

FARMER BROTHERS CO  
Form 10-Q  
November 09, 2015

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

FORM 10-Q  
(Mark One)

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

For the quarterly period ended September 30, 2015  
OR

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

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

Commission file number: 001-34249

FARMER BROS. CO.

(Exact Name of Registrant as Specified in Its Charter)

Delaware

(State of Incorporation)

95-0725980

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

13601 North Freeway, Suite 200, Fort Worth, Texas 76177

(Address of Principal Executive Offices; Zip Code)

888-998-2468

(Registrant's Telephone Number, Including Area Code)

20333 South Normandie Avenue, Torrance, California 90502

(Former Address, if Changed Since Last Report)

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

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

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

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

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

As of November 6, 2015 the registrant had 16,676,199 shares outstanding of its common stock, par value \$1.00 per share, which is the registrant's only class of common stock.

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## PART I - FINANCIAL INFORMATION (UNAUDITED)

## Item 1. Financial Statements

## FARMER BROS. CO.

## CONSOLIDATED BALANCE SHEETS (UNAUDITED)

(In thousands, except share and per share data)

	September 30, 2015	June 30, 2015
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$22,765	\$15,160
Restricted cash	1,274	1,002
Short-term investments	22,837	23,665
Accounts and notes receivable, net	42,973	40,161
Inventories	56,744	50,522
Income tax receivable	797	535
Prepaid expenses	3,685	4,640
Total current assets	151,075	135,685
Property, plant and equipment, net	90,271	90,201
Goodwill and intangible assets, net	6,641	6,691
Other assets	7,612	7,615
Deferred income taxes	751	751
Total assets	\$256,350	\$240,943
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$38,892	\$27,023
Accrued payroll expenses	23,451	23,005
Short-term borrowings under revolving credit facility	154	78
Short-term obligations under capital leases	2,904	3,249
Short-term derivative liabilities	3,632	3,977
Deferred income taxes	1,390	1,390
Other current liabilities	6,539	6,152
Total current liabilities	76,962	64,874
Accrued pension liabilities	47,506	47,871
Accrued postretirement benefits	23,505	23,471
Accrued workers' compensation liabilities	10,964	10,964
Other long-term liabilities—capital leases	2,059	2,599
Other long-term liabilities (Note 11)	3,609	225
Deferred income taxes	909	928
Total liabilities	\$165,514	\$150,932
Commitments and contingencies (Note 15)		
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; 16,676,403 and 16,658,148 issued and outstanding at September 30, 2015 and June 30, 2015, respectively	16,676	16,658
Additional paid-in capital	39,696	38,143
Retained earnings	105,790	106,864
Unearned ESOP shares	(11,234	) (11,234
Accumulated other comprehensive loss	(60,092	) (60,420
Total stockholders' equity	\$90,836	\$90,011

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Total liabilities and stockholders' equity	\$256,350	\$240,943
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The accompanying notes are an integral part of these consolidated financial statements.

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

	Three Months Ended September 30,		
	2015	2014	
Net sales	\$ 133,445	\$ 135,984	
Cost of goods sold	82,866	87,863	
Gross profit	50,579	48,121	
Selling expenses	36,441	38,450	
General and administrative expenses	9,465	7,009	
Restructuring and other transition expenses	5,450	—	
Net (gains) losses from sales of assets	(214	) 61	
Operating expenses	51,142	45,520	
(Loss) income from operations	(563	) 2,601	
Other (expense) income:			
Dividend income	293	294	
Interest income	104	89	
Interest expense	(121	) (207	)
Other, net	(875	) (64	)
Total other (expense) income	(599	) 112	
(Loss) income before taxes	(1,162	) 2,713	
Income tax (benefit) expense	(88	) 198	
Net (loss) income	\$(1,074	) \$2,515	
Net (loss) income per common share—basic	\$(0.07	) \$0.16	
Net (loss) income per common share—diluted	\$(0.07	) \$0.16	
Weighted average common shares outstanding—basic	16,269,368	16,003,802	
Weighted average common shares outstanding—diluted	16,269,368	16,130,745	

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

FARMER BROS. CO.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS) INCOME (UNAUDITED)

(In thousands)

	Three Months Ended September	
	30,	
	2015	2014
Net (loss) income	\$(1,074	) \$2,515
Other comprehensive (loss) income, net of tax:		
Unrealized (losses) gains on derivative instruments designated as cash flow hedges	(4,640	) 3,332
Losses (gains) on derivative instruments designated as cash flow hedges reclassified to cost of goods sold	4,968	(4,710 )
Total comprehensive (loss) income, net of tax	\$(746	) \$1,137

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

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

	Three Months Ended September 30,	
	2015	2014
Cash flows from operating activities:		
Net (loss) income	\$(1,074	) \$2,515
Adjustments to reconcile net (loss) income to net cash provided by (used in) operating activities:		
Depreciation and amortization	5,295	6,256
Provision for doubtful accounts	44	7
Restructuring and other transition expenses, net of payments	2,889	—
Deferred income taxes	(19	) 29
Net (gains) losses from sales of assets	(214	) 61
ESOP and share-based compensation expense	1,229	1,258
Net losses (gains) on derivative instruments and investments	5,839	(4,569
Change in operating assets and liabilities:		
Restricted cash	(272	) —
Purchases of trading securities held for investment	(518	) (936
Proceeds from sales of trading securities held for investment	1,202	1,315
Accounts and notes receivable	(1,805	) (3,949
Inventories	(6,446	) (897
Income tax receivable	(262	) 30
Derivative assets, net	(5,094	) 5,389
Prepaid expenses and other assets	966	712
Accounts payable	11,493	(3,899
Accrued payroll expenses and other current liabilities	(1,514	) (6,463
Accrued postretirement benefits	34	(230
Other long-term liabilities	(365	) (452
Net cash provided by (used in) operating activities	\$11,408	\$(3,823
Cash flows from investing activities:		
Purchases of property, plant and equipment	(3,781	) (4,930
Proceeds from sales of property, plant and equipment	538	98
Net cash used in investing activities	\$(3,243	) \$(4,832
Cash flows from financing activities:		
Proceeds from revolving credit facility	—	13,860
Repayments on revolving credit facility	(28	) (12,040
Payment of financing costs	(8	) —
Payments of capital lease obligations	(865	) (957
Proceeds from stock option exercises	341	581
Net cash (used in) provided by financing activities	\$(560	) \$1,444
Net increase (decrease) in cash and cash equivalents	\$7,605	\$(7,211
Cash and cash equivalents at beginning of period	\$15,160	11,993
Cash and cash equivalents at end of period	\$22,765	\$4,782

(continued on next page)

FARMER BROS. CO.

CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED) (continued from previous page)

(In thousands)

	Three Months Ended September 30,	
	2015	2014
Supplemental disclosure of non-cash investing and financing activities:		
Equipment acquired under capital leases	\$9	\$42
Net change in derivative assets and liabilities included in other comprehensive income	\$328	\$(1,378)
Increase in construction-in-progress assets under Texas facility lease	\$1,982	\$—
Increase in Texas facility lease obligation	\$2,768	\$—
Non-cash additions to equipment	\$150	\$17

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



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

Note 1. Summary of Significant Accounting Policies

Organization

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

Basis of Presentation

The accompanying unaudited consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S X. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States ("GAAP") for complete consolidated financial statements. In the opinion of management, all adjustments (consisting only of normal recurring accruals, unless otherwise indicated) considered necessary for a fair presentation of the interim financial data have been included. Operating results for the three months ended September 30, 2015 are not necessarily indicative of the results that may be expected for the fiscal year ending June 30, 2016. Events occurring subsequent to September 30, 2015 have been evaluated for potential recognition or disclosure in the unaudited consolidated financial statements for the three months ended September 30, 2015.

The accompanying unaudited consolidated financial statements should be read in conjunction with the consolidated financial statements and related notes included in the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 2015, filed with the Securities and Exchange Commission (the "SEC") on September 14, 2015.

Use of Estimates

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

Corporate Relocation Plan

On February 5, 2015, the Company announced a plan approved by the Board of Directors of the Company on February 3, 2015, pursuant to which the Company will close its Torrance, California facility and relocate these operations to a new facility housing the Company's manufacturing, distribution, coffee lab and corporate headquarters (the "Corporate Relocation Plan"). The new facility will be located in Northlake, Texas in the Dallas/Fort Worth area. Expenses related to the Corporate Relocation Plan included in "Relocation and other transition expenses" in the Company's consolidated statements of operations include employee retention and separation benefits, facility-related costs, and other related costs such as travel, legal, consulting and other professional services. In order to receive the retention and/or separation benefits, impacted employees are required to provide service through their retention dates which vary from May 2015 through March 2016 or separation dates which vary from May 2015 through June 2016. A liability for such retention and separation benefits was recorded at the communication date in "Accrued payroll expenses" on the Company's consolidated balance sheets. Facility-related costs and other related costs are recognized in the period when the liability is incurred (see Note 2).

Facility Lease Obligation

On July 17, 2015, the Company entered into a lease agreement (the "Lease Agreement") with WF-FB NLTX, LLC, a Delaware limited liability company (the "Lessor"), to lease a 538,000 square foot facility to be constructed on 28.2 acres of



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

land located in Northlake, Texas (see Note 3). The new facility will be constructed by Lessor, at its expense, in accordance with agreed upon specifications and plans determined as set forth in the Lease Agreement. Due to the Company's involvement in the construction of the facility, as the deemed general contractor, pursuant to Accounting Standards Codification ("ASC") 840, "Leases" ("ASC 840"), the Company is required to capitalize during the construction period the cash and non-cash assets contributed by Lessor for the construction as property, plant and equipment on the Company's consolidated balance sheets, with an offsetting liability for the same amount payable to Lessor. A portion of the lease arrangement is allocated to land for which the Company will record rent expense during the construction period (see Note 15). The expense associated with the land is determined using the fair value of the leased land at construction commencement and the Company's incremental borrowing rate, and is recognized on a straight-line basis. Once rent payments commence under the Lease Agreement, all amounts in excess of land rent expense will be recorded as a debt-service payment and recognized as interest expense and a reduction of the financing obligation.

#### Derivative Instruments

The Company purchases various derivative instruments to create economic hedges of its commodity price risk and interest rate risk. These derivative instruments consist primarily of futures and swaps. The Company reports the fair value of derivative instruments on its consolidated balance sheets in "Short-term derivative assets," "Other assets," "Short-term derivative liabilities," or "Long-term derivative 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 sheets 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 accounts 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

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

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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 September 30, 2015 and June 30, 2015, approximately 95% of the Company's outstanding coffee-related derivative instruments were designated as cash flow hedges (see Note 4).

#### Coffee Brewing Equipment and Service

The Company classifies certain expenses related to coffee brewing equipment provided to customers as cost of goods sold. These costs include the cost of the equipment as well as the cost of servicing that equipment (including service employees' salaries, cost of transportation and the cost of supplies and parts) and are considered directly attributable to the generation of revenues from its customers. Accordingly, such costs included in cost of goods sold in the accompanying unaudited consolidated financial statements in each of the three months ended September 30, 2015 and 2014 were \$6.5 million. In addition, depreciation expense related to capitalized coffee brewing equipment reported in cost of goods sold in the three months ended September 30, 2015 and 2014 was \$2.5 million and \$2.6 million, respectively. The Company capitalized coffee brewing equipment (included in machinery and equipment) in the amount of \$1.6 million and \$3.1 million in the three months ended September 30, 2015 and 2014, respectively.

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

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

Net (loss) income per share ("EPS") represents net (loss) 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"). 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 three months ended September 30, 2015 excludes a total of 512,842 shares issuable under stock options, because the Company incurred a net loss and including them would be anti-dilutive. Computation of EPS for the three months ended September 30, 2014 includes the dilutive effect of 126,943 shares issuable under stock options with exercise prices below the closing price of the Company's common stock on the last trading day of

the quarter ended September 30, 2014, but excludes 72,756 shares issuable under stock options with exercise prices above the closing price of the Company's common stock on the last trading day of the quarter ended September 30, 2014, because their inclusion would be anti-dilutive.

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Notes to Consolidated Financial Statements  
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#### 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.

#### Impairment of Goodwill and Indefinite-lived Intangible Assets

The Company performs its annual impairment test of goodwill and/or other indefinite-lived intangible assets as of June 30. Goodwill and other indefinite-lived intangible assets are not amortized but instead are reviewed for impairment annually, as well as on an interim basis if events or changes in circumstances between annual tests indicate that an asset might be impaired. Testing for impairment of goodwill is a two-step process. The first step requires the Company to compare the fair value of its reporting units to the carrying value of the net assets of the respective reporting units, including goodwill. If the fair value of the reporting unit is less than 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 value. There were no such events or circumstances during the three months ended September 30, 2015 and 2014.

In fiscal 2015, the Company recorded \$0.3 million in goodwill in connection with the acquisition of substantially all of the assets of Rae' Launo Corporation relating to its direct-store-delivery and in-room distribution business in the Southeastern United States (the "RLC Acquisition"). As of September 30, 2015, the Company determined that there were no events or circumstances that indicated impairment and, therefore, no goodwill impairment charges were recorded in the three months ended September 30, 2015. The Company had no goodwill recorded at September 30, 2014.

#### Long-Lived Assets, Excluding Goodwill and Indefinite-lived Intangible Assets

The Company reviews the recoverability of its long-lived assets whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. Long-lived assets evaluated for impairment are grouped with other assets to the lowest level for which identifiable cash flows are largely independent of the cash flows of other groups of assets and liabilities. The estimated future cash flows are based upon, among other things, assumptions about expected future operating performance, and may differ from actual cash flows. If the sum of the projected undiscounted cash flows (excluding interest) is less than the carrying value of the assets, the assets will be written down to the estimated fair value in the period in which the determination is made. There were no such events or circumstances during the three months ended September 30, 2015 and 2014. The Company may incur certain other non-cash asset impairment costs in connection with the Corporate Relocation Plan.

#### Self-Insurance

The Company is self-insured for workers' compensation insurance subject to specific retention levels and uses historical analysis to determine and record the estimates of expected future expenses resulting from workers' compensation claims. The estimated outstanding losses are the accrued cost of unpaid claims. The estimated outstanding losses, including allocated loss adjustment expenses ("ALAE"), include case reserves, the development of known claims and incurred but not reported claims. ALAE are the direct expenses for settling specific claims. The amounts reflect per occurrence and annual aggregate limits maintained by the Company. The analysis does not include estimating a provision for unallocated loss adjustment expenses.

The Company accounts for its accrued liability relating to workers' compensation claims on an undiscounted basis. The estimated gross undiscounted workers' compensation liability relating to such claims as of September 30, 2015

and June 30, 2015, respectively, was \$13.2 million and \$13.4 million, and the estimated recovery from reinsurance was \$2.5 million as of September 30, 2015 and June 30, 2015. 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.



Farmer Bros. Co.  
Notes to Consolidated Financial Statements  
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Due to its failure to meet the minimum credit rating criteria for participation in the alternative security program for California self-insurers for workers' compensation liability, the Company posted a \$7.0 million letter of credit at September 30, 2015 and June 30, 2015 as a security deposit with the State of California Department of Industrial Relations Self-Insurance Plans.

The estimated liability related to the Company's self-insured group medical insurance at September 30, 2015 and June 30, 2015 was \$0.9 million and \$1.0 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.

General liability, product liability and commercial auto liability are insured through a captive insurance program. The Company retains the risk within certain aggregate amounts. Cost of the insurance through the captive program is accrued based on estimates of the aggregate liability claims incurred using certain actuarial assumptions and historical claims experience. The Company's liability reserve for such claims at September 30, 2015 and June 30, 2015 was \$1.1 million and \$0.8 million, respectively.

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."

#### Recently Adopted Accounting Standards

In August 2015, the Financial Accounting Standards Board (the "FASB") issued Accounting Standards Update ("ASU") 2015-15, "Interest—Imputation of Interest (Subtopic 835-30): Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line-of-Credit Arrangements" ("ASU 2015-15"). ASU 2015-15 incorporates into the Accounting Standards Codification ("ASC") an SEC staff announcement that the SEC staff will not object to an entity presenting the cost of securing a revolving line of credit as an asset, regardless of whether a balance is outstanding. The standard, as issued, did not address revolving lines of credit, which may not have outstanding balances. An entity that repeatedly draws on a revolving credit facility and then repays the balance could present the cost as a deferred asset and reclassify all or a portion of it as a direct deduction from the liability whenever a balance is outstanding. However, the SEC staff's announcement provides a less-cumbersome alternative. Either way, the cost should be amortized over the term of the arrangement. This guidance was effective upon announcement by the SEC on June 18, 2015. The Company adopted this guidance on the effective date. Adoption of ASU 2015-15 did not have a material effect on the results of operations, financial position or cash flows of the Company.

#### New Accounting Pronouncements

In September 2015, the FASB issued ASU 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 guidance is effective for public business entities for fiscal years, including interim periods within those fiscal years, beginning after December 15, 2015, with early adoption permitted. ASU 2015-16 is effective for the Company beginning July 1, 2016. Adoption of ASU 2015-16 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 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 doesn't 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

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prospectively. The guidance is effective for fiscal years beginning after December 15, 2015, with early adoption permitted. ASU 2015-12 is effective for the Company beginning July 1, 2016. Adoption of ASU 2015-12 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 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 2015, the FASB issued ASU 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 ("NAV") 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.

ASU 2015-07 is effective for the Company beginning July 1, 2016. The Company is in the process of assessing the impact of the adoption of ASU 2015-07 on its consolidated financial statements.

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 2014-09, "Revenue from Contracts with Customers (Topic 606)" ("ASU 2014-09"). ASU 2014-09 will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective. On July 9, 2015, the FASB decided to delay 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 revenue standard being effective January 1, 2018. The Company is currently evaluating the impact of ASU 2014-09 on its results of operations, financial position and cash flows.

#### Note 2. Corporate Relocation Plan

On February 5, 2015, the Company announced the Corporate Relocation Plan pursuant to which the Company will close its Torrance facility and relocate these operations to a new facility housing the Company's manufacturing, distribution, coffee lab and corporate headquarters. Approximately 350 positions are impacted as a result of the Torrance facility closure. The new facility will be located in Northlake, Texas in the Dallas/Fort Worth area. 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.

The Company expects to close its Torrance facility in phases, and the Company began the process in the spring of 2015. Through April 2015, coffee purchasing, roasting, grinding, packaging and product development took place at the Company's Torrance, California, Portland, Oregon and Houston, Texas production facilities. In May 2015, the Company moved the coffee roasting, grinding and packaging functions that had been conducted in Torrance to its Houston and Portland production facilities and in conjunction relocated its Houston distribution operations to its Oklahoma City distribution center. Spice blending, grinding, packaging and product development continue to take place at the Company's Torrance production facility. As of September 30, 2015, distribution continued to take place out of the Company's Torrance and Portland production facilities, as well as separate distribution centers in Northlake, Illinois; Oklahoma City, Oklahoma; and Moonachie, New Jersey. Effective September 15, 2015, the Company transferred a majority of its primary administrative offices from Torrance to Fort Worth, Texas, where the Company has leased 32,000 square feet of temporary office space. The transfer of the Company's primary administrative offices

to this temporary office space is expected to be completed by the end of the second quarter of fiscal 2016. Construction of and relocation to the new facility are expected to be completed by the end of the second quarter of fiscal 2017. The Company's Torrance facility may be sold as part of the Corporate Relocation Plan. Based on current assumptions and subject to continued implementation of the Corporate Relocation Plan as planned, the Company estimates that it will incur approximately \$25 million in cash costs in connection with the exit of the Torrance facility

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consisting of \$14 million in employee retention and separation benefits, \$4 million in facility-related costs and \$7 million in other related costs. Expenses related to the Corporate Relocation Plan in the three months ended September 30, 2015 consisted of \$3.6 million in employee retention, relocation and separation benefits, \$0.7 million in facility-related costs including lease of temporary office space, costs associated with the move of the Company's headquarters, and expenses associated with production transition and relocation of certain distribution centers, and \$1.1 million in other related costs including travel, legal, consulting, dedicated project management and other professional services. Facility-related costs in the three months ended September 30, 2015 also included \$0.3 million in non-cash depreciation expense associated with the Torrance production facility resulting from the consolidation of coffee production operations with the Houston and Portland production facilities.

Since adoption of the Corporate Relocation Plan through September 30, 2015, the Company has recognized a total of \$15.3 million of the estimated \$25 million in aggregate cash costs consisting of an aggregate of \$10.1 million in employee retention and separation benefits, \$0.8 million in facility-related costs and \$4.4 million in other related costs. The remainder is expected to be recognized in the balance of fiscal 2016 and the first quarter of fiscal 2017. The Company may incur certain other non-cash asset impairment costs, pension-related costs and postretirement benefit costs in connection with the Corporate Relocation Plan.

The following table sets forth the activity in liabilities associated with the Corporate Relocation Plan for the three months ended September 30, 2015:

(In thousands)	Balances, June 30, 2015	Additions	Payments	Non-Cash Settled	Adjustments	Balances, September 30, 2015
Employee-related costs(1)	\$6,156	\$3,596	\$7,405	\$—	\$—	\$2,347
Facility-related costs(2)	—	730	387	343	—	—
Other(3)	200	1,124	1,124	—	—	200
Total	\$6,356	\$5,450	\$8,916	\$343	\$—	\$2,547
Current portion	6,356					2,547
Non-current portion	—					—
Total	\$6,356					\$2,547

(1) Included in "Accrued payroll expenses" on the Company's consolidated balance sheets.

(2) Non-cash settled facility-related costs represent depreciation expense associated with the Torrance production facility resulting from the consolidation of coffee production operations with the Houston and Portland production facilities.

(3) Included in "Accounts payable" on the Company's consolidated balance sheets.

### Note 3. Facility Lease Obligation

On July 17, 2015, the Company entered into the Lease Agreement pursuant to which the Company will lease a 538,000 square foot facility to be constructed on 28.2 acres of land located in Northlake, Texas. The new facility is expected to include approximately 85,000 square feet for corporate offices, more than 100,000 square feet for manufacturing, and more than 300,000 square feet for distribution, in addition to a coffee lab. The construction of the new facility is estimated to be completed by the end of the second quarter of fiscal 2017.

The new facility will be constructed by Lessor, at its expense, in accordance with agreed upon specifications and plans determined as set forth in the Lease Agreement. Due to the Company's involvement in the construction of the facility, as the deemed general contractor, pursuant to ASC 840, the Company is required to capitalize during the construction period the cash and non-cash assets contributed by Lessor for the construction as property, plant and equipment on the Company's consolidated balance sheets, with an offsetting liability for the same amount payable to Lessor.

The Company recorded an asset related to the facility lease obligation included in property, plant and equipment of \$2.8 million during the three months ended September 30, 2015. The facility lease obligation included in "Other

long-term liabilities" on the Company's consolidated balance sheet was \$2.8 million as of September 30, 2015. There were no such amounts recorded at June 30, 2015. As of September 30, 2015 and June 30, 2015, respectively, the Company had recorded \$1.1 million and \$0.3 million in "Other receivables" representing costs incurred by the Company associated with the new facility that are expected to be reimbursed by Lessor under the Lease Agreement (see Note 7).

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A portion of the lease arrangement is allocated to land for which the Company will record rent expense during the construction period (see Note 15). The expense associated with the land is determined using the fair value of the leased land at construction commencement and the Company's incremental borrowing rate, and is recognized on a straight-line basis. Once rent payments commence under the Lease Agreement, all amounts in excess of land rent expense will be recorded as a debt-service payment and recognized as interest expense and a reduction of the financing obligation. Rent expense for the facility lease obligation included in the Company's consolidated statements of operations in the three months ended September 30, 2015 and 2014 was \$0.1 million and \$0, respectively.

The Lease Agreement contains a purchase option exercisable at any time by the Company on or before ninety days prior to the scheduled completion date with an option purchase price equal to 103% of the total project cost as of the date of the option closing if the option closing occurs on or before July 17, 2016. The option purchase price will increase by 0.35% per month thereafter up to and including the date which is the earlier of (A) ninety days after the scheduled completion date and (B) December 31, 2016. The obligation to pay rent will commence on December 31, 2016, if the option remains unexercised. The decision of whether to exercise the option or not will depend upon, among other things, whether the Company can sell the Torrance facility at an acceptable price.

The initial term of the lease is for 15 years from the rent commencement date with six options to renew, each with a renewal term of 5 years. The annual base rent under the Lease Agreement will be an amount equal to:

- the product of 7.50% and (a) the total estimated budget for the project, or (b) all construction costs outlined in the final budget on or prior to the scheduled completion date; or
- the product of 7.50% and the total project costs, to the extent that all components of the document delivery and completion requirement are fully satisfied on or prior to the scheduled completion date.

Annual base rent will increase by 2% during each year of the lease term.

On July 17, 2015, the Company also entered into a Development Management Agreement ("DMA") with Stream Realty Partners-DFW, L.P., a Texas limited partnership ("Developer").

Pursuant to the DMA, the Company retained the services of Developer to manage, coordinate, represent, assist and advise the Company on matters concerning the pre-development, development, design, entitlement, infrastructure, site preparation and construction of the facility. The term of the DMA is from July 17, 2015 until final completion of the project. Pursuant to the DMA, the Company will pay Developer:

- a development fee of 3.25% of all development costs;
- an oversight fee of 2% of any amounts paid to the Company-contracted parties for any oversight by Developer of Company-contracted work;
- an incentive fee, the amount of which will be determined by the parties, if final completion occurs prior to the scheduled completion date; and
- an amount equal to \$2.6 million as additional fee in respect of development services.

#### Note 4. Derivative Instruments

##### Derivative Instruments Held

##### Coffee-Related Derivative Instruments

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

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The following table summarizes the notional volumes for the coffee-related derivative instruments held by the Company at September 30, 2015 and June 30, 2015:

(In thousands)	September 30, 2015	June 30, 2015
Derivative instruments designated as cash flow hedges:		
Long coffee pounds	35,588	32,288
Derivative instruments not designated as cash flow hedges:		
Long coffee pounds	1,728	1,954
Total	37,316	34,242

Cash flow hedge contracts outstanding as of September 30, 2015 will expire within 22 months.

Effect of Derivative Instruments on the Financial Statements

Balance Sheets

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

(In thousands)	Derivative Instruments Designated as Cash Flow Hedges		Derivative Instruments Not Designated as Accounting Hedges	
	September 30, 2015	June 30, 2015	September 30, 2015	June 30, 2015
Financial Statement Location:				
Short-term derivative assets(1):				
Coffee-related derivative instruments	\$31	\$128	\$5	\$25
Long-term derivative assets(1):				
Coffee-related derivative instruments	\$69	\$136	\$—	\$2
Short-term derivative liabilities(1):				
Coffee-related derivative instruments	\$3,496	\$4,128	\$241	\$2
Long-term derivative liabilities(2):				
Coffee-related derivative instruments	\$641	\$163	\$—	\$—

(1) Included in "Short-term derivative liabilities" on the Company's consolidated balance sheets.

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

Statements of Operations

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

(In thousands)	Three Months Ended		Financial Statement Classification
	September 30, 2015	2014	
Net (losses) gains recognized in accumulated other comprehensive (loss) income (effective portion)	\$(4,640)	) \$3,332	AOCI
Net (losses) gains recognized in earnings (effective portion)	\$(4,968)	) \$4,710	Cost of goods sold
Net losses recognized in earnings (ineffective portion)	\$(356)	) \$(51)	) Other, net

For the three months ended September 30, 2015 and 2014, 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.





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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)	Three Months Ended	
	September 30,	
	2015	2014
Net (losses) gains on coffee-related derivative instruments	\$(727	) \$49
Net losses on investments	(147	) (190
Net losses on derivative instruments and investments(1)	(874	) (141
Other (losses) gains, net	(1	) 77
Other, net	\$(875	) \$(64

(1) Excludes net (losses) gains on coffee-related derivative instruments designated as accounting hedges recorded in cost of goods sold in the three months ended September 30, 2015 and 2014.

#### 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	Netting	Cash	Net Exposure
		Amount		Collateral	
		Reported on	Adjustments	Posted	
		Balance			
		Sheet			
September 30, 2015	Derivative assets	\$105	\$(105	) \$—	\$—
	Derivative liabilities	\$4,378	\$(105	) \$1,274	\$2,999
June 30, 2015	Derivative assets	\$291	\$(291	) \$—	\$—
	Derivative liabilities	\$4,292	\$(291	) \$1,001	\$3,000

#### Credit-Risk-Related Features

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 September 30, 2015 and June 30, 2015, the Company had \$1.3 million and \$1.0 million in restricted cash representing cash held on deposit in margin accounts for coffee-related derivative instruments. Changes in commodity prices and the number of coffee-related derivative instruments held could have a significant impact on cash deposit requirements under the Company's broker and counterparty agreements.

#### Cash Flow Hedges

Changes in the fair value of the Company's coffee-related derivative instruments designated as cash flow hedges, to the extent effective, are deferred in AOCI and reclassified into cost of goods sold in the same period or periods in which the hedged forecasted purchases affect earnings, or when it is probable that the hedged forecasted transaction will not occur by the end of the originally specified time period. Based on recorded values at September 30, 2015, \$8.0 million of net losses on coffee-related derivative instruments designated as cash flow hedges are expected to be

reclassified into cost of goods sold within the next twelve months. These recorded values are based on market prices of the commodities as of September 30, 2015. Due to the

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volatile nature of commodity prices, actual gains or losses realized within the next twelve months may likely differ from these values.

Note 5. Investments

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

(In thousands)	Three Months Ended September 30,	
	2015	2014
Total losses recognized from trading securities held for investment	\$(147)	\$(190)
Less: Realized (losses) gains from sales of trading securities held for investment	(1)	15
Unrealized losses from trading securities held for investment	\$(146)	\$(205)

Note 6. 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. Inputs include quoted prices for similar instruments in active markets, and quoted prices for similar instruments in markets that are not active. 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 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.

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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
September 30, 2015				
Preferred stock(1)	\$22,837	\$19,535	\$3,302	\$—
Derivative instruments designated as cash flow hedges:				
Coffee-related derivative assets	\$100	\$100	\$—	\$—
Coffee-related derivative liabilities	\$4,137	\$4,137	\$—	\$—
Derivative instruments not designated as accounting hedges:				
Coffee-related derivative assets	\$5	\$5	\$—	\$—
Coffee-related derivative liabilities	\$241	\$241	\$—	\$—
June 30, 2015				
Preferred stock(1)	\$23,665	\$19,132	\$4,533	\$—
Derivative instruments designated as cash flow hedges:				
Coffee-related derivative assets	\$264	\$264	\$—	\$—
Coffee-related derivative liabilities	\$4,290	\$4,290	\$—	\$—
Derivative instruments not designated as accounting hedges:				
Coffee-related derivative assets	\$27	\$27	\$—	\$—
Coffee-related derivative liabilities	\$2	\$2	\$—	\$—

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

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

Note 7. Accounts and Notes Receivable, Net

(In thousands)	September 30, 2015	June 30, 2015
Trade receivables	\$40,949	\$38,783
Other receivables(1)	2,711	2,021
Allowance for doubtful accounts	(687	) (643
Accounts and notes receivable, net	\$42,973	\$40,161

(1) As of September 30, 2015 and June 30, 2015, respectively, includes \$1.1 million and \$0.3 million in costs incurred by the Company associated with the new facility that are expected to be reimbursed by Lessor under the Lease Agreement.

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Note 8. Inventories (In thousands)	September 30, 2015	June 30, 2015
Coffee:		
Processed	\$16,471	\$13,837
Unprocessed	14,372	11,968
Total	\$30,843	\$25,805
Tea and culinary products:		
Processed	\$18,018	\$17,022
Unprocessed	2,512	2,764
Total	\$20,530	\$19,786
Coffee brewing equipment parts	\$5,371	\$4,931
Total inventories	\$56,744	\$50,522

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 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 are valued at the lower of cost or market. The Company accounts for coffee, tea and culinary products on the last in, first out ("LIFO") basis and coffee brewing equipment parts on the first in, first out ("FIFO") basis. The Company regularly evaluates these inventories to determine whether market conditions are appropriately reflected in the recorded carrying value. 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. Accordingly, interim LIFO calculations must necessarily be based on management's estimates of expected fiscal year-end inventory levels and costs. Because these estimates are subject to many forces beyond management's control, interim results are subject to the final fiscal year-end LIFO inventory valuation. The Company recorded no expected beneficial effect of the liquidation of LIFO inventory quantities in cost of goods sold in the three months ended September 30, 2015 because the Company does not anticipate that its inventory levels at June 30, 2016 will decrease from the June 30, 2015 levels. In the three months ended September 30, 2014, the Company recorded \$0.3 million in expected beneficial effect of LIFO inventory liquidation in cost of goods sold which increased net income for the three months ended September 30, 2014 by \$0.3 million.

#### Note 9. 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.

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#### 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 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”).

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

	Three Months Ended	
	September 30,	
	2015	2014
(In thousands)		
Service cost	\$97	\$97
Interest cost	1,546	1,415
Expected return on plan assets	(1,710)	(1,823)
Amortization of net loss(1)	370	303
Net periodic benefit cost (credit)	\$303	\$(8)

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

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

	Fiscal	
	2016	2015
Discount rate	4.40%	4.15%
Expected long-term rate of return on plan assets	7.50%	7.50%

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

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

#### Multiemployer Pension Plans

The Company participates in two multiemployer defined benefit pension plans that are union sponsored and collectively bargained for the benefit of certain employees subject to collective bargaining agreements, of which the Western Conference of Teamsters Pension Plan 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.

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In fiscal 2012, the Company withdrew from the Local 807 Labor Management Pension Fund (the "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. The \$4.3 million estimated withdrawal liability, with the short-term and long-term portions reflected in current and long-term liabilities, respectively, is reflected on the Company's consolidated balance sheets at September 30, 2015 and June 30, 2015. 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 Company may incur certain pension-related costs associated with the Corporate Relocation Plan. Future collective bargaining negotiations may result in the Company withdrawing from the remaining multiemployer pension plans in which it participates and, if successful, the Company may incur a withdrawal liability, the amount of which could be material to the Company's results of operations and cash flows.

#### Multiemployer Plans Other Than Pension Plans

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

#### 401(k) Plan

The Company's 401(k) Plan is available to all eligible employees who have worked more than 1,000 hours during a calendar year and were employed at the end of the calendar year. Participants in the 401(k) Plan may choose to contribute a percentage of their annual pay subject to the maximum contribution allowed by the Internal Revenue Service. The Company's matching contribution is discretionary based on approval by the Company's Board of Directors. For the calendar years 2015 and 2014, the Company's Board of Directors approved a Company matching contribution of 50% of an employee's annual contribution to the 401(k) Plan, up to 6% of the employee's eligible income. The matching contributions (and any earnings thereon) vest at the rate of 20% for each participant's first 5 years of vesting service, subject to accelerated vesting under certain circumstances in connection with the Corporate Relocation Plan due to the closure of the Company's Torrance facility or a reduction-in-force at another Company facility designated by the Administrative Committee of the Farmer Bros. Co. Qualified Employee Retirement Plans. A participant is automatically vested in the event of death, disability or attainment of age 65 while employed by the Company. Employees are 100% vested in their contributions. For employees subject to a collective bargaining agreement, the match is only available if so provided in the labor agreement.

The Company recorded matching contributions of \$0.4 million in operating expenses in each of the three months ended September 30, 2015 and 2014.

#### Postretirement Benefits

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

The Company also provides a postretirement death benefit ("Death Benefit") to certain of its employees and retirees, subject, in the case of current employees, to continued employment with the Company until retirement and certain

other conditions related to the manner of employment termination and manner of death. The Company records the actuarially determined liability for the present value of the postretirement death benefit. The Company has purchased life insurance policies to fund the postretirement death benefit wherein the Company owns the policy but the postretirement death benefit is paid to the employee's or retiree's beneficiary. The Company records an asset for the fair value of the life insurance policies which equates to the cash surrender value of the policies.

Farmer Bros. Co.  
Notes to Consolidated Financial Statements  
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Retiree Medical Plan and Death Benefit

The following table shows the components of net periodic postretirement benefit cost (credit) for the Retiree Medical Plan and Death Benefit for the three months ended September 30, 2015 and 2014. Net periodic postretirement benefit credit for the three months ended September 30, 2015 is based on employee census information as of July 1, 2014 and asset information as of June 30, 2015.

	Three Months Ended September 30,	
	2015	2014
(In thousands)		
Service cost	\$347	\$234
Interest cost	299	202
Expected return on plan assets	—	—
Amortization of net gain	(49	) (220
Amortization of net prior service credit	(439	) (440
Net periodic postretirement benefit cost (credit)	\$158	\$(224

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

	Fiscal	
	2016	2015
Retiree Medical Plan discount rate	4.69%	4.29%
Death Benefit discount rate	4.74%	4.48%

Note 10. Bank Loan

On March 2, 2015, the Company, as Borrower, together with its wholly owned subsidiaries, Coffee Bean International, Inc., an Oregon corporation ("CBI"), FBC Finance Company, a California corporation, and Coffee Bean Holding Company, Inc., a Delaware corporation, as additional Loan Parties and as Guarantors, entered into a Credit Agreement (the "Credit Agreement") and a related Pledge and Security Agreement (the "Security Agreement") with JPMorgan Chase Bank, N.A. ("Chase"), as Administrative Agent, and SunTrust Bank ("SunTrust"), as Syndication Agent (collectively, the "Lenders") (capitalized terms used below are defined in the Credit Agreement). The Credit Agreement replaced the Company's September 12, 2011 Amended and Restated Loan and Security Agreement with Wells Fargo Bank, N.A. that expired on March 2, 2015.

The Credit Agreement provides for a senior secured revolving credit facility ("Revolving Facility") of up to \$75.0 million ("Revolving Commitment") consisting of Revolving Loans, Letters of Credit and Swingline Loans provided by the Lenders, with a sublimit on Letters of Credit outstanding at any time of \$30.0 million and a sublimit for Swingline Loans of \$15.0 million. Chase agreed to provide \$45.0 million of the Revolving Commitment and SunTrust agreed to provide \$30.0 million of the Revolving Commitment. The 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 Credit Agreement provides for advances of up to: (a) 85% of the Borrowers' eligible accounts receivable, plus (b) 75% of the Borrowers' eligible inventory (not to exceed 85% of the product of the most recent Net Orderly Liquidation Value percentage multiplied by the Borrowers' eligible inventory), plus (c) the lesser of \$25.0 million and 75% of the fair market value of the Borrowers' Eligible Real Property, subject to certain limitations, plus (d) the lesser of \$10.0 million and the Net Orderly Liquidation Value of certain trademarks, less (e) reserves established by the Administrative Agent.

The Credit Agreement has a commitment fee ranging from 0.25% to 0.375% per annum based on Average Revolver Usage. Outstanding obligations under the Credit Agreement are collateralized by all of the Borrowers' and the

Guarantors' assets, excluding, among other things, real property not included in the Borrowing Base, machinery and equipment (other than inventory), and the Company's preferred stock portfolio. The Credit Agreement expires on March 2, 2020.

The Credit Agreement provides for interest rates 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%.

Farmer Bros. Co.  
Notes to Consolidated Financial Statements  
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The 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 Credit Agreement allows the Company 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 Credit Agreement also allows the Lenders to establish reserve requirements, which may reduce the amount of credit otherwise available to the Company, and provides for customary events of default.

On September 30, 2015, the Company was eligible to borrow up to a total of \$60.8 million under the Revolving Facility. As of September 30, 2015, the Company had outstanding borrowings of \$0.2 million, utilized \$11.4 million of the letters of credit sublimit, and had excess availability under the Revolving Facility of \$49.2 million. At September 30, 2015, the weighted average interest rate on the Company's outstanding borrowings under the Revolving Facility was 1.64%. As of September 30, 2015, the Company was in compliance with all of the restrictive covenants under the Credit Agreement.

Note 11. Other Long-Term Liabilities

Other long-term liabilities include the following:

(In thousands)	September 30, 2015	June 30, 2015
Texas facility lease obligation(1)	\$2,768	\$—
Derivative liabilities	641	25
Earnout payable—RLC Acquisition	200	200
Other long-term liabilities	\$3,609	\$225

(1) Facility lease obligation associated with the construction of new facility (see Note 3).

Note 12. Share-based Compensation

On December 5, 2013, the Company's stockholders approved the Farmer Bros. Co. Amended and Restated 2007 Long-Term Incentive Plan (the "Amended Equity Plan"), which is an amendment and restatement of, and successor to, the Farmer Bros. Co. 2007 Omnibus Plan (the "Omnibus Plan"). The principal change to the Amended Equity Plan was to limit awards under the plan to performance-based stock options and to restricted stock under limited circumstances.

Stock Options

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

Non-Qualified Stock Options with Time-Based Vesting ("NQOs")

In the three months ended September 30, 2015, the Company granted 1,582 shares issuable upon the exercise of NQOs with an exercise price of \$25.50 per share to an eligible employee under the Amended Equity Plan which vest

ratably over a three-year period. No comparable grants were made in the three months ended September 30, 2014.

Farmer Bros. Co.  
Notes to Consolidated Financial Statements  
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Following are the weighted average assumptions used in the Black-Scholes valuation model for NQOs granted during the three months ended September 30, 2015.

	Three Months Ended September 30, 2015	
Weighted average fair value of NQOs	\$ 11.06	
Risk-free interest rate	1.52	%
Dividend yield	—	%
Average expected term	5.1 years	
Expected stock price volatility	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 months ended September 30, 2015:

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, 2015	329,300	12.30	5.54	3.9	3,700
Granted	1,582	25.50	11.06	7.0	—
Exercised	(19,095 )	16.51	6.21	—	172
Cancelled/Forfeited	(7,290 )	13.49	5.94	—	—
Outstanding at September 30, 2015	304,497	12.08	5.52	3.7	4,620
Vested and exercisable, September 30, 2015	228,100	10.62	4.89	3.3	3,794
Vested and expected to vest, September 30, 2015	301,858	12.00	5.49	3.7	4,604

The aggregate intrinsic value outstanding at the end of each period in the table above represents the total pretax intrinsic value, based on the Company's closing stock price of \$27.25 at September 30, 2015 and \$23.50 at June 30, 2015, representing the last trading day of the applicable fiscal period, which would have been received by NQO holders had all award holders exercised their NQOs that were in-the-money as of that date. The aggregate intrinsic value of stock option exercises in the three months ended September 30, 2015 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.

No NQOs vested during the three months ended September 30, 2015. During the three months ended September 30, 2015 and 2014, the Company received \$0.3 million and \$0.6 million, respectively, in proceeds from exercises of vested NQOs.

As of September 30, 2015 and June 30, 2015, there was \$0.3 million and \$0.4 million, respectively, of unrecognized compensation cost related to NQOs. The unrecognized compensation cost related to NQOs at September 30, 2015 is expected to be recognized over the weighted average period of 1.9 years. Total compensation expense for NQOs in the three months ended September 30, 2015 and 2014 was \$34,000 and \$0.1 million, respectively.

Non-Qualified Stock Options with Performance-Based and Time-Based Vesting ("PNQs")

In the three months ended September 30, 2015, the Company granted no shares issuable upon the exercise of PNQs.





Farmer Bros. Co.  
Notes to Consolidated Financial Statements  
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The following table summarizes PNQ activity for the three months ended September 30, 2015:

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, 2015	224,067	22.44	10.31	6.0	237
Granted	—	—	—	—	—
Exercised	(1,301)	19.95	9.85	—	—
Cancelled/Forfeited	(14,421)	22.66	10.29	—	—
Outstanding at September 30, 2015	208,345	22.44	10.32	5.8	1,002
Vested and exercisable, September 30, 2015	33,658	21.32	10.51	4.7	200
Vested and expected to vest, September 30, 2015	192,371	22.40	10.32	5.7	933

The aggregate intrinsic value outstanding at the end of each period in the table above represents the total pretax intrinsic value, based on the Company's closing stock price of \$27.25 at September 30, 2015 and \$23.50 at June 30, 2015, representing the last trading day of the applicable fiscal period, which would have been received by PNQ holders had all award holders exercised their PNQs that were in-the-money as of that date. PNQs outstanding that are expected to vest are net of estimated forfeitures.

No PNQs vested during the three months ended September 30, 2015 and 1,301 PNQs were exercised during the three months ended September 30, 2015.

As of September 30, 2015, the Company met the performance target for the first year of the fiscal 2014 and fiscal 2015 awards and expects that it will achieve the cumulative performance targets set forth in the PNQ agreements for the fiscal 2014 and fiscal 2015 awards.

As of September 30, 2015 and June 30, 2015, there was \$1.2 million and \$1.5 million, respectively, in unrecognized compensation cost related to PNQs. The unrecognized compensation cost related to PNQs at September 30, 2015 is expected to be recognized over the weighted average period of 2.1 years. Total compensation expense for PNQs in each of the three months ended September 30, 2015 and 2014 was \$0.1 million.

#### Restricted Stock

In the three months ended September 30, 2015, the Company granted 327 shares of restricted stock under the Amended Equity Plan with a grant date fair value of \$25.50 per share to an eligible employee.

Shares of restricted stock generally vest at the end of three years for eligible employees and ratably over a period of three years for non-employee directors. During the three months ended September 30, 2015, no shares of restricted stock vested.

The following table summarizes restricted stock activity for the three months ended September 30, 2015:

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, 2015	47,082	16.48	1.2	1,106
Granted	327	25.50	3.0	8
Cancelled/Forfeited	(2,468)	11.81	—	—
Outstanding at September 30, 2015	44,941	16.80	1.1	1,225
Expected to vest, September 30, 2015	43,282	16.63	1.0	1,179



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Notes to Consolidated Financial Statements  
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The aggregate intrinsic value of shares outstanding at the end of each period in the table above represents the total pretax intrinsic value, based on the Company's closing stock price of \$27.25 at September 30, 2015 and \$23.50 at June 30, 2015, representing the last trading day of the applicable fiscal period. Restricted stock that is expected to vest is net of estimated forfeitures.

Compensation expense is recognized on a straight-line basis over the service period based on the estimated fair value of the restricted stock. Compensation expense recognized in the three months ended September 30, 2015 was \$45,000 and \$30,000, respectively. As of September 30, 2015 and June 30, 2015, there was approximately \$0.4 million and \$0.5 million, respectively, of unrecognized compensation cost related to restricted stock. The unrecognized compensation cost related to the restricted stock at September 30, 2015 are expected to be recognized over the weighted average period of 1.9 years.

Note 13. Income Taxes

The Company's effective tax rates for the three months ended September 30, 2015 and 2014 were 7.58% and 7.31%, respectively.

The Company's effective tax rates for the current and prior year periods were lower than the U.S. statutory rate of 35% primarily due to the favorable impact of utilizing the Company's net operating losses to offset taxable income. As these net operating losses are used, the corresponding valuation allowance is increased or decreased.

The Company evaluates its deferred tax assets quarterly to determine if a valuation allowance is required. The Company considered whether a valuation allowance should be recorded against deferred tax assets based on the likelihood that the benefits of the deferred tax assets would or would not ultimately be realized in future periods. In making this assessment, significant weight was given to evidence that could be objectively verified such as recent operating results and less consideration was given to less objective indicators such as future earnings projections. After consideration of positive and negative evidence, including the recent history of losses, the Company cannot conclude that it is more likely than not that it will generate future earnings sufficient to realize the Company's net deferred tax assets. Accordingly, the Company is maintaining a valuation allowance against its net deferred tax assets. The Company increased its valuation allowance by \$0.4 million in the three months ended September 30, 2015 to \$85.3 million. The valuation allowance at June 30, 2015 was \$84.9 million.

The Company will continue to monitor its cumulative three-year loss position together with all other available evidence, both positive and negative, in determining whether it is more likely than not that the Company will realize its net deferred tax assets.

As of September 30, 2015 and June 30, 2015, the Company had no unrecognized tax benefits. The Internal Revenue Service is currently auditing the Company's tax year ended June 30, 2013.

Note 14. Net (Loss) Income Per Common Share

	Three Months Ended September 30,	
(In thousands, except share and per share data)	2015	2014
Net (loss) income attributable to common stockholders—basic	\$(1,071	) \$2,501
Net (loss) income attributable to nonvested restricted stockholders	(3	) 14
Net (loss) income	\$(1,074	) \$2,515
Weighted average common shares outstanding—basic	16,269,368	16,003,802
Effect of dilutive securities:		
Shares issuable under stock options	—	126,943
Weighted average common shares outstanding—diluted	16,269,368	16,130,745
Net (loss) income per common share—basic	\$(0.07	) \$0.16
Net (loss) income per common share—diluted	\$(0.07	) \$0.16



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Notes to Consolidated Financial Statements  
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Note 15. Commitments and Contingencies

Leases

The terms of the Company's capital leases vary from 12 months to 84 months with varying expiration dates through 2021. 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. The Company has one operating lease with a term greater than five years that expires in 2018 and has a ten year renewal option, and operating leases for computer hardware with terms that do not exceed five years.

On July 17, 2015, the Company entered into the Lease Agreement with Lessor pursuant to which the Company will lease a 538,000 square foot facility to be constructed on 28.2 acres of land located in Northlake, Texas (see Note 3). Contractual obligations for the remainder of fiscal 2016 and future fiscal years are as follows:

(In thousands)	Contractual Obligations						
	Capital Lease Obligations	Operating Lease Obligations	Texas Facility Lease Obligation(1)	Pension Plan Obligations	Postretirement Benefits Other Than Pension Plans	Revolving Credit Facility	Purchase Commitments(2)
Nine months ending June 30, 2016	\$2,516	\$2,217	\$ —	\$5,693	\$ 807	\$154	\$ 45,503
Year Ending June 30, 2017	1,598	2,585	1,860	7,179	1,171	—	—
2018	898	2,234	3,757	7,345	1,306	—	—
2019	144	1,573	3,832	7,604	1,480	—	—
2020	51	563	3,909	7,787	1,555	—	—
Thereafter	4	31	50,973	43,653	8,950	—	—
		\$9,203	\$ 64,331	\$79,261	\$ 15,269	\$154	\$ 45,503
Total minimum lease payments	\$5,211						
Less: imputed interest (0.82% to 10.7%)	(248	)					
Present value of future minimum lease payments	\$4,963						
Less: current portion	2,904						
Long-term capital lease obligations	\$2,059						

(1) Includes estimated minimum lease payments commencing December 31, 2016 for the new facility under the Lease Agreement assuming the purchase option thereunder is not exercised. Calculation of the annual base rent under the Lease Agreement shown in the table uses the total estimated budget for the project. If the Company were to exercise the purchase option under the Lease Agreement on or before July 17, 2016, the estimated option purchase price in lieu

of the lease payments would be \$51.1 million payable in the year ending June 30, 2017. This estimate is based upon the preliminary budget delivered at the time the Lease Agreement was executed and includes amounts in respect of construction costs, acquisition of the land upon which the Northlake, Texas facility will be constructed, Lessor and Company fees and expenses (such as legal fees), and preliminary contingency amounts of approximately \$5.1 million, in the aggregate. The actual option purchase price would be based upon the amounts set forth in the final budget (see Note 3).

(2) Purchase commitments include commitments under coffee purchase contracts for which all delivery terms have been finalized but the related coffee has not been received as of September 30, 2015. Amounts shown in the table above: (a)

Farmer Bros. Co.  
Notes to Consolidated Financial Statements  
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include all coffee purchase contracts that the Company considers to be from normal purchases; and (b) do not include amounts related to derivative instruments that are recorded at fair value on the Company's consolidated balance sheets.

#### Self-Insurance

Due to the Company's failure to meet the minimum credit rating criteria for participation in the alternative security program for California self-insurers for workers' compensation liability, the Company posted a \$7.0 million letter of credit at September 30, 2015 and June 30, 2015 as a security deposit with the State of California Department of Industrial Relations Self-Insurance Plans.

#### Non-cancelable Purchase Orders

As of September 30, 2015, the Company had committed to purchasing green coffee inventory totaling \$36.9 million under fixed-price contracts, other inventory totaling \$8.3 million and equipment totaling \$0.4 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 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 two continuances, the Court heard on April 9, 2015 final arguments on the Phase 1 issues. On July 25, 2015, the Court issued its Proposed Statement of Decision with respect to Phase 1 defenses against the defendants, which was confirmed, on September 2, 2015 in the Final Statement of Decision. The Court has stated that all defendants would be included in "Phase 2," though this remains unresolved, including the extent of the involvement or participation in discovery. The joint defense group received permission to file an interlocutory appeal, filed the writ petition, and is awaiting the appeals court's decision as to whether the interlocutory appeal will be heard. In the interim, the matter is stayed for everything other than issues related to case management, if and when Phase 2 commences, and some further work ordered by the Court as to how Phase 2 will be conducted. At this time, the Company is not able to predict the probability of the outcome or estimate of loss, if any, related to this matter.





Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations  
Forward-Looking Statements

Certain statements contained in this Quarterly Report on Form 10-Q are not based on historical fact and are forward-looking statements within the meaning of federal securities laws and regulations. These statements are based on management's current expectations, assumptions, estimates and observations of future events and include any statements that do not directly relate to any historical or current fact; actual results may differ materially due in part to the risk factors set forth in Part I, Item 1A of our Annual Report on Form 10-K for the fiscal year ended June 30, 2015 filed with the Securities and Exchange Commission (the "SEC") on September 14, 2015 (the "2015 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. Owing to the uncertainties inherent in forward-looking statements, actual results could differ materially from those set forth in forward-looking statements. We intend these forward-looking statements to speak only at the time of this report and do not undertake to update or revise these statements as more information becomes available except as required under federal securities laws and the rules and regulations of the SEC. Factors that could cause actual results to differ materially from those in forward-looking statements include, but are not limited to, the timing and success of implementation of the Corporate Relocation Plan, the relative effectiveness of compensation-based employee incentives in causing improvements in Company performance, the capacity to meet the demands of our large national account customers, the extent of execution of plans for the growth of Company business and achievement of financial metrics related to those plans, the success of the Company to retain and/or attract qualified employees, the effect of the capital markets as well as other external factors on stockholder value, fluctuations in availability and cost of green coffee, competition, organizational changes, changes in the strength of the economy, business conditions in the coffee industry and food industry in general, our continued success in attracting new customers, variances from budgeted sales mix and growth rates, weather and special or unusual events, changes in the quality or dividend stream of third parties' securities and other investment vehicles in which we have invested our assets, as well as other risks described in this report and other factors described from time to time in our filings with the SEC. The results of operations for the three months ended September 30, 2015 are not necessarily indicative of the results that may be expected for any future period.

Corporate Relocation Plan

On February 5, 2015, we announced a plan approved by our Board of Directors on February 3, 2015, pursuant to which we will close our Torrance, California facility and relocate these operations to a new facility housing our manufacturing, distribution, coffee lab and corporate headquarters (the "Corporate Relocation Plan"). Approximately 350 positions are impacted as a result of the Torrance facility closure. The new facility will be located in Northlake, Texas in the Dallas/Fort Worth area. Our decision resulted from a comprehensive review of alternatives designed to make the Company more competitive and better positioned to capitalize on growth opportunities.

We expect to close our Torrance facility in phases, and we began the process in the spring of 2015. Through April 2015, coffee purchasing, roasting, grinding, packaging and product development took place at our Torrance, California, Portland, Oregon and Houston, Texas production facilities. In May 2015, we moved the coffee roasting, grinding and packaging functions that had been conducted in Torrance to our Houston and Portland production facilities and in conjunction relocated our Houston distribution operations to our Oklahoma City distribution center. Spice blending, grinding, packaging and product development continue to take place at our Torrance production facility. As of September 30, 2015, distribution continued to take place out of our Torrance and Portland production facilities, as well as separate distribution centers in Northlake, Illinois; Oklahoma City, Oklahoma; and Moonachie, New Jersey. Effective September 15, 2015, we transferred a majority of our primary administrative offices from Torrance to Fort Worth, Texas, where we have leased 32,000 square feet of temporary office space. The transfer of our primary administrative offices to this temporary office space is expected to be completed by the end of the second quarter of fiscal 2016. Construction of and relocation to the new facility are expected to be completed by the end of the second quarter of fiscal 2017. Our Torrance facility may be sold as part of the Corporate Relocation Plan. Expenses related to the Corporate Relocation Plan included in "Relocation and other transition expenses" in our consolidated statements of operations include employee retention and separation benefits, facility-related costs, and other related costs such as travel, legal, consulting and other professional services. In order to receive the retention

and/or separation benefits, impacted employees are required to provide service through their retention dates which vary from May 2015 through March 2016 or separation dates which vary from May 2015 through June 2016. A liability for such retention and separation benefits was recorded at the communication date in "Accrued payroll

expenses" on our consolidated balance sheets. Facility-related costs and other related costs are recognized in the period when the liability is incurred.

Based on current assumptions and subject to continued implementation of the Corporate Relocation Plan as planned, we estimate that we will incur approximately \$25 million in cash costs in connection with the exit of the Torrance facility consisting of \$14 million in employee retention and separation benefits, \$4 million in facility-related costs and \$7 million in other related costs. Expenses related to the Corporate Relocation Plan in the three months ended September 30, 2015 consisted of \$3.6 million in employee retention, relocation, and separation benefits, \$0.7 million in facility-related costs including lease of temporary office space and costs associated with the move of the Company's headquarters, and expenses associated with production transition and relocation of certain distribution centers, and \$1.1 million in other related costs including travel, legal, consulting, dedicated project management and other professional services. Facility-related costs in the three months ended September 30, 2015 also included \$0.3 million in non-cash depreciation expense associated with the Torrance production facility resulting from the consolidation of coffee production operations with the Houston and Portland production facilities.

Since adoption of the Corporate Relocation Plan through September 30, 2015, we have recognized a total of \$15.3 million of the estimated \$25 million in aggregate cash costs consisting of an aggregate of \$10.1 million in employee retention and separation benefits, \$0.8 million in facility-related costs and \$4.4 million in other related costs. The remainder is expected to be recognized in the balance of fiscal 2016 and the first quarter of fiscal 2017. We may incur certain other non-cash asset impairment costs, pension-related costs and postretirement benefit costs in connection with the Corporate Relocation Plan.

The following table sets forth the activity in liabilities associated with the Corporate Relocation Plan for the three months ended September 30, 2015:

(In thousands)	Balances, June 30, 2015	Additions	Payments	Non-Cash Settled	Adjustments	Balances, September 30, 2015
Employee-related costs(1)	\$6,156	\$3,596	\$7,405	\$—	\$—	\$2,347
Facility-related costs(2)	—	730	387	343	—	\$—
Other(3)	200	1,124	1,124	—	—	\$200
Total	\$6,356	\$5,450	\$8,916	\$343	\$—	\$2,547
Current portion	6,356					2,547
Non-current portion	—					—
Total	\$6,356					\$2,547

(1) Included in "Accrued payroll expenses" on the Company's consolidated balance sheets.

(2) Non-cash settled facility-related costs represent depreciation expense associated with the Torrance production facility resulting from the consolidation of coffee production operations with the Houston and Portland production facilities.

(3) Included in "Accounts payable" on the Company's consolidated balance sheets.

#### Facility Lease Obligation

On July 17, 2015, we entered into a lease agreement (the "Lease Agreement") with WF-FB NLTX, LLC, a Delaware limited liability company (the "Lessor"), to lease a 538,000 square foot facility to be constructed on 28.2 acres of land located in Northlake, Texas. The new facility is expected to include approximately 85,000 square feet for corporate offices, more than 100,000 square feet for manufacturing, and more than 300,000 square feet for distribution, in addition to a coffee lab. The construction of the new facility is estimated to be completed by the end of the second quarter of fiscal 2017.

The new facility will be constructed by Lessor, at its expense, in accordance with agreed upon specifications and plans determined as set forth in the Lease Agreement. Due to our involvement in the construction of the facility, as the deemed general contractor, pursuant to ASC 840, we are required to capitalize during the construction period the cash and non-cash assets contributed by Lessor for the construction as property, plant and equipment on our consolidated balance sheets, with an offsetting liability for the same amount payable to Lessor. We recorded an asset related to the

facility lease obligation included in property, plant and equipment of \$2.8 million during the three months ended September 30, 2015. The facility lease obligation included in "Other long-term liabilities" on our consolidated balance sheet was \$2.8 million as of September 30, 2015. There were no such amounts recorded at June 30, 2015. As of

September 30, 2015 and June 30, 2015, respectively, we had recorded \$1.1 million and \$0.3 million in "Other receivables" included in "Accounts and notes receivable, net" on our consolidated balance sheets representing costs we incurred associated with the new facility in Northlake, Texas that are expected to be reimbursed by Lessor under the Lease Agreement.

A portion of the lease arrangement is allocated to land for which we will record rent expense during the construction period. The expense associated with the land is determined using the fair value of the leased land at construction commencement and our incremental borrowing rate, and is recognized on a straight-line basis. Once rent payments commence under the Lease Agreement, all amounts in excess of land rent expense will be recorded as a debt-service payment and recognized as interest expense and a reduction of the financing obligation. Rent expense for the facility lease obligation included in our consolidated statements of operations in the three months ended September 30, 2015 and 2014 was \$0.1 million and \$0, respectively.

The Lease Agreement contains a purchase option exercisable at any time by us on or before ninety days prior to the scheduled completion date with an option purchase price equal to 103% of the total project cost as of the date of the option closing if the option closing occurs on or before July 17, 2016. The option purchase price will increase by 0.35% per month thereafter up to and including the date which is the earlier of (A) ninety days after the scheduled completion date and (B) December 31, 2016. If we were to exercise the purchase option under the Lease Agreement on or before July 17, 2016, the estimated option purchase price in lieu of the lease payments would be \$51.1 million payable in the year ending June 30, 2017. This estimate is based upon the preliminary budget delivered at the time the Lease Agreement was executed and includes amounts in respect of construction costs, acquisition of the land upon which the Northlake, Texas facility will be constructed, Lessor and Company fees and expenses (such as legal fees), and preliminary contingency amounts of approximately \$5.1 million, in the aggregate. The actual option purchase price would be based upon the amounts set forth in the final budget. The obligation to pay rent will commence on December 31, 2016, if the option remains unexercised. The decision of whether to exercise the option or not will depend upon, among other things, whether we can sell the Torrance facility at an acceptable price.

The initial term of the lease is for 15 years from the rent commencement date with six options to renew, each with a renewal term of 5 years. The annual base rent under the Lease Agreement will be an amount equal to:

- the product of 7.50% and (a) the total estimated budget for the project, or (b) all construction costs outlined in the final budget on or prior to the scheduled completion date; or
- the product of 7.50% and the total project costs, to the extent that all components of the document delivery and completion requirement are fully satisfied on or prior to the scheduled completion date.

Annual base rent will increase by 2% during each year of the lease term.

On July 17, 2015, we also entered into a Development Management Agreement ("DMA") with Stream Realty Partners-DFW, L.P., a Texas limited partnership ("Developer").

Pursuant to the DMA, we retained the services of Developer to manage, coordinate, represent, assist and advise us on matters concerning the pre-development, development, design, entitlement, infrastructure, site preparation and construction of the facility. The term of the DMA is from July 17, 2015 until final completion of the project. Pursuant to the DMA, we will pay Developer:

- a development fee of 3.25% of all development costs;
- an oversight fee of 2% of any amounts paid to the Company-contracted parties for any oversight by Developer of Company-contracted work;
- an incentive fee, the amount of which will be determined by the parties, if final completion occurs prior to the scheduled completion date; and
- an amount equal to \$2.6 million as additional fee in respect of development services.

Liquidity and Capital Resources

Credit Facility

On March 2, 2015, we, as Borrower, together with our wholly owned subsidiaries, Coffee Bean International, Inc., an Oregon corporation ("CBI"), FBC Finance Company, a California corporation, and Coffee Bean



Holding Company, Inc., a Delaware corporation, as additional Loan Parties and as Guarantors, entered into a Credit Agreement (the "Credit Agreement") and a related Pledge and Security Agreement (the "Security Agreement") with JPMorgan Chase Bank, N.A. ("Chase"), as Administrative Agent, and SunTrust Bank ("SunTrust"), as Syndication Agent (collectively, the "Lenders") (capitalized terms used below are defined in the Credit Agreement). The Credit Agreement replaced our September 12, 2011 Amended and Restated Loan and Security Agreement with Wells Fargo Bank, N.A. that expired on March 2, 2015.

The Credit Agreement provides for a senior secured revolving credit facility ("Revolving Facility") of up to \$75.0 million ("Revolving Commitment") consisting of Revolving Loans, Letters of Credit and Swingline Loans provided by the Lenders, with a sublimit on Letters of Credit outstanding at any time of \$30.0 million and a sublimit for Swingline Loans of \$15.0 million. Chase agreed to provide \$45.0 million of the Revolving Commitment and SunTrust agreed to provide \$30.0 million of the Revolving Commitment. The Credit Agreement also includes an accordion feature whereby we may increase the Revolving Commitment by an aggregate amount not to exceed \$50.0 million, subject to certain conditions.

The Credit Agreement provides for advances of up to: (a) 85% of the Borrowers' eligible accounts receivable, plus (b) 75% of the Borrowers' eligible inventory (not to exceed 85% of the product of the most recent Net Orderly Liquidation Value percentage multiplied by the Borrowers' eligible inventory), plus (c) the lesser of \$25.0 million and 75% of the fair market value of the Borrowers' Eligible Real Property, subject to certain limitations, plus (d) the lesser of \$10.0 million and the Net Orderly Liquidation Value of certain trademarks, less (e) reserves established by the Administrative Agent.

The Credit Agreement has a commitment fee ranging from 0.25% to 0.375% per annum based on Average Revolver Usage. Outstanding obligations under the Credit Agreement are collateralized by all of the Borrowers' and the Guarantors' assets, excluding, among other things, real property not included in the Borrowing Base, machinery and equipment (other than inventory), and the Company's preferred stock portfolio. The Credit Agreement expires on March 2, 2020.

The Credit Agreement provides for interest rates 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 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 Credit Agreement allows us 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 Credit Agreement also allows the Lenders to establish reserve requirements, which may reduce the amount of credit otherwise available to us, and provides for customary events of default.

On September 30, 2015, we were eligible to borrow up to a total of \$60.8 million under the Revolving Facility. As of September 30, 2015, we had outstanding borrowings of \$0.2 million, utilized \$11.4 million of the letters of credit sublimit, and had excess availability under the Revolving Facility of \$49.2 million. At September 30, 2015, the weighted average interest rate on our outstanding borrowings under the Revolving Facility was 1.64%. As of September 30, 2015, we were in compliance with all of the restrictive covenants under the Credit Agreement.

As of November 1, 2015, we had estimated outstanding borrowings of \$0.1 million, utilized \$11.4 million of the letters of credit sublimit, and had excess availability under the Revolving Facility of \$43.2 million. At November 1, 2015, the weighted average interest rate on our outstanding borrowings under the Revolving Facility was 1.64%.

#### Liquidity

We generally finance our operations through cash flows from operations and borrowings under our Revolving Facility described above. As of September 30, 2015, we had \$22.8 million in cash and cash equivalents, \$1.3 million in restricted cash in our margin accounts for coffee-related derivative instruments and \$22.8 million in short-term investments. We believe our Revolving Facility, to the extent available, in addition to our cash flows from operations and other liquid assets, and the expected proceeds from the sale of our Torrance facility, collectively, will be sufficient to fund our working capital and capital expenditure requirements for the next 12 to 18 months including the expected capital expenditures associated with the Corporate Relocation Plan and other costs under the Lease Agreement and



DMA for the new facility.

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We generate cash from operating activities primarily from cash collections related to the sale of our products. Net cash provided by operating activities was \$11.4 million in the three months ended September 30, 2015 compared to net cash used in operating activities of \$3.8 million in the three months ended September 30, 2014. Net cash provided by operating activities in the three months ended September 30, 2015 was due to a higher level of cash inflows from operating activities resulting primarily from lower cash outflows for payments of accounts payable and payroll expenses, partially offset by higher cash outflows from an increase in inventory and accounts receivable balances. Net cash used in operating activities in the three months ended September 30, 2014 was due to a higher level of cash outflows from operating activities primarily from payments of accounts payable balances and payroll expenses including accrued bonuses and from an increase in accounts receivable balances. In addition, timing differences between the receipt or payment of cash and recognition of the related net gains (losses) from derivative instruments contributed to the differences in cash from operations in the reported periods. In the three months ended September 30, 2015, non-cash net losses from derivative instruments contributed to the increase in cash flows from operations. In the three months ended September 30, 2014, non-cash net gains from derivative instruments contributed to the decrease in cash flows from operations.

Net cash used in investing activities was \$3.2 million in the three months ended September 30, 2015 compared to \$4.8 million in the three months ended September 30, 2014. Net cash used in investing activities in the three months ended September 30, 2015 included \$3.8 million for purchases of property, plant and equipment offset by proceeds from sales of assets, primarily real estate, of \$0.5 million, compared to \$4.9 million for purchases of property, plant and equipment offset by proceeds from sales of assets, primarily equipment, of \$0.1 million in the three months ended September 30, 2014.

Net cash used in financing activities was \$0.6 million in the three months ended September 30, 2015 compared to net cash provided by financing activities of \$1.4 million in the three months ended September 30, 2014. Net cash used in financing activities in the three months ended September 30, 2015 included net repayments on our credit facility of \$28,000, compared to net borrowings of \$1.8 million in the three months ended September 30, 2014. Proceeds from stock option exercises during the three months ended September 30, 2015 were \$0.3 million compared to \$0.6 million in the three months ended September 30, 2014. Net cash provided by financing activities in the three months ended September 30, 2015 included \$8,000 in financing costs.

In the three months ended September 30, 2015, we capitalized \$3.8 million in property, plant and equipment purchases unrelated to the Corporate Relocation Plan and construction of the new facility, which included \$1.6 million in expenditures to replace normal wear and tear of coffee brewing equipment, \$0.8 million in expenditures for vehicles, and machinery and equipment, \$0.9 million in building and facility improvements and \$0.5 million in IT-related expenditures. Our capital expenditures unrelated to the Corporate Relocation Plan and construction of the new facility for the remainder of fiscal 2016 are expected to include expenditures to replace normal wear and tear of coffee brewing equipment, vehicles, machinery and equipment and IT-related expenditures.

Based on current assumptions and subject to continued implementation of the Corporate Relocation Plan as planned, we estimate that we will incur approximately \$25 million in cash costs in connection with the exit of the Torrance facility consisting of \$14 million in employee retention and separation benefits, \$4 million in facility-related costs and \$7 million in other related costs.

Since adoption of the Corporate Relocation Plan through September 30, 2015, we have recognized a total of \$15.3 million of the estimated \$25 million in aggregate cash costs consisting of an aggregate of \$10.1 million in employee retention and separation benefits, \$0.8 million in facility-related costs and \$4.4 million in other related costs. The remainder is expected to be recognized in the balance of fiscal 2016 and the first quarter of fiscal 2017. We may incur certain other non-cash asset impairment costs, pension-related costs and postretirement benefit costs in connection with the Corporate Relocation Plan.

On July 17, 2015, we entered into the Lease Agreement for the new facility described above under "Facility Lease Obligation." Subject to the finalization of the optimal capacity, utilization, automation and build-out of the facility, the construction costs for the new facility are currently expected to be approximately \$35 million to \$40 million plus an additional \$20 million to \$25 million in anticipated capital expenditures for machinery and equipment, furniture and fixtures, and related expenditures in connection with the Corporate Relocation Plan. The majority of the construction

costs associated with the new facility are expected to be incurred in early fiscal 2017. If we consummate a sale of the Torrance facility, the net proceeds from such a sale would be expected to partially offset the expenditures associated with the new facility.

Our working capital is composed of the following:

(In thousands)	September 30, 2015	June 30, 2015
Current assets(1)	\$ 151,075	\$ 135,685
Current liabilities	76,962	64,874
Working capital	\$ 74,113	\$ 70,811

(1) As of September 30, 2015 and June 30, 2015, respectively, we had recorded \$1.1 million and \$0.3 million in "Other receivables" included in "Accounts and notes receivable, net" on our consolidated balance sheets representing costs we incurred associated with the new facility that are expected to be reimbursed by Lessor under the Lease Agreement.

#### Contractual Obligations

The amounts disclosed in our 2015 10-K include our commitments and contractual obligations. Significant changes since June 30, 2015 were as follows:

As of September 30, 2015, we had committed to purchasing green coffee inventory totaling \$36.9 million under fixed-price contracts, other inventory totaling \$8.3 million and equipment totaling \$0.4 million under non-cancelable purchase orders.

Under the Lease Agreement, we agreed to lease certain land and an approximately 538,000 square foot facility to be constructed on 28.2 acres of land located in Northlake, Texas. The new facility will be constructed by Lessor, at its expense, in accordance with agreed upon specifications and plans determined as set forth in the Lease Agreement. Due to our involvement in the construction of the facility, as the deemed general contractor, pursuant to ASC 840, we are required to capitalize during the construction period the cash and non-cash assets contributed by Lessor for the construction as property, plant and equipment on our consolidated balance sheets, with an offsetting liability for the same amount payable to Lessor. We recorded an asset related to the facility lease obligation included in property, plant and equipment of \$2.8 million during the three months ended September 30, 2015. The facility lease obligation included in "Other long-term liabilities" on our consolidated balance sheet was \$2.8 million as of September 30, 2015. There were no such amounts recorded at June 30, 2015. As of September 30, 2015 and June 30, 2015, respectively, we had recorded \$1.1 million and \$0.3 million in "Other receivables" included in "Accounts and notes receivable, net" on our consolidated balance sheets representing costs we incurred associated with the new facility that are expected to be reimbursed by Lessor under the Lease Agreement.

A portion of the lease arrangement is allocated to land for which we will record rent expense during the construction period. The expense associated with the land is determined using the fair value of the leased land at construction commencement and our incremental borrowing rate, and is recognized on a straight-line basis. Once rent payments commence under the Lease Agreement, all amounts in excess of land rent expense will be recorded as a debt-service payment and recognized as interest expense and a reduction of the financing obligation. Rent expense for the facility lease obligation included in our consolidated statements of operations in the three months ended September 30, 2015 and 2014 was \$0.1 million and \$0, respectively.

The Lease Agreement contains a purchase option exercisable at any time by us on or before ninety days prior to the scheduled completion date with an option purchase price equal to 103% of the total project cost as of the date of the option closing if the option closing occurs on or before July 17, 2016. The option purchase price will increase by 0.35% per month thereafter up to and including the date which is the earlier of (A) ninety days after the scheduled completion date and (B) December 31, 2016. . If we were to exercise the purchase option under the Lease Agreement on or before July 17, 2016, the estimated option purchase price in lieu of the lease payments would be \$51.1 million payable in the year ending June 30, 2017. This estimate is based upon the preliminary budget delivered at the time the Lease Agreement was executed and includes amounts in respect of construction costs, acquisition of the land upon which the Northlake, Texas facility will be constructed, Lessor and Company fees and expenses (such as legal fees), and preliminary contingency amounts of approximately \$5.1 million, in the aggregate. The actual option purchase price would be based upon the amounts set forth in the final budget. The obligation to pay rent will commence on December 31, 2016, if the option remains unexercised. The decision of whether to exercise the option or not will depend upon, among other things, whether we can sell the Torrance facility at an acceptable price.

The initial term of the lease is for 15 years from the rent commencement date with six options to renew, each with a renewal term of 5 years. The annual base rent under the Lease Agreement will be an amount equal to:

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- the product of 7.50% and (a) the total estimated budget for the project, or (b) all construction costs outlined in the final budget on or prior to the scheduled completion date; or
- the product of 7.50% and the total project costs, to the extent that all components of the document delivery and completion requirement are fully satisfied on or prior to the scheduled completion date.

Annual base rent will increase by 2% during each year of the lease term.

Pursuant to the DMA, we retained the services of Developer to manage, coordinate, represent, assist and advise us on matters concerning the pre-development, development, design, entitlement, infrastructure, site preparation and construction of the facility. The term of the DMA is from July 17, 2015 until final completion of the project. Pursuant to the DMA, we will pay Developer:

- a development fee of 3.25% of all development costs;
- an oversight fee of 2% of any amounts paid to the Company-contracted parties for any oversight by Developer of Company-contracted work;
- an incentive fee, the amount of which will be determined by the parties, if final completion occurs prior to the scheduled completion date; and
- an amount equal to \$2.6 million as additional fee in respect of development services.

The following table contains information regarding total contractual obligations as of September 30, 2015, including capital leases: