirements for making stockholder proposals and nominating director candidates.

Householding of Proxy Materials

The SEC has adopted rules that permit companies and intermediaries (such as banks and brokers) to satisfy the delivery requirements for proxy statements and annual reports with respect to two or more stockholders sharing the same address by delivering a single proxy statement addressed to those stockholders. This process, which is commonly referred to as "householding," potentially means extra convenience for stockholders and cost savings for companies.

This year, a number of banks and brokers with account holders who are Company stockholders will be "householding" the Company's proxy materials and annual report. A single proxy statement and annual report will be delivered to multiple stockholders sharing an address unless contrary instructions have been received from the affected stockholders. Once you have received notice from your bank or broker that it will be "householding" communications to your address, "householding" will continue until you are notified otherwise or until you revoke your consent. If, at any time, you no longer wish to participate in "householding" and would prefer to receive a separate proxy statement and annual report, please notify your bank or broker, or direct your written request to Farmer Bros. Co., 1912 Farmer Brothers Drive, Northlake, Texas 76262, Attention: Chief Financial Officer, or contact the Company's Chief Financial Officer by telephone at (888) 998-2468, and the Company will deliver a separate copy of the annual report or proxy statement upon request. Stockholders who currently receive multiple copies of the proxy statement and annual report at their address and would like to request "householding" of their communications should contact their bank or broker.

Forward-Looking Statements

Certain statements contained in this Proxy Statement 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 the 2017 Form 10-K. These forward-looking statements can be identified by the use of words like "anticipates," "estimates," "projects," "expects," "plans," "believes," "intends," "will," "assumes" and other words of similar meaning. Owing to the uncertainties inherent in forward-looking statements, actual results could differ materially from those set forth in forward-looking statements. We intend these forward-looking statements to speak only at the time of this Proxy Statement 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 our corporate relocation plan, the timing and success of our direct-store-delivery restructuring plan, our success in consummating acquisitions and integrating acquired businesses, the adequacy and availability of capital resources to fund our existing and planned business operations and our capital expenditure requirements, the relative effectiveness of compensation-based employee incentives in causing improvements in Company performance, the capacity to meet the demands of the Company's large national account customers, the extent of execution of plans for the growth of Company business and achievement of financial metrics related to those plans, the 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, 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 Part I, Item 1A of our 2017 Form 10-K, and other factors described from time to time in our filings with the SEC.

By Order of the Board of Directors

October 27, 2017

TERI L. WITTEMAN

Secretary

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

FORM 10-K

(Mark One)

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

For the fiscal year ended June 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	**95-0725980**
(State of Incorporation)	(I.R.S. Employer Identification No.)

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

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

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

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock, $1.00 par value	**The NASDAQ Global Select Market**

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. YES ☐ NO ☑

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. YES ☐ NO ☑

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☐

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

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

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

The aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the closing price at which the Farmer Bros. Co. common stock was sold on December 31, 2016 was $347.1 million.

As of September 27, 2017 the registrant had 16,846,002 shares outstanding of its common stock, par value $1.00 per share, which is the registrant's only class of common stock.

DOCUMENTS INCORPORATED BY REFERENCE

Specified portions of the registrant's definitive proxy statement to be filed with the U.S. Securities and Exchange Commission ("SEC") pursuant to Regulation 14A in connection with the registrant's 2017 Annual Meeting of Stockholders (the "Proxy Statement") are incorporated by reference into Part III of this report. Such Proxy Statement will be filed with the SEC not later than 120 days after the conclusion of the registrant's fiscal year ended June 30, 2017.

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CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This report and other documents we file with the SEC contain forward-looking statements that are based on current expectations, estimates, forecasts and projections about us, our future performance, our financial condition, our products, our business strategy, our beliefs and our management's assumptions. In addition, we, or others on our behalf, may make forward-looking statements in press releases or written statements, or in our communications and discussions with investors and analysts in the normal course of business through meetings, webcasts, phone calls and conference calls. These forward-looking statements can be identified by the use of words like "anticipates," "estimates," "projects," "expects," "plans," "believes," "intends," "will," "could," "may," "assumes" and other words of similar meaning. These statements are based on management's beliefs, assumptions, estimates and observations of future events based on information available to our management at the time the statements are made and include any statements that do not relate to any historical or current fact. These statements are not guarantees of future performance and they involve certain risks, uncertainties and assumptions that are difficult to predict. Actual outcomes and results may differ materially from what is expressed, implied or forecast by our forward-looking statements due in part to the risks, uncertainties and assumptions set forth below in Part I, Item 1A, *Risk Factors* of this report, as well as those discussed elsewhere in this report and other factors described from time to time in our filings with the SEC. Reference is made in particular to forward-looking statements regarding the success of our corporate relocation, the timing and success of our direct-store-delivery restructuring plan, our success in consummating acquisitions and integrating acquired businesses, the adequacy and availability of capital resources to fund our existing and planned business operations and our capital expenditure requirements, product sales, expenses, earnings per share (EPS), and liquidity and capital resources. We intend these forward-looking statements to speak only at the date of this report and do not undertake to update or revise these statements, whether as a result of new information, future events, changes in assumptions or otherwise, except as required under federal securities laws and the rules and regulations of the SEC.

PART I

Item 1. Business

Overview

Farmer Bros. Co., a Delaware corporation (including its consolidated subsidiaries unless the context otherwise requires, the "Company," "we," "us," "our" or "Farmer Bros."), is a national coffee roaster, wholesaler and distributor of coffee, tea and culinary products. We serve 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 and consumer-branded coffee and tea products. With a robust product line, including organic, Direct Trade, Direct Trade Verified Sustainable coffees or DTVS and other sustainably-produced coffees, iced and hot teas, cappuccino, spices, and baking/biscuit mixes, among others, 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 were founded in 1912, incorporated in California in 1923, and reincorporated in Delaware in 2004. We operate in one business segment.

Corporate Relocation

In fiscal 2015 we began the process of relocating our corporate headquarters, product development lab, and manufacturing and distribution operations from Torrance, California to a new facility housing these operations in Northlake, Texas (the "New Facility") (the "Corporate Relocation Plan"). In order to focus on our core product offerings, in the second quarter of fiscal 2016, we sold certain assets associated with our manufacture, processing and distribution of raw, processed and blended spices and certain other culinary products (collectively, the "Spice Assets") to Harris Spice Company Inc. ("Harris"). In fiscal 2017, we completed the construction of, and exercised the purchase option to acquire, the New Facility, relocated our Torrance operations to the New Facility, and sold our facility in Torrance, California (the "Torrance Facility"). 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 completed the Corporate Relocation Plan in the fourth quarter of fiscal 2017. We began roasting coffee in the New Facility in the fourth quarter of fiscal 2017.

Recent Developments

Acquisitions

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 iced teas and iced green 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 West Coast Coffee acquisition is expected to broaden our reach in the Northwestern United States.

On August 18, 2017, we entered into an agreement to acquire substantially all of the assets of Boyd Coffee Company ("Boyd's"), a privately-held coffee roaster and distributor with a focus on restaurants, hotels and convenience stores on the West Coast of the United States, with a combination of cash and stock. Boyd's business model is expected to be complementary to the Company across customer channels, product portfolios and distribution networks, including a high-touch service model of direct-store-delivery. The transaction is expected to close in the second quarter of fiscal 2018, subject to certain closing conditions.

DSD Restructuring Plan

As a result of an ongoing operational review of various initiatives within our direct-store-delivery or DSD selling organization, in the third quarter of fiscal 2017, we commenced a restructuring plan to reorganize our DSD operations in an effort to realign functions into a channel-based selling organization, streamline operations, acquire certain channel specific expertise, and improve selling effectiveness and financial results (the "DSD Restructuring Plan").

Products

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. Our product categories consist of the following:

- a robust line of roast and ground coffee, including organic, Direct Trade, DTVS and other sustainably-produced offerings;
- frozen liquid coffee;
- flavored and unflavored iced and hot teas;
- culinary products including gelatins and puddings, soup bases, dressings, gravy and sauce mixes, pancake and biscuit mixes, jellies and preserves, and coffee-related products such as coffee filters, sugar and creamers;
- spices; and
- other beverages including cappuccino, cocoa, granitas, and ready-to-drink iced coffee.

Our owned brand products are sold primarily into the foodservice channel. Our primary brands include Farmer Brothers™, Artisan Collection by Farmer Brothers™, Superior®, Metropolitan™ and China Mist®. Our Artisan coffee products include Direct Trade, Fair Trade Certified™, Rainforest Alliance Certified™, organic and proprietary blends. In addition, we sell whole bean and roast and ground flavored and unflavored coffee products under the Un Momento®, Collaborative Coffee™, Cain's™ and McGarvey® brands and iced and hot teas under the China Mist® brand at retail. Our roast and ground coffee products are sold in traditional packaging, including bags and fractional packages, as well as single-serve packaging. Our China Mist tea products are sold in traditional tea bags and sachets, as well as single-serve tea pods and capsules. For a description of the amount of net sales attributed to each of our product categories in fiscal 2017, 2016 and 2015, see *Management's Discussion and Analysis of Financial Conditions and Results of Operations—Results of Operations* included in Part II, Item 7 of this report.

Business Strategy

Overview

We develop great tasting products delivered with concierge service with the goal of a positive impact on our customers and the planet. 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.

In order to achieve our mission, we have had to grow existing capabilities and develop new ones over the years. More recently, we have undertaken initiatives such as, but not limited to, the following:

- develop new products in response to demographic and other trends to better compete in areas such as premium coffees and teas;
- grow through acquisitions to broaden our geographic reach and to increase our presence in the high-growth premium tea industry;
- implement a channel-based selling strategy to better address the unique needs of each customer channel, more quickly respond to industry trends, and improve sales growth while maintaining the value-add provided by the DSD delivery and service model;
- rethink aspects of our Company culture to improve productivity and employee engagement and to attract and retain talent;
- embrace sustainability across our operations, in the quality of our products, as well as, how we treat our coffee growers; and

- ensure our systems and processes provide the highest quality products at a competitive cost, protection against cyber threats, and a safe environment for our employees and partners.

We differentiate ourselves in the marketplace through our product offerings and through our customer service model, with quality and sustainability as the underpinning, which includes:

- a wide variety of coffee product offerings and packaging options across numerous brands and three quality tiers-value, premium and specialty;
- consumer-branded coffee and tea products;
- beverage equipment placement and service;
- hassle-free inventory and product procurement management;
- DSD service;
- merchandising support;
- product and menu insights; and
- a robust approach to social, environmental and economic sustainability throughout our business.

Our services provided to DSD customers are conducted primarily in person through Route Sales Representatives, or RSRs, who develop personal relationships with chefs, restaurant owners and food buyers at their delivery locations. We also provide comprehensive coffee programs to our national account customers, including private brand development, green coffee procurement, hedging, category management, sustainable sourcing and supply chain management. Through China Mist Tea-Loving Care®, we offer our customers an iced tea service that includes a diverse offering of on-trend products, brewing equipment expertly calibrated for extracting optimal flavor from our tea blends, specialized distribution, training and incentives, professional service, quality assurance, and strategic marketing support.

We distribute our owned brands primarily through our DSD network, and, in some cases, through third-party distributors, while continuing to support and grow our private label and other national account business. We also sell coffee and tea products directly to consumers through our website and China Mist's website, respectively, and sell certain products such as Un Momento®, Collaborative Coffee™, Cain's™ and McGarvey® coffees and China Mist® teas at retail.

Strategic Initiatives

We are focused on the following strategies to reduce costs, streamline our supply chain, expand the breadth of products and services we provide to our customers, broaden our geographic reach, increase our presence in high growth industries and product categories, and better position the Company to attract new customers:

Reduce Costs to Compete More Effectively

- *New Facility*. In fiscal 2017, we completed construction of and relocation to our state-of-the-art facility in Northlake, Texas. We undertook this endeavor, in part, to pursue improved production efficiency to allow us to provide a more cost-competitive offering of high-quality products. We believe the ongoing improvements in production efficiency will allow us to operate at a lower cost, generally.
- *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 the DSD Restructuring Plan to reorganize our DSD operations in an effort to realign functions into a channel-based selling organization, streamline operations, acquire certain channel specific expertise, and improve selling effectiveness and financial results. We began recognizing cost benefits associated with the restructuring in the fourth quarter of fiscal 2017 and we anticipate annualized savings from the restructuring plan beginning in the second quarter of fiscal 2018. We expect to complete the DSD Restructuring Plan by the end of the second quarter of fiscal 2018. We continue to analyze our DSD organization and evaluate other potential restructuring opportunities in light of our strategic priorities.
- *Third-Party Logistics*. During the second half of fiscal 2016, we replaced our long-haul fleet operations with third-party logistics (“3PL”). In fiscal 2017, we experienced a reduction in our fuel consumption and empty

trailer miles, while improving our intermodal and trailer cube utilization as compared to the prior fiscal year. Aligning with our 3PL partner has allowed us to more efficiently manage routing thereby reducing diesel pollution in support of our sustainability efforts. Dynamic routing is expected to allow for further reduction of our carbon emissions in fiscal 2018.

- *Vendor Managed Inventory.* During the second half of fiscal 2016, we entered into a third-party vendor managed inventory arrangement. The use of vendor managed inventory arrangements has begun to yield benefits in fiscal 2017 by enabling us to reconfigure our packaging methodology, eliminating duplication but resulting in the same strength packaging with less material, thereby reducing waste and contributing to our sustainability efforts.
- *Warehouse Management*. In the first quarter of fiscal 2017, we entered into an agreement with a third party to provide warehouse management services for our New Facility. We expect the warehouse management services to facilitate cost savings by leveraging the third party's expertise in opening new facilities, implementing lean management practices, improving performance on certain key performance metrics, and standardizing best practices.

Optimize Sales, Pricing and Portfolio of Products

- *Pricing and Products.* In fiscal 2016, we built capability to more strategically optimize our pricing strategy across product, channel, customer and geographic segments, which we continued in fiscal 2017. This process is designed to improve our average margins as well as retention rates. In addition, in fiscal 2017, we continued our prior work optimizing SKU count and identifying opportunities to consolidate suppliers to improve costs and supply chain efficiency.
- *Channel-Based Selling Organization*. Changing from a geographic to a channel-based selling strategy as part of the DSD Restructuring Plan is expected to allow us to better serve our customers and improve sales growth while maintaining the value-add provided by the DSD delivery and service model. We believe this new, channel-based sales strategy will empower our sales organization to better address the unique needs of each customer channel thereby deepening our customer relationships, allow us to create a more comprehensive customer support structure, enhance our marketing efforts, and allow us to respond more quickly to industry trends.

Strategic Investment in Assets and Evaluation of Cost Structure

- *Acquisitions.* One of our investment priorities is exploring acquisitions that we believe will enhance long-term stockholder value and complement or enhance our product, equipment, service and/or distribution offerings to existing and new customer bases. For example, in fiscal 2017, we completed the China Mist acquisition to extend our tea product offerings and give us a greater presence in the high-growth premium tea industry, and the West Coast Coffee acquisition to broaden our reach in the Northwestern United States. Additionally, on August 18, 2017, we entered into an agreement to acquire Boyd Coffee Company. The Boyd Coffee Company acquisition 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. The transaction is expected to close in the second quarter of fiscal 2018, subject to certain closing conditions. See Note 3, *Acquisitions,* and Note 26, *Subsequent Events—Boyd's Purchase Agreement,* of the Notes to Consolidated Financial Statements included in Part II, Item 8 of this report.
- *Asset Utilization.* We continue to look for ways to deploy our personnel, systems, assets and infrastructure to create or enhance stockholder value. Areas of focus have included corporate staffing and structure, methods of procurement, logistics, inventory management, supporting technology, and real estate assets.
- *Branch Consolidation and Property Sales*. In an effort to streamline our branch operations, in the fourth quarter of fiscal 2016, we sold two Northern California branch properties, with a third Northern California property under contract for sale, and we acquired a new branch facility in Hayward, California. The third Northern California property was sold in fiscal 2017. We evaluate our branch operation structure on an ongoing basis to identify opportunities to streamline the supply chain and reduce costs.

Corporate Capabilities and Alignment to Create Stockholder Value

- *Investment in Human Resources.* In February 2017, we hired David G. Robson as our Treasurer and Chief Financial Officer and Ellen D. Iobst as our Chief Operations Officer. We also promoted Scott Siers to our executive management team as Senior Vice President and General Manager—Direct Ship. Each of these individuals brings a proven track record of strategic and operational leadership capabilities in finance and/or manufacturing operations at large consumer goods organizations.

- *Commitment to Employee Wellness.* We are committed to creating a healthier and happier workforce which we believe contributes to our success. We have received certifications as a Fit-Friendly Worksite and a Blue Zone Workplace based on the activities and environment created in our workplace to support healthy living and promote wellness of our associates.
- *Employee Development.* We have invested in a Learning Management System to enable training facilitation and tracking of training modules to support the development of employees at all levels and functions within the organization. We recently completed a Talent Planning Process of all exempt level employees across the organization. We calibrated the assessment of talent and created succession charts for all critical roles to ensure we have the right talent and capabilities to support the business today and in the future.

Performance Driven Culture

- In fiscal 2017, we continued to emphasize greater alignment of employee individual goals with Company goals under our compensation plans in order to focus the entire organization on the effort to create value for our stockholders.

Drive High-Growth Product Categories and Address Broader Customer Needs

- *Introduction of Collaborative Coffee™ and Redesign of Un Momento® Branded Retail Products.* In an effort to address what we believe to be unmet consumer needs and improve margin within the retail grocery environment, in fiscal 2016 we launched the Collaborative Coffee™ brand into the retail grocery channel and completed a packaging redesign and product portfolio optimization of our Un Momento® retail branded product line. Collaborative Coffee™ offers coffee enthusiasts a super-premium, verified direct trade coffee at an approachable price. Un Momento® delivers Millennial Hispanic consumers appealing flavor variety and premium coffee at an exceptional value.
- *Growth in Premium Tea Industry.* In fiscal 2017, we increased our presence in the high-growth premium tea industry through the China Mist acquisition. In fiscal 2017, we introduced a new retail line of China Mist naturally flavored iced teas which are naturally gluten-free and blended with all-natural flavorings, and a new line of Artisan hot teas.
- *Product Development Lab.* In fiscal 2017, we opened our product development lab at the New Facility where we are focused on developing innovative products in response to industry trends and customer needs. In fiscal 2017, we developed new products including Artisan Cold Brew Coffee and Artisan Direct Trade Coffee.
- *SQF Certification.* We are committed to the highest standards in food quality and safety. We have obtained the Safety Quality Food ("SQF") certification under the Global Food Safety Initiative in our Portland and Houston facilities and are in the process of obtaining the SQF certification for the New Facility.

Expand Sustainability Leadership

- *Sustainability.* We believe that our collective efforts in measuring our social and environmental impact, creating programs for waste, water and energy reduction, promoting partnerships in our supply chain that aim at supply chain stability and food security, and focusing on employee engagement place us in a unique position to help retailers and foodservice operators create differentiated coffee and tea programs that can include sustainable supply chains, direct trade purchasing, training and technical assistance, recycling and composting networks, and packaging material reductions. During fiscal 2017, we submitted our third third-party verified Carbon Disclosure Project survey for Scope 1, 2 and 3 emissions (direct emissions, indirect emissions from consumption of purchased electricity, heat or steam and other indirect emissions). Further, we published sustainability reports based on the Global Reporting Initiative's core compliance standard in fiscal 2017 and 2016 relating to our fiscal 2016 and 2015 operations, respectively. In addition, China Mist is a member of the Ethical Tea Partnership (the "ETP"), a non-profit organization that works to improve the sustainability of the tea sector, the lives of tea workers and farmers, and the environment in which tea is produced. As a member of the ETP, China Mist sources all its tea from tea plantations that are certified, monitored, and regularly audited by the ETP.

- *LEED® Certified Facilities.* Our Portland production and distribution facility was one of the first in the Northwest to achieve LEED® Silver Certification. We anticipate that our corporate offices at the New Facility will also be LEED® certified.

- *Expansion of DTVS Program.* In fiscal 2017, we completed our second third-party audit and verification of our DTVS program for sourcing green coffee. DTVS is an impact-based product or raw material sourcing framework that utilizes data-based sustainability metrics to influence an inclusive, collaborative approach to sustainability along the supply chain. To evaluate whether coffee is DTVS, we follow an outcome-based evaluation framework. The outcome of this evaluation weighs on where we invest our resources within our supply chain and has led to an increased level of transparency for us. DTVS represents a growing part of our coffee portfolio.

- *Green Coffee Traceability.* We are committed to the inclusion of more sustainably-sourced coffees in our supply chain. Regulatory and reputational risks can increase when customers, roasters and suppliers cannot see back into their supply chain. To address these concerns, as well as to deepen our commitment to the longevity of the coffee industry, in fiscal 2017 we began tracking traceability levels from all green coffee suppliers on a per contract basis.

- *Supplier Sustainability.* We are committed to working with suppliers who share our social, environmental and economic sustainability goals. Regulatory and reputational risks can increase when suppliers are not held to the same strict standards to which we hold ourselves. To address this concern, in fiscal 2017, we surveyed all green coffee suppliers along with our top non-raw coffee suppliers to assess their social, environmental, and economic sustainability practices and alignment with the United Nations Global Compact, a United Nations initiative to encourage businesses worldwide to adopt sustainable and socially responsible policies.

Charitable Activities

We view charitable involvement as a part of our corporate responsibility and sustainability model: Social, Environmental, and Economic Development, or SEED. We endorse and support communities where our customers, employees, businesses, and suppliers are located, and who have enthusiastically supported us over the past 100 years. Our objective is to provide support toward a mission of supply chain stability with a focus on food security.

Recipient organizations include those with strong local and regional networks that ensure that families have access to nutritious food. Donations may take the form of corporate cash contributions, product donations, employee volunteerism, and workplace giving (with or without matching contributions).

- Recipient organizations include Feeding America, Ronald McDonald House, and local food banks.

- We support industry organizations such as World Coffee Research, which commits to grow, protect, and enhance supplies of quality coffee while improving the livelihoods of the families who produce it, and the Specialty Coffee Association ("SCA") Sustainability Council and the Coalition for Coffee Communities, which are focused on sustainability in coffee growing regions.

- Our employee-driven CAFÉ Crew organizes employee involvement at local charities and fund raisers, including running in the Chicago Marathon in support of Team Ronald McDonald House, riding in the Ride Against Hunger supported by Tarrant Area Food Bank, supporting delivery for Meals on Wheels, and hosting local food drives.

- All of our usable and near expiring products or products with damaged packaging are donated to Feeding America affiliated food banks nationwide, in an effort to fully eliminate edible food waste from the landfill.

Industry and Market Leadership

We have made the following investments in an effort to ensure we are well-positioned within the industry to take advantage of category trends, industry insights, and general coffee and tea knowledge to grow our business:

- *Coffee Industry Leadership.* Through our dedication to the craft of sourcing, blending and roasting coffee, and our participation and/or leadership positions with the SCA, National Coffee Association, Coalition for Coffee Communities, International Women's Coffee Alliance, International Foodservice Manufacturers Association, Pacific Coast Coffee Association, Roasters Guild and World Coffee Research, we work to help shape the future of the coffee industry. We believe that due to our commitment to the industry, large retail and foodservice operators are drawn to working with us. We were among the first coffee roasters in the nation to receive SCA certification of a state-of-the-art coffee lab and operate Public Domain®, a specialty coffeehouse in Portland, Oregon. We plan to submit our product development lab at the New Facility for SCA certification.
- *Market Insight and Consumer Research.* We have developed a market insight capability internally that reinforces our business-to-business positioning as a thought leader in the coffee and tea industries. We provide trend insights that help our customers create winning products and integrated marketing strategies. Within this, we are focused on understanding key demographic groups such as Millennials and Hispanics, and key channel trends.

Raw Materials and Supplies

Our primary raw material is green coffee, an agricultural commodity traded on the Commodities and Futures Exchange that is subject to price fluctuations. Over the past five years, coffee "C" market price per pound ranged from approximately $1.02 to $2.22. The coffee "C" market price as of June 30, 2017 and 2016 was $1.26 and $1.46 per pound, respectively. Our principal packaging materials include cartonboard, corrugated and plastic. We also use a significant amount of electricity, natural gas, and other energy sources to operate our production and distribution facilities.

We purchase green coffee beans from multiple coffee regions around the world. Coffee "C" market prices in fiscal 2017 traded in a 60 cent range during the year, but averaged near the historical average for the past five years. There can be no assurance that green coffee prices will remain at these levels in the future. Some of the Arabica coffee beans we purchase do not trade directly on the commodity markets. Rather, we purchase these coffee beans on a negotiated basis from coffee brokers, exporters and growers, including Direct Trade, DTVS and Fair Trade Certified™ sources and Rainforest Alliance Certified™ farms. Fair Trade Certified™ provides an assurance that farmer groups are receiving the Fair Trade minimum price and an additional premium for certified organic products through arrangements with cooperatives. Direct Trade and DTVS products provide similar assurance except that the arrangements are provided directly to farmers instead of through brokers in an effort to promote investment in better and more sustainable farming practices as well as to ensure a fairer price. Rainforest Alliance Certified™ coffee is grown using methods that help promote and preserve biodiversity, conserve scarce natural resources, and help farmers build sustainable lives. Our business model strives to reduce the impact of green coffee price fluctuations on our financial results and to protect and stabilize our margins, principally through customer arrangements and derivative instruments, as further explained in Note 8, *Derivative Instruments*, of the Notes to Consolidated Financial Statements included in Part II, Item 8 of this report.

Intellectual Property

We own a number of United States trademarks and service marks that have been registered with the United States Patent and Trademark Office. We also own other trademarks and service marks for which we have filed applications for U.S. registration. We have licenses to use certain trademarks outside of the United States and to certain product formulas, all subject to the terms of the agreements under which such licenses are granted. We believe our trademarks and service marks are integral to customer identification of our products. It is not possible to assess the impact of the loss of such identification. Depending on the jurisdiction, trademarks are generally valid as long as they are in use and/or their registrations are properly maintained and they have not been found to have become generic. Registrations of trademarks can also generally be renewed indefinitely as long as the trademarks are in use. In addition, we own numerous copyrights, registered and unregistered, registered domain names, and proprietary trade secrets, technology, know-how processes and other proprietary rights that are not registered.

Seasonality

We experience some seasonal influences. The winter months are generally the strongest sales months. However, our product line and geographic diversity provide some sales stability during the warmer months when coffee consumption ordinarily decreases. Additionally, we usually experience an increase in sales during the summer and early fall months from seasonal businesses located in vacation areas and from grocery retailers ramping up inventory for the winter selling season.

Because of the seasonality of our business, results for any quarter are not necessarily indicative of the results that may be achieved for the full fiscal year.

Distribution

We operate production facilities in Northlake, Texas; 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 450 delivery routes and 114 branch warehouses as of June 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 by our RSRs who generally are responsible for soliciting, selling and collecting from and otherwise maintaining our customer accounts. Our DSD business includes office coffee services whereby we provide office coffee and tea products, including a variety of coffee brands and blends, brewing and beverage equipment, and foodservice supplies directly to offices. We operate a large fleet of trucks and other vehicles to distribute and deliver our products, and we rely on 3PL service providers for our long-haul distribution. We maintain inventory levels at each branch warehouse to promote minimal interruption in supply. We also sell coffee and tea products directly to consumers through our website and China Mist's website, respectively.

Customers

We serve 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 and consumer-branded coffee and tea products. Although no single customer accounted for 10% or more of our net sales in any of the last three fiscal years, we have several large national account customers, the loss of or reduction in sales to one or more of which would be likely to have a material adverse effect on our results of operations. During fiscal 2017, our top five customers accounted for approximately 21% of our net sales.

Most of our customers rely on us for distribution; however, some of our customers use third-party distribution or conduct their own distribution. Some of our customers are “price” buyers, seeking the low-cost provider with little concern about service, while others find great value in the service programs we provide. We offer a full return policy to ensure satisfaction and extended terms for those customers who qualify. Historically, our product returns have not been significant.

Competition

The coffee industry is highly competitive, including with respect to price, product quality, service, convenience and innovation, and competition could become increasingly more intense due to the relatively low barriers to entry. We face competition from many sources, including the institutional foodservice divisions of multi-national manufacturers of retail products many of which have greater financial and other resources than we do, such as The J.M. Smucker Company (Folgers Coffee), Dunkin' Brands Group, Inc., The Kraft Heinz Company (Maxwell House Coffee) and Massimo Zanetti Beverage, wholesale foodservice distributors such as Sysco Corporation and US Foods, regional coffee roasters such as S&D Coffee & Tea (Cott Corporation) and Boyd Coffee Company, specialty coffee suppliers such as Keurig Green Mountain, Inc., Rogers Family Company, Distant Lands Coffee, Mother Parkers Tea & Coffee Inc., Starbucks Corporation and Peet’s Coffee & Tea, and retail brand beverage manufacturers. As many of our customers are small foodservice operators, we also compete with cash and carry and club stores (physical and on-line) such as Costco, Sam’s Club and Restaurant Depot and on-line retailers such as Amazon. We also face competition from growth in the single-serve, ready-to-drink coffee beverage and cold-brewed coffee channels, as well as competition from other beverages, such as soft drinks (including highly caffeinated energy drinks), juices, bottled water, teas and other beverages.

We believe our longevity, product quality and offerings, national distribution network, industry and sustainability leadership, market insight, comprehensive approach to customer relationship management, and superior customer service are the major factors that differentiate us from our competitors. We compete well when these factors are valued by our customers, and we are less effective when only price matters. Our customer base is price sensitive, and we are often faced with price competition.

Working Capital

We finance our operations internally and through borrowings under our existing credit facility. For a description of our liquidity and capital resources, see *Results of Operations* and *Liquidity, Capital Resources and Financial Condition* included in Part II, Item 7 of this report and Note 19, *Other Current Liabilities*, of the Notes to Consolidated Financial Statements included in Part II, Item 8 of this report. Our working capital needs are greater in the months leading up to our peak sales period during the winter months, which we typically finance with cash flows from operations. In anticipation of our peak sales period, we typically increase inventory in the first quarter of the fiscal year. We use various techniques including demand forecasting and planning to determine appropriate inventory levels for seasonal demand.

Regulatory Environment

The conduct of our businesses, including, among other things, the production, storage, distribution, sale, labeling, quality and safety of our products, and occupational safety and health practices, are subject to various laws and regulations administered by federal, state and local governmental agencies in the United States. Our facilities are subject to various laws and regulations regarding the release of material into the environment and the protection of the environment in other ways. We are not a party to any material legal proceedings arising under these regulations except as described in Note 23, *Commitments and Contingencies*, of the Notes to Consolidated Financial Statements included in Part II, Item 8 of this report.

Employees

On June 30, 2017, we employed approximately 1,610 employees, 442 of whom are subject to collective bargaining agreements.

Other

The nature of our business does not provide for maintenance of or reliance upon a sales backlog. None of our business is subject to renegotiation of profits or termination of contracts or subcontracts at the election of the government. We have no material revenues from foreign operations or long-lived assets located in foreign countries.

Available Information

Our Internet website address is http://www.farmerbros.com (the website address is not intended to function as a hyperlink, and the information contained in our website is not intended to be part of this filing), where we make available, free of charge, through a link maintained on our website under the heading “Investor Relations—SEC Filings,” copies of our annual report on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K, including amendments thereto, as soon as reasonably practicable after filing such material electronically or otherwise furnishing it to the SEC. Copies of our Corporate Governance Guidelines, the Charters of the Audit, Compensation, and Nominating and Corporate Governance Committees of the Board of Directors, and our Code of Conduct and Ethics can also be found on our website.

Item 1A. Risk Factors

You should carefully consider each of the following factors, as well as the other information in this report, in evaluating our business and prospects. The risks and uncertainties described below are not the only ones we face. Additional risks and uncertainties not presently known to us or that we currently consider immaterial may also negatively affect our business operations. If any of the following risks actually occurs, our business, financial condition and results of operations could be harmed. In that case, the trading price of our common stock could decline.

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

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

Increases in the cost of green coffee could reduce our gross margin and profit.

Our primary raw material is green coffee, an agricultural commodity traded on the Commodities and Futures Exchange that is subject to price fluctuations. Although coffee “C” market prices in fiscal 2017 averaged near the historical average for the past five years, there can be no assurance that green coffee prices will remain at these levels in the future. The supply and price of green coffee may be impacted by, among other things, weather, natural disasters, real or perceived supply shortages, crop disease (such as coffee rust) and pests, general increase in farm inputs and costs of production, political and economic conditions, labor actions, foreign currency fluctuations, armed conflict in coffee producing nations, acts of terrorism, government actions and trade barriers, and the actions of producer organizations that have historically attempted to influence green coffee prices through agreements establishing export quotas or by restricting coffee supplies. Speculative trading in coffee commodities can also influence coffee prices. Additionally, specialty green coffees tend to trade on a negotiated basis at a premium above the “C” market price which premium, depending on the supply and demand at the time of purchase, may be significant. Increases in the “C” market price may also impact our ability to enter into green coffee purchase commitments at a fixed price or at a price to be fixed whereby the price at which the base “C” market price will be fixed has not yet been established. There can be no assurance that our purchasing practices and hedging activities will mitigate future price risk. As a result, increases in the cost of green coffee could have an adverse impact on our profitability.

Our efforts to secure an adequate supply of quality coffees and other raw materials may be unsuccessful and impact our ability to supply our customers or expose us to commodity price risk.

Maintaining a steady supply of green coffee is essential to keeping inventory levels low while securing sufficient stock to meet customer needs. We rely upon our ongoing relationships with our key suppliers to support our operations. Some of the Arabica coffee beans we purchase do not trade directly on the commodity markets. Rather, we purchase these coffee beans on a negotiated basis from coffee brokers, exporters and growers. If any of these supply relationships deteriorate or we are unable to renegotiate contracts with suppliers (with similar or more favorable terms) or find alternative sources for supply, we may be unable to procure a sufficient quantity of high-quality coffee beans and other raw materials at prices acceptable to us or at all which could negatively affect our results of operations. Further, non-performance by suppliers could expose us to credit and supply risk under coffee purchase commitments for delivery in the future. In addition, the political situation in many of the Arabica coffee growing regions, including Africa, Indonesia, and Central and South America, can be unstable, and such instability could affect our ability to purchase coffee from those regions. If green coffee beans from a region become unavailable or prohibitively expensive, we could be forced to use alternative coffee beans or discontinue certain blends, which could adversely impact our sales. A raw material shortage could result in disruptions in our ability to deliver products to our customers, a deterioration of our relationship with our customers, decreased revenues or could impair our ability to expand our business.

Changes in green coffee commodity prices may not be immediately reflected in our cost of goods sold and may increase volatility in our results.

We purchase over-the-counter coffee derivative instruments to enable us to lock in the price of green coffee commodity purchases on our behalf or at the direction of our customers under commodity-based pricing arrangements. Although we account for certain coffee-related derivative instruments as accounting hedges, the portion of open hedging contracts that are not 100% effective as cash flow hedges and those that are not designated as accounting hedges are marked to period-end market price and unrealized gains or losses based on whether the period-end market price was higher or lower than the price we locked-in are recognized in our financial results at the end of each reporting period. If the period-end green coffee commodity prices decline below our locked in price for these derivative instruments, we will be required to recognize the resulting losses in our results of operations. Further, changes in commodity prices and the number of coffee-related derivative instruments held could have a significant impact on cash deposit requirements under our broker and counterparty agreements. Such transactions could cause volatility in our results because the recognition of losses and the offsetting gains may occur in different fiscal periods. Rapid, sharp decreases in the cost of green coffee could also force us to lower sales prices before realizing cost reductions in our green coffee inventory.

Our business and results of operations are highly dependent upon sales of roast and ground coffee products. Any decrease in the demand for coffee could materially adversely affect our business and financial results.

Sales of roast and ground coffee represented approximately 63%, 61% and 61% of our net sales in the fiscal years ended June 30, 2017, 2016 and 2015, respectively. Demand for our products is affected by, among other things, consumer tastes and preferences, global economic conditions, demographic trends and competing products. Any decrease in demand for our roast and ground coffee products would cause our sales and profitability to decline.

If we are unable to respond successfully to changing consumer preferences and trends related to our products, we may not be able to maintain or increase our revenues and profits.

Consumer preferences may change due to a variety of factors, including changes in consumer demographics, increasing awareness of the environmental and social effects of product production, social trends, negative publicity, economic downturn or other factors. Demand for our products depends on our ability to identify and offer products that appeal to these shifting preferences. If we fail to anticipate accurately and respond to trends and shifts in consumer preferences by adjusting the mix of existing product offerings and developing new products and categories, our business and results of operations could be negatively affected. We may not be successful in responding to changing consumer preferences, and some of our competitors may be better able to respond to these changes, either of which could negatively affect our business and financial performance.

Price increases may not be sufficient to offset cost increases or may result in volume declines which could adversely impact our revenues and gross margin.

Customers generally pay for our products based either on an announced price schedule or under commodity-based pricing arrangements whereby the changes in green coffee commodity and other input costs are passed through to the customer. The pricing schedule is generally subject to adjustment, either on contractual terms or in accordance with periodic product price adjustments, which may result in a lag in our ability to correlate the changes in our prices with fluctuations in the cost of raw materials and other inputs. Depending on contractual restrictions, we may be unable to pass some or all of these cost increases to our customers by increasing the selling prices of our products. If we are not successful in increasing selling prices sufficiently to offset increased raw material and other input costs, including packaging, direct labor and other overhead, or if our sales volume decreases significantly as a result of price increases, our results of operations and financial condition may be adversely affected.

We rely on co-packers to provide our supply of tea, spice and culinary products. Any failure by co-packers to fulfill their obligations or any termination or renegotiation of our co-pack agreements could adversely affect our results of operations.

We have a number of supply agreements with co-packers that require them to provide us with specific finished goods, including tea, spice and culinary products. For some of our products we essentially rely upon a single co-packer as our sole-source for the product. The failure for any reason of any such sole-source or other co-packer to fulfill its obligations under the applicable agreements with us, including the failure by our co-packers to comply with food safety, environmental, or other laws and regulations, or the termination or renegotiation of any such co-pack agreement could result in disruptions to our supply of finished goods, cause damage to our reputation and brands, and have an adverse effect on our results of operations. Additionally, our co-packers are subject to risk, including labor disputes, union organizing activities, financial liquidity, inclement weather, natural disasters, supply constraints, and general economic and political conditions that could limit their ability to timely provide us with acceptable products, which could disrupt our supply of finished goods, or require that we incur additional expense by providing financial accommodations to the co-packer or taking other steps to seek to minimize or avoid supply disruption, such as establishing a new co-pack arrangement with another provider. A new co-pack arrangement may not be available on terms as favorable to us as our existing co-pack arrangements, or at all.

Competition in the coffee industry and beverage category could impact our profitability.

The coffee industry is highly competitive, including with respect to price, product quality, service, convenience and innovation, and competition could become increasingly more intense due to the relatively low barriers to entry. We face competition from many sources, including the institutional foodservice divisions of multi-national manufacturers of retail products many of which have greater financial and other resources than we do, wholesale foodservice distributors, regional coffee roasters, specialty coffee suppliers, and retail brand beverage manufacturers. As many of our customers are small foodservice operators, we also compete with cash and carry and club stores and on-line retailers. If we do not succeed in differentiating ourselves through, among other things, our product and service offerings, then our competitive position may be weakened and our sales and profitability may be materially adversely affected. If, due to competitive pressures or contractual restrictions, we are required to reduce prices to attract market share or we are unable to increase prices in response to commodity and other cost increases, our results of operations could be adversely affected if we are not able to increase sales volumes to offset the margin declines. If our retail customers do not allocate adequate shelf space for the beverages we supply, we could experience a decline in our product volumes. Increased competition in the single-serve, ready-to-drink coffee beverage and cold-brewed coffee channels, as well as competition from other beverages, such as soft drinks (including highly caffeinated energy drinks), juices, bottled water, teas and other beverages, may also have an adverse impact on sales of our coffee products.

We face exposure to other commodity cost fluctuations, which could impact our margins and profitability.

In addition to green coffee, we are exposed to cost fluctuations in other commodities under supply arrangements, including raw materials, tea, spices, and packaging materials such as cartonboard, corrugated and plastic. We purchase certain ingredients, finished goods and packaging materials under cost-plus supply arrangements whereby our cost may increase based on an increase in the underlying commodity price or changes in production costs. The cost of these commodities depend on various factors beyond our control, including economic and political conditions, foreign currency fluctuations, and global weather patterns. The changes in the prices we pay may take place on a monthly, quarterly or annual basis depending on the product and supplier. Unlike green coffee, we do not purchase any derivative instruments to hedge cost fluctuations in these other commodities. As a result, to the extent we are unable to pass along such costs to our customers through price increases, our margins and profitability will decrease.

Increase in the cost, disruption of supply or shortage of energy or fuel could affect our profitability.

We operate a large fleet of trucks and other vehicles to distribute and deliver our products, and we rely on 3PL service providers for our long-haul distribution. Certain products are also distributed by third parties or direct shipped via common carrier. In addition, we use a significant amount of electricity, natural gas and other energy sources to operate our production and distribution facilities. An increase in the price, disruption of supply or shortage of fuel and other energy sources that may be caused by increasing demand or by events such as natural disasters, power outages, or the like, could lead to higher electricity, transportation and other commodity costs, including the pass-through of such costs under our agreements with 3PL service providers and other suppliers, that could negatively impact our profitability.

Loss of business from one or more of our large national account customers and efforts by these customers to improve their profitability could have a material adverse effect on our operations.

We have several large national account customers, the loss of or reduction in sales to one or more of which is likely to have a material adverse effect on our results of operations. During fiscal 2017, our top five customers accounted for approximately 21% of our net sales. We generally do not have long-term contracts with our customers. Accordingly, our customers can stop purchasing our products at any time without penalty and are free to purchase products from our competitors. There can be no assurance that our customers will continue to purchase our products in the same quantities as they have in the past. In addition, because of the competitive environment facing many of our customers and industry consolidation which has produced large customers with increased buying power and negotiating strength, our customers have increasingly sought to improve their profitability through pricing concessions and more favorable trade terms. To the extent we provide pricing concessions or favorable trade terms, our margins would be reduced. If we are unable to continue to offer terms that are acceptable to our customers, they may reduce purchases of our products which would adversely affect our financial performance. Requirements that may be imposed on us by our customers, such as sustainability, inventory management or product specification requirements, may have an adverse effect on our results of operations. Additionally, our customers may face financial difficulties, bankruptcy or other business disruptions that may impact their operations and their purchases from us and may affect their ability to pay us for products which could adversely affect our sales and profitability.

We rely on information technology and are dependent on enterprise resource planning software in our operations. Any material failure, inadequacy, interruption or security failure of that technology could affect our ability to effectively operate our business.

Our ability to effectively manage our business, maintain financial accuracy and efficiency, comply with regulatory, financial reporting, legal and tax requirements, and coordinate the production, distribution and sale of our products depends significantly on the reliability, capacity and integrity of information technology systems on which we rely. We are also dependent on enterprise resource planning software for some of our information technology systems and support. The failure of these systems to operate effectively and continuously, due to, among other things, natural disasters, terrorist attacks, software, equipment or telecommunications failures, issues with performance by third-party providers, processing errors, computer viruses, hackers, cyberattack or other security issues, supplier defects, power outages, inadequate or ineffective redundancy, or problems with transitioning to upgraded or replacement systems, could result in delays in processing replenishment orders from our branch warehouses, an inability to record input costs or product sales accurately or at all, an impaired understanding of our operations and results, an increase in operating expenses, reduced operational efficiency, loss of customers or other business disruptions, all of which could negatively affect our business and results of operations. Security, backup and disaster recovery measures may not be adequate or implemented properly to avoid such disruptions or failures. Failure to effectively allocate and manage our resources to support our information technology infrastructure could result in transaction errors, processing inefficiencies, the loss of customers, business disruptions, or the loss of sensitive or confidential data through security breach or otherwise. Significant capital investments could be required to remediate any potential problems or to otherwise protect against security breaches or to address problems caused by breaches.

If we are unable to securely maintain confidential information relating to our customers, suppliers, employees or our Company, we could be subject to negative publicity, costly government enforcement actions or private litigation, which could damage our business reputation and negatively affect our results of operations.

The protection of our customer, supplier, employee, and Company data is critical. If we experience a data security breach of any kind, we may experience a loss of critical data, suffer financial or reputational damage or penalties, or face exposure to negative publicity, government enforcement actions, private litigation or costly response measures. In addition, our reputation within the business community and with our customers and suppliers may be affected, which could result in our customers and suppliers ceasing to do business with us which could adversely affect our business and results of operations. Our insurance policies do not cover losses caused by security breaches.

Interruption of our supply chain, including a disruption in operations at any of our production and distribution facilities, could affect our ability to manufacture or distribute products and could adversely affect our business and sales.

We rely on a limited number of production and distribution facilities. A disruption in operations at any of these facilities or any other disruption in our supply chain relating to green coffee supply, service by our 3PL service providers or common carriers, supply of raw materials and finished goods under co-pack or vendor-managed inventory arrangements, or otherwise, whether as a result of casualty, natural disaster, power loss, telecommunications failure, terrorism, labor shortages, contractual disputes, weather, environmental incident, pandemic, strikes, the financial or operational instability of key suppliers, distributors and transportation providers, or other causes, could significantly impair our ability to operate our business and adversely affect our relationship with our customers. In such event, we may also be forced to contract with alternative, and possibly more expensive, suppliers or service providers, which would adversely affect our profitability. Alternative facilities with sufficient capacity or capabilities may not be available, may cost substantially more or may take a significant time to start production, each of which could negatively impact our business and results of operations. Additionally, the majority of our green coffee comes through the Ports of Houston and Seattle. Any interruption to port operations, highway arteries, gas mains or electrical service in the areas where we operate or obtain products or inventory could restrict our ability to manufacture and distribute our products for sale and would adversely impact our business.

Our failure to accurately forecast demand for our products or quickly respond to forecast changes could have an adverse effect on our sales.

Based upon our forecasts of customer demand, we set target levels for the manufacture of our products and for the purchase of green coffee in advance of customer orders. If our forecasts exceed demand, we could experience excess inventory and manufacturing capacity and/or price decreases or we could be required to write-down expired or obsolete inventory, which could adversely impact our financial performance. Alternatively, if demand for our products increases more than we currently forecast and we are unable to satisfy increases in demand through our current manufacturing capacity or appropriate third-party providers, or we are unable to obtain sufficient raw materials inventories under vendor-managed inventory arrangements or otherwise, we may not be able to satisfy customer demand for our products which could have an adverse impact on our sales and reputation.

We depend on the expertise of key personnel. The unexpected loss of one or more of these key employees or difficulty recruiting and retaining qualified personnel could have a material adverse effect on our operations and competitive position.

Our success largely depends on the efforts and abilities of our executive officers and other key personnel. There is limited management depth in certain key positions throughout the Company. We must continue to recruit, retain, motivate and develop management and other employees sufficiently to maintain our current business and support our projected growth and strategic initiatives. This may require significant investments in training, coaching and other career development and retention activities. Activities related to identifying, recruiting, hiring and integrating qualified individuals require significant time and attention. We may also need to invest significant amounts of cash and equity to attract talented new employees, and we may never realize returns on these investments. Competition for talent is intense, and we might not be able to identify and hire the personnel we need to continue to evolve and grow our business. If we are not able to effectively retain and grow our talent, our ability to achieve our strategic objectives will be adversely affected, which may impact our financial condition and results of operations. Further, any unplanned turnover or failure to develop or implement an adequate succession plan for our CEO, CFO, senior management and other key employees, could deplete our institutional knowledge base, erode our competitive advantage, and negatively affect our business, financial condition and results of operations. We do not maintain key person life insurance policies on any of our executive officers.

Investment in acquisitions could disrupt our ongoing business, not result in the anticipated benefits and present risks not originally contemplated.

We have invested and in the future may invest in acquisitions which may involve risks and uncertainties, including the risks involved with entering new product categories or geographic regions, contingent risks associated with the past operations of or other unanticipated problems arising in any acquired business, limited warranties and indemnities from the sellers of acquired businesses, the challenges of achieving strategic objectives and other benefits expected from acquisitions, failure to implement our business plan for the combined business, the diversion of our attention and resources from our operations and other initiatives, the potential impairment of acquired assets and liabilities, the performance of underlying products, capabilities or technologies, inconsistencies in standards, controls, procedures, policies and compensation structures of the acquired businesses and our business, the potential loss of key personnel, customers and suppliers of the acquired businesses, and other unanticipated issues, expenses and liabilities. The success of any such acquisitions will depend, in part, on our ability to realize all or some of the anticipated benefits from integrating the acquired businesses with our existing businesses, and to achieve revenue and cost synergies. The integration process may be complex, time consuming, costly, and subject to uncertainties and contingencies many of which may be beyond our control and difficult to predict, including issues in integrating financial, manufacturing, logistics, information, communications and other systems. Additionally, any such acquisitions may result in potentially dilutive issuances of our equity securities, the incurrence of additional debt, restructuring charges and the recognition of significant charges for depreciation and amortization related to intangible assets.

There can be no assurance that any such acquisitions will be identified or that we will be able to consummate any such acquisitions on terms favorable to us or at all, or that we will be able to maintain the levels of revenue, earnings or operating efficiencies expected. Furthermore, there can be no assurance that the synergies from any such acquisitions will be achieved within the anticipated time frame or at all, or that such synergies will not be offset by costs incurred in consummating such acquisitions or in integrating the acquired businesses, increases in expenses, operating losses or adverse business results. In addition, actual results may differ from pro forma financial information of the combined companies due to changes in the fair value of assets acquired and liabilities assumed, changes in assumptions used to form estimates, differences in accounting policies between the companies, and completion of purchase accounting. If any such acquisitions are not successful, our business and results of operations could be adversely affected.

We may devote a significant amount of our management's attention and resources to our ongoing review of strategic opportunities, and we may not be able to fully realize the potential benefit of any such opportunities that we pursue.

We may from time to time be engaged in evaluating strategic opportunities to complement our growth strategy, and we may engage in discussions that may result in one or more transactions. Although there would be uncertainty that any of these discussions would result in definitive agreements or the completion of any transaction, we may devote a significant amount of our management's attention and resources to evaluating and pursuing a transaction or opportunity, which could negatively affect our operations. In addition, we may incur significant costs in connection with evaluating and pursuing strategic opportunities, regardless of whether any transaction is completed. We may not fully realize the potential benefits of any transactions that we may pursue.

Increased severe weather patterns may increase commodity costs, damage our facilities and disrupt our production capabilities and supply chain.

There is increasing concern that a gradual increase in global average temperatures due to increased concentration of carbon dioxide and other greenhouse gases in the atmosphere have caused and will continue to cause significant changes in weather patterns around the globe and an increase in the frequency and severity of extreme weather events. Major weather phenomena like El Niño and La Niña are dramatically affecting coffee growing countries. The wet and dry seasons are becoming unpredictable in timing and duration, causing improper development of the coffee cherries. A large portion of the global coffee supply comes from Brazil and so the climate and growing conditions in that country carry heightened importance. Decreased agricultural productivity in certain regions as a result of changing weather patterns may affect the quality, limit the availability or increase the cost of key agricultural commodities, such as green coffee and tea, which are important ingredients for our products. We have experienced storm-related damages and disruptions to our operations in the recent past related to both winter storms as well as heavy rainfall and flooding. Increased frequency or duration of extreme weather conditions could also damage our facilities, impair production capabilities, disrupt our supply chain or impact demand for our products. As a result, the effects of climate change could have a long-term adverse impact on our business and results of operations.

Volatility in the equity markets or interest rate fluctuations could substantially increase our pension funding requirements and negatively impact our financial position.

At June 30, 2017, the projected benefit obligation under our single employer defined benefit pension plans exceeded the fair value of plan assets. The difference between the projected benefit obligation and the fair value of plan assets, or the funded status of the plans, significantly affects the net periodic benefit cost and ongoing funding requirements of those plans. Among other factors, changes in interest rates, mortality rates, early retirement rates, mix of plan asset investments, investment returns and the market value of plan assets can affect the level of plan funding, cause volatility in the net periodic benefit cost, increase our future funding requirements and require payments to the Pension Benefit Guaranty Corporation. In addition, facility closings may trigger cash payments or previously unrecognized obligations under our defined benefit pension plans, and the cost of such liabilities may be significant or may compromise our ability to close facilities or otherwise conduct cost reduction initiatives on time and within budget. A significant increase in future funding requirements could have a negative impact on our financial condition and results of operations.

Our sales and distribution network is costly to maintain.

Our sales and distribution network requires a large investment to maintain and operate. Costs include the fluctuating cost of gasoline, diesel and oil, costs associated with managing, purchasing, leasing, maintaining and insuring a fleet of delivery vehicles, the cost of maintaining distribution centers and branch warehouses throughout the country, the cost of our long-haul distribution and 3PL service providers, and the cost of hiring, training and managing our sales force. Many of these costs are beyond our control, and many are fixed rather than variable. Some competitors use alternate methods of distribution that fix, control, reduce or eliminate many of the costs associated with our method of distribution.

We are self-insured and our reserves may not be sufficient to cover future claims.

We are self-insured for many risks up to significant deductible amounts. The premiums associated with our insurance continue to increase. General liability, fire, workers' compensation, directors and officers liability, life, employee medical, dental and vision, and automobile risks present a large potential liability. While we accrue for this liability based on historical claims experience, future claims may exceed claims we have incurred in the past. Should a different number of claims occur compared to what was estimated or the cost of the claims increase beyond what was anticipated, reserves recorded may not be sufficient and the accruals may need to be adjusted accordingly in future periods.

Competitors may be able to duplicate our roasting and blending methods, which could harm our competitive position.

We consider our roasting and blending methods essential to the flavor and richness of our coffees and, therefore, essential to our brand. Because our roasting methods cannot be patented, we would be unable to prevent competitors from copying these methods if such methods became known. If our competitors copy our roasts or blends, the value of our brand may be diminished, and we may lose customers to our competitors. In addition, competitors may be able to develop roasting or blending methods that are more advanced than our production methods, which may also harm our competitive position.

Failure to protect our intellectual property may adversely affect our competitive position.

We possess intellectual property that is important to our business. This intellectual property includes brand names, trademarks, trade names, service marks, copyrights, recipes, product formulas, business processes and other trade secrets. Our success depends, in part, on our ability to protect our intellectual property. We cannot be certain that the steps we take to protect our rights will be sufficient or that others will not infringe or misappropriate our rights. If we come into conflict with third parties over intellectual property rights it may disrupt our business, divert management attention from business operations and consume significant resources. If we are found to infringe on the intellectual property rights of others, we could incur significant damages, be enjoined from continuing to manufacture, market or use the affected product, or be required to obtain a license to continue manufacturing or using the affected product. Changing products or processes to avoid infringing the rights of others may be costly or impracticable, and a license may be unavailable on reasonable terms, if at all.

Employee strikes and other labor-related disruptions may adversely affect our operations.

We have union contracts relating to a significant portion of our workforce. Although we believe union relations have been amicable in the past, there is no assurance that this will continue in the future or that we will not be subject to future union organizing activity. There are potential adverse effects of labor disputes with our own employees or by others who provide warehousing, transportation (lines, truck drivers, 3PL service providers) or cargo handling (longshoremen), both domestic and foreign, of our raw materials or other products. Strikes or work stoppages or other business interruptions could occur if we are unable to renew collective bargaining agreements on satisfactory terms or enter into new agreements on satisfactory terms, which could impair manufacturing and distribution of our products or result in a loss of sales, which could adversely impact our business, financial condition or results of operations. The terms and conditions of existing, renegotiated or new collective bargaining agreements could also increase our costs or otherwise affect our ability to fully implement future operational changes to enhance our efficiency or to adapt to changing business needs or strategy.

We could face significant withdrawal liability if we withdraw from participation in the multiemployer pension plans in which we participate.

We participate in two multiemployer defined benefit pension plans and one multiemployer defined contribution pension plan for certain union employees. We make periodic contributions to these plans to allow them to meet their pension benefit obligations to their participants. Our required contributions to these plans could increase due to a number of factors, including the funded status of the plans and the level of our ongoing participation in these plans. Our risk of such increased payments may be greater if any of the participating employers in these underfunded plans withdraws from the plan due to insolvency and is not able to contribute an amount sufficient to fund the unfunded liabilities associated with its participants in the plan. In the event we withdraw from participation in one or more of these plans, we could be required to make an additional lump-sum contribution to the plan. Our withdrawal liability for any multiemployer pension plan would depend on the extent of the plan's funding of vested benefits. On July 13, 2017, we received correspondence from the Western Conference of Teamsters Pension Trust (the "WCT Pension Trust") stating that we had liability for a share of the Western Conference of Teamsters Pension Plan ("WCTPP") unfunded vested benefits based on the WCT Pension Trust's claim that certain of our employment actions resulting from the Corporate Relocation Plan amounted to a partial withdrawal from the WCTPP. See Note 26, *Subsequent Events---Western Conference of Teamsters Pension Trust*, of the Notes to Consolidated Financial Statements included in Part I, Item 1 of this report. The amount of any potential withdrawal liability associated with the WCTPP or any other multiemployer pension plan in which we participate could be material to our results of operations and cash flows.

Restrictive covenants in our credit facility may limit our ability to make investments or otherwise restrict our ability to pursue our business strategies.

Our credit facility contains various covenants that limit our ability to, among other things, make investments; incur additional indebtedness; create, incur, assume or permit any liens on our property; pay dividends under certain circumstances; and consolidate, merge, sell or otherwise dispose of all or substantially all of our assets. Our credit facility also contains financial covenants relating to the maintenance of a fixed charge coverage ratio in certain circumstances. Our ability to meet those covenants may be affected by events beyond our control, and there can be no assurance that we will meet those covenants. The breach of any of these covenants could result in a default under the credit facility.

Future impairment charges could adversely affect our operating results.

At June 30, 2017, we had $18.6 million in long-lived intangible assets, including recipes, non-compete agreements, customer relationships, trade names, trademarks and a brand name, and goodwill of $11.0 million, associated with completed acquisitions. Acquisitions are based on certain target analysis and due diligence procedures designed to achieve a desired return or strategic objective. These procedures often involve certain assumptions and judgment in determining the acquisition price. After consummation of an acquisition, unforeseen issues could arise that adversely affect anticipated returns or that are otherwise not recoverable as an adjustment to the purchase price. Even after careful integration efforts, actual operating results may vary significantly from initial estimates. We perform an asset impairment analysis on an annual basis or whenever events occur that may indicate possible existence of impairment. Failure to achieve forecasted operating results, due to weakness in the economic environment or other factors, changes in market conditions, loss of or significant decline in sales to customers included in the intangible asset, changes in our imputed cost of capital, and declines in our market capitalization, among other things, could result in impairment of our intangible assets and goodwill and adversely affect our operating results.

We rely on independent certification for a number of our coffee products. Loss of certification could harm our business.

A number of our Artisan coffee products are independently certified as "Rainforest Alliance," "Organic" and "Fair Trade." We must comply with the requirements of independent organizations and certification authorities in order to label our products as certified. The loss of any independent certifications could adversely affect our reputation and competitive position, which could harm our business.

Possible legislation or regulation intended to address concerns about climate change could adversely affect our results of operations, cash flows and financial condition.

Governmental agencies are evaluating changes in laws to address concerns about the possible effects of greenhouse gas emissions on climate. Increased public awareness and concern over climate change may increase the likelihood of more proposals to reduce or mitigate the emission of greenhouse gases. Laws enacted that directly or indirectly affect our suppliers (through an increase in the cost of production or their ability to produce satisfactory products) or our business (through an impact on our inventory availability, cost of goods sold, operations or demand for the products we sell) could adversely affect our business, financial condition, results of operations and cash flows. Compliance with any new or more stringent laws or regulations, or stricter interpretations of existing laws, including increased government regulations to limit carbon dioxide and other greenhouse gas emissions as a result of concern over climate change, could require us to reduce emissions and to incur compliance costs which could affect our profitability or impede the production or distribution of our products, which could affect our results of operations, cash flows and financial condition. In addition, public expectations for reductions in greenhouse gas emissions could result in increased energy, transportation and raw material costs and may require us to make additional investments in facilities and equipment.

Our operating results may have significant fluctuations from period to period which could have a negative effect on our stock price.

Our operating results may fluctuate from period to period as a result of a number of factors, including fluctuations in the price and supply of green coffee, fluctuations in the selling prices of our products, the success of our hedging strategy, changes in financial estimates by analysts or our inability to meet those financial estimates, changes in conditions or trends in our industry, geographies, or customers, activism by any large stockholder or group of stockholders, speculation by the investment community regarding our business, actual or anticipated growth rates relative to our competitors, terrorist acts, natural disasters, perceptions of the investment opportunity associated with our common stock relative to other investment alternatives, competition, changes in consumer preferences, seasonality, our ability to retain and attract customers, our ability to manage inventory and fulfillment operations and maintain gross margin, and period and year-end LIFO inventory adjustments. Fluctuations in our operating results due to these factors or for any other reason could cause our stock price to decline. In addition, the stock markets have experienced price and volume fluctuations that have affected and continue to affect the market price of equity securities issued by many companies. In the past, some companies that have had volatile market prices for their securities have been subject to class action or derivative lawsuits. The filing of a lawsuit against us, regardless of the outcome, could have a negative effect on our business, financial condition and results of operations, as it could result in substantial legal costs and a diversion of management's attention and resources. Accordingly, we believe that period-to-period comparisons of our operating results are not necessarily meaningful, and such comparisons should not be relied upon as indicators of future performance.

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

As of June 30, 2017 and 2016, we had outstanding borrowings under our credit facility of $27.6 million and $0.1 million, respectively, with excess availability of $27.9 million and $46.6 million, respectively. We may incur significant indebtedness in the future, including through additional borrowings under the credit facility, exercise of the accordion feature under the credit facility to increase the revolving commitment by up to an additional $50.0 million, or otherwise. Our present indebtedness and any future borrowings could have adverse consequences, including:

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

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

Borrowings under our credit facility bear interest at a variable rate exposing us to interest rate risk.

Our credit facility subjects us to interest rate risk. The rate at which we pay interest on outstanding amounts under the credit facility fluctuates with changes in interest rates and availability levels. As a result, we are exposed to changes in interest rates with respect to any amounts from time to time outstanding under our credit facility. If we are unable to adequately manage our debt structure in response to changes in the market, our interest expense could increase, which would negatively affect our financial condition and results of operations.

We may need additional financing in the future, and we may be unable to obtain that financing.

Our cash requirements in the future may be greater than expected. Should we experience a deterioration in operating performance, we will have less cash inflows from operations available to meet our financial obligations or to fund our other liquidity needs. In addition, if such deterioration were to lead to the closure of leased facilities, we would need to fund the costs of terminating those leases. If we are unable to generate sufficient cash flows from operations in the future to satisfy these financial obligations, we may be required to, among other things:

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

Such measures might not be sufficient to enable us to satisfy our financial obligations or to fund our other liquidity needs, and could impede the implementation of our business strategy, prevent us from entering into transactions that would otherwise benefit our business and/or have a material adverse effect on our financial condition and results of operations. In addition, any such financing, refinancing or sale of assets might not be available on economically favorable terms or at all. Our future operating performance and our ability to service or refinance our indebtedness will be subject to future economic conditions and to financial, business and other factors, many of which are beyond our control.

Stockholders may experience future dilution as a result of future equity offerings.

In order to raise additional capital, we may in the future offer additional shares of our common stock or other securities convertible into or exchangeable for our common stock which would result in those newly issued shares being dilutive. In addition, investors purchasing shares or other securities in the future could have rights superior to existing stockholders, which could dilute the value of outstanding shares. The price per share at which we sell additional shares of our common stock, or securities convertible or exchangeable into common stock, in future transactions may be higher or lower than the price per share paid by existing stockholders for their shares.

Customer quality control problems may adversely affect our brands thereby negatively impacting our sales.

Our success depends on our ability to provide customers with high-quality products and service. Although we take measures to ensure that we sell only fresh products, we have no control over our products once they are purchased by our customers. Accordingly, customers may prepare our products inconsistent with our standards, or store our products for longer periods of time, potentially affecting product quality. Clean water is critical to the preparation of coffee, tea and other beverages. We have no ability to ensure that our customers use a clean water supply to prepare these beverages. If consumers do not perceive our products and service to be of high quality, then the value of our brands may be diminished and, consequently, our operating results and sales may be adversely affected.

Adverse public or medical opinions about caffeine may harm our business and reduce our sales.

Coffee contains caffeine and other active compounds, the health effects of some of which are not fully understood. A number of research studies conclude or suggest that excessive consumption of caffeine may lead to increased adverse health effects. An unfavorable report or other negative publicity or litigation on the health effects of caffeine or other compounds present in coffee could significantly reduce the demand for coffee which could harm our business and reduce our sales. In addition, we could be subject to litigation relating to the existence of such compounds in our coffee which could be costly and adversely affect our business.

Instances or reports linking us to food safety issues could harm our business and lead to potential product recalls or product liability claims.

Selling products for human consumption involves inherent legal risks. Instances or reports of food safety issues involving our products, whether or not accurate, such as unclean water supply, food or beverage-borne illnesses, tampering, contamination, mislabeling, or other food or beverage safety issues, including due to the failure of our third-party co-packers to maintain the quality of our products and to comply with our product specifications, could damage the value of our brands, negatively impact sales of our products, and potentially lead to product recalls, production interruptions, product liability claims, litigation or damages. A significant product liability claim against us, whether or not successful, or a widespread product recall may reduce our sales and harm our business.

Government regulations affecting the conduct of our business could increase our operating costs, reduce demand for our products or result in litigation.

The conduct of our business is subject to various laws and regulations including those relating to food safety, ingredients, manufacturing, processing, packaging, storage, marketing, advertising, labeling, quality and distribution of our products, as well as environmental laws and those relating to worker health and workplace safety. These laws and regulations and interpretations thereof are subject to change as a result of political, economic or social events. Such changes may include changes in: food and drug laws, including the Food Safety Modernization Act of 2011 which requires, among other things, that food facilities conduct contamination hazard analyses, implement risk-based preventive controls and develop track-and-trace capabilities; laws relating to product labeling, advertising and marketing practices; accounting standards and taxation requirements; competition laws; environmental laws; laws regarding ingredients used in our products; and increased regulatory scrutiny of, and increased litigation involving, product claims and concerns regarding the effects on health of ingredients in, or attributes of, our products. In addition, our product advertising could make us the target of claims relating to false or deceptive advertising under U.S. federal and state laws, including the consumer protection statutes of some states. Any new laws and regulations or changes in government policy, existing laws and regulations or the interpretations thereof could require us to change certain of our operational processes and procedures, or implement new ones, and may increase our operating and compliance costs, which could adversely affect our results of operations. In some cases, increased regulatory scrutiny could interrupt distribution of our products or force changes in our production processes or procedures (or force us to implement new processes or procedures). If we fail to comply with applicable laws and regulations, we may be subject to civil remedies, including fines, injunctions, recalls or seizures, as well as potential criminal sanctions, which could have a material adverse effect on our results of operations and adversely affect our reputation and brand image. In addition, claims or liabilities of this sort may not be covered by insurance or by any rights of indemnity or contribution that we may have against others.

Members of the U.S. Congress and the new presidential administration have announced plans to repeal and replace the Patient Protection and Affordable Care Act and the Health Care Education Reconciliation Act of 2010. It is currently unclear how a repeal or replacement of these programs might affect healthcare costs. Government regulations affecting taxes, healthcare costs, energy usage, immigration and other labor issues may have a direct or indirect effect on our business or those of our customers or suppliers.

Significant additional labeling or warning requirements may increase our costs and adversely affect sales of the affected products.

Various jurisdictions may seek to adopt significant additional product labeling (such as requiring labeling of products that contain genetically modified organisms) or warning requirements or limitations on the availability of our products relating to the content or perceived adverse health consequences of certain of our products. If these types of requirements become applicable to one or more of our products, they may inhibit sales of such products. In addition, for example, we are subject to the California Safe Drinking Water and Toxic Enforcement Act of 1986 (commonly known as "Proposition 65"), a law which requires that a specific warning appear on any product sold in California that contains a substance listed by that State as having been found to cause cancer or birth defects. The Council for Education and Research on Toxics ("CERT") has filed suit against a number of companies as defendants, including our subsidiary, Coffee Bean International, Inc., which sell coffee in California for allegedly failing to issue clear and reasonable warnings in accordance with Proposition 65 that the coffee they produce, distribute and sell contains acrylamide. Any action under Proposition 65 would likely seek statutory penalties and costs of enforcement, as well as a requirement to provide warnings and other notices to customers or remove acrylamide from finished products (which may be impossible). If we were required to add warning labels to any of our products or place warnings in certain locations where our products are sold, sales of those products could suffer not only in those locations but elsewhere. Any change in labeling requirements for our products also may lead to an increase in packaging costs or interruptions or delays in packaging deliveries.

Litigation pending against us could expose us to significant liabilities and damage our reputation.

We are currently party to various legal and other proceedings, and additional claims may arise in the future. See Note 23, *Commitments and Contingencies*, of the Notes to Consolidated Financial Statements included in Part II, Item 8 of this report. Regardless of the merit of particular claims, litigation may be expensive, time-consuming, operationally disruptive and distracting to management, and could negatively affect our brand name and image and subject us to statutory penalties and costs of enforcement. We can provide no assurances as to the outcome of any litigation or the resolution of any other claims against us. An adverse outcome of any litigation or other claim could negatively affect our financial condition, results of operations or liquidity.

Compliance with regulations affecting publicly traded companies has resulted in increased costs and may continue to result in increased costs in the future.

As a publicly traded company, we are subject to laws, accounting and reporting requirements, tax rules and other regulations and requirements, including those imposed by the SEC and NASDAQ. Our efforts to comply with these requirements and regulations have resulted in, and are likely to continue to result in, increased expenses and a diversion of substantial management time and attention from revenue-generating activities to compliance activities. Because these laws and regulations are subject to varying interpretations, their application in practice may evolve over time as new guidance becomes available. This evolution may result in continuing uncertainty regarding compliance matters and additional costs necessitated by ongoing revisions to our disclosure and governance practices. Failure to comply with such regulations could have a material adverse effect on our business and stock price.

Concentration of ownership among our principal stockholders may dissuade potential investors from purchasing our stock, may prevent new investors from influencing significant corporate decisions and may result in a lower trading price for our stock than if ownership of our stock was less concentrated.

As of September 15, 2017, members of the Farmer family or entities controlled by the Farmer family (including trusts) beneficially owned approximately 27.9% of our outstanding common stock. As a result, these stockholders, acting together, may be able to influence the outcome of stockholder votes, including votes concerning the election and removal of directors, the amendment of our charter documents, and approval of significant corporate transactions. This level of concentrated ownership may have the effect of delaying or preventing a change in the management or voting control of the Company. In addition, this significant concentration of share ownership may adversely affect the trading price of our common stock if investors perceive disadvantages in owning stock in a company with such concentrated ownership.

Future sales of shares by existing stockholders could cause our stock price to decline.

All of our outstanding shares are eligible for sale in the public market, subject in certain cases to limitations under Rule 144 of the Securities Act of 1933, as amended (the "Securities Act"). Also, shares subject to outstanding options and restricted stock under our long-term incentive plan are eligible for sale in the public market to the extent permitted by the provisions of various vesting agreements, our stock ownership guidelines, and Rule 144 under the Securities Act. If these shares are sold, or if it is perceived that they will be sold in the public market, the trading price of our common stock could decline.

Anti-takeover provisions could make it more difficult for a third party to acquire us.

Our Board of Directors has the authority to issue up to 500,000 shares of preferred stock and to determine the price, rights, preferences, privileges and restrictions, including voting rights, of those shares without any further vote or action by stockholders. The rights of the holders of our common stock may be subject to, and may be adversely affected by, the rights of the holders of any preferred stock that may be issued in the future. The issuance of preferred stock may have the effect of delaying, deterring or preventing a change in control of the Company without further action by stockholders and may adversely affect the voting and other rights of the holders of our common stock.

Further, certain provisions of our charter documents, including a classified board of directors, provisions eliminating the ability of stockholders to take action by written consent, and provisions limiting the ability of stockholders to raise matters at a meeting of stockholders without giving advance notice, may have the effect of delaying or preventing changes in control or management of the Company, which could have an adverse effect on the market price of our stock. In addition, our charter documents do not permit cumulative voting, which may make it more difficult for a third party to gain control of our Board of Directors. Further, we are subject to the anti-takeover provisions of Section 203 of the Delaware General Corporation Law, which will prohibit us from engaging in a "business combination" with an "interested stockholder" for a period of three years after the date of the transaction in which the person became an interested stockholder, even if such combination is favored by a majority of stockholders, unless the business combination is approved in a prescribed manner. The application of Section 203 also could have the effect of delaying or preventing a change in control or management.

Item 1.B. Unresolved Staff Comments

None.

Item 2. Properties

Our current production and distribution facilities are as follows:

Location	Approximate Area (Square Feet)	Purpose	Status
Northlake, TX	538,000	Corporate headquarters, manufacturing, distribution, warehouse, product development lab	Owned
Houston, TX	330,877	Manufacturing and warehouse	Owned
Portland, OR	114,000	Manufacturing and distribution	Leased
Northlake, IL.	89,837	Distribution and warehouse	Leased
Moonachie, NY.	41,404	Distribution and warehouse	Leased
Hillsboro, OR..	20,400	Manufacturing, distribution and warehouse	Leased
Scottsdale, AZ.	17,400	Manufacturing, distribution and warehouse	Leased

As part of the China Mist transaction, we assumed the lease on China Mist's existing 17,400 square foot production, distribution and warehouse facility in Scottsdale, Arizona which is terminable upon twelve months' notice. As part of the West Coast Coffee transaction, we entered into a three-year lease on West Coast Coffee's existing 20,400 square foot production, distribution and warehouse facility in Hillsboro, Oregon, which expires January 31, 2020, and assumed leases on six branch warehouses consisting of an aggregate of 24,150 square feet in Oregon, California and Nevada, expiring on various dates through November 2020. Our owned facility in Oklahoma City, Oklahoma, consisting of approximately 142,100 square feet, served as a distribution facility through the third quarter of fiscal 2017, when distribution operations were transitioned to the New Facility, and continues to serve as a warehouse facility and service center.

As of June 30, 2017, we stage our products in 114 branch warehouses throughout the contiguous United States. These branch warehouses and our distribution centers, taken together, represent a vital part of our business, but no individual branch warehouse is material to the business as a whole. Our branch warehouses vary in size from approximately 1,000 to 50,000 square feet.

Approximately 55% of our facilities are leased with a variety of expiration dates through 2021. The lease on the Portland facility expires in 2018 and has options to renew up to an additional 10 years.

We calculate our utilization for all of our coffee roasting facilities on an aggregate basis based on the number of product pounds manufactured during the actual number of production shifts worked during an average week, compared to the number of product pounds that could be manufactured based on the maximum number of production shifts that could be operated during the week (assuming three shifts per day, five days per week), in each case, based on our current product mix. Utilization rates for our coffee roasting facilities were approximately 93%, 90% and 66% during the fiscal years ended June 30, 2017, 2016 and 2015, respectively. The utilization rate in fiscal 2017 excludes the New Facility where we began roasting coffee in the fourth quarter of fiscal 2017. The utilization rate in fiscal 2016 excludes the Torrance Facility due to the transition of coffee processing and packaging to our Houston and Portland production facilities in the fourth quarter of fiscal 2015.

We believe that our existing facilities provide adequate capacity for our current operations.

Item 3. Legal Proceedings

For information regarding legal proceedings in which we are involved, see Note 23, *Commitments and Contingencies*, of the Notes to Consolidated Financial Statements included in Part II, Item 8 of this report.

Item 4. Mine Safety Disclosures

Not applicable.

PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Market Information

Our common stock trades on the NASDAQ Global Select Market under the symbol "FARM." The following table sets forth the quarterly high and low sales prices of our common stock as reported by NASDAQ for each quarter during the last two fiscal years.

	Year Ended June 30, 2017		Year Ended June 30, 2016	
	High	Low	High	Low
1st Quarter	$ 36.96	$ 29.16	$ 28.16	$ 20.90
2nd Quarter	$ 37.55	$ 30.05	$ 32.94	$ 26.99
3rd Quarter	$ 37.15	$ 31.25	$ 31.63	$ 24.04
4th Quarter	$ 37.35	$ 29.30	$ 32.50	$ 26.69

On September 27, 2017, the last sale price reported on NASDAQ for our common stock was $30.30 per share.

Holders

As of September 27, 2017, there were approximately 2,200 holders of record. Determination of holders of record is based upon the number of record holders and individual participants in security position listings. This does not include persons whose stock is in nominee or "street name" accounts through brokers.

Dividends

The Company's Board of Directors has omitted the payment of a quarterly dividend since the third quarter of fiscal 2011. The amount, if any, of dividends to be paid in the future will depend upon the Company's then available cash, anticipated cash needs, overall financial condition, credit agreement restrictions, future prospects for earnings and cash flows, as well as other relevant factors. For a description of the credit agreement restrictions on the payment of dividends, see *Liquidity, Capital Resources and Financial Condition* included in Part II, Item 7 of this report, and Note 16, *Bank Loan*, of the Notes to Consolidated Financial Statements included in Part II, Item 8 of this report.

Equity Compensation Plan Information

This information appears in *Equity Compensation Plan Information* included in Part III, Item 12 of this report.

Performance Graph

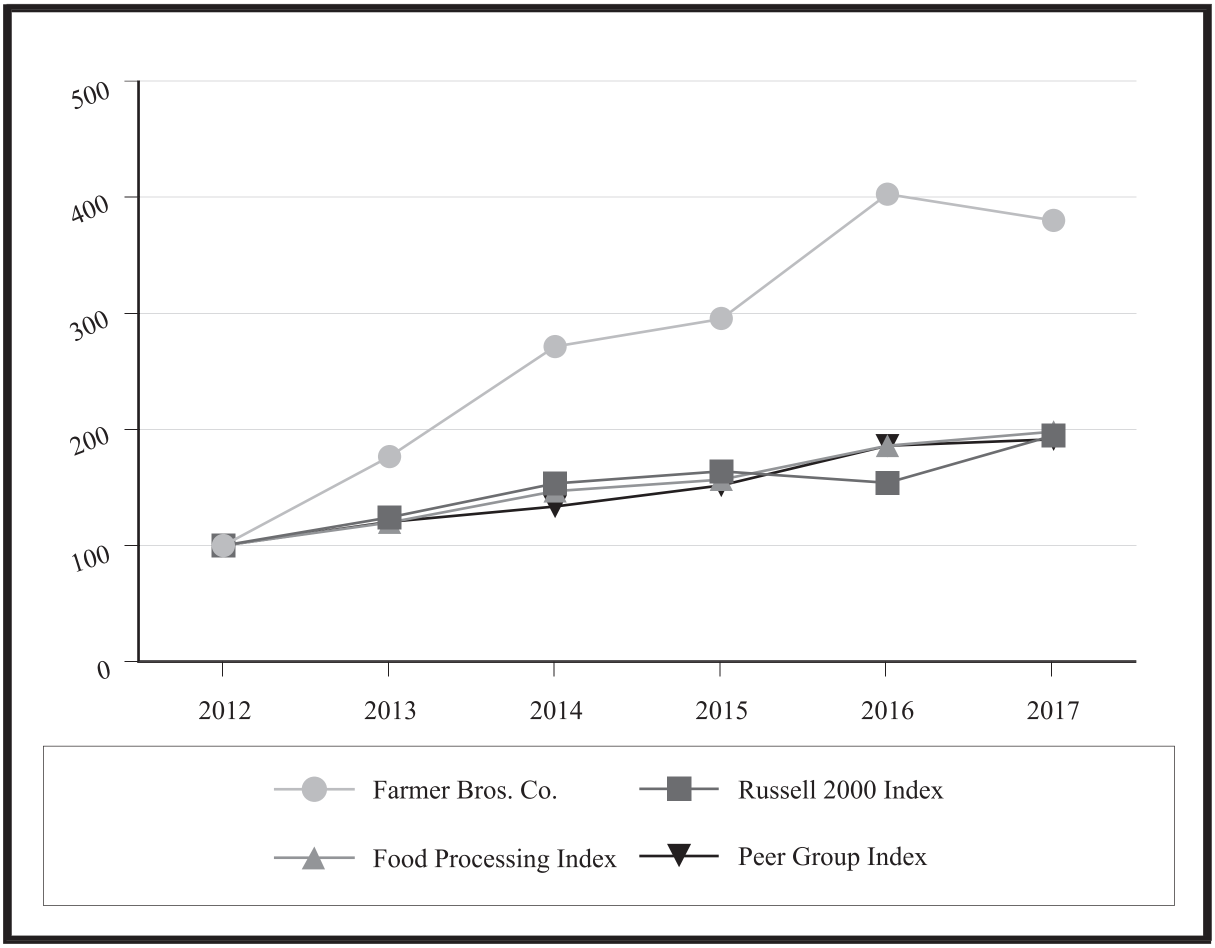
The following graph depicts a comparison of the total cumulative stockholder return on our common stock for each of the last five fiscal years relative to the performance of the Russell 2000 Index, the Value Line Food Processing Index and a peer group index. The graph assumes an initial investment of $100.00 at the beginning of the five year period and that all dividends paid by companies included in these indices have been reinvested.

Because no published peer group is similar to the Company's portfolio of business, the Company created a peer group index that includes the following companies: B&G Foods, Inc., Boulder Brands, Inc., Coffee Holding Co. Inc., Dunkin' Brands Group, Inc., National Beverage Corp., SpartanNash Company, Inventure Foods, Inc. and Treehouse Foods, Inc. The companies in the peer group index are in the same industry as Farmer Bros. Co. with product offerings that overlap with the Company's product offerings. Boulder Brands, Inc. is no longer a public company and has been excluded from the peer group index in fiscal 2017 and 2016.

The historical stock price performance of the Company's common stock shown in the performance graph below is not necessarily indicative of future stock price performance. The Russell 2000 Index, the Value Line Food Processing Index and the peer group index are included for comparative purposes only. They do not necessarily reflect management's opinion that such indices are an appropriate measure for the relative performance of the stock involved, and they are not intended to forecast or be indicative of possible future performance of our common stock.

Comparison of Five-Year Cumulative Total Return

Farmer Bros. Co., Russell 2000 Index, Value Line Food Processing Index and Peer Group Index
(Performance Results Through June 30, 2017)



	2012	2013	2014	2015	2016	2017
Farmer Bros. Co.	$ 100.00	$ 176.63	$ 271.48	$ 295.23	$ 402.76	$ 380.03
Russell 2000 Index	$ 100.00	$ 124.21	$ 153.57	$ 164.02	$ 153.90	$ 195.20
Value Line Food Processing Index	$ 100.00	$ 119.96	$ 146.81	$ 156.96	$ 185.97	$ 198.18
Peer Group Index	$ 100.00	$ 120.41	$ 133.80	$ 152.14	$ 186.31	$ 191.75

Source: Value Line Publishing, LLC

Item 6. Selected Financial Data

The following selected consolidated financial data should be read in conjunction with *Management's Discussion and Analysis of Financial Condition and Results of Operations*, *Risk Factors,* and our consolidated financial statements and the notes thereto included elsewhere in this report. The historical results do not necessarily indicate results expected for any future period.

(In thousands, except per share data)	Year Ended June 30, 2017(1)	2016	2015	2014	2013
Consolidated Statement of Operations Data:					
Net sales	$541,500	$544,382	$545,882	$528,380	$513,869
Cost of goods sold	$327,765	$335,907	$348,846	$332,466	$328,693
Restructuring and other transition expenses(2)	$ 11,016	$ 16,533	$ 10,432	$ —	$ —
Net gain from sale of Torrance Facility (3)	$ (37,449)	$ —	$ —	$ —	$ —
Net gains from sale of Spice Assets(4)	$ (919)	$ (5,603)	$ —	$ —	$ —
Net (gains) losses from sales of other assets	$ (1,210)	$ (2,802)	$ 394	$ (3,814)	$ (4,467)
Impairment losses on intangible assets	$ —	$ —	$ —	$ —	$ 92
Income from operations	$ 42,166	$ 8,179	$ 3,284	$ 8,916	$ 372
Income from operations per common share—diluted	$ 2.51	$ 0.49	$ 0.20	$ 0.56	$ 0.02
Income tax expense (benefit)(5)	$ 15,954	$ (79,997)	$ 402	$ 705	$ (825)
Net income (loss)(6)	$ 24,400	$ 89,918	$ 652	$ 12,132	$ (8,462)
Net income (loss) per common share—basic	$ 1.46	$ 5.45	$ 0.04	$ 0.76	$ (0.54)
Net income (loss) per common share—diluted	$ 1.45	$ 5.41	$ 0.04	$ 0.76	$ (0.54)
Cash dividends declared per common share	$ —	$ —	$ —	$ —	$ —

(In thousands)	June 30, 2017	2016	2015	2014	2013
Consolidated Balance Sheet Data:					
Total current assets(7)	$117,164	$153,365	$135,685	$157,460	$139,749
Property, plant and equipment, net(8)	$176,066	$118,416	$ 90,201	$ 95,641	$ 92,159
Goodwill(9)	$ 10,996	$ 272	$ 272	$ —	$ —
Intangible assets, net(9)	$ 18,618	$ 6,219	$ 6,419	$ 5,628	$ 6,277
Deferred income taxes	$ 63,055	$ 80,786	$ 751	$ 414	$ 467
Total assets	$392,736	$368,991	$240,943	$266,177	$244,136
Short-term borrowings under revolving credit facility(10)	$ 27,621	$ 109	$ 78	$ 78	$ 9,654
Capital lease obligations(11)	$ 1,195	$ 2,359	$ 5,848	$ 9,703	$ 12,168
Long-term borrowings under revolving credit facility	$ —	$ —	$ —	$ —	$ 10,000
Earn-out payable(12)	$ 1,100	$ 100	$ 200	$ —	$ —
Long-term derivative liabilities	$ 380	$ —	$ 25	$ —	$ 1,129
Total liabilities	$177,601	$186,397	$150,932	$151,313	$162,298

(1) The results of operations of businesses acquired are included in the Company's consolidated financial statements from their dates of acquisition. See Note 3, *Acquisitions*, of the Notes to Consolidated Financial Statements included in Part II, Item 8 of this report. On August 18, 2017, we entered into an agreement to acquire substantially all of the assets of Boyd’s with a combination of cash and stock. See Note 26, *Subsequent Events—Boyd’s Purchase Agreement*, of the Notes to Consolidated Financial Statements included in Part II, Item 8 of this report.

(2) See Note 4, *Restructuring Plans,* of the Notes to Consolidated Financial Statements included in Part II, Item 8 of this report.

(3) See Note 6, *Sales of Assets—Sale of Torrance Facility*, of the Notes to Consolidated Financial Statements included in Part II, Item 8 of this report.

(4) See Note 6, *Sales of Assets—Sale of Spice Assets*, of the Notes to Consolidated Financial Statements included in Part II, Item 8 of this report.

(5) Includes non-cash income tax benefit of $80.3 million in fiscal 2016 from the release of valuation allowance on deferred tax assets. See Note 21, *Income Taxes*, of the Notes to Consolidated Financial Statements included in Part II, Item 8 of this report.

(6) Includes: the beneficial effect of liquidation of LIFO inventory quantities of $3.4 million, $4.2 million, $4.9 million, $0, and $1.1 million in fiscal 2017, 2016, 2015, 2014 and 2013, respectively.

(7) See *Liquidity, Capital Resources and Financial Condition—Liquidity* included in Part II, Item 7 of this report.

(8) See Note 5, *New Facility*, and Note 13, *Property, Plant and Equipment*, of the Notes to Consolidated Financial Statements included in Part II, Item 8 of this report.

(9) See Note 3, *Acquisitions*, and Note 14, *Goodwill and Intangible Assets*, of the Notes to Consolidated Financial Statements included in Part II, Item 8 of this report.

(10) See *Liquidity, Capital Resources and Financial Condition—Liquidity* included in Part II, Item 7 of this report.

(11) Excludes imputed interest.

(12) See Note 20, *Other Long-Term Liabilities*, of the Notes to Consolidated Financial Statements included in Part II, Item 8 of this report.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion contains forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from those anticipated in these forward-looking statements as a result of many factors. The results of operations for the fiscal years ended June 30, 2017, 2016 and 2015 are not necessarily indicative of the results that may be expected for any future period. The following discussion should be read in combination with the consolidated financial statements and the notes thereto included in Part II, Item 8 of this report and with the *Risk Factors* described in Part I, Item 1A of this report.

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, 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; 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 450 delivery routes and 114 branch warehouses as of June 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 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 to the New Facility. Approximately 350 positions were impacted as a result of the Torrance Facility closure.

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

Event	Date
Announced Corporate Relocation Plan	Q3 fiscal 2015
Transitioned coffee processing and packaging from Torrance production facility and consolidated them with Houston and Portland production facilities	Q4 fiscal 2015
Moved Houston distribution operations to Oklahoma City distribution center	Q4 fiscal 2015
Entered into 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

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, a provider of flavored iced teas and iced green teas, and on February 7, 2017, we acquired substantially all of the assets and certain specified liabilities of 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 West Coast Coffee acquisition is expected to broaden our reach in the Northwestern United States. See *Liquidity, Capital Resources and Financial Condition—Liquidity—Acquisitions* below, and Note 3, *Acquisitions*, of the Notes to Consolidated Financial Statements included in Part II, Item 8 of this report.

On August 18, 2017, we entered into an agreement to acquire substantially all of the assets of Boyd's, a privately-held coffee roaster and distributor with a focus on restaurants, hotels and convenience stores on the West Coast of the United States, with a combination of cash and stock. Boyd's business model is expected to be complementary to the Company across customer channels, product portfolios and distribution networks, including a high-touch service model of direct-store-delivery. The Boyd's acquisition 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. The transaction is expected to close in the second quarter of fiscal 2018, subject to certain closing conditions. See Note 26, *Subsequent Events—Boyd's Purchase Agreement*, of the Notes to Consolidated Financial Statements included in Part II, Item 8 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 the DSD Restructuring Plan to reorganize our DSD operations in an effort to realign functions into a channel-based selling organization, streamline operations, acquire certain channel specific expertise, and improve selling effectiveness and financial results. See *Liquidity, Capital Resources and Financial Condition—Liquidity—DSD Restructuring Plan*, below, and Note 4, *Restructuring Plans—DSD Restructuring Plan*, of the Notes to Consolidated Financial Statements included in Part II, Item 8 of this report.

Important Factors Affecting Our Results of Operations

We have identified factors that affect our industry and business which we expect to also play an important role in our future growth and profitability. Some of these factors include:

- ***Demographic and Channel Trends.*** Our success is dependent upon our ability to develop new products in response to demographic and other trends to better compete in areas such as premium coffee and tea, including expansion of our product portfolio by investing resources in what we believe to be key growth categories, including the launch of our Metropolitan™ single cup coffee, expanded seasonal coffee and specialty beverages, new shelf-stable coffee products, new hot teas, the introduction of Collaborative Coffee™ branded products into the retail grocery channel, and the packaging redesign and product portfolio optimization of our Un Momento® retail branded product line.

- ***Fluctuations in Green Coffee Prices.*** Our primary raw material is green coffee, an agricultural commodity traded on the Commodities and Futures Exchange that is subject to price fluctuations. Over the past five years, coffee "C" market price per pound ranged from approximately $1.02 to $2.22. The coffee "C" market price as of June 30, 2017 and 2016 was $1.26 and $1.46 per pound, respectively. The price and availability of green coffee directly impacts our results of operations. For additional details, see *Risk Factors* in Part I, Item 1A of this report.

- ***Hedging Strategy.*** We are exposed to market risk of losses due to changes in coffee commodity prices. Our business model strives to reduce the impact of green coffee price fluctuations on our financial results and to protect and stabilize our margins, principally through customer arrangements and derivative instruments, as further explained in Note 7, *Derivative Instruments*, of the Notes to Consolidated Financial Statements included in Part II, Item 8 of this report.

- ***Sustainability***. With an increasing focus on sustainability across the coffee and foodservice industry, and particularly from the customers we serve, it is important for us to embrace sustainability across our operations, in the quality of our products, as well as, how we treat our coffee growers. We believe that our collective efforts in measuring our social and environmental impact, creating programs for waste, water and energy reduction, promoting partnerships in our supply chain that aim at supply chain stability and food security, and focusing on employee engagement place us in a unique position to help retailers and foodservice operators create differentiated coffee programs that can include sustainable supply chains, direct trade purchasing, training and technical assistance, recycling and composting networks, and packaging material reductions.

- ***Supply Chain Efficiencies and Competition***. In order to compete effectively and capitalize on growth opportunities, we must continue to evaluate and undertake initiatives to reduce costs and streamline our supply chain. We undertook the Corporate Relocation Plan, in part, to pursue improved production efficiency to allow us to provide a more cost-competitive offering of high-quality products. We continue to look for ways to deploy our personnel, systems, assets and infrastructure to create or enhance stockholder value. Areas of focus have included corporate staffing and structure, methods of procurement, logistics, inventory management, supporting technology, and real estate assets.

- ***Market Opportunities.*** We have invested and in the future may invest in acquisitions that we believe will enhance long-term stockholder value and complement or enhance our product, equipment, service and/or distribution offerings to existing and new customer bases. For example, in fiscal 2017, we completed the China

Mist acquisition to extend our tea product offerings and give us a greater presence in the high-growth premium tea industry, and the West Coast Coffee acquisition to broaden our reach in the Northwestern United States. Additionally, on August 18, 2017, we entered into an agreement to acquire Boyd’s. The Boyd’s acquisition 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. The transaction is expected to close in the second quarter of fiscal 2018, subject to certain closing conditions. Additionally, in the first quarter of fiscal 2015, we acquired substantially all of the assets of Rae' Launo Corporation (“RLC”) relating to its DSD and in-room distribution business in the Southeastern United States. For additional information on these acquisitions, see Note 3, *Acquisitions*, of the Notes to Consolidated Financial Statements included in Part II, Item 8 of this report.

- ***Capacity Utilization***. We calculate our utilization for all of our coffee roasting facilities on an aggregate basis based on the number of product pounds manufactured during the actual number of production shifts worked during an average week, compared to the number of product pounds that could be manufactured based on the maximum number of production shifts that could be operated during the week (assuming three shifts per day, five days per week), in each case, based on our current product mix. Utilization rates for our coffee roasting facilities were approximately 93%, 90% and 66% during the fiscal years ended June 30, 2017, 2016 and 2015, respectively. The utilization rate in fiscal 2017 excludes the New Facility where we began roasting coffee in the fourth quarter of fiscal 2017. The utilization rate in fiscal 2016 excludes the Torrance Facility due to the transition of coffee processing and packaging to our Houston and Portland production facilities in the fourth quarter of fiscal 2015.

Results of Operations

Fiscal Years Ended June 30, 2017 and 2016

Financial Highlights

- Volume of green coffee pounds processed and sold increased 5.3% in fiscal 2017 as compared to fiscal 2016.
- Gross profit increased 2.5% to $213.7 million in fiscal 2017 from $208.5 million in fiscal 2016.
- Gross margin increased to 39.5% in fiscal 2017 from 38.3% in fiscal 2016.
- Income from operations increased 415.5% to $42.2 million in fiscal 2017 from $8.2 million in fiscal 2016. Income from operations included a $37.4 million net gain from the sale of the Torrance Facility in fiscal 2017 and net gains of $5.6 million from the sale of Spice Assets in fiscal 2016.
- Net income was $24.4 million, or $1.45 per common share—diluted, in fiscal 2017, primarily due to $37.4 million in net gain from the sale of the Torrance Facility and non-cash income tax expense of $16.0 million, compared to net income of $89.9 million, or $5.41 per common share—diluted, in fiscal 2016, primarily due to non-cash income tax benefit of $80.3 million from the release of valuation allowance on deferred tax assets.
- EBITDA increased 110.5% to $65.5 million and EBITDA Margin was 12.1% in fiscal 2017, as compared to EBITDA of $31.1 million and EBITDA Margin of 5.7% in fiscal 2016.*
- Adjusted EBITDA increased 11.1% to $46.0 million and Adjusted EBITDA Margin was 8.5% in fiscal 2017, as compared to Adjusted EBITDA of $41.4 million and Adjusted EBITDA Margin of 7.6% in fiscal 2016.*

(* EBITDA, EBITDA Margin, Adjusted EBITDA and Adjusted EBITDA Margin are non-GAAP financial measures. See *Non-GAAP Financial Measures* in Part II, Item 7 of this report for a reconciliation of these non-GAAP measures to their corresponding GAAP measures.)

Fiscal 2017 Strategic Initiatives

In fiscal 2017, we undertook initiatives to reduce costs, streamline our supply chain, improve the breadth of products and services we provide to our customers, and better position the Company to attract new customers. These initiatives included the following:

- *Corporate Relocation Plan.* We completed the Corporate Relocation Plan that was initiated in the third quarter of fiscal 2015 by executing on the milestones described above under *Corporate Relocation*. 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 roasting facility in the New Facility has increased our capacity to support existing and future customers and accommodate volume growth. We are in the process of obtaining SQF certification under the Global Food Safety Initiative for the New Facility.

- *Acquisition of China Mist and West Coast Coffee.* In fiscal 2017, we completed the China Mist acquisition to extend our tea product offerings and give us a greater presence in the high-growth premium tea industry, and the West Coast Coffee acquisition to broaden our reach in the Northwestern United States.

- *DSD Restructuring Plan.* In the third quarter of fiscal 2017, we commenced the DSD Restructuring Plan. The strategic decision to undertake the DSD Restructuring Plan resulted from an ongoing operational review of various initiatives within the DSD selling organization. We began recognizing cost benefits associated with the restructuring in the fourth quarter of fiscal 2017 and we anticipate annualized savings from the restructuring plan beginning in the second quarter of fiscal 2018. We expect to complete the DSD Restructuring Plan by the end of the second quarter of fiscal 2018.

- *Third-Party Logistics.* During the second half of fiscal 2016, we replaced our long-haul fleet operations with 3PL. In fiscal 2017, we experienced a reduction in our fuel consumption and empty trailer miles, while improving our intermodal and trailer cube utilization as compared to the prior fiscal year. Aligning with our 3PL partner has allowed us to more efficiently manage routing thereby reducing diesel pollution in support of our sustainability efforts. Dynamic routing is expected to allow for further reduction of our carbon emissions in fiscal 2018.

- *Vendor Managed Inventory.* During the second half of fiscal 2016, we entered into a third-party vendor managed inventory arrangement. The use of vendor managed inventory arrangements has begun to yield benefits in fiscal 2017 by enabling us to reconfigure our packaging methodology, eliminating duplication but resulting in the same strength packaging with less material, thereby reducing waste and contributing to our sustainability efforts.

- *Warehouse Management*. In the first quarter of fiscal 2017, we entered into an agreement with a third party to provide warehouse management services for our New Facility. We expect the warehouse management services to facilitate cost savings by leveraging the third party's expertise in opening new facilities, implementing lean management practices, improving performance on certain key performance metrics, and standardizing best practices.

- *Product Development and Expansion.* In fiscal 2017, we opened our product development lab at the New Facility where we are focused on developing innovative products in response to industry trends and customer needs. In fiscal 2017, we introduced a new retail line of China Mist naturally flavored iced teas, a new line of Artisan hot teas, an Artisan Cold Brew Coffee and an Artisan Direct Trade Coffee.

Net Sales

Net sales in fiscal 2017 decreased $(2.9) million, or (0.5)%, to $541.5 million from $544.4 million in fiscal 2016. A $6.8 million increase in net sales from roast and ground coffee, a $4.2 million increase in net sales from tea products primarily from the addition of China Mist net sales from the date of its acquisition and a $1.6 million increase in net sales from culinary products were offset by a $(10.9) million decrease in net sales of spice products resulting from the sale of our institutional spice assets, a $(3.1) million decrease in net sales of coffee (frozen liquid) products, primarily from the loss of a large casino customer, and a $(1.0) million decrease in net sales of other beverages. Net sales in fiscal 2017 included $(3.2) million in price decreases to customers utilizing commodity-based pricing arrangements, where the changes in the green coffee commodity costs are passed on to the customer, as compared to $(9.7) million in price decreases to customers utilizing such arrangements in fiscal 2016. In each of fiscal 2017 and 2016, a lower percentage of our roast and ground coffee volume was based on a price schedule and a higher percentage was sold to customers under commodity-based pricing arrangements as compared to fiscal 2015.

The change in net sales in fiscal 2017 compared to fiscal 2016 was due to the following:

(In millions)	Year Ended June 30, 2017 vs. 2016
Effect of change in unit sales	$ (7.4)
Effect of pricing and product mix changes	4.5
Total decrease in net sales	$ (2.9)

Unit sales decreased (1.3)% in fiscal 2017 as compared to fiscal 2016, but average unit price increased by 0.9% resulting in a decrease in net sales of (0.5)%. The decrease in unit sales was primarily due to a (81.3)% decrease in unit sales of spice products which accounted for approximately 5% of our total net sales, due to the sale of our institutional spice assets, partially offset by a 5.3% increase in unit sales of roast and ground coffee products, which accounted for approximately 63% of our total net sales. Average unit price decreased primarily due to the lower average unit price of roast and ground coffee products primarily driven by the pass-through of lower green coffee commodity hedged costs to our customers. In fiscal 2017, we processed and sold approximately 95.5 million pounds of green coffee as compared to approximately 90.7 million pounds of green coffee processed and sold in fiscal 2016. There were no new product category introductions in fiscal 2017 or 2016 which had a material impact on our net sales.

The following table presents net sales aggregated by product category for the respective periods indicated:

	Year Ended June 30,			
	2017		2016	
(In thousands)	$	% of total	$	% of total
Net Sales by Product Category:				
Coffee (Roast & Ground)	$ 339,358	63%	$ 332,533	61%
Coffee (Frozen Liquid)	32,827	6%	35,933	7%
Tea (Iced & Hot)	29,256	5%	25,096	4%
Culinary	55,592	10%	54,036	10%
Spice(1)	24,895	5%	35,789	6%
Other beverages(2)	56,653	10%	57,690	11%
Net sales by product category	538,581	99%	541,077	99%
Fuel surcharge	2,919	1%	3,305	1%
Net sales	$ 541,500	100%	$ 544,382	100%

(1) Spice product net sales in fiscal 2016 included $3.2 million in sale of inventory to Harris at cost upon conclusion of the transition services provided by the Company in connection with the sale of Spice Assets.
(2) Includes all beverages other than coffee and tea.

Cost of Goods Sold

Cost of goods sold in fiscal 2017 decreased $(8.1) million, or (2.4)%, to $327.8 million, or 60.5% of net sales, from $335.9 million, or 61.7% of net sales, in fiscal 2016. The decrease in cost of goods sold as a percentage of net sales in fiscal 2017 was primarily due to lower conversion costs from supply chain improvements and lower hedged cost of green coffee as compared to the same period in the prior fiscal year, partially offset by startup costs associated with the production operations in the New Facility and higher depreciation expense for the New Facility. The average Arabica “C” market price of green coffee increased 16.3% in fiscal 2017.

Inventories were higher at the end of fiscal 2017 due to the commencement of the New Facility's manufacturing operations and incremental inventory from China Mist and West Coast Coffee as compared to lower levels of inventory at the Torrance Facility at the end of fiscal 2016 due to its anticipated closing. Notwithstanding this increase in total inventories at the end of fiscal 2017 compared to fiscal 2016 levels, inventories of manufactured spice products decreased at the end of fiscal 2017 compared to fiscal 2016 levels, primarily due to the liquidation of spice inventories in connection with the sale of the Spice Assets. As a result, we recorded $3.4 million in beneficial effect of the liquidation of LIFO inventory quantities in cost of goods sold in fiscal 2017, which increased income before taxes in fiscal 2017 by $3.4 million. In fiscal 2016, a beneficial effect of liquidation of LIFO inventory quantities in the amount of $4.2 million was recorded.

Gross Profit

Gross profit in fiscal 2017 increased $5.2 million, or 2.5%, to $213.7 million from $208.5 million in fiscal 2016 and gross margin increased to 39.5% in fiscal 2017 from 38.3% in fiscal 2016. This increase in gross profit was primarily due to lower conversion costs and lower hedged cost of green coffee partially offset by the decrease in net sales, startup costs associated with the production operations in the New Facility and higher depreciation expense for the New Facility. Gross profit in fiscal 2017 and 2016 included $3.4 million and $4.2 million, respectively, in beneficial effect of the liquidation of LIFO inventory quantities.

Operating Expenses

In fiscal 2017, operating expenses decreased $(28.7) million, or (14.3)%, to $171.6 million, or 31.7% of net sales from $200.3 million, or 36.8%, of net sales in fiscal 2016, primarily due to the recognition of $37.4 million in net gain from the sale of the Torrance Facility and lower restructuring and other transition expenses associated with the Corporate Relocation Plan, partially offset by lower net gains from the sale of Spice Assets and other assets, the addition of restructuring and other transition expenses associated with the DSD Restructuring Plan and an increase in selling expenses and general and administrative expenses.

Restructuring and other transition expenses decreased $(5.5) million in fiscal 2017, as compared to fiscal 2016 because most of the planned expenses related to our Corporate Relocation Plan had already been recognized in prior periods. Restructuring and other transition expenses in fiscal 2017 included $2.4 million in costs associated with the DSD Restructuring Plan.

In fiscal 2017, selling expenses and general and administrative expenses increased $7.0 million and $1.0 million, respectively. The increase in selling expenses in fiscal 2017 as compared to fiscal 2016 was primarily due to operations-related consulting expenses, sales training expenses and the addition of China Mist and West Coast Coffee, partially offset by lower workers' compensation expense, savings from utilizing 3PL for our long-haul distribution and the absence of expenses related to the institutional spice assets.

The increase in general and administrative expenses in fiscal 2017 was primarily due to non-recurring 2016 proxy contest expenses, acquisition-related expenses and higher depreciation expense, partially offset by lower workers' compensation expense, lower accruals for incentive compensation to eligible employees and lower retiree and employee medical expenses. In fiscal 2017, we incurred $5.2 million, or $0.31 per share, in expenses successfully defending against the 2016 proxy contest including non-recurring legal fees, financial advisory fees, proxy solicitor fees, mailing and printing costs of proxy solicitation materials and other costs and $1.7 million in acquisition-related expenses, including, legal fees and consulting costs. General and administrative expenses in fiscal 2017 also included $0.5 million in expenses related to the special stockholders' meeting held in June 2017.

The increase in selling expenses and general and administrative expenses was fully offset by the $37.4 million in net gain from the sale of the Torrance Facility, $(5.5) million decrease in restructuring and other transition expenses, $1.2 million in net gains from sales of other assets, primarily our Northern California branch property, and $0.9 million in earnout from the sale of Spice Assets, as compared to $5.6 million in net gains from the sale of Spice Assets and $2.8 million in net gains from sales of other assets, primarily real estate and equipment, in fiscal 2016.

Income from Operations

Income from operations in fiscal 2017 was $42.2 million as compared to $8.2 million in fiscal 2016 primarily due to net gains from the sales of the Torrance Facility and other real estate, lower restructuring and other transition expenses associated with the Corporate Relocation Plan and higher gross profit, partially offset by higher selling expenses, higher general and administrative expenses and lower net gains from the sale of Spice Assets.

Total Other (Expense) Income

Total other expense in fiscal 2017 was $(1.8) million as compared to total other income of $1.7 million in fiscal 2016. Total other expense in fiscal 2017 was primarily due to higher interest expense of $(2.2) million and higher net losses on derivative instruments and investments $(1.5) million, as compared to interest expense of $(0.4) million and net gains on derivative instruments and investments of $0.3 million in fiscal 2016. The net losses on derivative instruments and investments in fiscal 2017 and fiscal 2016, were primarily due to mark-to-market net gains and net losses on coffee-related derivative instruments not designated as accounting hedges. In fiscal 2017 and 2016, we recognized $(0.5) million and $(0.6) million in net losses on coffee-related derivative instruments designated as cash flow hedges due to ineffectiveness.

Interest expense in fiscal 2017 was $2.2 million as compared to $0.4 million in fiscal 2016. The higher interest expense in fiscal 2017 was primarily due to higher loan balance and non-recurring and non-cash interest expense related to the sale-leaseback of the Torrance Facility in the amount of $(0.7) million. We expect interest expense to increase in fiscal 2018 as compared to fiscal 2017 due to higher loan balance and additional borrowing under our credit facility for the anticipated acquisition of substantially all of the assets of Boyd Coffee Company, which transaction is expected to close in the second quarter of fiscal 2018.

Income Taxes

In fiscal 2017, we recorded income tax expense of $16.0 million compared to a tax benefit of $(80.0) million in fiscal 2016. In fiscal 2017, total deferred tax assets decreased by $6.2 million primarily due to a reduction in accrued liabilities and gains related to our defined benefit pension plans which were recorded in OCI. Total deferred tax liabilities decreased by $11.5 million primarily due to the deferral of gain from the sale of our Torrance Facility. In fiscal 2016, we released $80.3 million of the valuation allowance on deferred tax assets, resulting in unreserved deferred tax assets of $90.2 million at June 30, 2016 and a non-cash reduction in income tax expense, or a tax benefit of $80.0 million in fiscal 2016. In fiscal 2016, total deferred tax assets were largely unchanged because deferred tax assets related to our defined benefit pension plans and retiree medical plan increased due to losses recorded in OCI, and net operating loss related to deferred tax assets declined as losses were used to offset current income.

We cannot conclude that certain state net operating loss carryforwards and tax credit carryovers will be utilized before expiration. Accordingly, we will maintain a valuation allowance of $1.6 million to offset these deferred tax assets. We will continue to monitor all available evidence, both positive and negative, in determining whether it is more likely than not that we will realize our remaining deferred tax assets.

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

Net Income

As a result of the foregoing factors, net income was $24.4 million, or $1.45 per common share—diluted in fiscal 2017, as compared to $89.9 million, or $5.41 per common share—diluted, in fiscal 2016.

Fiscal Years Ended June 30, 2016 and 2015

Financial Highlights

- Gross profit increased 5.8% to $208.5 million in fiscal 2016 from $197.0 million in fiscal 2015.
- Gross margin increased to 38.3% in fiscal 2016 from 36.1% in fiscal 2015.

- Income from operations increased 149.1% to $8.2 million in fiscal 2016 from $3.3 million in fiscal 2015.
- Net income was $89.9 million, or $5.41 per diluted common share, in fiscal 2016, primarily due to non-cash income tax benefit of $80.3 million from the release of valuation allowance on deferred tax assets, compared to $0.7 million, or $0.04 per diluted common share, in fiscal 2015.

Fiscal 2016 Strategic Initiatives

In fiscal 2016, we undertook initiatives to reduce costs, streamline our supply chain, improve the breadth of products and services we provide to our customers, and better position the Company to attract new customers. These initiatives included the following:

- *Corporate Relocation Plan.* We continued to execute on the Corporate Relocation Plan that we initiated in the third quarter of fiscal 2015 by executing on the milestones described above under *Corporate Relocation*.
- *Third-Party Logistics.* During the second half of fiscal 2016, we replaced our long-haul fleet operations with 3PL. We expect that this transportation arrangement will reduce our fuel consumption and empty trailer miles, while improving our intermodal and trailer cube utilization.
- *Vendor Managed Inventory.* During the second half of fiscal 2016, we entered into a vendor managed inventory arrangement with a third party. We anticipate that the use of vendor managed inventory arrangements will result in a reduction in raw material, finished goods and logistics costs, while improving packaging innovation and fulfillment.
- *DSD Reorganization.* In fiscal 2016, we continued our efforts to improve efficiencies in our sales and product offerings. During the second half of fiscal 2016, we began to realign our DSD organization by undertaking initiatives intended to streamline communication and decision making, enhance branch organizational structure, and improve customer focus, including toward a comprehensive training program for all DSD team members to strengthen customer engagement. In fiscal 2016, we executed a regional test of our first advertising and lead generation campaign designed to improve our new customer acquisition rate within our DSD network.
- *Branch Consolidation and Property Sales.* In an effort to streamline our branch operations, in the fourth quarter of fiscal 2016 we sold two Northern California branch properties, with a third Northern California property under contract for sale, and we acquired a new branch facility in Hayward, California.
- *Introduction of Collaborative Coffee™ and Redesign of Un Momento® Branded Retail Products.* In an effort to address what we believe to be unmet consumer needs and improve margin within the retail grocery environment, in fiscal 2016, we launched Collaborative Coffee™, a new brand of ethically sourced, whole bean direct trade coffees into the retail grocery channel. In addition, we completed a packaging redesign and product portfolio optimization of our Un Momento® retail branded product line.

Net Sales

Net sales in fiscal 2016 decreased $1.5 million, or 0.3%, to $544.4 million from $545.9 million in fiscal 2015 primarily due to a decrease in net sales of coffee and tea products, partially offset by an increase in net sales of spice products and other beverages. Net sales in fiscal 2016 included $9.7 million in price decreases to customers utilizing commodity-based pricing arrangements, where the changes in the green coffee commodity costs are passed on to the customer, as compared to $9.7 million in price increases to customers utilizing such arrangements in fiscal 2015.

The change in net sales in fiscal 2016 compared to fiscal 2015 was due to the following:

(In millions)	Year Ended June 30, 2016 vs. 2015
Effect of change in unit sales	$ 14.4
Effect of pricing and product mix changes	(15.9)
Total decrease in net sales	$ (1.5)

Unit sales increased 3.6% in fiscal 2016 as compared to fiscal 2015, but average unit price decreased by 3.8% resulting in a decrease in net sales of 0.3%. The increase in unit sales was primarily due to a 3.4% increase in unit sales of roast and ground coffee products, which accounted for approximately 61% of our total net sales, while the decrease in average unit price was primarily due to the lower average unit price of roast and ground coffee products primarily driven by the pass-through of lower green coffee commodity purchase costs to our customers. In fiscal 2016, we processed and sold approximately 90.7 million pounds of green coffee as compared to 87.7 million pounds of green coffee processed and sold in fiscal 2015. There were no new product category introductions in fiscal 2016 or 2015 which had a material impact on our net sales.

The following table presents net sales aggregated by product category for the respective periods indicated:

	Year Ended June 30,			
	2016		2015	
(In thousands)	$	% of total	$	% of total
Net Sales by Product Category:				
Coffee (Roast & Ground)	$ 332,533	61%	$ 336,129	60%
Coffee (Frozen Liquid)	35,933	7%	37,428	7%
Tea (Iced & Hot)	25,096	4%	27,172	5%
Culinary	54,036	10%	54,208	11%
Spice(1)	35,789	6%	32,336	6%
Other beverages(2)	57,690	11%	54,933	10%
Net sales by product category	541,077	99%	542,206	99%
Fuel surcharge	3,305	1%	3,676	1%
Net sales	$ 544,382	100%	$ 545,882	100%

(1) Spice product net sales included $3.2 million in sale of inventory to Harris at cost in fiscal 2016 upon conclusion of the transition services provided by the Company in connection with the sale of Spice Assets.
(2) Includes all beverages other than coffee and tea.

Cost of Goods Sold

Cost of goods sold in fiscal 2016 decreased $12.9 million, or 3.7%, to $335.9 million, or 61.7% of net sales, from $348.8 million, or 63.9% of net sales, in fiscal 2015. The decrease in cost of goods sold as a percentage of net sales in fiscal 2016 was primarily due to lower coffee commodity costs compared to the same period in the prior fiscal year, supply chain efficiencies realized primarily through the consolidation of our former Torrance coffee production volumes into our Houston manufacturing facility, and other supply chain improvements. The average Arabica “C” market price of green coffee decreased 24.8% in fiscal 2016. Inventories decreased at the end of fiscal 2016 compared to fiscal 2015 primarily due to production consolidation and the sale of processed and unprocessed inventories to Harris at cost upon conclusion of the transition services provided by the Company in connection with the sale of Spice Assets. As a result, a beneficial effect of liquidation of LIFO inventory quantities in the amount of $4.2 million was recorded in cost of goods sold in fiscal 2016 reducing cost of goods sold by the same amount. In fiscal 2015 $4.9 million in beneficial effect of liquidation of LIFO inventory quantities was recorded.

Gross Profit

Gross profit in fiscal 2016 increased $11.4 million, or 5.8%, to $208.5 million from $197.0 million in the prior fiscal year and gross margin increased to 38.3% in fiscal 2016 from 36.1% in the prior fiscal year. The increase in gross profit was primarily due to lower coffee commodity costs compared to the same period in the prior fiscal year, supply chain efficiencies realized primarily through the consolidation of our former Torrance coffee production volumes into our Houston manufacturing facility and other supply chain improvements. Gross profit in fiscal 2016 and 2015 included the beneficial effect of the liquidation of LIFO inventory quantities in the amount of $4.2 million and $4.9 million, respectively.

Operating Expenses

In fiscal 2016, operating expenses increased $6.5 million, or 3.4%, to $200.3 million or 36.8% of net sales, from $193.8 million, or 35.5% of net sales, in fiscal 2015, primarily due to higher general and administrative expenses and restructuring and other transition expenses associated with the Corporate Relocation Plan as compared to the prior fiscal year. General and administrative expenses and restructuring and other transition expenses increased $10.8 million and $6.1 million, respectively, in fiscal 2016, as compared to the prior fiscal year, partially offset by a $1.6 million decrease in selling expenses. The increase in general and administrative expenses in fiscal 2016 as compared to fiscal 2015 was primarily due to higher accruals for incentive compensation to eligible employees as compared to a reduction in accrual for incentive compensation to eligible employees in the prior fiscal year, an increase in employee and retiree medical costs, workers' compensation expense and the write-off of a long-term loan receivable that was deemed uncollectible. The increase in general and administrative expenses was partially offset by $5.6 million in net gains from sale of Spice Assets and $2.8 million in net gains from sales of assets, primarily real estate, as compared to $(0.4) million in net losses from sales of assets, primarily vehicles, in fiscal 2015. The decrease in selling expenses in fiscal 2016 as compared to fiscal 2015 was primarily due to lower depreciation and amortization expense and lower vehicle, fuel and freight expenses, partially offset by higher accruals for incentive compensation for eligible employees as compared to a reduction in accrual for incentive compensation to eligible employees in the prior fiscal year.

Income from Operations

Income from operations in fiscal 2016 was $8.2 million as compared to $3.3 million in fiscal 2015 primarily due to higher gross profit, net gains from the sale of Spice Assets and certain real estate assets and lower selling expenses, partially offset by higher restructuring and other transition expenses associated with the Corporate Relocation Plan and general and administrative expenses.

Total Other Income (Expense)

Total other income in fiscal 2016 was $1.7 million compared to total other expense of $(2.2) million in fiscal 2015, primarily due to net gains on derivative instruments and investments of $0.3 million in fiscal 2016 compared to net losses on derivative instruments and investments of $(3.3) million in fiscal 2015. The net gains and net losses on derivative instruments and investments in fiscal 2016 and fiscal 2015, respectively, were primarily due to mark-to-market net gains and net losses on coffee-related derivative instruments not designated as accounting hedges. Net gains on such coffee-related derivative instruments in fiscal 2016 were $0.3 million compared to net losses of $(3.0) million in fiscal 2015. In fiscal 2016 and 2015, we recognized $(0.6) million and $(0.3) million in net losses on coffee-related derivative instruments designated as cash flow hedges due to ineffectiveness.

Income Taxes

In fiscal 2016, we released $80.3 million of the valuation allowance on deferred tax assets, resulting in unreserved deferred tax assets of $90.2 million at June 30, 2016 and a non-cash reduction in income tax expense, or a tax benefit of $80.0 million in fiscal 2016 as compared to income tax expense of $(0.4) million in fiscal 2015. In fiscal 2016, total deferred tax assets were largely unchanged. Deferred tax assets related to our defined benefit pension plans and retiree medical plan increased due to losses recorded in OCI, and net operating loss related to deferred tax assets declined as losses were used to offset current income. In fiscal 2015, deferred tax assets increased primarily due to losses recorded in Other comprehensive income (loss) (“OCI”) related to coffee-related derivative instruments, our defined benefit pension plans and retiree medical plan.

Since 2009, a full valuation allowance has been maintained to offset our deferred tax assets. In the fourth quarter of fiscal 2016, after analyzing the available positive and negative evidence, we concluded that it is more likely than not that we will utilize a portion of our tax loss carryforwards. In this analysis, we considered the following items of positive evidence: twelve quarters of our cumulative gain position and our forecasted future earnings; completion of parts of our restructuring plan which significantly reduced costs; and sale of our Torrance Facility which is expected to result in a significant gain in the first quarter of fiscal 2017. We also considered the following items of negative evidence: large pension related OCI losses that we recorded in the prior twelve quarters and potential expiration of certain state unused net operating loss carryforwards and credits.

We cannot conclude that certain state net operating loss carryforwards and tax credit carryovers will be utilized before expiration. Accordingly, we will maintain a valuation allowance of $1.6 million to offset these deferred tax assets. We will continue to monitor all available evidence, both positive and negative, in determining whether it is more likely than not that the Company will realize its remaining deferred tax assets.

Net Income

As a result of the foregoing factors, net income was $89.9 million, or $5.41 per diluted common share, in fiscal 2016 as compared to $0.7 million, or $0.04 per diluted common share, in fiscal 2015.

Non-GAAP Financial Measures

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

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

- restructuring and other transition expenses;
- net gains and losses from sales of assets;
- non-cash income tax expense (benefit), including the release of valuation allowance on deferred tax assets;
- non-recurring 2016 proxy contest-related expenses;
- 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 income excluding the impact of:

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

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

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

- income taxes;
- interest expense;
- income from short-term investments;
- depreciation and amortization expense;
- ESOP and share-based compensation expense;
- non-cash impairment losses;
- non-cash pension withdrawal expense;
- other similar non-cash expenses;
- restructuring and other transition expenses;
- net gains and losses from sales of assets;
- 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%. There was no similar adjustment for non-cash income tax expense in the comparable period of the prior fiscal year due to the valuation allowance recorded against the Company's deferred tax assets. We also modified Adjusted EBITDA and Adjusted EBITDA Margin to exclude 2016 proxy contest-related expenses. These modifications to our non-GAAP financial measures were made because such expenses are not reflective of our ongoing operating results and adjusting for them will help investors with comparability of our results. The historical presentation of the non-GAAP financial measures was not affected by these modifications.

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

Beginning in the third quarter of fiscal 2017, we modified the calculation of Adjusted EBITDA and Adjusted EBITDA Margin to exclude income from our short-term investments because we believe excluding income generated from our investment portfolio is a measure more reflective of our operating results. The historical presentation of Adjusted EBITDA 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. 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 income to Non-GAAP net income and reported net income per common share-diluted to Non-GAAP net income per diluted common share (unaudited):

	Year Ended June 30,		
(In thousands)	**2017**	**2016**	**2015**
Net income, as reported	$ 24,400	$ 89,918	$ 652
Restructuring and other transition expenses	11,016	16,533	10,432
Net gain from sale of Torrance Facility	(37,449)	—	—
Net gains from sale of Spice Assets	(919)	(5,603)	—
Net (gains) losses from sales of other assets	(1,210)	(2,802)	394
Non-recurring 2016 proxy contest-related expenses	5,186	—	—
Non-cash income tax benefit, including release of valuation allowance on deferred tax assets	—	(80,439)	—
Interest expense on sale-leaseback financing obligation	681	—	—
Acquisition and integration costs(1)	1,734	—	—
Income tax expense on non-GAAP adjustments	8,175	—	—
Non-GAAP net income(1)	$ 11,614	$ 17,607	$ 11,478
Net income per common share—diluted, as reported	$ 1.45	$ 5.41	$ 0.04
Impact of restructuring and other transition expenses	$ 0.66	$ 1.00	$ 0.64
Impact of net gain from sale of Torrance Facility	$ (2.23)	$ —	$ —
Impact of net gains from sale of Spice Assets	$ (0.05)	$ (0.34)	$ —
Impact of net gains from sales of other assets	$ (0.07)	$ (0.17)	$ 0.03
Impact of non-recurring 2016 proxy contest-related expenses	$ 0.31	$ —	$ —
Impact of non-cash income tax benefit, including release of valuation allowance on deferred tax assets	$ —	$ (4.84)	$ —
Impact of interest expense on sale-leaseback financing obligation	$ 0.04	$ —	$ —
Impact of acquisition and integration costs(1)	$ 0.10	$ —	$ —
Impact of income tax expense on non-GAAP adjustments	$ 0.49	$ —	$ —
Non-GAAP net income per diluted common share(1)	$ 0.70	$ 1.06	$ 0.71

(1) Acquisition and integration costs related to Boyd Coffee transaction only and include $244 and $1,490 incurred in the third and fourth quarters of fiscal 2017, respectively. In the interim disclosures, while the Boyd Coffee Company transaction remained confidential, the expenses incurred in the third quarter were included in operating expenses and described as consulting expenses. Acquisition and integration costs incurred in prior periods were not material to the Company's results of operations.

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

	Year Ended June 30,		
(In thousands)	2017	2016	2015
Net income, as reported	$ 24,400	$ 89,918	$ 652
Income tax expense (benefit)	15,954	(79,997)	402
Interest expense	2,185	425	769
Depreciation and amortization expense	22,970	20,774	24,179
EBITDA	$ 65,509	$ 31,120	$ 26,002
EBITDA Margin	12.1%	5.7%	4.8%

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

	Year Ended June 30,		
(In thousands)	2017	2016	2015
Net income, as reported	$ 24,400	$ 89,918	$ 652
Income tax expense (benefit)	15,954	(79,997)	402
Interest expense	2,185	425	769
Income from short-term investments	(1,853)	(2,204)	(1,251)
Depreciation and amortization expense	22,970	20,774	24,179
ESOP and share-based compensation expense	3,959	4,342	5,691
Restructuring and other transition expenses	11,016	16,533	10,432
Net gain from sale of Torrance Facility	(37,449)	—	—
Net gains from sale of Spice Assets	(919)	(5,603)	—
Net (gains) losses from sales of other assets	(1,210)	(2,802)	394
Non-recurring proxy contest-related expenses	5,186	—	—
Acquisition and integration costs(1)	1,734	—	—
Adjusted EBITDA(1)	$ 45,973	$ 41,386	$ 41,268
Adjusted EBITDA Margin(1)	8.5%	7.6%	7.6%

(1) Acquisition and integration costs related to Boyd Coffee transaction only and include $244 and $1,490 incurred in the third and fourth quarters of fiscal 2017, respectively. In the interim disclosures, while the Boyd Coffee Company transaction remained confidential, the expenses incurred in the third quarter were included in operating expenses and described as consulting expenses. Acquisition and integration costs incurred in prior periods were not material to the Company's results of operations.

Liquidity, Capital Resources and Financial Condition

Credit Facility

We maintain a senior secured revolving credit facility (the "Revolving Facility") with JPMorgan Chase Bank, N.A. and SunTrust Bank (collectively, the "Lenders"), with revolving commitments of $75.0 million as of June 30, 2017 and 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. As of June 30, 2017, the commitment fee ranges from 0.25% to 0.375% per annum based on average revolver usage. Outstanding obligations are collateralized by all of our assets, excluding certain real property not included in the borrowing base, machinery and equipment (other than inventory), and our preferred stock portfolio. Borrowings under the Revolving Facility bear interest based on average historical excess availability levels with a range of PRIME - 0.25% to PRIME + 0.50% or Adjusted LIBO Rate + 1.25% to Adjusted LIBO Rate + 2.00%. We are subject to a variety of affirmative and negative covenants of types customary in an asset-based lending facility, including financial covenants relating to the maintenance of a fixed charge coverage ratio in certain circumstances, and the right of the Lenders to establish reserve requirements, which may reduce the amount of credit otherwise available to us. We are allowed to pay dividends, provided, among other things, certain excess availability requirements are met, and no event of default exists or has occurred and is continuing as of the date of any such payment and after giving effect thereto.

On August 25, 2017, we amended the Revolving Facility (the "Amended Credit Agreement") to, among other things: increase the aggregate commitments thereunder to $125.0 million; increase the advance rate on eligible accounts receivable and the amount of eligible real property which can be included in the borrowing base; increase the margin of 0.375% per annum up to an amount equal to the value of eligible real property in the borrowing base; reduce the commitment fee to a flat fee of 0.25% per annum irrespective of average revolver usage, and extend the maturity date of the Revolving Facility from March 2, 2020 to August 25, 2022. See Note 26, *Subsequent Events—Amendment to Revolving Facility,* of the Notes to Consolidated Financial Statements included in Part II, Item 8 of this report.

At June 30, 2017, we were eligible to borrow up to a total of $55.6 million under the Revolving Facility and had outstanding borrowings of $27.6 million, utilized $0.1 million of the letters of credit sublimit, and had excess availability under the Revolving Facility of $27.9 million. At June 30, 2017, the weighted average interest rate on our outstanding borrowings under the Revolving Facility was 3.02%. At June 30, 2017, we were in compliance with all of the restrictive covenants under the Revolving Facility.

At August 31, 2017, we had estimated outstanding borrowings of $27.5 million, utilized $1.1 million of the letters of credit sublimit, and had excess availability under the Revolving Facility of $72.4 million pursuant to the Amended Credit Agreement. See Note 26, Subsequent Events—Amendment to Revolving Facility, of the Notes to Consolidated Financial Statements included in Part II, Item 8 of this report. At August 31, 2017, the weighted average interest rate on our outstanding borrowings under the Revolving Facility was 3.36%.

Liquidity

We generally finance our operations through cash flows from operations and borrowings under our Revolving Facility described above. At June 30, 2017, we had $6.2 million in cash and cash equivalents and $0.4 million in short-term investments. We believe our Revolving Facility, as amended, to the extent available, with its $50.0 million accordion feature, in addition to our cash flows from operations and other liquid assets, 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 $42.1 million in fiscal 2017 compared to $27.6 million in fiscal 2016 and $26.9 million in fiscal 2015. The higher level of net cash provided by operating activities in fiscal 2017 was primarily due to the increase in deferred tax liabilities from non-cash income tax expense recorded in fiscal 2017 and cash inflows from the sale of substantially all of our preferred stock portfolio, net of purchases, to fund expenditures associated with our New Facility in Northlake, Texas. Decreases in derivative assets, increases in derivative liabilities, and increases in accounts payable balances also contributed to the cash inflows in fiscal 2017. Cash inflows from operating activities were partially offset by cash outflows from increases in inventories, reduction in other long-term liabilities, payments of accrued payroll expenses and reduction in postretirement benefit liability. Inventories were higher at the end of fiscal 2017 due to the commencement of the New Facility's manufacturing operations and incremental inventory from China Mist and West Coast Coffee as compared to lower levels of inventory at the Torrance Facility at the end of fiscal 2016 due to its anticipated closing.

In fiscal 2016, the higher level of net cash provided by operating activities compared to fiscal 2015 was primarily due to higher net income and a higher level of cash inflows from operating activities. The increase in net income was primarily due to non-cash income tax benefit resulting from the release of valuation allowance on deferred tax assets. The higher level of cash inflows from operating activities was primarily due to higher proceeds from sales of short-term investments, accruals for incentive compensation payments to eligible employees and a decrease in inventory balances, partially offset by higher cash outflows from increases in derivative assets and accounts receivable balances, purchases of short-term investments and payments for restructuring and other transition expenses. Inventories decreased at the end of fiscal 2016 compared to fiscal 2015 primarily due to production consolidation, and the sale of processed and unprocessed inventories to Harris at cost upon conclusion of the transition services provided by the Company in connection with the sale of Spice Assets. At June 30, 2016, we had a net gain position in our margin accounts for coffee-related derivative instruments resulting in the release of restriction of the use of $1.0 million of cash in these accounts, which contributed to higher cash inflows in fiscal 2016.

In fiscal 2015, the lower level of net cash provided by operating activities as compared to the prior fiscal year was due to lower net income and a higher level of cash outflows from operating activities. Cash outflows were primarily from payments of accounts payable balances including the payment of expenses associated with the Corporate Relocation Plan, payroll expenses including accrued bonuses and restriction of cash held in margin accounts for coffee-related derivative instruments. Cash outflows were partially offset by cash inflows from a decrease in inventory balances. Inventory balances decreased in fiscal 2015 compared to the prior fiscal year primarily due to the consolidation of coffee production from the Torrance production facility with the Houston and Portland production facilities pursuant to our Corporate Relocation Plan. At June 30, 2015, we had a net loss position in our margin accounts for coffee-related derivative instruments resulting in restriction of the use of $1.0 million of cash in these accounts, which contributed to lower cash inflows in fiscal 2015.

Net cash used in investing activities was $106.7 million in fiscal 2017 as compared to $39.5 million in fiscal 2016 and $20.1 million in fiscal 2015. In fiscal 2017, net cash used in investing activities included $25.9 million for the acquisitions of China Mist and West Coast Coffee, $45.2 million for purchases of property, plant and equipment including $25.9 million for the New Facility and $39.8 million for purchases of construction-in-progress assets in connection with the construction of the New Facility as the deemed owner under the lease arrangement, partially offset by proceeds from the sale of property, plant and equipment of $4.1 million, primarily real estate. In fiscal 2016, net cash used in investing activities included $31.1 million for purchases of property, plant and equipment including $4.4 million in machinery and equipment for the New Facility and $19.4 million in purchases of construction-in-progress assets in connection with the construction of the New Facility as the deemed owner under the lease arrangement, partially offset by $10.9 million in proceeds from sales of assets, primarily spice assets and real estate. In fiscal 2015, net cash used in investing activities included $1.2 million in payments in connection with the RLC Acquisition and $19.2 million for purchases of property, plant and equipment, partially offset by proceeds from sales of assets, primarily vehicles, of $0.3 million.

Net cash provided by financing activities in fiscal 2017 was $49.8 million as compared to $17.8 million in fiscal 2016 and net cash used in financing activities of $3.6 million in fiscal 2015. Net cash provided by financing activities in fiscal 2017 included proceeds from sale-leaseback financing of $42.5 million, net borrowings of $27.5 million, $16.3 million in proceeds from lease financing in connection with the construction of the New Facility as the deemed owner under the lease arrangement and $0.7 million in proceeds from stock option exercises, partially offset by repayments of sale-leaseback financing of $35.8 million, $1.4 million used to pay capital lease obligations and $38,000 in tax withholding payments related to net share settlement of equity awards.

Net cash provided by financing activities in fiscal 2016 included $19.4 million in proceeds from lease financing in connection with the construction of the New Facility as the deemed owner under the lease arrangement and $1.7 million in proceeds from stock option exercises, partially offset by $3.1 million used to pay capital lease obligations, $0.2 million in tax withholding payments related to net share settlement of equity awards and net repayments on our credit facility of $31,000. Net cash used in financing activities in fiscal 2015 included $3.9 million used to pay capital lease obligations, $0.6 million in net repayments on our credit facility, $0.6 million in deferred financing costs for the Revolving Facility and $0.1 million in tax withholding payments related to net share settlement of equity awards, partially offset by $1.5 million in proceeds from stock option exercises.

Sale of Spice Assets

In order to focus on our core product offerings, in the second quarter of fiscal 2016, we completed the sale of certain assets associated with our manufacture, processing and distribution of raw, processed and blended spices and certain other culinary products to Harris. See Note 6, *Sales of Assets—Sale of Spice Assets*, of the Notes to Consolidated Financial Statements included in Part II, Item 8 of this report.

Sale of Torrance Facility

On July 15, 2016, we completed the sale of the Torrance Facility consisting of approximately 665,000 square feet of buildings located on approximately 20.33 acres of land, for an aggregate cash sale price of $43.0 million, which sale price was subject to customary adjustments for closing costs and documentary transfer taxes. Cash proceeds from the sale of the Torrance Facility were $42.5 million. Following the closing of the sale, we leased back the Torrance Facility on a triple net basis through October 31, 2016 at zero base rent, and exercised two one-month extensions at a base rent of $100,000 per month. We vacated the Torrance Facility in December 2016 and concluded the leaseback transaction. Accordingly, in the fiscal year ended June 30, 2017, we recognized a net gain from the sale of the Torrance Facility in the amount of $37.4 million, including non-cash interest expense of $0.7 million and non-cash rent expense of $1.4 million, representing the rent for the zero base rent period previously recorded in "Other current liabilities" and removed the amounts recorded in "Assets Held for Sale" and the "Sale-leaseback financing obligation" on our consolidated balance sheet. See Note 6, *Sale of Assets—Sale of Torrance Facility,* and Note 7, *Assets Held for Sale*, of the Notes to Consolidated Financial Statements included in Part II, Item 8 of this report.

Acquisitions

On October 11, 2016, we acquired substantially all of the assets and certain specified liabilities of China Mist for aggregate purchase consideration of $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 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 Consolidated Financial Statements included in Part II, Item 8 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 fiscal year ended June 30, 2017 consisted of $1.1 million in employee-related costs and $1.3 million in other related costs. As of June 30, 2017, we had paid a total of $1.7 million of these costs and had a balance of $0.7 million in DSD Restructuring Plan-related liabilities on our 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 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 through June 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 consolidated statements of operations. We completed the Corporate Relocation Plan in the fourth quarter of fiscal 2017 and have $0.3 million in accrued costs remaining to be paid in fiscal 2018. We also recognized from inception through June 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. On July 13, 2017, we received correspondence from the WCT Pension Trust stating that we had liability for a share of the WCTPP unfunded vested benefits based on the WCT Pension Trust’s claim that certain of our employment actions resulting from the Corporate Relocation Plan amounted to a partial withdrawal from the WCTPP. See Note 4, *Restructuring Plans—Corporate Relocation Plan*, and Note 26, *Subsequent Events-Western Conference of Teamsters Pension Trust*, of the Notes to Consolidated Financial Statements included in Part I, Item 1 of this report.

Purchase Option Exercise

On September 15, 2016, we closed the purchase option and acquired the land and the partially constructed New Facility located thereon for an aggregate purchase price of $42.5 million, consisting of the purchase option price of $42.0 million based on actual construction costs incurred for the partially constructed New Facility as of the Purchase Option Closing Date, plus the option exercise fee, plus amounts paid in respect of real estate commissions, title insurance, and recording fees. The Purchase Price was paid in cash from proceeds received from the sale of the Torrance Facility. Upon closing of the purchase option, we recorded the aggregate purchase price of the New Facility in “Property, plant and equipment, net” on our consolidated balance sheet. The asset related to the New Facility lease obligation included in “Property, plant and equipment, net,” the offsetting liability for the lease obligation included in “Other long-term liabilities” and the rent expense related to the land were reversed. See Note 5, *New Facility—Lease Agreement and Purchase Option Exercise*, of the Notes to Consolidated Financial Statements included in Part II, Item 8 of this report.

Amended Building Contract

On September 17, 2016, we and The Haskell Company (“Builder”) entered into a Change Order, which, among other things, amended the building contract previously entered into between us and Builder to provide a guaranteed maximum price and the basis for the price and the scope of Builder’s services in connection with the construction of the New Facility (the “Amended Building Contract”). Pursuant to the Amended Building Contract, we will pay Builder up to $21.9 million for Builder’s services in connection with the pre-construction and construction services, including specialized industrial design and construction work in connection with Builder’s construction of certain production equipment that will be installed in portions of the New Facility. In April 2017, we entered into a change order to change the scope of work which added $0.6 million to the Amended Building Contract. Builder's work has been completed as of June 30, 2017. See Note 5, *New Facility—Amended Building Contract*, and Note 23, *Commitments and Contingencies* of the Notes to Consolidated Financial Statements included in Part II, Item 8 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 June 30, 2017, we have incurred an aggregate of $60.8 million and have outstanding contractual obligations of $1.6 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 June 30, 2017, including $20.3 million under the Amended Building Contract, and have outstanding contractual obligations of $2.8 million as of June 30, 2017. See Note 5, *New Facility*, and Note 23, *Commitments and Contingencies*, of the Notes to Consolidated Financial Statements included in Part II, Item 8 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 June 30, 2017 as compared to the final budget:

	Expenditures Incurred			Budget	
(In thousands)	Fiscal Year Ended June 30, 2017	Through Fiscal Year Ended June 30, 2016	Total	Lower bound	Upper bound
Building and facilities, including land	$ 32,660	$ 28,110	$ 60,770	$ 55,000	$ 60,000
Machinery and equipment; furniture and fixtures	28,798	4,443	$ 33,241	35,000	39,000
Total	**$ 61,458**	**$ 32,553**	**$ 94,011**	**$ 90,000**	**$ 99,000**

Capital Expenditures

For the fiscal years ended June 30, 2017, 2016 and 2015, our capital expenditures paid were as follows:

	June 30,		
(In thousands)	2017	2016	2015
Coffee brewing equipment	$ 10,758	$ 8,375	$ 10,709
Building and facilities	345	3,354	1,460
Vehicles, machinery and equipment	7,445	10,254	6,079
Software, office furniture and equipment	698	3,165	946
Land	—	1,458	—
Capital expenditures, excluding New Facility	$ 19,246	$ 26,606	$ 19,194
New Facility:			
Building and facilities, including land(1)	$ 39,754	$ 19,426	$ —
Machinery and equipment	20,089	4,443	22
Software, office furniture and equipment	5,860	—	—
Capital expenditures, New Facility	$ 65,703	$ 23,869	$ 22
Total capital expenditures(1)	$ 84,949	$ 50,475	$ 19,216

(1) Includes $19.4 million in purchase of construction-in-progress assets for New Facility in fiscal 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 $23.0 million, $20.8 million and $24.2 million in fiscal 2017, 2016 and 2015, respectively. We anticipate our depreciation and amortization expense will be approximately $8.0 million to $8.5 million per quarter in fiscal 2018 based on our existing fixed asset commitments and the useful lives of our intangible assets.

Working Capital

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

(In thousands)	June 30, 2017	June 30, 2016
Current assets	$ 117,164	$ 153,365
Current liabilities	97,267	56,837
Working capital	$ 19,897	$ 96,528

Contractual Obligations

The following table contains information regarding total contractual obligations as of June 30, 2017, including capital leases:

	Payment due by period				
(In thousands)	Total	Less Than One Year	1-3 Years	3-5 Years	More Than 5 Years
Contractual obligations:					
Operating lease obligations	$ 12,009	$ 4,907	$ 6,147	$ 955	$ —
New Facility construction and equipment contracts(1)	4,439	4,439	—	—	—
Capital lease obligations(2)	1,235	994	237	4	—
Pension plan obligations(3)	92,677	14,097	16,390	17,320	44,870
Postretirement benefits other than pension plans(4)	15,801	5,880	1,960	2,131	5,830
Revolving credit facility	27,621	27,621	—	—	—
Purchase commitments(5)	76,359	76,359	—	—	—
Total contractual obligations	$ 230,141	$ 134,297	$ 24,734	$ 20,410	$ 50,700

(1) Includes $1.6 million in outstanding contractual obligations for the construction of the New Facility and $2.8 million in outstanding contractual obligations for the purchase of machinery and equipment for the New Facility, including $2.2 million under the Amended Building Contract. See Note 5, *New Facility*, of the Notes to Consolidated Financial Statements included in Part II, Item 8 of this report.

(2) Includes imputed interest of $40,000.

(3) Includes $86.5 million in estimated future benefit payments on single employer pension plan obligations, $4.0 million in estimated payments in fiscal 2018 towards settlement of withdrawal liability associated with the Company's withdrawal from the Local 807 Labor Management Pension Plan and $2.2 million in estimated fiscal 2018 contributions to multiemployer pension plans. See Note 15, *Employee Benefit Plans,* of the Notes to Consolidated Financial Statements included in Part II, Item 8 of this report.

(4) Includes $10.8 million in estimated future benefit payments on single employer postretirement plan obligations and $5.0 million in estimated 2018 contributions to multiemployer plans other than pension plans. See Note 15, *Employee Benefit Plans,* of the Notes to Consolidated Financial Statements included in Part II, Item 8 of this report.

(5) Purchase commitments include commitments under coffee purchase contracts for which all delivery terms have been finalized but the related coffee has not been received as of June 30, 2017. Amounts shown in the table above: (a) include all coffee purchase contracts that the Company considers to be from normal purchases; and (b) do not include amounts related to derivative instruments that are recorded at fair value on the Company's consolidated balance sheets.

As of June 30, 2017, we had committed to purchase green coffee inventory totaling $66.7 million under fixed-price contracts, $3.5 million in equipment for the New Facility and $6.1 million in other purchases under non-cancelable purchase orders.

Certain of our business acquisitions involve the payment of contingent consideration. Certain of these payments are based on achievement of certain sales levels during the earn-out period and, consequently, we cannot currently determine the total payments. However, we have developed an estimate of the maximum potential contingent consideration for each of our acquisitions with an outstanding earn-out obligation. The estimated maximum fair value of future contingent consideration that we could be required to pay associated with our business acquisitions is $1.2 million recorded in “Other current liabilities” and “Other long-term liabilities” on our consolidated balance sheet at June 30, 2017 (see Note 19, *Other Current Liabilities* and Note 20, *Other Long-Term Liabilities,* of the Notes to Consolidated Financial Statements included in Part II, Item 8 of this report. Subject to achievement of certain milestones, the contingent consideration is estimated to be paid before the end of calendar 2019. Since it is not possible to estimate when, or even if, the acquired companies will reach their performance milestones or the amount of contingent consideration payable based on future sales, the maximum contingent consideration has not been included in the table above.

Off-Balance Sheet Arrangements

We have no off-balance sheet arrangements.

Critical Accounting Policies and Estimates

Management’s discussion and analysis of financial condition and results of operations is based upon our consolidated financial statements, which have been prepared in accordance with GAAP. Our significant accounting policies are discussed in Note 2, *Summary of Significant Accounting Policies*, of the Notes to Consolidated Financial Statements, included in Part II, Item 8 of this report. The preparation of these financial statements requires us to make estimates, judgments and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. On an ongoing basis, we evaluate our estimates, including those related to inventory valuation, including LIFO reserves, valuation of goodwill and intangible assets, deferred tax assets, liabilities relating to retirement benefits, liabilities resulting from self-insurance, tax liabilities and litigation. We base our estimates, judgments and assumptions on historical experience and other relevant factors that are believed to be reasonable based on information available to us at the time these estimates are made.

While we believe that the historical experience and other factors considered provide a meaningful basis for the accounting policies applied in the preparation of the consolidated financial statements, actual results may differ from these estimates, which could require us to make adjustments to these estimates in future periods.

We believe that the estimates, judgments and assumptions involved in the accounting policies described below require the most subjective judgment and have the greatest potential impact on our financial statements, so we consider these to be our critical accounting policies. Our senior management has reviewed the development and selection of these critical accounting policies and estimates, and their related disclosure in this report, with the Audit Committee of our Board of Directors.

Exposure to Commodity Price Fluctuations and Derivative Instruments

We are exposed to commodity price risk arising from changes in the market price of green coffee. In general, increases in the price of green coffee could cause our cost of goods sold to increase and, if not offset by product price increases, could negatively affect our financial condition and results of operations. As a result, our business model strives to reduce the impact of green coffee price fluctuations on our financial results and to protect and stabilize our margins, principally through customer arrangements and derivative instruments.

Customers generally pay for our products based either on an announced price schedule or under commodity-based pricing arrangements whereby the changes in green coffee commodity and other input costs are passed through to the customer. The pricing schedule is generally subject to adjustment, either on contractual terms or in accordance with periodic product price adjustments, typically monthly, resulting in, at the least, a 30-day lag in our ability to correlate the changes in our prices with fluctuations in the cost of raw materials and other inputs.

In addition to our customer arrangements, we utilize derivative instruments to reduce further the impact of changing green coffee commodity prices. We purchase over-the-counter coffee derivative instruments to enable us to lock in the price of green coffee commodity purchases. These derivative instruments 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. Notwithstanding this customer direction, pursuant to Accounting Standards Codification ("ASC") 815, "Derivatives and Hedging," we are considered the owner of these derivative instruments and, therefore, we are required to account for them as such. In the event the customer fails to purchase the products associated with the underlying derivative instruments for which the price has been locked-in on behalf of the customer, we expect that such derivative instruments will be assigned to, and assumed by, the customer in accordance with contractual terms or, in the absence of such terms, in accordance with standard industry custom and practice. In the event the customer fails to assume such derivative instruments, we will remain obligated on the derivative instruments at settlement. We generally settle derivative instruments to coincide with the receipt of the purchased green coffee or apply the derivative instruments to purchase orders effectively fixing the cost of in-bound green coffee purchases. As of June 30, 2017 and 2016, we had 35.2 million and 34.0 million pounds of green coffee covered under coffee-related derivative instruments, respectively. We do not purchase any derivative instruments to hedge cost fluctuations of any commodities other than green coffee.

The fair value of derivative instruments is based upon broker quotes. 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. The effective portion of the change in fair value of the derivative is reported in accumulated other comprehensive income (loss) ("AOCI") on our consolidated balance sheet and subsequently reclassified into cost of goods sold in the period or periods when the hedged transaction affects earnings. At June 30, 2017, approximately 94% of our outstanding coffee-related derivative instruments, representing 33.0 million pounds of forecasted green coffee purchases, were designated as cash flow hedges. At June 30, 2016, approximately 96% of our outstanding coffee-related derivative instruments, representing 32.6 million pounds of forecasted green coffee purchases, were designated as cash flow hedges. The portion of open hedging contracts that are not 100% effective as cash flow hedges and those that are not designated as accounting hedges are marked to period-end market price and unrealized gains or losses based on whether the period-end market price was higher or lower than the price we locked-in are recognized in our financial results.

Our risk management practices reduce but do not eliminate our exposure to changing green coffee prices. While we have limited our exposure to unfavorable green coffee price changes, we have also limited our ability to benefit from favorable price changes. Further, our counterparty may require that we post cash collateral if the fair value of our derivative liabilities exceed the amount of credit granted by such counterparty, thereby reducing our liquidity. At June 30, 2017 and 2016, because we had a net gain position in our coffee-related derivative margin accounts, none of the cash in these accounts was restricted. Changes in commodity prices and the number of coffee-related derivative instruments held could have a significant impact on cash deposit requirements under our broker and counterparty agreements.

Inventories

Inventories are valued at the lower of cost or market. We account for coffee, tea and culinary products on the last in, first out ("LIFO") basis, and coffee brewing equipment parts on the first in, first out ("FIFO") basis. We regularly evaluate these inventories to determine the provision for obsolete and slow-moving inventory. Inventory reserves are based on inventory obsolescence trends, historical experience and application of specific identification. At the end of each quarter, we record the expected effect of the liquidation of LIFO inventory quantities, if any, and record the actual impact at fiscal year-end. An actual valuation of inventory under the LIFO method is made only at the end of each fiscal year based on the inventory levels and costs at that time. If inventory quantities decline at the end of the fiscal year compared to the beginning of the fiscal year, the reduction results in the liquidation of LIFO inventory quantities carried at the cost prevailing in prior years. This LIFO inventory liquidation may result in a decrease or increase in cost of goods sold depending on whether the cost prevailing in prior years was lower or higher, respectively, than the current year cost. As these estimates are subject to many forces beyond management's control, interim results are subject to the final fiscal year-end LIFO inventory valuation.

Impairment of Goodwill and Indefinite-lived Intangible Assets

We account for our goodwill and indefinite-lived intangible assets in accordance with Accounting Standards Codification ("ASC") 350, "Intangibles-Goodwill and Other" ("ASC 350"). Goodwill and other indefinite-lived intangible assets are not amortized but instead are reviewed for impairment annually, or more frequently if an event occurs or circumstances change which indicate that an asset might be impaired. We perform a qualitative assessment of goodwill and indefinite-lived intangible assets on our consolidated balance sheets, to determine if there is a more likely than not indication that our goodwill and indefinite-lived intangible assets are impaired as of June 30. If the indicators of impairment are present, we perform a quantitative test to determine the impairment of these assets as of the measurement date.

Testing for impairment of goodwill is a two-step process. The first step requires us to compare the fair value of our reporting units to the carrying value of the reporting units, including goodwill. If the fair value of a reporting unit is less than its carrying value, goodwill of the reporting unit is potentially impaired and we then complete step two to measure the impairment loss, if any. The second step requires the calculation of the implied fair value of goodwill, which is the residual fair value remaining after deducting the fair value of all tangible and intangible net assets of the reporting unit from the fair value of the reporting unit. If the implied fair value of goodwill is less than the carrying amount of goodwill, an impairment loss is recognized equal to the difference.

Indefinite-lived intangible assets are tested for impairment by comparing their fair values to their carrying values. An impairment charge is recorded if the estimated fair value of such assets has decreased below their carrying value.

Other Intangible Assets

Other intangible assets consist of finite-lived intangible assets including acquired recipes, non-compete agreements, customer relationships, trade names, trademarks and a brand name. These assets are amortized over their estimated useful lives and are tested for impairment by grouping them with other assets at the lowest level for which identifiable cash flows are largely independent of the cash flows of other groups of assets and liabilities. The estimated future cash flows are based upon, among other things, assumptions about expected future operating performance and may differ from actual cash flows. If the sum of the projected undiscounted cash flows (excluding interest) is less than the carrying value of the assets, the assets will be written down to the estimated fair value in the period in which the determination is made. We review the recoverability of our long-lived assets whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable.

Self-Insurance

We use a combination of insurance and self-insurance mechanisms to provide for the potential liability of certain risks including workers' compensation, health care benefits, general liability, product liability, property insurance and director and officers' liability insurance. Liabilities associated with risks retained by us are not discounted and are estimated by considering historical claims experience, demographics, exposure and severity factors and other actuarial assumptions.

Our self-insurance for workers' compensation liability includes estimated outstanding losses of unpaid claims and allocated loss adjustment expenses ("ALAE"), case reserves, the development of known claims and incurred but not reported claims. ALAE are the direct expenses for settling specific claims. The amounts reflect per occurrence and annual aggregate limits maintained by the Company. The estimated liability analysis does not include estimating a provision for unallocated loss adjustment expenses. We believe that the amount recorded at June 30, 2017 is adequate to cover all known workers' compensation claims at June 30, 2017. If the actual costs of such claims and related expenses exceed the amount estimated, additional reserves may be required which could have a material negative effect on operating results.

The estimated liability related to our self-insured group medical insurance is recorded on an incurred but not reported basis, within deductible limits, based on actual claims and the average lag time between the date insurance claims are filed and the date those claims are paid. The cost of general liability, product liability and commercial auto liability is accrued based on estimates of the aggregate liability claims incurred using certain actuarial assumptions and historical claims experience.

Employee Benefit Plans

We provide 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, we contribute 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, we sponsor 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. We also provide a postretirement death benefit to certain of our employees and retirees.

We are required to recognize the funded status of a benefit plan in our consolidated balance sheet. We are also required to recognize in OCI certain gains and losses that arise during the period but are deferred under pension accounting rules.

Single Employer Pension Plans

We have a defined benefit pension plan, the Farmer Bros. Co. Pension Plan for Salaried Employees (the “Farmer Bros. Plan”), for our employees hired prior to January 1, 2010 who are not covered under a collective bargaining agreement. We 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.

We also have 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).

We obtain actuarial valuations for our single employer defined benefit pension plans. In fiscal 2017 we discounted the pension obligations using a 3.55% discount rate and 7.75% expected long-term rate of return on plan assets. The performance of the stock market and other investments as well as the overall health of the economy can have a material effect on pension investment returns and these assumptions. A change in these assumptions could affect our operating results.

At June 30, 2017, the projected benefit obligation under our single employer defined benefit pension plans was \$154.7 million and the fair value of plan assets was \$103.4 million. The difference between the projected benefit obligation and the fair value of plan assets is recognized as a decrease in OCI and an increase in pension liability and deferred tax assets. The difference between plan obligations and assets, or the funded status of the plans, significantly affects the net periodic benefit cost and ongoing funding requirements of those plans. Among other factors, changes in interest rates, mortality rates, early retirement rates, mix of plan asset investments, investment returns and the market value of plan assets can affect the level of plan funding, cause volatility in the net periodic benefit cost, increase our future funding requirements and require premium payments to the Pension Benefit Guaranty Corporation. For the fiscal year ended June 30, 2017, we made \$2.4 million in contributions to our single employer defined benefit pension plans and recorded pension expense of \$1.3 million. We expect to make approximately \$3.1 million in contributions to our single employer defined benefit pension plans in fiscal 2018 and accrue pension expense of approximately \$1.6 million per year beginning in fiscal 2018. These pension contributions are expected to increase for several years and we may be required to make larger contributions in the future.

The following chart quantifies the effect on the projected benefit obligation and the net periodic benefit cost of a change in the discount rate assumption and the impact on the net periodic benefit cost of a change in the assumed rate of return on plan assets under our single employer defined benefit pension plans for fiscal 2018:

($ in thousands)			
Farmer Bros. Plan Discount Rate	**3.3%**	**Actual 3.80%**	**4.3%**
Net periodic benefit cost	$ 5,638	$ 1,515	$ 4,495
Projected benefit obligation	$ 155,829	$ 146,291	$ 137,686
Farmer Bros. Plan Rate of Return	**6.3%**	**Actual 6.75%**	**7.3%**
Net periodic benefit cost	$ 1,991	$ 1,515	$ 1,040
Brewmatic Plan Discount Rate	**3.3%**	**Actual 3.80%**	**4.3%**
Net periodic benefit cost	$ 36	$ 68	$ 46
Projected benefit obligation	$ 4,320	$ 4,080	$ 3,863
Brewmatic Plan Rate of Return	**6.3%**	**Actual 6.75%**	**7.3%**
Net periodic benefit cost	$ 83	$ 68	$ 53
Hourly Employees’ Plan Discount Rate	**3.3%**	**Actual 3.80%**	**4.3%**
Net periodic benefit cost	$ 37	$ (4)	$ (3)
Projected benefit obligation	$ 4,704	$ 4,329	$ 3,996
Hourly Employees' Plan Rate of Return	**6.3%**	**Actual 6.75%**	**7.3%**
Net periodic benefit cost	$ 11	$ (4)	$ (20)

Multiemployer Pension Plans

We participate 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. We make 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 we stop participating in the multiemployer plan, we may be required to pay the plan an amount based on the underfunded status of the plan, referred to as a withdrawal liability.

Postretirement Benefits

We sponsor a postretirement defined benefit plan that covers qualified non-union retirees and certain qualified union retirees. The plan provides medical, dental and vision coverage for retirees under age 65 and medical coverage only for retirees age 65 and above. Under this postretirement plan, our 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. Our retiree medical, dental and vision plan is unfunded, and its liability was calculated using an assumed discount rate of 4.1% at June 30, 2017. We project an initial medical trend rate of 8.6% in fiscal 2018, ultimately reducing to 4.5% in 10 years.

We also provide a postretirement death benefit to certain of our 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. We record the actuarially determined liability for the present value of the postretirement death benefit using a discount rate of 4.1%. We have purchased life insurance policies to fund the postretirement death benefit wherein we own the policy but the postretirement death benefit is paid to the employee's or retiree's beneficiary. We record an asset for the fair value of the life insurance policies which equates to the cash surrender value of the policies.

Share-based Compensation

We measure all share-based compensation cost at the grant date, based on the fair values of the awards that are ultimately expected to vest, and recognize that cost on a straight line basis in our consolidated statements of operations over the requisite service period. Fair value of restricted stock is the closing price of the Company's common stock on the date of grant. We estimate the fair value of stock option awards on the date of grant using the Black-Scholes valuation model which requires that we make certain assumptions regarding: (i) the expected volatility in the market price of our common stock; (ii) dividend yield; (iii) risk-free interest rate; and (iv) the period of time employees are expected to hold the award prior to exercise (referred to as the expected term).

The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options that have no vesting restrictions and are fully transferable. Because our stock options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimates, in management’s opinion, the existing models may not necessarily provide a reliable single measure of the fair value of our stock options. Although the fair value of stock options is determined using an option valuation model, that value may not be indicative of the fair value observed in a willing buyer/willing seller market transaction.

In addition, we estimate the expected impact of forfeited awards and recognize share-based compensation cost only for those awards ultimately expected to vest. If actual forfeiture rates differ materially from our estimates, share-based compensation expense could differ significantly from the amounts we have recorded in the current period. We will periodically review actual forfeiture experience and revise our estimates, as necessary. We will recognize as compensation cost the cumulative effect of the change in estimated forfeiture rates on current and prior periods in earnings of the period of revision. As a result, if we revise our assumptions and estimates, our share-based compensation expense could change materially in the future. In each of fiscal 2017 and 2016, we used an estimated annual forfeiture rate of 4.8% to calculate share-based compensation expense based on actual forfeiture experience.

We have outstanding share-based awards that have performance-based vesting conditions in addition to time-based vesting. Awards with performance-based vesting conditions require the achievement of certain financial and other performance criteria as a condition to the vesting. We recognize the estimated fair value of performance-based awards, net of estimated forfeitures, as share-based compensation expense over the performance period based upon our determination of whether it is probable that the performance targets will be achieved. At each reporting period, we reassess the probability of achieving the performance criteria and the performance period required to meet those targets. Determining whether the performance criteria will be achieved involves judgment, and the estimate of share-based compensation expense may be revised periodically based on changes in the probability of achieving the performance criteria. Revisions are reflected in the period in which the estimate is changed. If performance goals are not met, no share-based compensation expense is recognized for the cancelled shares, and, to the extent share-based compensation expense was previously recognized for those cancelled shares, such share-based compensation expense is reversed.

Income Taxes

Deferred income taxes are determined based on the temporary differences between the financial reporting and tax bases of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse. Estimating our tax liabilities involves judgments related to uncertainties in the application of complex tax regulations. We make certain estimates and judgments to determine tax expense for financial statement purposes as we evaluate the effect of tax credits, tax benefits and deductions, some of which result from differences in the timing of recognition of revenue or expense for tax and financial statement purposes. Changes to these estimates may result in significant changes to our tax provision in future periods. Each fiscal quarter we re-evaluate our tax provision and reconsider our estimates and assumptions related to specific tax assets and liabilities, making adjustments as circumstances change.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

Interest Rate Risk

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

The following table demonstrates the impact of varying interest rate changes based on our preferred securities holdings and market yield and price relationships at June 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 June 30, 2017, we had no futures contracts or put options with respect to our preferred securities portfolio designated as interest rate risk hedges.

($ in thousands)	Market Value of Preferred Securities at June 30, 2017	Change in Market Value
Interest Rate Changes		
–150 basis points	$ 367.5	$ (0.2)
–100 basis points	$ 367.6	$ (0.1)
Unchanged	$ 367.7	$ —
+100 basis points	$ 367.6	$ (0.1)
+150 basis points	$ 367.6	$ (0.1)

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 June 30, 2017, we had outstanding borrowings of $27.6 million, utilized $0.1 million of the letters of credit sublimit, and had excess availability under the Revolving Facility of $27.9 million. The weighted average interest rate on our outstanding borrowings under the Revolving Facility at June 30, 2017 was 3.02%.

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 June 30, 2017:

($ in thousands)	Principal	Interest Rate	Annual Interest Expense
–150 basis points	$27,621	1.52%	$ 420
–100 basis points	$27,621	2.02%	$ 558
Unchanged	$27,621	3.02%	$ 834
+100 basis points	$27,621	4.02%	$ 1,110
+150 basis points	$27,621	4.52%	$ 1,248

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 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 fiscal years ended June 30, 2017, 2016 and 2015, we reclassified $1.7 million in net gains, $(13.2) million in net losses and $4.2 million in net gains, 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 fiscal years ended June 30, 2017, 2016 and 2015, we recognized in "Other, net" $(0.5) million, $(0.6) million and $(0.3) million, respectively, in net losses on coffee-related derivative instruments designated as cash flow hedges due to ineffectiveness.

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

For the fiscal years ended June 30, 2017, 2016 and 2015, we recorded in "Other, net" net (losses) gains on coffee-related derivative instruments not designated as accounting hedges in the amounts of $(1.8) million, $(0.3) million and $(3.0) million, respectively.

The following table summarizes the potential impact as of June 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:

	Increase (Decrease) to Net Income		Increase (Decrease) to AOCI	
(In thousands)	**10% Increase in Underlying Rate**	**10% Decrease in Underlying Rate**	**10% Increase in Underlying Rate**	**10% Decrease in Underlying Rate**
Coffee-related derivative instruments(1)	$ 274	$ (274)	$ 4,474	$ (4,474)

(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 June 30, 2017. These contracts are not included in the sensitivity analysis above as the underlying price has been fixed.

Item 8. Financial Statements and Supplementary Data

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders of
Farmer Bros. Co.
Northlake, Texas

We have audited the accompanying consolidated balance sheets of Farmer Bros. Co. and subsidiaries (the “Company”) as of June 30, 2017 and 2016 and the related consolidated statements of operations, comprehensive income (loss), cash flows, and stockholders' equity for each of the three years in the period ended June 30, 2017. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Farmer Bros. Co. and subsidiaries as of June 30, 2017 and 2016, and the results of their operations and their cash flows for each of the three years in the period ended June 30, 2017, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of June 30, 2017, based on the criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated September 28, 2017 expressed an unqualified opinion on the Company's internal control over financial reporting.

/s/ DELOITTE & TOUCHE LLP

Dallas, Texas
September 28, 2017

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

	June 30, 2017	June 30, 2016
ASSETS		
Current assets:		
Cash and cash equivalents	$ 6,241	$ 21,095
Short-term investments	368	25,591
Accounts receivable, net of allowance for doubtful accounts of $721 and $714, respectively	46,446	44,364
Inventories	56,251	46,378
Income tax receivable	318	247
Short-term derivative assets	—	3,954
Prepaid expenses	7,540	4,557
Assets held for sale	—	7,179
Total current assets	117,164	153,365
Property, plant and equipment, net	176,066	118,416
Goodwill	10,996	272
Intangible assets, net	18,618	6,219
Other assets	6,837	9,933
Deferred income taxes	63,055	80,786
Total assets	$ 392,736	$ 368,991
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	39,784	23,919
Accrued payroll expenses	17,345	24,540
Short-term borrowings under revolving credit facility	27,621	109
Short-term obligations under capital leases	958	1,323
Short-term derivative liabilities	1,857	—
Other current liabilities	9,702	6,946
Total current liabilities	97,267	56,837
Accrued pension liabilities	51,281	68,047
Accrued postretirement benefits	19,788	20,808
Accrued workers' compensation liabilities	7,548	11,459
Other long-term liabilities-capital leases	237	1,036
Other long-term liabilities	1,480	28,210
Total liabilities	$ 177,601	$ 186,397
Commitments and contingencies (Note 23)	—	—
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; 16,846,002 and 16,781,561 shares issued and outstanding at June 30, 2017 and 2016, respectively	16,846	16,782
Additional paid-in capital	41,495	39,096
Retained earnings	221,182	196,782
Unearned ESOP shares	(4,289)	(6,434)
Accumulated other comprehensive loss	(60,099)	(63,632)
Total stockholders' equity	$ 215,135	$ 182,594
Total liabilities and stockholders' equity	$ 392,736	$ 368,991

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

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

	Year Ended June 30,		
	2017	2016	2015
Net sales	$ 541,500	$ 544,382	$ 545,882
Cost of goods sold	327,765	335,907	348,846
Gross profit	213,735	208,475	197,036
Selling expenses	157,198	150,198	151,753
General and administrative expenses	42,933	41,970	31,173
Restructuring and other transition expenses	11,016	16,533	10,432
Net gain from sale of Torrance Facility	(37,449)	—	—
Net gains from sale of Spice Assets	(919)	(5,603)	—
Net (gains) losses from sales of other assets	(1,210)	(2,802)	394
Operating expenses	171,569	200,296	193,752
Income from operations	42,166	8,179	3,284
Other (expense) income:			
Dividend income	1,007	1,115	1,172
Interest income	567	496	381
Interest expense	(2,185)	(425)	(769)
Other, net	(1,201)	556	(3,014)
Total other (expense) income	(1,812)	1,742	(2,230)
Income before taxes	40,354	9,921	1,054
Income tax expense (benefit)	15,954	(79,997)	402
Net income	$ 24,400	$ 89,918	$ 652
Net income per common share—basic	$ 1.46	$ 5.45	$ 0.04
Net income per common share—diluted	$ 1.45	$ 5.41	$ 0.04
Weighted average common shares outstanding—basic	16,668,745	16,502,523	16,127,610
Weighted average common shares outstanding—diluted	16,785,752	16,627,402	16,267,134

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

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

	Year Ended June 30,		
	2017	**2016**	**2015**
Net income	$ 24,400	$ 89,918	$ 652
Other comprehensive income (loss), net of tax:			
Unrealized (losses) gains on derivative instruments designated as cash flow hedges, net of tax	(2,875)	185	(14,295)
(Gains) losses on derivative instruments designated as cash flow hedges reclassified to cost of goods sold, net of tax	(1,058)	8,064	(4,211)
Change in the funded status of retiree benefit obligations, net of tax	7,466	(11,461)	(14,122)
Total comprehensive income (loss), net of tax	$ 27,933	$ 86,706	$ (31,976)

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

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

	Year Ended June 30,		
	2017	**2016**	**2015**
Cash flows from operating activities:			
Net income	$ 24,400	$ 89,918	$ 652
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	22,970	20,774	24,179
Provision for (recovery of) doubtful accounts	325	71	(8)
Restructuring and other transition expenses, net of payments	1,034	(2,697)	6,608
Interest on sale-leaseback financing obligation	681	—	—
Deferred income taxes	15,482	(80,314)	123
Net gain from sale of Torrance Facility	(37,449)	—	—
Net (gains) losses from sales of Spice Assets and other assets	(2,129)	(8,405)	394
ESOP and share-based compensation expense	3,959	4,342	5,691
Net (gains) losses on derivative instruments and investments	(205)	12,910	(950)
Change in operating assets and liabilities:			
Restricted cash	—	1,002	(1,002)
Purchases of trading securities	(5,136)	(7,255)	(3,661)
Proceeds from sales of trading securities	30,645	5,901	2,358
Accounts receivable	(14)	(3,476)	2,078
Inventories	(8,504)	3,608	20,470
Income tax receivable	(71)	288	(307)
Derivative assets (liabilities), net	2,305	(10,583)	(7,269)
Prepaid expenses and other assets	(2,506)	(111)	(1,332)
Accounts payable	8,885	(3,343)	(16,841)
Accrued payroll expenses and other current liabilities	(2,983)	5,829	(4,606)
Accrued postretirement benefits	(1,020)	(358)	(1,507)
Other long-term liabilities	(8,557)	(473)	1,860
Net cash provided by operating activities	$ 42,112	$ 27,628	$ 26,930
Cash flows from investing activities:			
Acquisitions of businesses, net of cash acquired	$ (25,853)	$ —	$ (1,200)
Purchases of property, plant and equipment	(45,195)	(31,050)	(19,216)
Purchases of construction-in-progress assets for New Facility	(39,754)	(19,426)	—
Proceeds from sales of property, plant and equipment	4,078	10,946	273
Net cash used in investing activities	$ (106,724)	$ (39,530)	$ (20,143)

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

	Year Ended June 30, 2017	2016	2015
Cash flows from financing activities:			
Proceeds from revolving credit facility	$ 77,985	$ 405	$ 63,376
Repayments on revolving credit facility	(50,473)	(374)	(63,947)
Proceeds from sale-leaseback financing obligation	42,455	—	—
Proceeds from New Facility lease financing obligation	16,346	19,426	—
Repayments of New Facility lease financing	(35,772)	—	—
Payments of capital lease obligations	(1,433)	(3,147)	(3,910)
Payment of financing costs	—	(8)	(571)
Proceeds from stock option exercises	688	1,694	1,548
Tax withholding payment - net share settlement of equity awards	(38)	(159)	(116)
Net cash provided by (used in) financing activities	$ 49,758	$ 17,837	$ (3,620)
Net (decrease) increase in cash and cash equivalents	$ (14,854)	$ 5,935	$ 3,167
Cash and cash equivalents at beginning of year	21,095	15,160	11,993
Cash and cash equivalents at end of year	$ 6,241	$ 21,095	$ 15,160
Supplemental disclosure of cash flow information:			
Cash paid for interest	$ 1,504	$ 425	$ 769
Cash paid for income taxes	$ 567	$ 324	$ 858
Supplemental disclosure of non-cash investing and financing activities:			
Equipment acquired under capital leases	$ 417	$ —	$ 55
Net change in derivative assets and liabilities included in other comprehensive income (loss), net of tax	$ (3,933)	$ 8,249	$ (18,506)
Construction-in-progress assets under New Facility lease	$ —	$ 8,684	$ —
New Facility lease obligation	$ —	$ 8,684	$ —
Non-cash additions to property, plant and equipment	$ 5,517	$ 441	$ 51
Assets held for sale	$ —	$ 7,179	$ —
Non-cash portion of earnout receivable recognized-Spice Assets sale	$ 419	$ 496	$ —
Non-cash portion of earnout payable recognized-China Mist acquisition	$ 500	$ —	$ —
Non-cash portion of earnout payable recognized-West Coast Coffee acquisition	$ 600	$ —	$ —
Non-cash working capital adjustment payable recognized-China Mist acquisition	$ 553	$ —	$ —
Option costs paid with exercised shares	$ 550	$ —	$ —

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

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

	Common Shares	Stock Amount	Additional Paid-in Capital	Retained Earnings	Unearned ESOP Shares	Accumulated Other Comprehensive Income (Loss)	Total
Balance at July 1, 2014	**16,562,450**	**$16,562**	**$ 35,917**	**$106,212**	**$ (16,035)**	**$ (27,792)**	**$114,864**
Net income	—	—	—	652	—	—	652
Unrealized losses on derivative instruments designated as cash flow hedges, net of reclassifications to cost of goods sold	—	—	—	—	—	(18,506)	(18,506)
Change in the funded status of retiree benefit obligations, net of tax of zero	—	—	—	—	—	(14,122)	(14,122)
ESOP compensation expense, including reclassifications	—	—	(377)	—	4,801	—	4,424
Share-based compensation	4,272	4	1,263	—	—	—	1,267
Stock option exercises	95,723	96	1,452	—	—	—	1,548
Shares withheld to cover taxes	(4,297)	(4)	(112)	—	—	—	(116)
Balance at June 30, 2015	**16,658,148**	**$16,658**	**$ 38,143**	**$106,864**	**$ (11,234)**	**$ (60,420)**	**$ 90,011**
Net income	—	—	—	89,918	—	—	89,918
Unrealized gains on derivative instruments designated as cash flow hedges, net of reclassifications to cost of goods sold, net of tax expense of $5,238	—	—	—	—	—	8,249	8,249
Change in the funded status of retiree benefit obligations, net of tax expense of $7,277	—	—	—	—	—	(11,461)	(11,461)
ESOP compensation expense, including reclassifications	—	—	(1,413)	—	4,800	—	3,387
Share-based compensation	1,551	2	954	—	—	—	956
Stock option exercises	127,039	127	1,566	—	—	—	1,693
Shares withheld to cover taxes	(5,177)	(5)	(154)	—	—	—	(159)
Balance at June 30, 2016	**16,781,561**	**$16,782**	**$ 39,096**	**$196,782**	**$ (6,434)**	**$ (63,632)**	**$182,594**
Net income	—	—	—	24,400	—	—	24,400
Unrealized losses on derivative instruments designated as cash flow hedges, net of reclassifications to cost of goods sold, net of tax benefit of $2,504	—	—	—	—	—	(3,933)	(3,933)
Change in the funded status of retiree benefit obligations, net of tax expense of $4,754	—	—	—	—	—	7,466	7,466
ESOP compensation expense, including reclassifications	—	—	342	—	2,145	—	2,487
Share-based compensation	(889)	(1)	1,473	—	—	—	1,472
Stock option exercises	82,803	83	604	—	—	—	687
Shares withheld to cover taxes	(17,473)	(18)	(20)	—	—	—	(38)
Balance at June 30, 2017	**16,846,002**	**$16,846**	**$ 41,495**	**$221,182**	**$ (4,289)**	**$ (60,099)**	**$215,135**

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

FARMER BROS. CO.

NOTES TO 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 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.

In fiscal 2015 the Company began the process of relocating its corporate headquarters, product development lab, and manufacturing and distribution operations from Torrance, California to a new facility housing these operations in Northlake, Texas (the "New Facility") (the "Corporate Relocation Plan"). In order to focus on the Company's core product offerings, in the second quarter of fiscal 2016, the Company sold certain assets associated with its manufacture, processing and distribution of raw, processed and blended spices and certain other culinary products (collectively, the "Spice Assets") to Harris Spice Company Inc. ("Harris"). In fiscal 2017, the Company completed the construction of and exercised the purchase option to acquire the New Facility, relocated its Torrance operations to the New Facility, and sold its facility in Torrance, California (the "Torrance Facility"). 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. The Company completed the Corporate Relocation Plan in the fourth quarter of fiscal 2017.

In fiscal 2017, the Company completed the following acquisitions. On October 11, 2016, the Company acquired substantially all of the assets and certain specified liabilities of China Mist Brands, Inc. dba China Mist Tea Company ("China Mist"), a provider of flavored iced teas and iced green teas, and 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.

In the third quarter of fiscal 2017, the Company commenced a restructuring plan to reorganize its direct-store-delivery, or 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 Company expects to complete the DSD Restructuring Plan by the end of the second quarter of fiscal 2018.

The Company operates production facilities in Northlake, Texas; 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 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.

The Company's products reach its customers primarily in the following ways: through the Company's nationwide direct-store-delivery, or DSD, network of 450 delivery routes and 114 branch warehouses as of June 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 logistic ("3PL") service providers for its long-haul distribution. DSD sales are made "off-truck" by the Company to its customers at their places of business.

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its direct and indirect wholly owned subsidiaries. All inter-company balances and transactions have been eliminated.

Use of Estimates

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

Note 2. Summary of Significant Accounting Policies

Cash Equivalents

The Company considers all highly liquid investments with original maturity dates of 90 days or less to be cash equivalents. Fair values of cash equivalents approximate cost due to the short period of time to maturity.

Investments

The Company's investments, from time to time, consist of money market instruments, marketable debt, equity and hybrid securities. Investments are held for trading purposes and stated at fair value. The cost of investments sold is determined on the specific identification method. Dividend and interest income are accrued as earned. See Note 9.

Fair Value Measurements

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

- Level 1—Valuation is based upon quoted prices for identical instruments traded in active markets.

- Level 2—Valuation is based upon inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly (i.e. interest rate and yield curves observable at commonly quoted intervals, default rates, etc.). Observable inputs include quoted prices for similar instruments in active and non-active markets. Level 2 includes those financial instruments that are valued with industry standard valuation models that incorporate inputs that are observable in the marketplace throughout the full term of the instrument, or can otherwise be derived from or supported by observable market data in the marketplace. Level 2 inputs may also include insignificant adjustments to market observable inputs.

- Level 3—Valuation is based upon one or more unobservable inputs that are significant in establishing a fair value estimate. These unobservable inputs are used to the extent relevant observable inputs are not available and are developed based on the best information available. These inputs may be used with internally developed methodologies that result in management's best estimate of fair value.

Securities with quotes that are based on actual trades or actionable bids and offers with a sufficient level of activity on or near the measurement date are classified as Level 1. Securities that are priced using quotes derived from implied values, indicative bids and offers, or a limited number of actual trades, or the same information for securities that are similar in many respects to those being valued, are classified as Level 2. If market information is not available for securities being valued, or materially-comparable securities, then those securities are classified as Level 3. In considering market information, management evaluates changes in liquidity, willingness of a broker to execute at the quoted price, the depth and consistency of prices from pricing services, and the existence of observable trades in the market (see Note 10).

Derivative Instruments

The Company purchases various derivative instruments to create economic hedges of its commodity price risk. These derivative instruments consist primarily of forward and option contracts. The Company reports the fair value of derivative instruments on its consolidated balance sheets in "Short-term derivative assets," "Other assets," "Short-term derivative liabilities," or "Other long-term liabilities." The Company determines the current and noncurrent classification based on the timing of expected future cash flows of individual trades and reports these amounts on a gross basis. Additionally, the Company reports cash held on deposit in margin accounts for coffee-related derivative instruments on a gross basis on its consolidated balance sheet in "Restricted cash" if restricted from withdrawal due to a net loss position in such margin accounts.

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

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

The Company enters into green coffee purchase commitments at a fixed price or at a price to be fixed ("PTF"). PTF contracts are purchase commitments whereby the quality, quantity, delivery period, price differential to the coffee "C" market price and other negotiated terms are agreed upon, but the date, and therefore the price at which the base "C" market price will be fixed has not yet been established. The coffee "C" market price is fixed at some point after the purchase contract date and before the futures market closes for the delivery month and may be fixed either at the direction of the Company to the vendor, or by the application of a derivative that was separately purchased as a hedge. For both fixed-price and PTF contracts, the Company expects to take delivery of and to utilize the coffee in a reasonable period of time and in the conduct of normal business. Accordingly, these purchase commitments qualify as normal purchases and are not recorded at fair value on the Company's consolidated balance sheets.

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

For coffee-related derivative instruments designated as cash flow hedges, the effective portion of the change in fair value of the derivative is reported as accumulated other comprehensive income (loss) ("AOCI") and subsequently reclassified into cost of goods sold in the period or periods when the hedged transaction affects earnings. Any ineffective portion of the derivative instrument'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, any gain or loss deferred in AOCI is recognized in "Other, net" at that time. For derivative instruments that are not designated in a hedging relationship, and for which the normal purchases and normal sales exception has not been elected, the changes in fair value are reported in "Other, net."

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

- Gains and losses on all derivative instruments that are not designated as cash flow hedges and for which the normal purchases and normal sales exception has not been elected; and

- The ineffective portion of unrealized gains and losses on derivative instruments that are designated as cash flow hedges.

The fair value of derivative instruments is based upon broker quotes. At June 30, 2017 and 2016 approximately 94% and 96%, respectively, of the Company's outstanding coffee-related derivative instruments were designated as cash flow hedges. See Note 8.

Concentration of Credit Risk

At June 30, 2017, the financial instruments which potentially expose the Company to concentration of credit risk consist of cash in financial institutions (in excess of federally insured limits), short-term investments, investments in the preferred stocks of other companies, derivative instruments and trade receivables. Cash equivalents and short-term investments are not concentrated by issuer, industry or geographic area. Maturities are generally shorter than 180 days. Investments in the preferred stocks of other companies are limited to high quality issuers and are not concentrated by geographic area or issuer.

The Company does not have any credit-risk related contingent features that would require it to post additional collateral in support of its net derivative liability positions. At June 30, 2017 and 2016, because the Company had a net gain position in its coffee-related derivative margin accounts, none of the cash in these accounts was restricted. Changes in commodity prices and the number of coffee-related derivative instruments held could have a significant impact on cash deposit requirements under the Company's broker and counterparty agreements.

Concentration of credit risk with respect to trade receivables for the Company is limited due to the large number of customers comprising the Company’s customer base and their dispersion across many different geographic areas. The trade receivables are generally short-term and all probable bad debt losses have been appropriately considered in establishing the allowance for doubtful accounts. In fiscal 2017 and 2016, the Company increased the allowance for doubtful accounts by $7,000 and $71,000, respectively. In fiscal 2015, the Company decreased the allowance for doubtful accounts by $8,000.

Inventories

Inventories are valued at the lower of cost or market. The Company accounts for coffee, tea and culinary products on a last in, first out (“LIFO”) basis, and coffee brewing equipment parts on a first in, first out (“FIFO”) basis. The Company regularly evaluates these inventories to determine the provision for obsolete and slow-moving inventory. Inventory reserves are based on inventory obsolescence trends, historical experience and application of specific identification.

At the end of each quarter, the Company records the expected effect of the liquidation of LIFO inventory quantities, if any, and records the actual impact at fiscal year-end. An actual valuation of inventory under the LIFO method is made only at the end of each fiscal year based on the inventory levels and costs at that time. If inventory quantities decline at the end of the fiscal year compared to the beginning of the fiscal year, the reduction results in the liquidation of LIFO inventory quantities carried at the cost prevailing in prior years. This LIFO inventory liquidation may result in a decrease or increase in cost of goods sold depending on whether the cost prevailing in prior years was lower or higher, respectively, than the current year cost. As these estimates are subject to many forces beyond management's control, interim results are subject to the final fiscal year-end LIFO inventory valuation. See Note 12.

Property, Plant and Equipment

Property, plant and equipment is carried at cost, less accumulated depreciation. Depreciation is computed using the straight-line method. The following useful lives are used:

Buildings and facilities	10 to 30 years
Machinery and equipment	3 to 10 years
Equipment under capital leases	Shorter of term of lease or estimated useful life
Office furniture and equipment	5 to 7 years
Capitalized software	3 to 5 years

Leasehold improvements are depreciated on a straight-line basis over the lesser of the estimated useful life of the asset or the remaining lease term. When assets are sold or retired, the asset and related accumulated depreciation are removed from the respective account balances and any gain or loss on disposal is included in operations. Maintenance and repairs are charged to expense, and enhancements are capitalized. See Note 13.

Assets to be disposed of by sale are recorded as held for sale at the lower of carrying value or estimated net realizable value. The Company considers properties to be assets held for sale when (1) management commits to a plan to sell the property; (2) it is unlikely that the disposal plan will be significantly modified or discontinued; (3) the property is available for immediate sale in its present condition; (4) actions required to complete the sale of the property have been initiated; (5) sale of the property is probable and the Company expects the completed sale will occur within one year; and (6) the property is actively being marketed for sale at a price that is reasonable given the Company's estimate of current market value. Upon designation of a property as an asset held for sale, the Company records the property's value at the lower of its carrying value or its estimated fair value less estimated costs to sell and ceases depreciation. See Note 7.

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 consolidated financial statements for the years ended June 30, 2017, 2016 and 2015 are $26.3 million, $27.0 million and $26.6 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 fiscal years ended June 30, 2017, 2016 and 2015 was $9.1 million, $9.8 million and $10.4 million, respectively. The Company capitalized coffee brewing equipment (included in machinery and equipment) in the amounts of $10.8 million and $8.4 million in fiscal 2017 and 2016, respectively.

Leases

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

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

Income Taxes

Deferred income taxes are determined based on the temporary differences between the financial reporting and tax bases of assets and liabilities using enacted tax rates in effect for the year in which differences are expected to reverse. Estimating the Company's tax liabilities involves judgments related to uncertainties in the application of complex tax regulations. The Company makes certain estimates and judgments to determine tax expense for financial statement purposes as it evaluates the effect of tax credits, tax benefits and deductions, some of which result from differences in the timing of recognition of revenue or expense for tax and financial statement purposes. Changes to these estimates may result in significant changes to the Company's tax provision in future periods. Each fiscal quarter the Company re-evaluates its tax provision and reconsiders its estimates and assumptions related to specific tax assets and liabilities, making adjustments as circumstances change. See Note 21.

Deferred Tax Asset Valuation Allowance

The Company evaluates its deferred tax assets quarterly to determine if a valuation allowance is required and considers whether a valuation allowance should be recorded against deferred tax assets based on the likelihood that the benefits of the deferred tax assets will or will not ultimately be realized in future periods. In making this 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, if the Company determines that it is more likely than not that it will generate future income sufficient to realize its deferred tax assets, the Company will record a reduction in the valuation allowance. See Note 21.

Revenue Recognition

The Company recognizes sales revenue when all of the following have occurred: (1) delivery; (2) persuasive evidence of an agreement exists; (3) pricing is fixed or determinable; and (4) collection is reasonably assured. When product sales are made "off-truck" to the Company's customers at their places of business or products are shipped by third-party delivery "FOB Destination," title passes and revenue is recognized upon delivery. When customers pick up products at the Company's distribution centers, title passes and revenue is recognized upon product pick up.

Net Income Per Common Share

Net income per share ("EPS") represents net income attributable to common stockholders divided by the weighted-average number of common shares outstanding for the period, excluding unallocated shares held by the Company's Employee Stock Ownership Plan ("ESOP"). See Note 17. Diluted EPS represents net income attributable to common stockholders divided by the weighted-average number of common shares outstanding, inclusive of the dilutive impact of common equivalent shares outstanding during the period. However, nonvested restricted stock awards (referred to as participating securities) are excluded from the dilutive impact of common equivalent shares outstanding in accordance with authoritative guidance under the two-class method. The nonvested restricted stockholders are entitled to participate in dividends declared on common stock as if the shares were fully vested and hence are deemed to be participating securities. Under the two-class method, net income attributable to nonvested restricted stockholders is excluded from net income attributable to common stockholders for purposes of calculating basic and diluted EPS. Computation of EPS for the years ended June 30, 2017, 2016 and 2015 includes the dilutive effect of 117,007, 124,879 and 139,524 shares, respectively, issuable under stock options with exercise prices below the closing price of the Company's common stock on the last trading day of the applicable period, but excludes the dilutive effect of 24,671, 30,931 and 10,455 shares, respectively, issuable under stock options with exercise prices above the closing price of the Company's common stock on the last trading day of the applicable period because their inclusion would be anti-dilutive. See Note 22.

Employee Stock Ownership Plan

Compensation cost for the ESOP is based on the fair market value of shares released or deemed to be released to employees in the period in which they are committed. Dividends on allocated shares retain the character of true dividends, but dividends on unallocated shares are considered compensation cost. As a leveraged ESOP with the Company as lender, a contra equity account is established to offset the Company's note receivable. The contra account will change as compensation expense is recognized. See Note 17. The cost of shares purchased by the ESOP which have not been committed to be released or allocated to participants are shown as a contra-equity account "Unearned ESOP Shares" and are excluded from earnings per share calculations.

Share-based Compensation

The Company measures all share-based compensation cost at the grant date, based on the fair values of the awards that are ultimately expected to vest, and recognizes that cost as an expense on a straight line-basis in its consolidated statements of operations over the requisite service period. Fair value of restricted stock is the closing price of the Company's common stock on the date of grant. The Company estimates the fair value of option awards using the Black-Scholes option valuation model, which requires management to make certain assumptions for estimating the fair value of stock options at the date of grant. The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options that have no vesting restrictions and are fully transferable. Because the Company's stock options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimates, in management's opinion, the existing models may not necessarily provide a reliable single measure of the fair value of the Company's stock options. Although the fair value of stock options is determined using an option valuation model, that value may not be indicative of the fair value observed in a willing buyer/willing seller market transaction.

In addition, the Company estimates the expected impact of forfeited awards and recognizes share-based compensation cost only for those awards ultimately expected to vest. If actual forfeiture rates differ materially from the Company's estimates, share-based compensation expense could differ significantly from the amounts the Company has recorded in the current period. The Company periodically reviews actual forfeiture experience and will revise its estimates, as necessary. The Company will recognize as compensation cost the cumulative effect of the change in estimated forfeiture rates on current and prior periods in earnings of the period of revision. As a result, if the Company revises its assumptions and estimates, the Company's share-based compensation expense could change materially in the future.

The Company has outstanding share-based awards that have performance-based vesting conditions in addition to time-based vesting. Awards with performance-based vesting conditions require the achievement of certain financial and other performance criteria as a condition to the vesting. The Company recognizes the estimated fair value of performance-based awards, net of estimated forfeitures, as share-based compensation expense over the performance period based upon the Company's determination of whether it is probable that the performance targets will be achieved. At each reporting period, the Company reassesses the probability of achieving the performance criteria and the performance period required to meet those targets. Determining whether the performance criteria will be achieved involves judgment, and the estimate of share-based compensation expense may be revised periodically based on changes in the probability of achieving the performance criteria. Revisions are reflected in the period in which the estimate is changed. If performance goals are not met, no share-based compensation expense is recognized for the cancelled shares, and, to the extent share-based compensation expense was previously recognized for those cancelled shares, such share-based compensation expense is reversed. See Note 18.

Impairment of Goodwill and Indefinite-lived Intangible Assets

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

Testing for impairment of goodwill is a two-step process. The first step requires the Company to compare the fair value of its reporting units to the carrying value of the reporting units, including goodwill. If the fair value of a reporting unit is less than its carrying value, goodwill of the reporting unit is potentially impaired and the Company then completes step two to measure the impairment loss, if any. The second step requires the calculation of the implied fair value of goodwill, which is the residual fair value remaining after deducting the fair value of all tangible and intangible net assets of the reporting unit from the fair value of the reporting unit. If the implied fair value of goodwill is less than the carrying amount of goodwill, an impairment loss is recognized equal to the difference.

Indefinite-lived intangible assets are tested for impairment by comparing their fair values to their carrying values. An impairment charge is recorded if the estimated fair value of such assets has decreased below their carrying values. There were no intangible asset or goodwill impairment charges recorded in the fiscal years ended June 30, 2017, 2016 and 2015.

Other Intangible Assets

Other intangible assets consist of finite-lived intangible assets including acquired recipes, non-compete agreements, customer relationships, trade names, trademarks and a brand name. These assets are amortized over their estimated useful lives and are tested for impairment by grouping them with other assets at the lowest level for which identifiable cash flows are largely independent of the cash flows of other groups of assets and liabilities. The estimated future cash flows are based upon, among other things, assumptions about expected future operating performance, and may differ from actual cash flows. If the sum of the projected undiscounted cash flows (excluding interest) is less than the carrying value of the assets, the assets will be written down to the estimated fair value in the period in which the determination is made. The Company reviews the recoverability of its long-lived assets whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. There were no other intangible asset impairment charges recorded in the fiscal years ended June 30, 2017 and 2016.

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 $23.5 million, $13.3 million and $8.3 million, respectively, in the fiscal years ended June 30, 2017, 2016 and 2015. The Company moved to 3PL for its long-haul distribution in the third quarter of fiscal 2016. As a result, payroll, benefits, vehicle costs and other costs associated with the Company's internal operation of its long-haul distribution included elsewhere in selling expenses in the fiscal years ended June 30, 2016 and 2015, are represented in outsourced shipping and handling costs beginning in the third quarter of fiscal 2016. The amount associated with outside carriers for the Company's long-haul distribution recorded in shipping and handling costs in the fourth quarter of fiscal 2016 and in fiscal 2017 was less than the comparable aggregate operating costs associated with internally managing the Company's long-haul distribution in the respective prior-year periods.

Collective Bargaining Agreements

Certain Company employees are subject to collective bargaining agreements. The duration of these agreements extend to 2020. At June 30, 2017, approximately 27% of the Company's workforce was covered by such agreements.

Self-Insurance

The Company uses a combination of insurance and self-insurance mechanisms to provide for the potential liability of certain risks including workers' compensation, health care benefits, general liability, product liability, property insurance and director and officers' liability insurance. Liabilities associated with risks retained by the Company are not discounted and are estimated by considering historical claims experience, demographics, exposure and severity factors and other actuarial assumptions.

The Company's self-insurance for workers' compensation liability includes estimated outstanding losses of unpaid claims. and allocated loss adjustment expenses ("ALAE"), case reserves, the development of known claims and incurred but not reported claims. ALAE are the direct expenses for settling specific claims. The amounts reflect per occurrence and annual aggregate limits maintained by the Company. The estimated liability analysis does not include estimating a provision for unallocated loss adjustment expenses.

The estimated gross undiscounted workers' compensation liability relating to such claims was $9.4 million and $14.7 million respectively, and the estimated recovery from reinsurance was $1.5 million and $2.4 million, respectively, as of June 30, 2017 and 2016. The short-term and long-term accrued liabilities for workers' compensation claims are presented on the Company's consolidated balance sheets in "Other current liabilities" and in "Accrued workers' compensation liabilities," respectively. The estimated insurance receivable is included in "Other assets" on the Company's consolidated balance sheets.

At June 30, 2016, the Company had posted a $7.4 million letter of credit, as a security deposit with the State of California Department of Industrial Relations Self-Insurance Plans for participation in the alternative security program for California self-insurers for workers' compensation liability in California. The State of California notified the Company on December 13, 2016 that it had released and authorized the cancellation of the letter of credit. At June 30, 2017 and 2016, the Company had also posted $3.4 million in cash and a $4.3 million letter of credit, respectively, as a security deposit for self-insuring workers' compensation, general liability and auto insurance coverages outside of California.

The estimated liability related to the Company's self-insured group medical insurance at June 30, 2017 and 2016 was $2.5 million and $1.3 million, respectively, recorded on an incurred but not reported basis, within deductible limits, based on actual claims and the average lag time between the date insurance claims are filed and the date those claims are paid.

The Company is self-insured for general liability, product liability and commercial auto liability and accrues the cost of the insurance based on estimates of the aggregate liability claims incurred using certain actuarial assumptions and historical claims experience.

The Company's liability reserve for such claims was $0.9 million at June 30, 2017 and 2016.

The estimated liability related to the Company's self-insured group medical insurance, general liability, product liability and commercial auto liability is included on the Company's consolidated balance sheets in "Other current liabilities."

Pension Plans

The Company's pension plans are not admitting new participants, therefore, changes to pension liabilities are primarily due to market fluctuations of investments for existing participants and changes in interest rates. All plans are accounted for using the guidance of ASC 710, "Compensation—General" and ASC 715 "Compensation-Retirement Benefits" and are measured as of the end of the fiscal year.

The Company recognizes the overfunded or underfunded status of a defined benefit pension or postretirement plan as an asset or liability on its consolidated balance sheets. Changes in the funded status are recognized through AOCI, in the year in which the changes occur. See Note 15.

Business Combinations

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

Restructuring Plans

The Company accounts for exit or disposal of activities in accordance with ASC 420, “Exit or Disposal Cost Obligations.” The Company defines a business restructuring as an exit or disposal activity that includes but is not limited to a program which is planned and controlled by management and materially changes either the scope of a business or the manner in which that business is conducted. Business restructuring charges may include (i) one-time termination benefits related to employee separations, (ii) contract termination costs and (iii) other related costs associated with exit or disposal activities.

A liability is recognized and measured at its fair value for one-time termination benefits once the plan of termination is communicated to affected employees and it meets all of the following criteria: (i) management commits to a plan of termination, (ii) the plan identifies the number of employees to be terminated and their job classifications or functions, locations and the expected completion date, (iii) the plan establishes the terms of the benefit arrangement and (iv) it is unlikely that significant changes to the plan will be made or the plan will be withdrawn. Contract termination costs include costs to terminate a contract or costs that will continue to be incurred under the contract without benefit to the Company. A liability is recognized and measured at its fair value when the Company either terminates the contract or ceases using the rights conveyed by the contract.

Recently Adopted Accounting Standards

In December 2016, the Financial Accounting Standards Board (the “FASB”) issued Accounting Standards Update (“ASU”) No. 2016-19, “Technical Corrections and Improvements“ (“ASU 2016-19”). The amendments cover a wide range of topics in the FASB Accounting Standards Codification. The amendments represent changes to make corrections or improvements to the Accounting Standards Codification that are not expected to have a significant effect on current accounting practice or create a significant administrative cost to most entities. ASU 2016-19 is effective for the Company immediately. Adoption of ASU 2016-19 did not have a material effect on the results of operations, financial position or cash flows of the Company.

In September 2015, the FASB issued ASU No. 2015-16, “Business Combinations (Topic 805): Simplifying the Accounting for Measurement-Period Adjustments” (“ASU 2015-16”). ASU 2015-16 eliminates the requirement that an acquirer in a business combination account for measurement-period adjustments retrospectively. Instead, an acquirer will recognize a measurement-period adjustment during the period in which it determines the amount of the adjustment, including the effect on earnings of any amounts it would have recorded in previous periods if the accounting had been completed at the acquisition date. The Company adopted ASU 2015-16 beginning July 1, 2016. Adoption of ASU 2015-16 did not have a material effect on the results of operations, financial position or cash flows of the Company.

In July 2015, the FASB issued ASU No. 2015-12, “Plan Accounting: Defined Benefit Pension Plans (Topic 960), Defined Contribution Pension Plans (Topic 962), Health and Welfare Benefit Plans (Topic 965), (Part I) Fully Benefit-Responsive Investment Contracts, (Part II) Plan Investment Disclosures, (Part III) Measurement Date Practical Expedient” (“ASU 2015-12”). ASU 2015-12 eliminates requirements that employee benefit plans measure the fair value of fully benefit-responsive investment contracts (“FBRICs”) and provide the related fair value disclosures. As a result, FBRICs are measured, presented and disclosed only at contract value. Also, plans will be required to disaggregate their investments measured using fair value by general type, either on the face of the financial statements or in the notes, and self-directed brokerage accounts are one general type. Plans no longer have to disclose the net appreciation/depreciation in fair value of investments by general type or individual investments equal to or greater than 5% of net assets available for benefits. In addition, a plan with a fiscal year end that does not coincide with the end of a calendar month is allowed to measure its investments and investment-related accounts using the month end closest to its fiscal year end. The new guidance for FBRICs and plan investment disclosures should be applied retrospectively. The measurement date practical expedient should be applied prospectively. The guidance is effective for fiscal years beginning after December 15, 2015, with early adoption permitted. The Company adopted ASU 2015-12 beginning July 1, 2016. Adoption of ASU 2015-12 did not have a material effect on the results of operations, financial position or cash flows of the Company.

In May 2015, the FASB issued ASU No. 2015-07, “Fair Value Measurement (Topic 820): Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)” (“ASU 2015-07”). ASU 2015-07 removes the requirement to categorize investments for which the fair values are measured using the net asset value per share practical expedient within the fair value hierarchy. It also limits certain disclosures to investments for which the entity has elected to measure the fair value using the practical expedient. ASU 2015-07 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2015, with early adoption permitted. The Company adopted ASU 2015-07 beginning July 1, 2016. Adoption of ASU 2015-07 did not have a material effect on the results of operations, financial position or cash flows of the Company.

In August 2014, the FASB issued ASU No. 2014-15, “Presentation of Financial Statements—Going Concern (Subtopic 205-40): Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern” (“ASU 2014-15”). ASU 2014-15 amended ASC 205-40-Presentation of Financial Statements-Going Concern and requires management to evaluate whether there are conditions and events that raise substantial doubt about an entity's ability to continue as a going concern within one year after the financial statements are available to be issued and provide related disclosures of such conditions and events. The amendments in ASU 2014-15 apply to all entities and are effective for the annual period ending after December 15, 2016, and for annual periods and interim periods thereafter. The Company adopted ASU 2014-15 beginning July 1, 2016. Adoption of ASU 2014-15 did not have a material effect on the Company's results of operations, financial position and cash flows.

New Accounting Pronouncements

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

In January 2017, the FASB issued ASU No. 2017-04, “Intangibles—Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment” (“ASU 2017-04”). The amendments in ASU 2017-04 address concerns regarding the cost and complexity of the two-step goodwill impairment test, and remove the second step of the test. An entity will apply a one-step quantitative test and record the amount of goodwill impairment as the excess of a reporting unit's carrying amount over its fair value, not to exceed the total amount of goodwill allocated to the reporting unit. 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 March 2016, the FASB issued ASU No. 2016-09, “Compensation—Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting“ (“ASU 2016-09”). ASU 2016-09 is being issued as part of the FASB's Simplification Initiative. The areas for simplification in ASU 2016-09 involve several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. 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. ASU 2016-09 is effective for the Company beginning July 1, 2017. Adoption of ASU 2016-09 is not expected to have a material effect on the results of operations, financial position or cash flows of the Company.

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

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

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

In May 2014, the FASB issued accounting guidance which requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers under ASU No. 2014-09, "Revenue from Contracts with Customers" ("ASU 2014-09"). ASU 2014-09 will replace most existing revenue recognition guidance in GAAP when it becomes effective. On 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 currently evaluating the impact of ASU 2014-09 along with the related amendments and interpretations issued under ASU 2016-08, ASU 2016-10, ASU 2016-12 and ASU 2016-20 on its results of operations, financial position and cash flows.

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, a provider of flavored iced teas and iced green 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 consolidated balance sheet at June 30, 2017. The earnout is estimated to be paid in calendar 2019.

In fiscal 2017, the Company incurred $0.2 million in transaction costs related to the China Mist acquisition, consisting primarily of legal and accounting expenses, which are included in general and administrative expenses in the Company's consolidated statements of operations for the fiscal year ended June 30, 2017.

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:

(In thousands)	Fair Value	Estimated Useful Life (years)
Cash paid, net of cash acquired	$ 11,183	
Post-closing final working capital adjustments	553	
Contingent consideration	500	
Total consideration	$ 12,236	
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—indefinite-lived	5,070	
Accounts payable	(383)	
Total consideration, net of cash acquired	$ 12,236	

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, 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 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 consolidated balance sheet at June 30, 2017. The earnout is estimated to be paid within the next twenty-four months.

In fiscal 2017, the Company incurred $0.3 million in transaction costs related to the West Coast Coffee acquisition, consisting primarily of legal and accounting expenses, which are included in general and administrative expenses in the Company's consolidated statements of operations for the fiscal year ended June 30, 2017.

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

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

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

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

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

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

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

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

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

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

Rae' Launo Corporation

On January 12, 2015, the Company acquired substantially all of the assets of Rae' Launo Corporation ("RLC") relating to its DSD and in-room distribution business in the Southeastern United States (the "RLC Acquisition"). The purchase price was $1.5 million, consisting of $1.2 million in cash paid at closing and annual earnout payments of $0.1 million each year over a three-year period based on achievement of certain milestones.

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

Fair Values of Assets Acquired		**Estimated Useful Life (years)**
(In thousands)		
Property, plant and equipment	$ 338	
Intangible assets:		
Non-compete agreement	20	3.0
Customer relationships	870	4.5
Total finite-lived intangible assets	890	
Goodwill	272	
Total assets acquired	$ 1,500	

Definite-lived intangible assets consist of a non-compete agreement and customer relationships. Total net carrying value of definite-lived intangible assets as of June 30, 2017 and 2016 was $0.4 million and $0.6 million, respectively, and accumulated amortization as of June 30, 2017 and 2016 was $0.5 million and $0.3 million, respectively. Estimated aggregate amortization of definite-lived intangible assets, calculated on a straight-line basis and based on estimated fair values is $0.2 million in each of the next two fiscal years.

Note 4. Restructuring Plans

Corporate Relocation Plan

On February 5, 2015, the Company announced the Corporate Relocation Plan to close its Torrance, California 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.

Expenses related to the Corporate Relocation Plan in fiscal 2017 consisted of $1.1 million in employee retention and separation benefits, $6.2 million in facility-related costs including lease of temporary office space, costs associated with the move of the Company's headquarters and the relocation of certain distribution operations and $1.3 million in other related costs including travel, legal, consulting and other professional services. Facility-related costs in fiscal 2017 also included $2.5 million in non-cash charges, including $1.1 million in depreciation expense associated with the Torrance production facility resulting from the consolidation of coffee production operations with the Houston and Portland production facilities and $1.4 million in non-cash rent expense recognized in the sale-leaseback of the Torrance Facility.

The following table sets forth the activity in liabilities associated with the Corporate Relocation Plan for the fiscal year ended June 30, 2017:

(In thousands)	Balances, June 30, 2016	Additions	Payments	Non-Cash Settled(2)	Adjustments	Balances, June 30, 2017(1)
Employee-related costs(1)	$ 2,342	$ 1,109	$ 3,150	$ —	$ —	$ 301
Facility-related costs	—	6,187	3,712	2,475	—	—
Other	200	1,294	1,494	—	—	—
Total	$ 2,542	$ 8,590	$ 8,356	$ 2,475	$ —	$ 301
Current portion	$ 2,542					$ 301
Non-current portion	$ —					$ —
Total	$ 2,542					$ 301

(1) Included in “Accrued payroll expenses” on the Company's 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 consolidated balance sheets, and (b) non-cash rent expense recognized in the sale-leaseback of the Torrance Facility.

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 June 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 completed the Corporate Relocation Plan in the fourth quarter of fiscal 2017 and had $0.3 million in accrued costs remaining to be paid in fiscal 2018. The Company also recognized from inception through June 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. On July 13, 2017, the Company received correspondence from the WCT Pension Trust stating that it had liability for a share of the WCTPP unfunded vested benefits based on the WCT Pension Trust’s claim that certain of our employment actions resulting from the Corporate Relocation Plan amounted to a partial withdrawal from the WCTPP. See Note 26.

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 fiscal year ended June 30, 2017:

(In thousands)	Balances, June 30, 2014	Additions	Payments	Non-Cash Settled	Adjustments	Balances, June 30, 2017
Employee-related costs(1)	$ —	$ 17,352	$ 17,051	$ —	$ —	$ 301
Facility-related costs(2)	—	10,779	7,048	3,731	—	—
Other	—	7,424	7,424	—	—	—
Total(2)	$ —	$ 35,555	$ 31,523	$ 3,731	$ —	$ 301

(1) Included in "Accrued payroll expenses" on the Company's 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 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 the DSD 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 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 fiscal 2017 consisted of $1.1 million in employee-related costs and $1.3 million in other related costs. As of June 30, 2017, the Company had paid a total of $1.7 million of these costs and had a balance of $0.7 million in DSD Restructuring Plan-related liabilities on the Company's consolidated balance sheet.

Note 5. New Facility

Lease Agreement and Purchase Option Exercise

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

Development Management Agreement

In conjunction with the Lease Agreement, the Company also entered into a Development Management Agreement with an affiliate of Stream Realty Partners (the "DMA") to manage, coordinate, represent, assist and advise the Company on matters from the pre-development through construction of the New Facility. Pursuant to the DMA, the Company will pay the developer a development fee, an oversight fee and a development services fee the amounts of which are included in the construction costs incurred-to-date. As of June 30, 2017, the DMA has concluded and the Company had incurred $4.0 million under this agreement which amount is included in "Building and Facilities—New Facility" (see Note 13) of which $0.4 million remains to be paid which is included in Accounts payable on the Company's consolidated balance sheet at June 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 will provide pre-construction and construction services, including specialized industrial design and construction work in connection with Builder's construction of certain production equipment that will be installed in portions of the New Facility (the "Project"). The Company engaged other designers and builders to provide traditional construction work on the Project site, including for the foundation, building envelope and roof of the New Facility. Pursuant to the Amended Building Contract, the Company will pay Builder up to $21.9 million for Builder's services in connection with the Project. This amount is a guaranteed maximum price and is subject to adjustment in accordance with the terms of the Amended Building Contract. The Amended Building Contract includes an "IDB Work Contract Schedule," which sets forth interim milestones, durations and material dates in relation to the performance and timing of Builder's work. The Amended Building Contract includes remedies for the Company in the event agreed milestone dates relating to Builder's services are not met. The Amended Building Contract is subject to customary undertakings, covenants, obligations, rights and conditions. 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 as of June 30, 2017. As of June 30, 2017, the Company has paid $20.3 million under this agreement, with a remaining $2.2 million to be paid which amount is included in "Building and Facilities—New Facility." See Note 13.

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 June 30, 2017, the Company has incurred an aggregate of $60.8 million and has outstanding contractual obligations of $1.6 million, which amounts are included in "Building and Facilities-New Facility." See Notes 13 and 23. 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 June 30, 2017, including $20.3 million under the Amended Building Contract, and has outstanding contractual obligations of $2.8 million. See Note 23. 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. 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, trade names 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. Gain from the earnout on the sale is recognized when earned and when realization is assured beyond a reasonable doubt. The Company recognized $1.0 million and $0.5 million in earnout during the fiscal years ended June 30, 2017 and 2016, respectively, a portion of which is included in "Net gains from sale of Spice Assets" in the Company's consolidated statements of operations. The sale of the Spice Assets does not represent a strategic shift for the Company and is not expected to have a material impact on the Company's results of operations because the Company will continue to sell a complete portfolio of spice and other culinary products purchased from Harris under a supply agreement to its DSD customers.

Sale of Torrance Facility

On July 15, 2016, the Company completed the 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 consolidated balance sheet at September 30, 2016. The Company vacated the Torrance Facility in December 2016 and concluded the leaseback transaction. See Note 7. As a result, at December 31, 2016, the financing transaction qualified for sales recognition under ASC 840. Accordingly, in the 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. Assets Held for Sale

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

Note 8. Derivative Instruments

Derivative Instruments Held

Coffee-Related Derivative Instruments

The Company is exposed to commodity price risk associated with its PTF green coffee purchase contracts, which are described further in Note 2. 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 June 30, 2017 and 2016:

	June 30,	
(In thousands)	2017	2016
Derivative instruments designated as cash flow hedges:		
Long coffee pounds	33,038	32,550
Derivative instruments not designated as cash flow hedges:		
Long coffee pounds	2,121	1,618
Less: Short coffee pounds	—	(188)
Total	35,159	33,980

Coffee-related derivative instruments designated as cash flow hedges outstanding as of June 30, 2017 will expire within 18 months.

Effect of Derivative Instruments on the Financial Statements

Balance Sheets

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

	Derivative Instruments Designated as Cash Flow Hedges		Derivative Instruments Not Designated as Accounting Hedges	
	June 30,		June 30,	
(In thousands)	2017	2016	2017	2016
Financial Statement Location:				
Short-term derivative assets:				
Coffee-related derivative instruments(1)	$ 66	$ 3,771	$ —	$ 183
Long-term derivative assets:				
Coffee-related derivative instruments(2)	$ 66	$ 2,575	$ —	$ 57
Short-term derivative liabilities:				
Coffee-related derivative instruments	$ 1,733	$ —	$ 190	$ —
Long-term derivative liabilities:				
Coffee-related derivative instruments(2)	$ 446	$ —	$ —	$ —

(1) Included in “Short-term derivative liabilities” on the Company's consolidated balance sheet at June 30, 2017.
(2) Included in “Other long-term liabilities” on the Company's consolidated balance sheet at June 30, 2017.

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 “AOCI,” “Cost of goods sold” and “Other, net”:

(In thousands)	Year Ended June 30, 2017	2016	2015	Financial Statement Classification
Net (losses) gains recognized in AOCI (effective portion)	$ (4,705)	$ 303	$ (14,295)	AOCI
Net gains (losses) recognized in earnings (effective portion)	$ 1,732	$ (13,184)	$ 4,211	Costs of goods sold
Net losses recognized in earnings (ineffective portion)	$ (456)	$ (575)	$ (325)	Other, net

For the fiscal years ended June 30, 2017, 2016 and 2015, 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 (gains) on derivative instruments in the Company's consolidated statements of cash flows also includes net losses (gains) on coffee-related derivative instruments designated as cash flow hedges reclassified to cost of goods sold from AOCI in the fiscal years ended June 30, 2017, 2016 and 2015. Gains and losses on derivative instruments not designated as accounting hedges are included in “Other, net” in the Company's consolidated statements of operations and in “Net losses (gains) on derivative instruments and investments” in the Company's consolidated statements of cash flows.

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

(In thousands)	Year Ended June 30, 2017	2016	2015
Net losses on coffee-related derivative instruments	$ (1,812)	$ (298)	$ (2,992)
Net gains (losses) on investments	286	611	(270)
Net (losses) gains on derivative instruments and investments(1)	(1,526)	313	(3,262)
Other gains, net	325	243	248
Other, net	$ (1,201)	$ 556	$ (3,014)

(1) Excludes net losses and net gains on coffee-related derivative instruments designated as cash flow hedges recorded in cost of goods sold in the fiscal years ended June 30, 2017, 2016 and 2015.

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 well as cash collateral on deposit with its counterparty as of the reporting dates indicated:

(In thousands)		Gross Amount Reported on Balance Sheet	Netting Adjustments	Cash Collateral Posted	Net Exposure
June 30, 2017	Derivative Assets	$ 132	$ (132)	$ —	$ —
	Derivative Liabilities	$ 2,369	$ (132)	$ —	$ 2,237
June 30, 2016	Derivative Assets	$ 6,586	$ —	$ —	$ 6,586

Cash Flow Hedges

Changes in the fair value of the Company's coffee-related derivative instruments designated as cash flow hedges, to the extent effective, are deferred in AOCI and reclassified into cost of goods sold in the same period or periods in which the hedged forecasted purchases affect earnings, or when it is probable that the hedged forecasted transaction will not occur by the end of the originally specified time period. Based on recorded values at June 30, 2017, $(1.6) 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 June 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 9. Investments

In fiscal 2017, the Company liquidated substantially all of its trading securities to fund expenditures associated with its New Facility in Northlake, Texas. The Company had $0.4 million and $25.6 million in short-term investments at June 30, 2017 and 2016, respectively. The following table shows gains and losses on trading securities by the Company:

	Year Ended June 30,		
(In thousands)	2017	2016	2015
Total gains (losses) recognized from trading securities	$ 286	$ 611	$ (270)
Less: Realized gains from sales of trading securities	1,909	29	89
Unrealized (losses) gains from trading securities	$ (1,623)	$ 582	$ (359)

Note 10. Fair Value Measurements

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

(In thousands)	Total	Level 1	Level 2	Level 3
June 30, 2017				
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	$ —

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

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

During the fiscal years ended June 30, 2017 and 2016, there were no transfers between the levels.

Note 11. Accounts Receivable, Net

(In thousands)	June 30, 2017	June 30, 2016
Trade receivables	$ 44,531	$ 43,113
Other receivables(1)	2,636	1,965
Allowance for doubtful accounts	(721)	(714)
Accounts receivable, net	$ 46,446	$ 44,364

(1) At June 30, 2017 and 2016, respectively, the Company had recorded $0.4 million and $0.5 million in “Other receivables” included in “Accounts receivable, net” on its consolidated balance sheets representing earnout receivable from Harris.

Allowance for doubtful accounts:

(In thousands)	
Balance at June 30, 2014	$ (651)
Recovery	8
Balance at June 30, 2015	$ (643)
Provision	(71)
Write-off	$ —
Balance at June 30, 2016	$ (714)
Provision	(325)
Write-off	318
Balance at June 30, 2017	$ (721)

Note 12. Inventories

(In thousands)	June 30, 2017	June 30, 2016
Coffee		
Processed	$ 14,085	$ 12,362
Unprocessed	17,083	13,534
Total	$ 31,168	$ 25,896
Tea and culinary products		
Processed	$ 20,741	$ 15,384
Unprocessed	74	377
Total	$ 20,815	$ 15,761
Coffee brewing equipment parts	$ 4,268	$ 4,721
Total inventories	$ 56,251	$ 46,378

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

Inventories were higher at the end of fiscal 2017 due to the commencement of the New Facility's manufacturing operations and incremental inventory from China Mist and West Coast Coffee as compared to lower levels of inventory at the Torrance Facility at the end of fiscal 2016 due to its anticipated closing. Notwithstanding this increase in total inventories at the end of fiscal 2017 compared to fiscal 2016 levels, inventories of manufactured spice products decreased at the end of fiscal 2017 compared to fiscal 2016 levels, primarily due to the liquidation of spice inventories in connection with the sale of the

Spice Assets. As a result, the Company recorded $3.4 million in beneficial effect of the liquidation of LIFO inventory quantities in cost of goods sold in fiscal 2017, which increased income before taxes in fiscal 2017 by $3.4 million.

Inventories decreased at the end of fiscal 2016 compared to fiscal 2015, primarily due to production consolidation and the sale of certain processed and unprocessed inventories to Harris at cost upon conclusion of the transition services provided by the Company in connection with the sale of the Spice Assets. Inventories decreased at the end of fiscal 2015 compared to fiscal 2014, primarily due to the consolidation and the sale of certain manufactured inventories to Harris. As a result, the Company recorded in cost of goods sold $4.2 million and $4.9 million in beneficial effect of liquidation of LIFO inventory quantities in the fiscal years ended June 30, 2016 and 2015, respectively, which increased income before taxes in fiscal 2016 and 2015 by $4.2 million and $4.9 million, respectively.

Current cost of coffee, tea and culinary product inventories exceeds the LIFO cost by:

	June 30,	
(In thousands)	2017	2016
Coffee	$ 13,351	$ 14,462
Tea and culinary products	4,043	7,139
Total	$ 17,394	$ 21,601

Note 13. Property, Plant and Equipment

	June 30,	
(In thousands)	2017	2016
Buildings and facilities	$ 108,682	$ 82,878
Machinery and equipment	201,236	182,227
Equipment under capital leases	7,540	11,982
Capitalized software	21,794	21,545
Office furniture and equipment	12,758	16,077
	$ 352,010	$ 314,709
Accumulated depreciation	(192,280)	(206,162)
Land	16,336	9,869
Property, plant and equipment, net	$ 176,066	$ 118,416

Capital leases consisted mainly of vehicle leases at June 30, 2017 and 2016. Depreciation and amortization expense includes amortization expense for assets recorded under capitalized leases.

The Company capitalized coffee brewing equipment (included in machinery and equipment) in the amounts of $10.8 million and $8.4 million in fiscal 2017 and 2016, respectively. Depreciation expense related to the capitalized coffee brewing equipment reported as cost of goods sold was $9.1 million, $9.8 million and $10.4 million in fiscal 2017, 2016 and 2015, respectively.

Maintenance and repairs to property, plant and equipment charged to expense for the years ended June 30, 2017, 2016, and 2015 were $8.0 million, $7.7 million and $8.2 million, respectively.

Note 14. Goodwill and Intangible Assets

The following is a summary of changes in the carrying value of goodwill:

(In thousands)	
Balance at June 30, 2015	$ 272
Additions	—
Balance at June 30, 2016	$ 272
Additions (China Mist)	2,927
Additions (West Coast Coffee)(1)	7,797
Balance at June 30, 2017	$ 10,996

(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.

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

	June 30, 2017		June 30, 2016	
(In thousands)	Gross Carrying Amount(1)	Accumulated Amortization(1)	Gross Carrying Amount	Accumulated Amortization
Amortized intangible assets:				
Customer relationships	$ 17,353	$ (10,883)	$ 10,953	$ (10,373)
Non-compete agreements	220	(38)	20	(10)
Recipes	930	(88)	—	—
Trade name/brand name	510	(84)	—	—
Total amortized intangible assets	$ 19,013	$ (11,093)	$ 10,973	$ (10,383)
Unamortized intangible assets:				
Trade names with indefinite lives	$ 3,640	$ —	$ 3,640	$ —
Trademarks and brand name with indefinite lives	7,058	—	1,988	—
Total unamortized intangible assets	$ 10,698	$ —	$ 5,628	$ —
Total intangible assets	$ 29,711	$ (11,093)	$ 16,601	$ (10,383)

(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 past three fiscal years:

(In thousands)	
For the fiscal year ended:	
June 30, 2017	$ 710
June 30, 2016	$ 200
June 30, 2015	$ 99

Estimated amortization expense for the next five fiscal years:

(In thousands)		
For the fiscal year ending:		
June 30, 2018	$	1,197
June 30, 2019	$	1,081
June 30, 2020	$	866
June 30, 2021	$	850
June 30, 2022	$	828

Remaining weighted average amortization periods for intangible assets with finite lives are as follows:

(In years)	
Customer relationships	9.1
Non-compete agreements	4.4
Recipes	6.3
Trade name/brand name	4.3

Note 15. 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 (loss) (“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).

Obligations and Funded Status

($ in thousands)	Farmer Bros. Plan June 30, 2017	Farmer Bros. Plan June 30, 2016	Brewmatic Plan June 30, 2017	Brewmatic Plan June 30, 2016	Hourly Employees' Plan June 30, 2017	Hourly Employees' Plan June 30, 2016
Change in projected benefit obligation						
Benefit obligation at the beginning of the year	$152,325	$136,962	$ 4,574	$ 4,064	$ 4,329	$ 3,145
Service cost	—	—	—	—	124	389
Interest cost	5,277	5,875	157	172	152	137
Actuarial (gain) loss	(4,556)	15,999	(370)	682	(233)	687
Benefits paid	(6,755)	(6,511)	(282)	(344)	(43)	(29)
Projected benefit obligation at the end of the year	$146,291	$152,325	$ 4,079	$ 4,574	$ 4,329	$ 4,329
Change in plan assets						
Fair value of plan assets at the beginning of the year	$ 91,201	$ 94,815	$ 2,989	$ 3,291	$ 2,447	$ 2,104
Actual return on plan assets	10,874	1,556	337	42	256	85
Employer contributions	1,984	1,341	71	—	339	287
Benefits paid	(6,755)	(6,511)	(282)	(344)	(43)	(29)
Fair value of plan assets at the end of the year	$ 97,304	$ 91,201	$ 3,115	$ 2,989	$ 2,999	$ 2,447
Funded status at end of year (underfunded) overfunded	**$ (48,987)**	**$ (61,124)**	**$ (964)**	**$ (1,585)**	**$ (1,330)**	**$ (1,882)**
Amounts recognized in consolidated balance sheets						
Non-current liabilities	(48,987)	(61,124)	(964)	(1,585)	(1,330)	(1,882)
Total	$ (48,987)	$ (61,124)	$ (964)	$ (1,585)	$ (1,330)	$ (1,882)
Amounts recognized in AOCI						
Net loss	59,007	70,246	2,135	2,756	618	988
Total AOCI (not adjusted for applicable tax)	$ 59,007	$ 70,246	$ 2,135	$ 2,756	$ 618	$ 988
Weighted average assumptions used to determine benefit obligations						
Discount rate	3.80%	3.55%	3.80%	3.55%	3.80%	3.55%
Rate of compensation increase	N/A	N/A	N/A	N/A	N/A	N/A

Components of Net Periodic Benefit Cost and
Other Changes Recognized in Other Comprehensive Income (Loss) (OCI)

	Farmer Bros. Plan June 30,		Brewmatic Plan June 30,		Hourly Employees' Plan June 30,	
($ in thousands)	2017	2016	2017	2016	2017	2016
Components of net periodic benefit cost						
Service cost	$ —	$ —	$ —	$ —	$ 124	$ 389
Interest cost	5,277	5,875	157	172	152	137
Expected return on plan assets	(6,067)	(6,470)	(188)	(219)	(172)	(149)
Amortization of net loss	1,875	1,411	102	68	53	—
Net periodic benefit cost	$ 1,085	$ 816	$ 71	$ 21	$ 157	$ 377
Other changes recognized in OCI						
Net loss	$ (9,363)	$ 20,913	$ (519)	$ 859	$ (317)	$ 750
Amortization of net loss	(1,875)	(1,411)	(102)	(68)	(53)	—
Total recognized in OCI	$ (11,238)	$ 19,502	$ (621)	$ 791	$ (370)	$ 750
Total recognized in net periodic benefit cost and OCI	$ (10,153)	$ 20,318	$ (550)	$ 812	$ (213)	$ 1,127
Weighted-average assumptions used to determine net periodic benefit cost						
Discount rate	3.55%	4.40%	3.55%	4.40%	3.55%	4.40%
Expected long-term return on plan assets	7.75%	7.50%	7.75%	7.50%	7.75%	7.50%
Rate of compensation increase	N/A	N/A	N/A	N/A	N/A	N/A

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.

Description of Investment Policy

The Company's investment strategy is to build an efficient, well-diversified portfolio based on a long-term, strategic outlook of the investment markets. The investment markets outlook utilizes both the historical-based and forward-looking return forecasts to establish future return expectations for various asset classes. These return expectations are used to develop a core asset allocation based on the specific needs of each plan. The core asset allocation utilizes investment portfolios of various asset classes and multiple investment managers in order to maximize the plan's return while providing multiple layers of diversification to help minimize risk.

Additional Disclosures

($ in thousands)	Farmer Bros. Plan June 30, 2017	Farmer Bros. Plan June 30, 2016	Brewmatic Plan June 30, 2017	Brewmatic Plan June 30, 2016	Hourly Employees' Plan June 30, 2017	Hourly Employees' Plan June 30, 2016
Comparison of obligations to plan assets						
Projected benefit obligation	$146,291	$152,325	$ 4,079	$ 4,574	$ 4,329	$ 4,329
Accumulated benefit obligation	$146,291	$152,325	$ 4,079	$ 4,574	$ 4,329	$ 4,329
Fair value of plan assets at measurement date	$ 97,304	$ 91,201	$ 3,115	$ 2,989	$ 2,999	$ 2,447
Plan assets by category						
Equity securities	$ 65,270	$ 58,094	$ 2,133	$ 1,909	$ 1,973	$ 1,542
Debt securities	26,241	27,586	793	899	851	758
Real estate	5,793	5,521	189	181	175	147
Total	$ 97,304	$ 91,201	$ 3,115	$ 2,989	$ 2,999	$ 2,447
Plan assets by category						
Equity securities	67%	64%	69%	64%	66%	63%
Debt securities	27%	30%	25%	30%	28%	31%
Real estate	6%	6%	6%	6%	6%	6%
Total	100.0%	100.0%	100%	100%	100%	100%

Fair values of plan assets were as follows:

(In thousands)	June 30, 2017 Total	Level 1	Level 2	Level 3
Farmer Bros. Plan	$ 97,304	$ —	$ 97,304	$ —
Brewmatic Plan	$ 3,115	$ —	$ 3,115	$ —
Hourly Employees' Plan	$ 2,999	$ —	$ 2,999	$ —

(In thousands)	June 30, 2016 Total	Level 1	Level 2	Level 3
Farmer Bros. Plan	$ 91,201	$ —	$ 91,201	$ —
Brewmatic Plan	$ 2,989	$ —	$ 2,989	$ —
Hourly Employees' Plan	$ 2,447	$ —	$ 2,447	$ —

As of June 30, 2017, approximately 6% of the assets of each of the Farmer Bros. Plan, the Brewmatic Plan and the Hourly Employees' Plan were invested in pooled separate accounts which invested mainly in commercial real estate and included mortgage loans which were backed by the associated properties. These underlying real estate investments are able to be redeemed at net asset value per share and therefore, are considered Level 2 assets.

The following is the target asset allocation for the Company's single employer pension plans—Farmer Bros. Plan, Brewmatic Plan and Hourly Employees' Plan—for fiscal 2018:

	Fiscal 2018
U.S. large cap equity securities	40.0%
U.S. small cap equity securities	4.8%
International equity securities	19.2%
Debt securities	30.0%
Real estate	6.0%
Total	100.0%

Estimated Amounts in OCI Expected To Be Recognized

In fiscal 2018, the Company expects to recognize net periodic benefit cost of $1.5 million for the Farmer Bros. Plan and $68,000 for the Brewmatic Plan, and a net periodic benefit credit of $(4,000) for the Hourly Employees' Plan.

Estimated Future Contributions and Refunds

In fiscal 2018, the Company expects to contribute $2.6 million to the Farmer Bros. Plan, $0.1 million to the Brewmatic Plan, and $0.4 million to the Hourly Employees' Plan. The Company is not aware of any refunds expected from single employer pension plans.

Estimated Future Benefit Payments

The following benefit payments are expected to be paid over the next 10 fiscal years:

(In thousands)	Farmer Bros. Plan	Brewmatic Plan	Hourly Employees' Plan
Year Ending:			
June 30, 2018	$ 7,490	$ 310	$ 100
June 30, 2019	$ 7,650	$ 290	$ 110
June 30, 2020	$ 7,930	$ 280	$ 130
June 30, 2021	$ 8,130	$ 280	$ 150
June 30, 2022	$ 8,330	$ 270	$ 160
June 30, 2023 to June 30, 2027	$ 42,660	$ 1,220	$ 990

These amounts are based on current data and assumptions and reflect expected future service, as appropriate.

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 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.

The Company's participation in WCTPP is outlined in the table below. The Pension Protection Act ("PPA") Zone Status available in the Company's fiscal year 2017 and fiscal year 2016 is for the plan's year ended December 31, 2016 and December 31, 2015, respectively. The zone status is based on information obtained from WCTPP and is certified by WCTPP's actuary. Among other factors, plans in the green zone are generally more than 80% funded. Based on WCTPP's 2016 Annual Funding Notice, WCTPP was 91.7% and 91.8% funded for its plan year beginning January 1, 2016 and 2015, respectively, and is expected to be 90.0% funded for its plan year beginning January 1, 2017. The "FIP/RP Status Pending/Implemented" column indicates if a funding improvement plan ("FIP") or a rehabilitation plan ("RP") is either pending or has been implemented.

Pension Plan	Employer Identification Number	Pension Plan Number	PPA Zone Status July 1, 2016	PPA Zone Status July 1, 2015	FIP/RP Status Pending/ Implemented	Surcharge Imposed	Expiration Date of Collective Bargaining Agreements
Western Conference of Teamsters Pension Plan.	91-6145047	001	Green	Green	No	No	January 31, 2020

Based upon the most recent information available from the trustees managing WCTPP, the Company's share of the unfunded vested benefit liability for the plan was estimated to be approximately $7.0 million if the withdrawal had occurred in the plan year ending December 31, 2016. These estimates were calculated by the trustees managing WCTPP. Although the Company believes the most recent plan data available from WCTPP was used in computing this 2016 estimate, the actual withdrawal liability amount is subject to change based on, among other things, the plan's investment returns and benefit levels, interest rates, financial difficulty of other participating employers in the plan such as bankruptcy, and continued participation by the Company and other employers in the plan, each of which could impact the ultimate withdrawal liability.

If withdrawal liability were to be triggered, the withdrawal liability assessment can be paid in a lump sum or on a monthly basis. The amount of the monthly payment is determined as follows: Average number of hours reported to the pension plan trust during the three consecutive years with highest number of hours in the 10-year period prior to the withdrawal is multiplied by the highest hourly contribution rate during the 10-year period ending with the plan year in which the withdrawal occurred to determine the amount of withdrawal liability that has to be paid annually. The annual amount is divided by 12 to arrive at the monthly payment due. If monthly payments are elected, interest is assessed on the unpaid balance after 12 months at the rate of 7% per annum.

On July 13, 2017, the Company received correspondence from the Western Conference of Teamsters Pension Trust (the “WCT Pension Trust”) stating that the Company had liability for a share of the WCTPP unfunded vested benefits based on the WCT Pension Trust’s claim that certain of the Company’s employment actions resulting from the Corporate Relocation Plan amounted to a partial withdrawal from the WCTPP. See Note 26.

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 and $3.8 million, respectively, is reflected in the Company's consolidated balance sheets at June 30, 2017 and June 30, 2016, with the short-term and long-term portions reflected in current and long-term liabilities, respectively. At June 30, 2017, the Company has classified the present value of the total estimated withdrawal liability as short-term with the expectation of paying off the liability in fiscal 2018. See Note 23.

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.

Company contributions to the multiemployer pension plans:

(In thousands)	WCTPP(1)(2)(3)	All Other Plans(4)
Year Ended:		
June 30, 2017	$ 2,114	$ 39
June 30, 2016	$ 2,587	$ 39
June 30, 2015	$ 3,593	$ 41

(1) Individually significant plan.
(2) Less than 5% of total contribution to WCTPP based on WCTPP's FASB Disclosure Statement for the calendar year ended December 31, 2016.
(3) The Company guarantees that one hundred seventy-three (173) hours will be contributed upon for all employees who are compensated for all available straight time hours for each calendar month. An additional 6.5% of the basic contribution must be paid for PEER or the Program for Enhanced Early Retirement.
(4) Includes one plan that is not individually significant.

The Company's contribution to multiemployer plans decreased in fiscal 2017 as compared to fiscal 2016 and 2015, as a result of reduction in employees due to the Corporate Relocation Plan. The Company expects to contribute an aggregate of $2.2 million towards multiemployer pension plans in fiscal 2018.

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. The Company's aggregate contributions to multiemployer plans other than pension plans in the fiscal years ended June 30, 2017, 2016 and 2015 were $5.3 million, $6.3 million and $6.9 million, respectively. The Company expects to contribute an aggregate of $5.0 million towards multiemployer plans other than pension plans in fiscal 2018.

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, 2016 and 2015, 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 $1.6 million, $1.6 million and $1.4 million in operating expenses for the fiscal years ended June 30, 2017, 2016 and 2015, respectively.

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's retiree medical, dental and vision plan is unfunded, and its liability was calculated using an assumed discount rate of 4.1% at June 30, 2017. The Company projects an initial medical trend rate of 8.6% in fiscal 2018, ultimately reducing to 4.5% in 10 years.

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. In fiscal 2016, the Company actuarially determined that no postretirement benefit costs related to the Corporate Relocation Plan were required to be recognized.

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 fiscal years ended June 30, 2017, 2016 and 2015. Net periodic postretirement benefit cost for fiscal 2017 was based on employee census information as of June 30, 2017.

(In thousands)	Year Ended June 30, 2017	2016	2015
Components of Net Periodic Postretirement Benefit Cost (Credit):			
Service cost	$ 760	$ 1,388	$ 1,195
Interest cost	829	1,194	943
Amortization of net gain	(630)	(196)	(500)
Amortization of prior service credit	(1,757)	(1,757)	(1,757)
Net periodic postretirement benefit (credit) cost	$ (798)	$ 629	$ (119)

The difference between the assets and the Accumulated Postretirement Benefit Obligation (APBO) at the adoption of ASC 715-60 was established as a transition (asset) obligation and is amortized over the average expected future service for active employees as measured at the date of adoption. Any plan amendments that retroactively increase benefits create prior service cost. The increase in the APBO due to any plan amendment is established as a base and amortized over the average remaining years of service to the full eligibility date of active participants who are not yet fully eligible for benefits at the plan amendment date. Gains and losses due to experience different than that assumed or from changes in actuarial assumptions are not immediately recognized. The tables below show the remaining bases for the transition (asset) obligation, prior service cost (credit), and the calculation of the amortizable gain or loss.

Amortization Schedule

Transition (Asset) Obligation: The transition (asset) obligations have been fully amortized.

Prior service cost (credit)-Medical only ($ in thousands):

Date Established	Balance at July 1, 2016	Annual Amortization	Years Remaining	Curtailment	Balance at June 30, 2017
January 1, 2008	$ (732)	$ 230	2.2	—	$ (502)
July 1, 2012	(11,475)	1,526	6.5	—	(9,949)
	$ (12,207)	$ 1,756			$ (10,451)

	Retiree Medical Plan		Death Benefit	
	Year Ended June 30,		Year Ended June 30,	
($ in thousands)	**2017**	**2016**	**2017**	**2016**
Amortization of Net (Gain) Loss:				
Net (gain) loss as of July 1	$ (10,298)	$ (8,710)	$ 1,523	$ 690
Net (gain) loss subject to amortization	(10,298)	(8,710)	1,523	690
Corridor (10% of greater of APBO or assets)	1,214	1,724	(854)	(729)
Net (gain) loss in excess of corridor	$ (9,084)	$ (6,986)	$ 669	$ —
Amortization years	9.7	10.0	7.0	7.7

The following tables provide a reconciliation of the benefit obligation and plan assets:

	Year Ended June 30,	
(In thousands)	**2017**	**2016**
Change in Benefit Obligation:		
Projected postretirement benefit obligation at beginning of year	$ 21,867	$ 24,522
Service cost	760	1,388
Interest cost	829	1,194
Participant contributions	741	795
Actuarial losses	(2,377)	(4,259)
Benefits paid	(1,140)	(1,773)
Projected postretirement benefit obligation at end of year	$ 20,680	$ 21,867

	Year Ended June 30,	
(In thousands)	**2017**	**2016**
Change in Plan Assets:		
Fair value of plan assets at beginning of year	$ —	$ —
Employer contributions	399	978
Participant contributions	741	795
Benefits paid	(1,140)	(1,773)
Fair value of plan assets at end of year	$ —	$ —
Projected postretirement benefit obligation at end of year	20,680	21,867
Funded status of plan	$ (20,680)	$ (21,867)

	June 30,	
(In thousands)	**2017**	**2016**
Amounts Recognized in the Consolidated Balance Sheets Consist of:		
Non-current assets	$ —	$ —
Current liabilities	(893)	(1,060)
Non-current liabilities	(19,787)	(20,807)
Total	$ (20,680)	$ (21,867)

	Year Ended June 30,	
(In thousands)	**2017**	**2016**
Amounts Recognized in AOCI Consist of:		
Net gain	$ (8,775)	$ (7,027)
Prior service credit	(10,450)	(12,207)
Total AOCI	$ (19,225)	$ (19,234)

(In thousands)	Year Ended June 30, 2017	2016
Other Changes in Plan Assets and Benefit Obligations Recognized in OCI:		
Unrecognized actuarial loss	$ (2,377)	$ (4,259)
Amortization of net loss	630	196
Amortization of prior service cost	1,757	1,757
Total recognized in OCI	10	(2,306)
Net periodic benefit (cost) credit	(798)	629
Total recognized in net periodic benefit cost and OCI	$ (788)	$ (1,677)

The estimated net gain and prior service credit that will be amortized from AOCI into net periodic benefit cost in fiscal 2018 are $0.8 million and $1.8 million, respectively.

(In thousands)	
Estimated Future Benefit Payments:	
Year Ending:	
June 30, 2018	$ 911
June 30, 2019	$ 956
June 30, 2020	$ 1,004
June 30, 2021	$ 1,049
June 30, 2022	$ 1,082
June 30, 2023 to June 30, 2027	$ 5,830
Expected Contributions:	
June 30, 2018	$ 911

Sensitivity in Fiscal 2018 Results

Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plan. A one percentage point change in assumed health care cost trend rates would have the following effects in fiscal 2018:

(In thousands)	1-Percentage Point Increase	Decrease
Effect on total of service and interest cost components	$ 96	$ (92)
Effect on accumulated postretirement benefit obligation	$ 983	$ (963)

Note 16. Bank Loan

The Company maintains a senior secured revolving credit facility (“Revolving Facility”) with JPMorgan Chase Bank, N.A. and SunTrust Bank (collectively, the “Lenders”), with revolving commitments of $75.0 million as of June 30, 2017, and 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. As of June 30, 2017, the commitment fee ranges from 0.25% to 0.375% per annum based on average revolver usage. Outstanding obligations are collateralized by all of the Company’s assets, excluding certain real property not included in the borrowing base, machinery and equipment (other than inventory), and the Company's preferred stock portfolio. Borrowings under the Revolving Facility bear interest based on average historical excess availability levels with a range of PRIME - 0.25% to PRIME + 0.50% or Adjusted LIBO Rate + 1.25% to Adjusted LIBO Rate + 2.00%. The Company is subject to a variety of affirmative and negative covenants of types customary in an asset-based lending facility, including financial covenants relating to the maintenance of a fixed charge coverage ratio in certain circumstances, and the right of the Lenders to establish reserve requirements, which may reduce the amount of credit otherwise available to the Company. The Company is allowed to pay dividends, provided, among other things, certain excess availability requirements are met, and no event of default exists or has occurred and is continuing as of the date of any such payment and after giving effect thereto. The Revolving Facility expires on March 2, 2020. Subsequent to the year ended June 30, 2017, the Company, together with its wholly owned subsidiaries and its Lenders, amended the credit facility to provide additional borrowing capacity and extended the term of the Revolving Facility. See Note 26. *Subsequent Events*.

At June 30, 2017, the Company was eligible to borrow up to a total of $55.6 million under the Revolving Facility and had outstanding borrowings of $27.6 million, utilized $0.1 million of the letters of credit sublimit, and had excess availability under the Revolving Facility of $27.9 million. Fair value of the loan approximates carrying value. At June 30, 2017, the weighted average interest rate on the Company's outstanding borrowings under the Revolving Facility was 3.02% and the Company was in compliance with all of the restrictive covenants under the Revolving Facility.

Note 17. Employee Stock Ownership Plan

The Company's ESOP was established in 2000. The plan is a leveraged ESOP in which the Company is the lender. One of the two loans established to fund the ESOP matured in fiscal 2016 and the remaining loan is scheduled to mature in December 2018. The loan is repaid from the Company's discretionary plan contributions over the original 15 year term with a variable rate of interest. The annual interest rate was 2.50% at June 30, 2017, which is updated on a quarterly basis.

	As of and for the years ended June 30,		
	2017	2016	2015
Loan amount (in thousands)	$4,289	$6,434	$11,234

Shares are held by the plan trustee for allocation among participants as the loan is repaid. The unencumbered shares are allocated to participants using a compensation-based formula. Subject to vesting requirements, allocated shares are owned by participants and shares are held by the plan trustee until the participant retires.

Historically, the Company used the dividends, if any, on ESOP shares to pay down the loans, and allocated to the ESOP participants shares equivalent to the fair market value of the dividends they would have received. No dividends were paid in fiscal 2017, 2016 or 2015.

During the fiscal years ended June 30, 2017, 2016 and 2015, the Company charged $2.5 million, $3.4 million and $4.4 million, respectively, to compensation expense related to the ESOP. The decrease in ESOP expense in fiscal 2017 and 2016 was primarily due to the reduction in the number of shares being allocated to participant accounts as a result of paying down the loan amount. The difference between cost and fair market value of committed to be released shares, which was $0.5 million, $36,000 and $1.0 million for the fiscal years ended June 30, 2017, 2016 and 2015, respectively, is recorded as additional paid-in capital.

	June 30,	
	2017	2016
Allocated shares	1,717,608	1,941,934
Committed to be released shares	74,983	169,603
Unallocated shares	145,941	220,925
Total ESOP shares	1,938,532	2,332,462
(In thousands)		
Fair value of ESOP shares	$ 58,641	$ 74,779

Note 18. 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 (the “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. 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 is administered by the Board or another Board committee or subcommittee, as may be determined by the Board from time to time (subject to limitations that may be imposed under Section 162(m) of the Code, Section 16 of the Securities Exchange Act of 1934, as amended, and/or stock exchange rules, as applicable). The administrator of the 2017 Plan (the “Administrator”) or its delegatee will have the authority to determine which eligible persons receive awards and to set the terms and conditions applicable to awards within the confines of the 2017 Plan’s terms. The Administrator will have the authority to make all determinations and interpretations under, and adopt rules and guidelines for the administration of, the 2017 Plan. In addition, the Administrator (which, for purposes of any such awards will be a Board committee comprised solely of two or more directors, each of whom is intended to be an “outside director” within the meaning of Section 162(m) of the Code) will determine whether specific awards are intended to constitute “qualified performance-based compensation,” within the meaning of Section 162(m) of the Code.

The 2017 Plan includes annual limits on certain awards that may be granted to any individual participant. The maximum aggregate number of shares of common stock with respect to all stock options and stock appreciation rights that may be granted to any one person during any calendar year is 250,000 shares. The maximum number of shares of common stock with respect to all awards of restricted stock, restricted stock units, performance shares and other stock- or cash-based awards that are intended to qualify as “qualified performance-based compensation” within the meaning of Section 162(m) of the Code that may be granted to any one person during any calendar year is 250,000 shares. The 2017 Plan also includes limits on the maximum aggregate amount that may become payable pursuant to all performance bonus awards that may be granted to any one person during any calendar year and the maximum amount that may become payable pursuant to all cash-based awards granted under the 2017 Plan and the aggregate grant date fair value of all equity-based awards granted under the 2017 Plan to any non-employee director during any calendar year for services as a member of the Board.

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 may not, without the approval of the Company’s stockholders, authorize certain re-pricings 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 June 30, 2017, no awards have been granted under the 2017 Plan.

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

In fiscal 2017, the Company granted no shares issuable upon the exercise of NQOs. In fiscal 2016 and 2015, the Company granted 21,595 and 25,703 shares, respectively, issuable upon the exercise of NQOs with a weighted average exercise price of $29.48 and $23.91 per share, respectively, to eligible employees under the Amended Equity Plan which vest ratably over a three-year period. Following are the assumptions used in the Black-Scholes valuation model for NQOs granted during the fiscal years ended June 30, 2016 and 2015:

	Year Ended June 30, 2016	Year Ended June 30, 2015
Weighted average fair value of NQOs	$ 12.63	$ 10.38
Risk-free interest rate	1.6%	1.5%
Dividend yield	—	—
Average expected term (years)	5.1	5.1
Expected stock price volatility	47.1%	47.9%

The Company's assumption regarding expected stock price volatility is based on the historical volatility of the Company's stock price. The risk-free interest rate is based on U.S. Treasury zero-coupon issues at the date of grant with a remaining term equal to the expected life of the stock options. The average expected term is based on historical weighted time outstanding and the expected weighted time outstanding calculated by assuming the settlement of outstanding awards at the midpoint between the vesting date and the end of the contractual term of the award. Currently, management estimates an annual forfeiture rate of 4.8% based on actual forfeiture experience. Forfeitures are estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates.

The following table summarizes NQO activity for the three most recent fiscal years:

Outstanding NQOs:	Number of NQOs	Weighted Average Exercise Price ($)	Weighted Average Grant Date Fair Value ($)	Weighted Average Remaining Life (Years)	Aggregate Intrinsic Value ($ in thousands)
Outstanding at June 30, 2014	412,454	12.44	5.30	4.4	3,782
Granted	25,703	23.91	10.38	6.8	—
Exercised	(95,723)	16.17	5.86	—	747
Cancelled/Forfeited	(13,134)	11.26	5.00	—	—
Outstanding at June 30, 2015	329,300	12.30	5.54	3.9	3,700
Granted	21,595	29.48	12.63	6.4	—
Exercised	(112,895)	12.35	5.37	—	1,853
Cancelled/Forfeited	(18,371)	13.45	6.17	—	—
Outstanding at June 30, 2016	219,629	13.87	6.28	3.7	3,995
Granted	—	—	—	—	—
Exercised(1)	(67,482)	12.38	5.57	—	1,407
Cancelled/Forfeited	(18,683)	25.13	10.90	—	—
Outstanding at June 30, 2017	133,464	13.05	5.99	2.6	2,299
Vested and exercisable at June 30, 2017	125,376	12.13	5.64	2.5	2,274
Vested and expected to vest at June 30, 2017	133,073	13.00	5.97	2.6	2,298

(1) Includes 11,147 shares that were withheld to cover option cost and meet the employees' minimum statutory tax withholding and retired.

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 $30.25 at June 30, 2017, $32.06 at June 30, 2016 and $23.50 at

June 30, 2015, representing the last trading day of the respective fiscal years, which would have been received by NQO holders had all award holders exercised their NQOs that were in-the-money as of those dates. The aggregate intrinsic value of NQO exercises in each fiscal period above represents the difference between the exercise price and the value of the Company's common stock at the time of exercise. NQOs outstanding that are expected to vest are net of estimated forfeitures.

Total fair value of NQOs vested during fiscal 2017, 2016, and 2015 was $0.2 million, $0.3 million and $0.5 million, respectively. The Company received $0.5 million, $1.4 million and $1.5 million in proceeds from exercises of vested NQOs in fiscal 2017, 2016 and 2015, respectively.

The following table summarizes nonvested NQO activity for the three most recent fiscal years:

Nonvested NQOs:	Number of NQOs	Weighted Average Exercise Price ($)	Weighted Average Grant Date Fair Value ($)	Weighted Average Remaining Life (Years)
Outstanding at June 30, 2014	167,798	10.65	5.06	5.3
Granted	25,703	23.91	10.38	6.8
Vested	(101,172)	9.87	4.72	—
Forfeited	(12,134)	10.31	4.91	—
Outstanding at June 30, 2015	80,195	15.94	7.21	5.2
Granted	21,595	29.48	12.63	6.4
Vested	(47,418)	14.05	6.44	—
Forfeited	(15,641)	12.95	6.09	—
Outstanding at June 30, 2016	38,731	27.02	11.63	6.1
Vested	(15,765)	26.45	11.41	—
Forfeited	(14,878)	27.44	11.96	—
Outstanding at June 30, 2017	8,088	27.33	11.47	5.3

As of June 30, 2017 and 2016, respectively, there was $80,000 and $0.4 million of unrecognized compensation cost related to NQOs. The unrecognized compensation cost related to NQOs at June 30, 2017 is expected to be recognized over the weighted average period of 1.3 years. Total compensation expense for NQOs was $0.1 million, $0.2 million and $0.4 million in fiscal 2017, 2016 and 2015, respectively.

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

In the fiscal year ended June 30, 2017, the Company granted 149,223 shares issuable upon the exercise of PNQs to eligible employees under the Amended Equity Plan, with 20% of each such grant subject to forfeiture if a target modified net income goal for fiscal 2017 ("Fiscal 2017 Target") is not attained. For this purpose, "Modified Net Income" is defined as net income (GAAP) before taxes and excluding any gains or losses from sales of assets, and excluding the effect of restructuring and other transition expenses related to the relocation of the Company's corporate headquarters to Northlake, Texas. These PNQs have an exercise price of $32.85 per share which was the closing price of the Company's common stock as reported on the NASDAQ Global Select Market on the date of grant. One-third of the total number of shares subject to each such stock option vest ratably on each of the first three anniversaries of the grant date, contingent on continued employment, and subject to accelerated vesting in certain circumstances.

In the fiscal year ended June 30, 2016, the Company granted 143,466 shares issuable upon the exercise of PNQs with an exercise price of $29.48 per share to eligible employees under the Amended Equity Plan. With the exception of a portion of the award to the Company's President and Chief Executive Officer as described below, these PNQs vest over a three-year period with one-third of the total number of shares subject to each such PNQ becoming exercisable each year on the anniversary of the grant date, based on the Company's achievement of modified net income targets for fiscal 2016 ("Fiscal 2016 Target") as approved by the Compensation Committee, subject to the participant's employment by the Company or service on the Board of Directors of the Company on the applicable vesting date and the acceleration provisions contained in the Amended Equity Plan and the applicable award agreement. But if actual modified net income for fiscal 2016 is less than the Fiscal 2016 Target, then only 80% of the total shares issuable under such grant will vest subject to continued employment with the Company on the relevant vesting dates.

On June 3, 2016, the Compensation Committee of the Board of Directors of the Company determined that a portion of the performance non-qualified stock option granted to Michael H. Keown, the Company's President and Chief Executive Officer, on December 3, 2015 (the “Original Option”) was invalid because such portion caused the total number of option shares granted to Mr. Keown in calendar year 2015 to exceed the limit of 75,000 shares that may be granted to a participant in a single calendar year under the Amended Equity Plan by 22,862 shares. Therefore, the Compensation Committee reduced the total number of shares of common stock issuable under the Original Option by 22,862 shares. The reduction of the 22,862 excess option shares brought the total number of option shares granted to Mr. Keown in calendar 2015 within the limitation of the Amended Equity Plan.

In addition, on June 3, 2016, the Compensation Committee, in accordance with the provisions of the Amended Equity Plan, granted Mr. Keown a performance non-qualified stock option to purchase 22,862 shares of the Company's common stock (the “New Option”) with an exercise price of $29.48 per share, which was the greater of the exercise price of the Original Option and the closing price of the Company's common stock as reported on the NASDAQ Global Select Market on June 3, 2016, the date of grant. The New Option is subject to the same terms and conditions of the Original Option including an expiration date of December 3, 2022, and the three-year vesting schedule, except that to comply with the Amended Equity Plan's minimum vesting schedule of one year from the grant date, one-third of shares issuable under the New Option will vest on June 3, 2017, and the remainder of the New Option shares will vest one-third each on the second and third anniversaries of the grant date of the Original Option, based on the Company’s achievement of the same performance goals as the Original Option, subject to Mr. Keown’s continued employment on the applicable vesting date.

In the fiscal year ended June 30, 2015, the Company granted 121,024 shares issuable upon the exercise of PNQs with an exercise price of $23.44 per share to eligible employees under the Amended Equity Plan. These PNQs vest over a three-year period with one-third of the total number of shares subject to each such PNQ becoming exercisable each year on the anniversary of the grant date, based on the Company’s achievement of modified net income targets for fiscal years within the performance period as approved by the Compensation Committee, subject to catch-up vesting of previously unvested shares in a subsequent year within the three year period in which a cumulative modified net income target as approved by the Compensation Committee is achieved, in each case, subject to the participant’s employment by the Company or service on the Board of Directors of the Company on the applicable vesting date and the acceleration provisions contained in the Amended Equity Plan and the applicable award agreement.

Following are the assumptions used in the Black-Scholes valuation model for PNQs granted during the fiscal years ended June 30, 2017, 2016 and 2015:

	Year Ended June 30,		
	2017	2016	2015
Weighted average fair value of PNQs	$ 11.42	$ 11.38	$ 10.16
Risk-free interest rate	1.5%	1.6%	1.5%
Dividend yield	—	—	—
Average expected term (years)	4.9	4.9	5.0
Expected stock price volatility	37.7%	42.5%	47.9%

The following table summarizes PNQ activity for the three most recent fiscal years:

Outstanding PNQs:	Number of PNQs	Weighted Average Exercise Price ($)	Weighted Average Grant Date Fair Value ($)	Weighted Average Remaining Life (Years)	Aggregate Intrinsic Value ($ in thousands)
Outstanding at June 30, 2014	112,442	21.27	10.49	6.5	38
Granted	121,024	23.44	10.16	6.6	—
Cancelled/Forfeited	(9,399)	21.33	10.52	—	—
Outstanding at June 30, 2015	224,067	22.44	10.31	6.0	237
Granted	143,466	29.48	11.38	6.2	—
Exercised	(14,144)	21.20	10.45	—	107
Cancelled/Forfeited	(64,790)	23.20	10.37	—	—
Outstanding at June 30, 2016	288,599	25.83	10.82	5.7	1,798
Granted	149,223	32.85	11.42	4.6	—
Exercised(1)	(15,321)	26.26	10.98	—	109
Cancelled/Forfeited	(63,715)	31.39	11.39	—	—
Outstanding at June 30, 2017	358,786	27.75	10.96	5.2	1,181
Vested and exercisable at June 30, 2017	150,761	23.97	10.58	4.3	947
Vested and expected to vest at June 30, 2017	347,766	27.64	10.95	5.2	1,173

(1) Includes 6,326 shares that were withheld to cover option cost and meet the employees' minimum statutory tax withholding and retired.

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 $30.25 at June 30, 2017, $32.06 at June 30, 2016 and $23.50 at June 30, 2015 representing the last trading day of the respective fiscal years, which would have been received by PNQ holders had all award holders exercised their PNQs that were in-the-money as of those dates. The aggregate intrinsic value of PNQ exercises in each fiscal period represents the difference between the exercise price and the value of the Company’s common stock at the time of exercise. PNQs outstanding that are expected to vest are net of estimated forfeitures.

Total fair value of PNQs vested during the fiscal years ended June 30, 2017, 2016 and 2015 was $1.3 million, $0.3 million and $0.4 million, respectively. The Company received $0.2 million and $0.3 million in proceeds from exercises of vested PNQs in fiscal 2017 and 2016, respectively. No PNQs were exercised during the fiscal year ended June 30, 2015.

As of June 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 and fiscal 2016 awards, and for the fiscal 2017 awards.

The following table summarizes nonvested PNQ activity for the three most recent fiscal years:

Nonvested PNQs:	Number of PNQs	Weighted Average Exercise Price ($)	Weighted Average Grant Date Fair Value ($)	Weighted Average Remaining Life (Years)
Outstanding at June 30, 2014	112,442	21.27	10.49	6.5
Granted	121,024	23.44	10.16	6.6
Vested	(34,959)	21.27	10.49	—
Forfeited	(9,399)	21.33	10.52	—
Outstanding at June 30, 2015	189,108	22.66	10.28	6.2
Granted	143,466	29.48	11.38	6.2
Vested	(27,317)	10.16	23.44	—
Forfeited	(64,790)	23.20	10.37	—
Outstanding at June 30, 2016	240,467	26.49	10.92	5.9
Granted	149,223	32.85	11.42	4.6
Vested	(119,403)	24.91	10.75	—
Forfeited	(62,262)	31.39	11.39	—
Outstanding at June 30, 2017	208,025	30.48	11.24	5.8

As of June 30, 2017 and 2016, there was $1.8 million and $1.9 million , respectively, of unrecognized compensation cost related to PNQs. The unrecognized compensation cost related to PNQs at June 30, 2017 is expected to be recognized over the weighted average period of 1.3 years. Total compensation expense related to PNQs in fiscal 2017, 2016 and 2015 was $1.1 million, $0.5 million and $0.5 million, respectively.

Restricted Stock

During fiscal 2017, 2016 and 2015 the Company granted 5,106 shares, 10,170 shares and 13,256 shares of restricted stock under the Amended Equity Plan, respectively, with a weighted average grant date fair value of $35.25, $29.99 and $23.64 per share, respectively, to eligible employees and directors. Shares of restricted stock generally vest at the end of three years for eligible employees. Unlike prior-year awards to non-employee directors, which vest ratably over a period of three years, the fiscal 2017 restricted stock awards cliff vest on the first anniversary of the date of grant subject to continued service to the Company through the vesting date and the acceleration provisions of the LTIP and restricted stock agreement. During the fiscal year ended June 30, 2017, 7,458 shares of restricted stock vested and were released.

The following table summarizes restricted stock activity for the three most recent fiscal years:

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, 2014	96,212	10.27	1.5	2,079
Granted	13,256	23.64	—	313
Exercised/Released(1)	(53,402)	8.43	—	1,377
Cancelled/Forfeited	(8,984)	8.36	—	—
Outstanding at June 30, 2015	47,082	16.48	1.2	1,106
Granted	10,170	29.99	—	305
Exercised/Released(2)	(24,841)	14.08	—	747
Cancelled/Forfeited	(8,619)	13.06	—	—
Outstanding at June 30, 2016	23,792	26.00	1.8	763
Granted	5,106	35.25	—	180
Exercised/Released	(7,458)	24.16	—	253
Cancelled/Forfeited	(5,995)	26.41	—	—
Outstanding at June 30, 2017	15,445	29.79	0.9	467
Expected to vest at June 30, 2017	14,989	29.79	0.9	453

(1) Includes 4,297 shares that were withheld to meet the employees' minimum statutory tax withholding and retired.
(2) Includes 5,177 shares that were withheld to meet the employees' minimum statutory tax withholding and retired.

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 $30.25 at June 30, 2017, $32.06 at June 30, 2016 and $23.50 at June 30, 2015, representing the last trading day of the respective fiscal years. Restricted stock that is expected to vest is net of estimated forfeitures.

As of June 30, 2017 and 2016, there was $0.3 million and $0.5 million of unrecognized compensation cost related to restricted stock. The unrecognized compensation cost related to restricted stock at June 30, 2017 is expected to be recognized over the weighted average period of 1.0 year. Total compensation expense for restricted stock was $0.2 million, $0.2 million, and $0.3 million, for the fiscal years ended June 30, 2017, 2016 and 2015, respectively.

Note 19. Other Current Liabilities

Other current liabilities consist of the following:

	June 30,	
(In thousands)	2017	2016
Accrued postretirement benefits	$ 893	$ 1,060
Accrued workers' compensation liabilities	1,885	3,225
Short-term pension liabilities	3,956	347
Earnout payable—RLC acquisition	100	100
Other (including net taxes payable)	2,868	2,214
Other current liabilities	$ 9,702	$ 6,946

Note 20. Other Long-Term Liabilities

Other long-term liabilities include the following:

(In thousands)	June 30, 2017	June 30, 2016
New Facility lease obligation(1)	$ —	$ 28,110
Earnout payable(2)	1,100	100
Derivative liabilities—noncurrent	380	—
Other long-term liabilities	$ 1,480	$ 28,210

(1) Lease obligation associated with construction of the New Facility. The lease obligation was reversed upon termination of the Lease Agreement concurrent with the closing of the purchase option on September 15, 2016. See Note 5.
(2) Includes in fiscal 2017, $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; includes in fiscal 2016 $0.1 million in earnout payable in connection with the Company's acquisition of substantially all of the assets of RLC in fiscal 2016. See Note 3.

Note 21. Income Taxes

The current and deferred components of the provision for income taxes consist of the following:

(In thousands)	June 30, 2017	June 30, 2016	June 30, 2015
Current:			
Federal	$ 132	$ 214	$ (30)
State	340	103	309
Total current income tax expense	472	317	279
Deferred:			
Federal	13,110	(66,648)	106
State	2,372	(13,666)	17
Total deferred income tax expense (benefit)	15,482	(80,314)	123
Income tax expense (benefit)	$ 15,954	$ (79,997)	$ 402

A reconciliation of income tax expense (benefit) to the federal statutory tax rate is as follows:

(In thousands)	June 30, 2017	June 30, 2016	June 30, 2015
Statutory tax rate	**35%**	**35%**	**34%**
Income tax expense at statutory rate	$ 14,121	$ 3,472	$ 358
State income tax expense, net of federal tax benefit	1,819	557	260
Dividend income exclusion	(134)	(140)	(54)
Valuation allowance	(13)	(83,230)	(185)
Change in tax rate	—	(1,061)	—
Retiree life insurance	(69)	135	—
Change in contingency reserve (net)	1	—	—
Other (net)	229	270	23
Income tax expense (benefit)	$ 15,954	$ (79,997)	$ 402

The primary components of the temporary differences which give rise to the Company's net deferred tax assets (liabilities) are as follows:

	June 30,		
(In thousands)	**2017**	**2016**	**2015**
Deferred tax assets:			
Postretirement benefits	$ 30,253	$ 33,273	$ 31,100
Accrued liabilities	7,885	11,760	10,091
Net operating loss carryforwards	38,985	38,196	41,544
Intangible assets	—	71	594
Other	6,824	6,881	6,794
Total deferred tax assets	83,947	90,181	90,123
Deferred tax liabilities:			
Unrealized gain on investments	—	(609)	(2,242)
Fixed assets	(17,096)	(5,370)	(2,647)
Other	(2,181)	(1,789)	(1,943)
Total deferred tax liabilities	(19,277)	(7,768)	(6,832)
Valuation allowance	(1,615)	(1,627)	(84,857)
Net deferred tax assets (liabilities)	$ 63,055	$ 80,786	$ (1,566)

At June 30, 2017, the Company had approximately $101.8 million in federal and $97.7 million in state net operating loss carryforwards that will begin to expire in the years ending June 30, 2030 and June 30, 2017, respectively. Additionally, at June 30, 2017, the Company had $0.8 million of federal business tax credits that begin to expire in June 30, 2025 and approximately $1.7 million of federal alternative minimum tax credits that do not expire.

The Company recognizes windfall tax benefits associated with the exercise of share-based compensation directly to stockholders' equity only when realized. Accordingly deferred tax assets are not recognized for net operating loss carryforwards resulting from windfall tax benefits occurring from July 1, 2006 onward. At June 30, 2017, deferred tax assets do not include $1.6 million in excess tax benefits from stock compensation. As discussed in Note 2, the Company will adopt ASU 2016-09 beginning July 1, 2017. Upon adoption the excess tax benefits of $1.6 million will be recorded as an increase to deferred tax assets and a corresponding increase to retained earnings.

At June 30, 2017, the Company had total deferred tax assets of $83.9 million and net deferred tax assets before valuation allowance of $64.7 million. The Company considered whether a valuation allowance should be recorded against deferred tax assets based on the likelihood that the benefits of the deferred tax assets would or would not ultimately be realized in future periods. In making such assessment, significant weight was given to evidence that could be objectively verified such as recent operating results and less consideration was given to less objective indicators such as future income projections.

After consideration of positive and negative evidence, including the recent history of income, the Company concluded that it is more likely than not that the Company will generate future income sufficient to realize the majority of the Company's deferred tax assets as of June 30, 2017. As of June 30, 2017, the Company cannot conclude that certain state net operating loss carry forwards and tax credit carryovers will be utilized before expiration. Accordingly, the Company will maintain a valuation allowance of $1.6 million to offset this deferred tax asset. There was no change to the valuation allowance in fiscal 2017. The valuation allowance decreased $83.2 million and increased $12.3 million, in fiscal 2016 and 2015, respectively.

Total unrecognized tax benefits attributable to uncertain tax positions taken in tax returns in each of fiscal 2017, 2016 and 2015 were zero and at June 30, 2017 and 2016, the Company had no unrecognized tax benefits.

The Company files income tax returns in the U.S. and in various state jurisdictions with varying statutes of limitations. The Company is no longer subject to U.S. income tax examinations for the fiscal years prior to June 30, 2013. The Internal Revenue Service completed its examination of the Company's tax years ended June 30, 2013 and 2014 and accepted the returns as filed.

The Company's policy is to recognize interest expense and penalties related to income tax matters as a component of income tax expense. In each of the fiscal years ended June 30, 2017 and 2016, the Company recorded $0 in accrued interest and penalties associated with uncertain tax positions. Additionally, the Company recorded income of $0 related to interest and penalties on uncertain tax positions in the fiscal years ended June 30, 2017, 2016 and 2015, respectively.

Note 22. Net Income Per Common Share

(In thousands, except share and per share amounts)	Year Ended June 30, 2017	2016	2015
Net income attributable to common stockholders—basic	$ 24,370	$ 89,812	$ 651
Net income attributable to nonvested restricted stockholders	30	106	1
Net income	$ 24,400	$ 89,918	$ 652
Weighted average common shares outstanding—basic	16,668,745	16,502,523	16,127,610
Effect of dilutive securities:			
Shares issuable under stock options	117,007	124,879	139,524
Weighted average common shares outstanding—diluted	16,785,752	16,627,402	16,267,134
Net income per common share—basic	$ 1.46	$ 5.45	$ 0.04
Net income per common share—diluted	$ 1.45	$ 5.41	$ 0.04

Note 23. Commitments and Contingencies

Leases

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

The Company is also obligated under operating leases for branch warehouses, distribution centers and its production facility in Portland, Oregon. Some operating leases have renewal options that allow the Company, as lessee, to extend the leases. Rent expenses paid for the fiscal years ended June 30, 2017, 2016 and 2015 were $5.1 million, $4.5 million and $3.8 million, respectively.

Contractual obligations for future fiscal years are as follows:

	Contractual Obligations						
(In thousands)	Capital Lease Obligations	Operating Lease Obligations	New Facility Construction and Equipment Contracts (1)	Pension Plan Obligations(2)	Postretirement Benefits Other Than Pension Plans(3)	Revolving Credit Facility	Purchase Commitments (4)
Year Ended June 30,							
2018	$ 994	$ 4,907	$ 4,439	$ 14,097	$ 5,880	$ 27,621	$ 76,359
2019	$ 186	$ 3,996	$ —	$ 8,050	$ 956	$ —	$ —
2020	$ 51	$ 2,151	$ —	$ 8,340	$ 1,004	$ —	$ —
2021	$ 4	$ 769	$ —	$ 8,560	$ 1,049	$ —	$ —
2022	$ —	$ 186	$ —	$ 8,760	$ 1,082	$ —	$ —
Thereafter	$ —	$ —	$ —	$ 44,870	$ 5,830	$ —	$ —
		$ 12,009	$ 4,439	$ 92,677	$ 15,801	$ 27,621	$ 76,359
Total minimum lease payments	$ 1,235						
Less: imputed interest (0.82% to 10.66%)	$ (40)						
Present value of future minimum lease payments	$ 1,195						
Less: current portion	$ 958						
Long-term capital lease obligations	$ 237						

(1) Includes $1.6 million in outstanding contractual obligations for the construction of the New Facility including $0.4 million outstanding under the DMA (see Note 5) and $2.8 million in outstanding contractual obligations for the purchase of machinery and equipment for the New Facility, including $2.2 million under the Amended Building Contract. See Note 5.

(2) Includes $86.5 million in estimated future benefit payments on single employer pension plan obligations, $4.0 million in estimated payments in fiscal 2018 towards settlement of withdrawal liability associated with the Company's withdrawal from the Local 807 Labor Management Pension Plan and $2.2 million in estimated fiscal 2018 contributions to the multiemployer pension plans. See Note 15.

(3) Includes $10.8 million in estimated future benefit payments on postretirement benefit plan obligations and $5.0 million in estimated 2018 contributions to multiemployer plans other than pension plans. See Note 15.

(4) Purchase commitments include commitments under coffee purchase contracts for which all delivery terms have been finalized but the related coffee has not been received as of June 30, 2017. Amounts shown in the table above: (a) include all coffee purchase contracts that the Company considers to be from normal purchases; and (b) do not include amounts related to derivative instruments that are recorded at fair value on the Company's consolidated balance sheets.

Earn-Out Obligations

Certain of the Company's business acquisitions involve the payment of contingent consideration. Certain of these payments are based on achievement of certain sales levels during the earn-out period and, consequently, the Company cannot currently determine the total payments. However, the Company have developed an estimate of the maximum potential contingent consideration for each of its acquisitions with an outstanding earn-out obligation. The estimated maximum fair value of future contingent consideration that the Company could be required to pay associated with its business acquisitions is $1.2 million recorded in "Other current liabilities" and "Other long-term liabilities" on the

Company's consolidated balance sheet at June 30, 2017 (see Note 19 and Note 20). Subject to achievement of certain milestones, the contingent consideration is estimated to be paid before the end of calendar 2019. Since it is not possible to estimate when, or even if, the acquired companies will reach their performance milestones or the amount of contingent consideration payable based on future sales, the maximum contingent consideration has not been included in the table above.

Self-Insurance

At June 30, 2016, the Company had posted a $7.4 million letter of credit as a security deposit with the State of California Department of Industrial Relations Self-Insurance Plans for participation in the alternative security program for California self-insurers for workers' compensation liability in California. The State of California notified the Company on December 13, 2016 that it had released and authorized the cancellation of the letter of credit. At June 30, 2017 and 2016, the Company had also posted $3.4 million in cash and a $4.3 million letter of credit, respectively, as a security deposit for self-insuring workers' compensation, general liability and auto insurance coverages outside of California.

Non-cancelable Purchase Orders

As of June 30, 2017, the Company had committed to purchase green coffee inventory totaling $66.7 million under fixed-price contracts, equipment for the New Facility totaling $3.5 million and other purchases totaling $6.1 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.

All pre-trial motions and briefs have been filed with the Court. There was a final case management conference on August 21, 2017 at which 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. Phase 2 will focus on remedies and the plain meaning of “alternative significant risk level.” Trial is currently ongoing at this time.

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 24. Unusual and Infrequent Expenses

The Company incurred expenses of $5.2 million, or $0.31 per diluted common share, during the fiscal year ended June 30, 2017 which were unusual in nature and infrequent in occurrence. These expenses incurred for successfully defending against the 2016 proxy contest included non-recurring legal fees, financial advisory fees, proxy solicitor fees, mailing and printing costs of proxy solicitation materials and other costs.

Note 25. Selected Quarterly Financial Data (Unaudited)

The following tables set forth certain unaudited quarterly information for each of the eight fiscal quarters in the two year period ended June 30, 2017. This quarterly information has been prepared on a consistent basis with the audited consolidated financial statements and, in the opinion of management, includes all adjustments which management believes are necessary for a fair presentation of the information for the periods presented.

The Company's quarterly operating results may fluctuate significantly as a result of a variety of factors, and operating results for any fiscal quarter are not necessarily indicative of results for a full fiscal year or future fiscal quarters.

(In thousands, except per share data)	September 30, 2016	December 31, 2016	March 31, 2017	June 30, 2017
Net sales	$ 130,488	$ 139,025	$ 138,187	$ 133,800
Gross profit	$ 51,198	$ 55,096	$ 53,820	$ 53,618
Income from operations	$ 2,505	$ 35,910	$ 2,058	$ 1,693
Net income	$ 1,618	$ 20,076	$ 1,594	$ 1,112
Net income per common share—basic	$ 0.10	$ 1.21	$ 0.10	$ 0.07
Net income per common share—diluted	$ 0.10	$ 1.20	$ 0.10	$ 0.07

(In thousands, except per share data)	September 30, 2015	December 31, 2015	March 31, 2016	June 30, 2016
Net sales	$ 133,445	$ 142,307	$ 134,468	$ 134,162
Gross profit	$ 50,579	$ 52,908	$ 52,560	$ 52,428
(Loss) income from operations	$ (563)	$ 5,361	$ 306	$ 3,075
Net (loss) income	$ (1,074)	$ 5,561	$ 1,192	$ 84,239
Net (loss) income) per common share—basic	$ (0.07)	$ 0.34	$ 0.07	$ 5.09
Net (loss) income per common share—diluted	$ (0.07)	$ 0.34	$ 0.07	$ 5.05

In the fourth quarter of fiscal 2016, the Company concluded that it is more likely than not that the Company will generate future earnings sufficient to realize the majority of the Company's deferred tax assets as of June 30, 2016. Accordingly, the Company recorded a reduction in its valuation allowance in the fourth quarter of fiscal 2016 in the amount of $83.2 million. See Note 21.

In the second quarter of fiscal 2017, the Company completed the sale of the Torrance Facility, and recognized a net gain from sale 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. See Note 6.

Note 26. Subsequent Events

Boyd Coffee Company Purchase Agreement

On August 18, 2017, the Company and its wholly-owned subsidiary Boyd Assets Co., a Delaware corporation ("Buyer"), entered into an Asset Purchase Agreement (the "Purchase Agreement") with Boyd Coffee Company ("Seller"), and each of the parties set forth on Exhibit A to the Purchase Agreement (collectively with Seller, the "Seller Parties"). Under the terms of the Purchase Agreement, Seller will sell and Buyer will purchase substantially all of the assets of Seller (the "Transaction") in consideration of cash and preferred stock.

Each share of Preferred Stock will have a purchase price and an initial stated value of $1,000.00 ("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.

Each share of Preferred Stock may be converted at the election of the holder thereof (i) upon a change of control of the Company or (ii) as follows: of the initial 21,000 shares of Preferred Stock, (x) 4,200 shares may be converted beginning one year after the closing date, (y) 6,300 additional shares may be converted beginning two years after the closing date, and (z) the remaining 10,500 shares may be converted beginning three years after the closing date. In addition, the Company will have the right, at any time on or after the first anniversary of the closing date, to cause all, but not less than all, of the outstanding shares of Preferred Stock to automatically convert, based on certain market conditions.

In the event of any liquidation, dissolution or winding up of the affairs of the Company, the holder(s) of Preferred Stock will be entitled to receive, per share of Preferred Stock, out of the assets of the Company or proceeds thereof legally available for distribution to the Company's stockholders, before any distribution of such assets or proceeds is made or set aside for the holders of junior stock, an amount equal to the Preferred Stock liquidation preference. The liquidation preference will be the greater of the (x) the Stated Value, plus accrued and unpaid Regular Dividends, per share of Preferred Stock as of the date the liquidation preference is paid, and (x) the amount, per share of Preferred Stock, that the holder thereof would have received is such holder had converted such share into the Company's common stock immediately before such liquidation, dissolution or winding up.

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 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 in effect on such record date.

The Purchase Agreement contains representations, warranties, and indemnification provisions of the parties customary for transactions of this type. The Purchase Agreement contains specified termination rights for the parties, including a mutual termination right in the event the closing has not occurred on or prior to November 30, 2017. Subject to the satisfaction or waiver of the foregoing conditions and the other terms and conditions contained in the Purchase Agreement, the Transaction is expected to close in the Company's second quarter of fiscal 2018.

Amendment to Revolving Facility

On August 25, 2017, the Company and China Mist Brands, Inc., a Delaware corporation, (together with the Company, the "Borrowers"), together with the Company's wholly owned subsidiaries, as additional Loan Parties and as Guarantors, entered into that certain First Amendment to Credit Agreement and First Amendment to Pledge and Security Agreement (the "Amendment") with JPMorgan Chase Bank, N.A. ("Chase"), as Administrative Agent, and the financial institutions party thereto as lenders (the "Lenders"). The Amendment amends (i) the Company's original Credit Agreement dated as of March 2, 2015 (the "Original Credit Agreement"), entered into by the Borrowers, the guarantor subsidiaries party thereto, the Administrative Agent and the financial institutions party thereto as lenders (the Original Credit Agreement as amended by the Amendment, the "Amended Credit Agreement"), and (ii) the Company's original Pledge and Security Agreement dated as of March 2, 2015 (the "Original Pledge and Security Agreement"). Capitalized terms used without definition below are defined in the Amended Credit Agreement.

The Amended Credit Agreement increases the aggregate commitments ("Revolving Commitment") of the Revolving Facility from $75.0 million to 125.0 million. Chase agreed to provide $75.0 million of the Revolving Commitment and SunTrust Bank agreed to provide $50.0 million of the Revolving Commitment. The Amended Credit Agreement also includes an accordion feature whereby the Company may increase the Revolving Commitment by an aggregate amount not to exceed $50.0 million, subject to certain conditions.

The Amended Credit Agreement increases (i) the advance rate on Borrowers' eligible accounts receivable that are with investment grade customers from 85% to 90% and (ii) the amount of Borrowers' eligible real property which can be included in the Borrowing Base from the lesser of $25.0 million and 75% of the fair market value of such eligible real property, to the lesser of $60.0 million and 75% of the fair market value of such eligible real property, subject to certain limitations.

The Amended Credit Agreement provides for an increase to the margin of 0.375% per annum on any drawn loans under the Revolving Facility up to an amount equal to the value of eligible real property in the Borrowing Base. The interest rates are otherwise unchanged in the Amended Credit Agreement and continue to be 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 Amended Credit Agreement reduces the commitment fee from a range of between 0.25% to 0.375% per annum based on Average Revolver Usage, to a flat fee of 0.25% per annum irrespective of Average Revolver Usage. The Amended Credit Agreement also extends the maturity date of the Revolving Facility from March 2, 2020 to August 25, 2022.

The Amended Credit Agreement contains 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. The Amended Credit Agreement also allows the Lenders to establish reserve requirements, which may reduce the amount of credit otherwise available to the Borrowers, and provides for customary Events of Default.

Western Conference of Teamsters Pension Trust

On July 13, 2017, the Company received correspondence (the "WCT Letter") from the Western Conference of Teamsters Pension Trust (the "WCT Pension Trust") stating that the Company had liability for a share of the Western Conference of Teamsters Pension Plan (the "Plan") unfunded vested benefits based on the WCT Pension Trust's claim that certain of the Company's employment actions resulting from the Corporate Relocation Plan amounted to a partial withdrawal from the Plan. The Company has not yet decided whether it will submit a request for review to the WCT Pension Trust with respect to the asserted liability or take any other action.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

Item 9A. 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 Exchange Act, are controls and other procedures that are designed to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the rules and forms of the SEC. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information we are required to disclose in the reports that we file or submit under the Exchange Act is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosures.

As of June 30, 2017, our management, with the participation of our Chief Executive Officer and Chief Financial Officer, carried out an evaluation of the effectiveness of our disclosure controls and procedures pursuant to Rule 13a-15(e) promulgated under the Exchange Act. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that, as of June 30, 2017, our disclosure controls and procedures are effective.

Management's Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting as such term is defined in Exchange Act Rules 13a-15(f) and 15d-15(f). Internal control over financial reporting refers to the process designed by, or under the supervision of, our Chief Executive Officer and Chief Financial Officer, and effected by our Board of Directors, management and other personnel, 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. Due to its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Projections of any evaluation of effectiveness to future periods are subject to the risks that controls may become inadequate because of changes in conditions or that the degree of compliance with policies or procedures may deteriorate.

With the participation of the Chief Executive Officer and Chief Financial Officer, our management conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework and criteria established in the 2013 "Internal Control—Integrated Framework," issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based upon this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our internal control over financial reporting was effective as of June 30, 2017.

The effectiveness of our internal control over financial reporting has been audited by Deloitte & Touche LLP, an independent registered public accounting firm, as stated in their report which appears herein.

Changes in Internal Control Over Financial Reporting

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 June 30, 2017, that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders of
Farmer Bros. Co.
Northlake, Texas

We have audited the internal control over financial reporting of Farmer Bros. Co. and subsidiaries (the “Company”) as of June 30, 2017, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management’s Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed by, or under the supervision of, the company's principal executive and principal financial officers, or persons performing similar functions, and effected by the company's board of directors, management, and other personnel 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. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of June 30, 2017, based on the criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements as of and for the year ended June 30, 2017 of the Company and our report dated September 28, 2017 expressed an unqualified opinion on those financial statements.

/s/ DELOITTE & TOUCHE LLP

Dallas, Texas

September 28, 2017

Item 9B. Other Information

None.

PART III

Item 10. Directors, Executive Officers and Corporate Governance

The information required by this item will be set forth in the Proxy Statement and is incorporated in this report by reference.

Code of Conduct and Ethics

We maintain a written Code of Conduct and Ethics for all employees, officers and directors, including our principal executive officer, principal financial officer, principal accounting officer or controller, and other persons performing similar functions. To view this Code of Conduct and Ethics free of charge, please visit our website at www.farmerbros.com (this website address is not intended to function as a hyperlink, and the information contained in our website is not intended to be a part of this filing). We intend to satisfy the disclosure requirements under Item 5.05 of Form 8-K regarding an amendment to, or waiver from, a provision of this Code of Conduct and Ethics, if any, by posting such information on our website as set forth above.

Compliance with Section 16(a) of the Exchange Act

To the Company's knowledge, based solely on a review of the copies of such reports furnished to the Company and written representations from certain reporting persons that no other reports were required during the fiscal year ended June 30, 2017, its officers, directors and ten percent stockholders complied with all applicable Section 16(a) filing requirements, with the exception of the members of a "group" for the purposes of Section 13(d)(3) of the Securities Exchange Act of 1934, as amended, identified in a Schedule 13D/A (Amendment No. 3) filed with the SEC on August 29, 2017 and a Schedule 13D/A (Amendment No. 4) filed with the SEC on September 8, 2016 (collectively, the "Waite Group Schedule 13D/A"), including Carol Farmer Waite, as trustee, co-trustee, and/or sole beneficiary of certain family trusts named in the Waite Group Schedule 13D/A; Jonathan Michael Waite, as trustee and sole beneficiary of the 2012 Waite Irrevocable Trust; and individuals Suzanna Waite, Austin Waite, Emily Waite, Scott Grossman, Brett Grossman, Brynn Grossman, Tom Mortensen, John Samore, Jr. and Jennifer Gonzalez-Yousef (Mr. Samore and Ms. Gonzalez-Yousef each signed the Waite Group Schedule 13D/A but reported that they beneficially owned no shares of the Company's common stock), who did not timely file or failed to file such reports upon becoming members of the identified Section 13(d)(3) group. The foregoing is in addition to any filings that may be listed in the Company's Proxy Statement expected to be dated and filed with the SEC not later than 120 days after the conclusion of the Company's fiscal year ended June 30, 2017.

Item 11. Executive Compensation

The information required by this item will be set forth in the Proxy Statement and is incorporated in this report by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The information required by this item will be set forth in the Proxy Statement and is incorporated in this report by reference.

Equity Compensation Plan Information

Information about our equity compensation plans at June 30, 2017 that were either approved or not approved by our stockholders was as follows:

Plan Category	Number of Shares to be Issued Upon Exercise of Outstanding Options	Weighted Average Exercise Price of Outstanding Options	Number of Shares Remaining Available for Future Issuance(3)
Equity compensation plans approved by stockholders(1)	492,250	$23.76	—
Equity compensation plans approved by stockholders(2)	—	—	900,000
Equity compensation plans not approved by stockholders	—	—	—
Total	492,250	$23.76	900,000

(1) Includes shares issued under the Prior Plans.
(2) Includes shares available for issuance under the 2017 Plan
(3) The 2017 Plan succeeded the Prior Plans. On the Effective Date of the 2017 Plan, 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 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. 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 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 (the "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.

Item 13. Certain Relationships and Related Transactions, and Director Independence

The information required by this item will be set forth in the Proxy Statement and is incorporated in this report by reference.

Item 14. Principal Accountant Fees and Services

The information required by this item will be set forth in the Proxy Statement and is incorporated in this report by reference.

PART IV

Item 15. Exhibits and Financial Statement Schedules

(a) List of Financial Statements and Financial Statement Schedules:

1. Financial Statements included in Part II, Item 8 of this report:

Consolidated Balance Sheets as of June 30, 2017 and 2016

Consolidated Statements of Operations for the Years Ended June 30, 2017, 2016 and 2015

Consolidated Statements of Comprehensive Income (Loss) for the Years Ended June 30, 2017, 2016 and 2015

Consolidated Statements of Cash Flows for the Years Ended June 30, 2017, 2016 and 2015

Consolidated Statements of Stockholders' Equity for the Years Ended June 30, 2017, 2016 and 2015

Notes to Consolidated Financial Statements

2. Financial Statement Schedules: Financial Statement Schedules are omitted as they are not applicable, or the required information is given in the consolidated financial statements and notes thereto.

3. The exhibits to this Annual Report on Form 10-K are listed on the accompanying index to exhibits and are incorporated herein by reference or are filed as part of the Annual Report on Form 10-K. Each management contract or compensation plan required to be filed as an exhibit is identified by an asterisk (*).

(b) Exhibits: See Exhibit Index.

Item 16. Form 10-K Summary

None.

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)

September 28, 2017

By: /s/ David G. Robson

David G. Robson
Treasurer and Chief Financial Officer
(principal financial and accounting officer)

September 28, 2017

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

/s/ Randy E. Clark Randy E. Clark	Chairman of the Board and Director	September 28, 2017
/s/ Guenter W. Berger Guenter W. Berger	Chairman Emeritus and Director	September 28, 2017
/s/ Hamideh Assadi Hamideh Assadi	Director	September 28, 2017
Jeanne Farmer Grossman	Director	
/s/ Michael H. Keown Michael H. Keown	Director	September 28, 2017
/s/ Charles F. Marcy Charles F. Marcy	Director	September 28, 2017
/s/ Christopher P. Mottern Christopher P. Mottern	Director	September 28, 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	Form of 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 August 21, 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	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 as Exhibit 10.3 to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2012 filed with the SEC on November 5, 2012 and incorporated herein by reference).**
10.7	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 herewith).**
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 September 25, 2015, by and between Farmer Bros. Co. and Isaac N. Johnston, Jr. (filed as Exhibit 10.1 to the Company’s Current Report on Form 8-K filed with the SEC on September 29, 2015 and incorporated herein by reference).**
10.23	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).**
10.24	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).**
10.25	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).**
10.26	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).**
10.27	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).**
10.28	Farmer Bros. Co. 2007 Omnibus Plan, as amended (as approved by the stockholders at the 2012 Annual Meeting of Stockholders on December 6, 2012) (filed as Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the SEC on December 12, 2012 and incorporated herein by reference).**

10.29	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).**
10.30	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).**
10.31	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)**
10.32	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).**
10.33	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).**
10.34	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).**
10.35	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).**
10.36	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).**
10.37	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).**
10.38	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).**
10.39	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).**
10.40	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).
10.41	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).

10.42	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).
10.43	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).
10.44	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).
10.45	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).
10.46	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).
10.47	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).
10.48	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).
10.49	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).
10.50	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).
14.1	Farmer Bros. Co. Code of Conduct and Ethics adopted on August 26, 2010 and updated February 2013 and September 7, 2017 (filed herewith).
21.1	List of all Subsidiaries of Farmer Bros. Co. (filed herewith).
23.1	Consent of Deloitte & Touche LLP, Independent Registered Public Accounting Firm (filed herewith).
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 Annual Report on Form 10-K for the fiscal year ended June 30, 2017, formatted in eXtensible Business Reporting Language: (i) Consolidated Balance Sheets, (ii) Consolidated Statements of Operations, (iii) Consolidated Statements of Comprehensive Income (Loss), (iv) Consolidated Statements of Cash Flows, (v) Consolidated Statements of Stockholders' Equity, and (vi) Notes to Consolidated Financial Statements (furnished herewith).

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

** Management contract or compensatory plan or arrangement.

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Forward-Looking Statements

Certain statements contained in this Annual Report 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 the 2017 Form 10-K. 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. These risks and uncertainties include, but are not limited to, the success of the Company's Corporate Relocation Plan, the timing and success of the Company's 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 capital expenditure requirements, the ability of the Company to achieve strategic initiatives, the success of the Company's selling strategies to improve customer acquisition results, increase coffee volume growth, and expand gross margin, whether Company changes executed in the past year will produce Company benefits in the future, the relative effectiveness of compensation-based employee incentives in causing improvements in Company performance, the capacity to meet the demands of the Company's large national account customers, the extent of execution of plans for the growth of Company business and achievement of financial metrics related to those plans, the success of the Company to retain and/or attract qualified employees, and whether improvements in Company performance would improve stockholder value. Certain risks and uncertainties related to the Company's business are or will be described in greater detail in the Company's filings with the SEC. Owing to the uncertainties inherent in forward-looking statements, actual results could differ materially from those set forth in forward-looking statements. The Company intends these forward-looking statements to speak only as of the date they are made and does 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.

Farmer Bros. Co.

1912 Farmer Brothers Drive
Northlake, Texas 76262

DIRECTORS

Randy E. Clark
Chairman of the Board
Food Industry Consultant

Guenter W. Berger
Chairman Emeritus
Farmer Bros. Co. – Retired Chief Executive Officer

Hamideh Assadi
Chair, Compensation Committee
Retired Tax Consultant

Jeanne Farmer Grossman
Retired Teacher

Michael H. Keown
Farmer Bros. Co. – President, Chief Executive Officer

Charles F. Marcy
Chair, Nominating and Corporate Governance Committee
Food Industry Consultant

Christopher P. Mottern
Chair, Audit Committee
Independent Business Consultant

EXECUTIVE OFFICERS

Michael H. Keown
President, Chief Executive Officer

David G. Robson
Treasurer, Chief Financial Officer

Ellen D. Iobst
Chief Operations Officer

Scott A. Siers
Senior Vice President and General Manager – Direct Ship

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

FINANCIAL HIGHLIGHTS[1]

(In thousands, except per share data)

Fiscal year ended June 30,	2017(1)	2016	2015	2014	2013
Net sales	$ 541,500	$ 544,382	$ 545,882	$ 528,380	$ 513,869
Cost of goods sold	$ 327,765	$ 335,907	$ 348,846	$ 332,466	$ 328,693
Restructuring and other transition expenses	$ 11,016	$ 16,533	$ 10,432	$ —	$ —
Net gain from sale of Torrance Facility	$ (37,449)	$ —	$ —	$ —	$ —
Net gains from sale of Spice Assets	$ (919)	$ (5,603)	$ —	$ —	$ —
Net (gains) losses from sales of other assets	$ (1,210)	$ (2,802)	$ 394	$ (3,814)	$ (4,467)
Income from operations	$ 42,166	$ 8,179	$ 3,284	$ 8,916	$ 372
Income from operations per common share—diluted	$ 2.51	$ 0.49	$ 0.20	$ 0.56	$ 0.02
Income tax expense (benefit)	$ 15,954	$ (79,997)	$ 402	$ 705	$ (825)
Net income (loss)	$ 24,400	$ 89,918	$ 652	$ 12,132	$ (8,462)
Net income (loss) per common share—basic	$ 1.46	$ 5.45	$ 0.04	$ 0.76	$ (0.54)
Net income (loss) per common share—diluted	$ 1.45	$ 5.41	$ 0.04	$ 0.76	$ (0.54)
Total capital expenditures(2)	$ 84,949	$ 50,475	$ 19,216	$ 25,267	$ 15,894

June 30,	2017	2016	2015	2014	2013
Total assets	$ 392,736	$ 368,991	$ 240,943	$ 266,177	$ 244,136
Deferred income taxes	$ 63,055	$ 80,786	$ 751	$ 414	$ 467
Short-term borrowings under revolving credit facility	$ 27,621	$ 109	$ 78	$ 78	$ 9,654
Capital lease obligations	$ 1,195	$ 2,359	$ 5,848	$ 9,703	$ 12,168
Long-term borrowings under revolving credit facility	$ —	$ —	$ —	$ —	$ 10,000
Earn-out payable	$ 1,100	$ 100	$ 200	$ —	$ —
Long-term derivative liabilities	$ 380	$ —	$ 25	$ —	$ 1,129
Total liabilities	$ 177,601	$ 186,397	$ 150,932	$ 151,313	$ 162,298

(1) For a discussion of the factors that materially affect the comparability of the information reflected in the selected financial data, see Part II, Item 6, Selected Financial Data, included in the Company's Form 10-K for the fiscal year ended June 30, 2017.

(2) Includes $39,754 in expenditures for building and facilities, including land, for the New Facility in fiscal 2017 and $19,426 in purchases of construction-in-progress assets for the New Facility in fiscal 2016.

Farmer Brothers®

1912 Farmer Brothers Drive
Northlake, TX 76262
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FarmerBros.com

Back Cover Photo: James Jaramillo tosses green coffee beans on a drying patio in Norte del Valle, Colombia. James Jaramillo and his father are both promoters within the Farmer Brothers Direct Trade Verified Sustainable program who utilize their farm to teach other coffee growers proper practices.