

FARMER BROTHERS CO
Form 10-K
September 14, 2016

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

FORM 10-K
(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended June 30, 2016

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

For the transition period from _____ to _____

Commission file number: 001-34249

FARMER BROS. CO.

(Exact Name of Registrant as Specified in Its Charter)

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

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

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

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

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

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

YES NO

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

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

YES NO

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer 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):

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

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

YES NO

The aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the closing price at which the Farmer Bros. Co. common stock was sold on December 31, 2015 was \$278.4 million.

As of September 12, 2016 the registrant had 16,781,561 shares outstanding of its common stock, par value \$1.00 per share, which is the registrant's only class of common stock.

DOCUMENTS INCORPORATED BY REFERENCE

Specified portions of the registrant's definitive proxy statement to be filed with the U.S. Securities and Exchange Commission ("SEC") pursuant to Regulation 14A in connection with the registrant's 2016 Annual Meeting of Stockholders (the "Proxy Statement") are incorporated by reference into Part III of this report. Such Proxy Statement will be filed with the SEC not later than 120 days after the conclusion of the registrant's fiscal year ended June 30, 2016.

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CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

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

undertake to update or revise these statements, whether as a result of new information, future events, changes in assumptions or otherwise, except as required under federal securities laws and the rules and regulations of the SEC.

PART I

Item 1. Business

Overview

Farmer Bros. Co., a Delaware corporation (including its consolidated subsidiaries unless the context otherwise requires, the “Company,” “we,” “us,” “our” or “Farmer Bros.”), is a national coffee roaster, wholesaler and distributor of coffee, tea and culinary products. We serve a wide variety of customers, from small independent restaurants and foodservice operators to large institutional buyers like restaurant and convenience store chains, hotels, casinos, hospitals, and gourmet coffee houses, as well as grocery chains with private brand and consumer-branded coffee products. With a robust product line, including organic, Direct Trade, Direct Trade Verified Sustainable coffees or DTVS and other sustainably-produced coffees, iced and hot teas, cappuccino, spices, and baking/biscuit mixes, among others, we offer a comprehensive approach to our customers by providing not only a breadth of high-quality products, but also value-added services such as market insight, beverage planning, and equipment placement and service. We were founded in 1912, incorporated in California in 1923, and reincorporated in Delaware in 2004. We operate in one business segment.

Corporate Relocation

In an effort to make the Company more competitive and better positioned to capitalize on growth opportunities, in fiscal 2015 we began the process of relocating our corporate headquarters, product development lab, and manufacturing and distribution operations from Torrance, California to a new facility housing these operations currently under construction in Northlake, Texas (the “New Facility”).

Closure and Sale of the Torrance Facility

We began the process of closing our Torrance facility in the spring of 2015 in phases, as follows:

Manufacturing and Distribution. In the fourth quarter of fiscal 2015, we transitioned our coffee roasting, grinding and packaging functions from our Torrance, California production facility and consolidated them with our Houston, Texas and Portland, Oregon production facilities, and moved our Houston distribution operations to our Oklahoma City, Oklahoma distribution center.

Corporate Headquarters. During the first half of fiscal 2016, we transferred our primary administrative offices from Torrance to temporary leased offices in Fort Worth, Texas near the New Facility, including the transfer or new hire of approximately 140 employees.

Sale of Spice Assets. In order to focus on our core product offerings, in the second quarter of fiscal 2016, we completed the sale of certain assets associated with our manufacture, processing and distribution of raw, processed and blended spices and certain other culinary products (collectively, the “Spice Assets”) to Harris Spice Company Inc. (“Harris”). We provided certain post-closing transition services to Harris which concluded during the fourth quarter of fiscal 2016. The sale of the Spice Assets does not represent a strategic shift for us and is not expected to have a material impact on our results of operations because we will continue to sell a complete portfolio of spice and other culinary products purchased from Harris under a supply agreement to our direct-store-delivery, or DSD, customers.

Sale of the Torrance Facility. In the fourth quarter of fiscal 2016, we entered into a purchase and sale agreement to sell the Torrance facility. Subsequent to the fiscal year end, the sale of the Torrance facility closed on July 15, 2016.

We have agreed to lease back the Torrance facility on a triple net basis through October 31, 2016, subject to two one-month extensions, at our option. As of June 30, 2016, the Torrance facility continued to house certain administrative functions and serve as a distribution facility and branch warehouse pending transition of the remaining Torrance operations to our other facilities.

Construction of the New Facility

In the first quarter of fiscal 2016, we entered into a lease agreement, (as amended the “Lease Agreement”), for the New Facility to be constructed by the lessor, at its expense. The Lease Agreement included an option to purchase the New Facility at a purchase price based on a percentage of the total project cost as of the closing date. In the fourth quarter of

fiscal 2016, we exercised the purchase option to acquire the partially constructed New Facility with a targeted closing date in the first quarter of fiscal 2017. Construction of and relocation to the New Facility are expected to be completed in the third quarter of fiscal 2017.

Products

We are a national coffee roaster, wholesaler and distributor of coffee, tea and culinary products manufactured under supply agreements, under our owned brands, as well as under private labels on behalf of certain customers. Our product categories consist of the following:

- a robust line of roast and ground coffee, including organic, Direct Trade, DTVS and other sustainably-produced offerings;

- frozen liquid coffee;

- flavored and unflavored iced and hot teas;

- culinary products including gelatins and puddings, soup bases, dressings, gravy and sauce mixes, pancake and biscuit mixes, jellies and preserves, and coffee-related products such as coffee filters, sugar and creamers;

- spices; and

- other beverages including cappuccino, cocoa, granitas, and ready-to-drink iced coffee.

Our owned brand products are sold primarily into the foodservice channel. Our primary brands include Farmer Brothers™, Artisan Collection by Farmer Brothers™, Super™ and Metropolitan™. Our Artisan coffee products include Direct Trade, Fair Trade Certified™, Rainforest Alliance Certified™, organic and proprietary blends. In addition, we sell whole bean and roast and ground flavored and unflavored coffee products under the Un Momento®, Collaborative Coffee™, Cain's™ and McGarvey™ brands at retail. Our roast and ground coffee products are sold in traditional packaging, including bags and fractional packages, as well as single-serve packaging. For a description of the amount of net sales attributed to each of our product categories in fiscal 2016, 2015 and 2014, see Management's Discussion and Analysis of Financial Conditions and Results of Operations—Results of Operations included in Part II, Item 7 of this report.

Business Strategy

Overview

We develop great tasting products delivered with concierge service with the goal of a positive impact on our customers and the planet. Through our sustainability, stewardship, environmental efforts, and leadership we are not only committed to serving the finest products available, considering the cost needs of the customer, but also insist on their sustainable cultivation, manufacture and distribution whenever possible.

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

- develop new products in response to demographic and other trends to better compete in areas such as premium coffee and tea;

- rethink aspects of our Company culture to improve productivity and employee engagement and to attract talent;

- embrace sustainability across our operations, in the quality of our products, as well as, how we treat our coffee growers; and

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

We differentiate ourselves in the marketplace through our product offerings and through our customer service model, which includes:

- a wide variety of coffee product offerings and packaging options across numerous brands and quality tiers;

beverage equipment placement and service;
hassle-free inventory and product procurement management;
DSD service;
merchandising support; and
product and menu insights.

Our services are conducted primarily in person through Route Sales Representatives, or RSRs, who develop personal relationships with chefs, restaurant owners and food buyers at their delivery locations. We also provide comprehensive coffee programs to our national account customers, including private brand development, green coffee procurement, hedging, category management, sustainable sourcing and supply chain management.

We distribute our owned brands primarily through our DSD network, while continuing to support and grow our private label and other national account business. Although currently a small portion of our distribution, we also distribute directly to consumers through our website and sell certain products such as Un Momento[®], Collaborative Coffee[™], Cain's[™] and McGarvey[®] retail.

Strategic Initiatives

We are focused on the following strategies to reduce costs, streamline our supply chain, improve the breadth of products and services we provide to our customers, and better position the Company to attract new customers:

Reduce Costs to Compete More Effectively

New Facility. In fiscal 2015, we commenced work on a corporate relocation plan to replace our aging production facility in Torrance, California with a more efficient, state-of-the-art facility to be located in Northlake, Texas. We undertook this endeavor, in part, to pursue improved production efficiency to allow us to provide a more cost-competitive offering of high-quality products. We believe the expected improvements in production efficiency, combined with the wind-down and sale of our Torrance facility, should allow us to operate at a lower cost, generally.

Third-Party Logistics. During the second half of fiscal 2016, we replaced our long-haul fleet operations with third-party logistics ("3PL"). We expect that this transportation arrangement will reduce our fuel consumption and empty trailer miles, while improving our intermodal and trailer cube utilization.

Vendor Managed Inventory. During the second half of fiscal 2016, we entered into a vendor managed inventory arrangement with a third party. We anticipate that the use of vendor managed inventory arrangements will result in a reduction in raw material, finished goods and logistics costs, while improving packaging innovation and fulfillment.

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

Optimize Sales, Pricing and Portfolio of Products

Pricing and Products. In fiscal 2016, we built capability to more strategically optimize our pricing strategy across product, channel, customer and geographic segments. This process is designed to improve our average margins as well as retention rates. In addition, we continued our prior work optimizing SKU count and identifying opportunities to consolidate suppliers to improve costs and supply chain efficiency.

DSD Reorganization. During the second half of fiscal 2016, we began to realign our DSD organization by undertaking initiatives intended to streamline communication and decision making, enhance branch organizational structure, and improve customer focus, including initiatives toward a comprehensive training program for all DSD team members to strengthen customer engagement.

Accelerate Customer Acquisition Efforts. In fiscal 2016, we executed a regional test of our first advertising and lead generation campaign designed to improve our new customer acquisition rate within our DSD network.

Strategic Investment in Assets and Evaluation of Cost Structure

Asset Utilization. We continue to look for ways to deploy our personnel, systems, assets and infrastructure to create or enhance stockholder value. Areas of focus have included corporate staffing and structure, methods of procurement, logistics, inventory management, supporting technology, and real estate assets.

Branch Consolidation and Property Sales. In an effort to streamline our branch operations, in the fourth quarter of fiscal 2016, we sold two Northern California branch properties, with a third Northern California property under contract for sale, and we acquired a new branch facility in Hayward, California.

Acquisitions. One of our investment priorities is exploring acquisitions that we believe will enhance long-term stockholder value and complement or enhance our product, equipment, service and/or distribution offerings to existing and new customer bases. For example, on September 9, 2016, through a newly-formed, wholly-owned subsidiary, we entered into an asset purchase agreement to acquire substantially all of the assets of China Mist Brands, Inc., dba China Mist Tea Company ("China Mist") for an aggregate purchase price of \$11.3 million, with \$10.8 million to be paid in cash at closing and \$0.5 million to be paid as earnout if certain sales levels are achieved in the calendar years of 2017 and 2018. The transaction is expected to close during the second quarter of fiscal 2017. We anticipate that the acquisition of China Mist will give us a greater presence in the high-growth premium tea industry. See Note 24, Subsequent Events, of the Notes to Consolidated Financial Statements included in Part II, Item 8 of this report.

Corporate Capabilities and Alignment to Create Stockholder Value

Investment in Human Resources. In fiscal 2016, we hired Isaac N. Johnston, Jr. as our Treasurer and Chief Financial Officer and Carolyn Suzanne Gargis as our VP of Human Relations. Each of these individuals brings a proven track record at both large consumer packaged goods operations as well as experience in dealing with smaller and more entrepreneurial companies. In addition, in fiscal 2016, we continued to emphasize greater alignment of employee individual goals with Company goals under our compensation plans in order to focus the entire organization on the effort to create value for our stockholders.

Drive High-Growth Product Categories and Address Broader Customer Needs

Introduction of Collaborative Coffee™ and Redesign of Un Momento® Branded Retail Products. In an effort to address what we believe to be unmet consumer needs and improve margin within the retail grocery environment, in fiscal 2016 we launched the Collaborative Coffee™ brand into the retail grocery channel and completed a packaging redesign and product portfolio optimization of our Un Momento® retail branded product line. Collaborative Coffee™ offers coffee enthusiasts a super-premium, verified direct trade coffee at an approachable price. Un Momento® delivers Millennial Hispanic consumers appealing flavor variety and premium coffee at an exceptional value.

Expand Sustainability Leadership

Sustainability. We believe that our collective efforts in measuring our social and environmental impact, creating programs for waste, water and energy reduction, promoting partnerships in our supply chain that aim at supply chain stability and food security, and focusing on employee engagement place us in a unique position to help retailers and foodservice operators create differentiated coffee programs that can include sustainable supply chains, direct trade purchasing, training and technical assistance, recycling and composting networks, and packaging material reductions. During fiscal 2016, we submitted our second third-party verified Carbon Disclosure Project survey for Scope 1, 2 and 3 emissions (direct emissions, indirect emissions from consumption of purchased electricity, heat or steam and other indirect emissions). Further, we published a sustainability report based on the Global Reporting Initiative's compliance standard.

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

Expansion of Direct Trade Verified Sustainable Program. In fiscal 2016, we completed our first third-party audit and verification of our DTVS program for sourcing green coffee. DTVS is an impact-based product or raw material sourcing framework that utilizes data-based sustainability metrics to influence an inclusive, collaborative approach to sustainability along the supply chain. To evaluate whether coffee is DTVS, we follow an outcome-based evaluation framework. The outcome of this evaluation weighs on where we invest our resources within our supply chain and has led to an increased level of transparency for us. DTVS represents a growing percentage of our coffee portfolio.

Green Coffee Traceability. We are committed to the inclusion of more sustainably-sourced coffees in our supply chain. Regulatory and reputational risks can increase when customers, roasters and suppliers cannot see back into their supply chain. To address these concerns, as well as to deepen our commitment to the longevity of the coffee industry, in fiscal 2016 we began requiring our immediate suppliers of green coffee to enhance their reporting of traceability information on each lot of coffee sold to us.

Charitable Activities

We view charitable involvement as a part of our corporate responsibility and sustainability model: Social, Environmental, and Economic Development, or SEED. We endorse and support communities where our customers, employees, businesses, and suppliers are located, and who have enthusiastically supported us over the past 100 years. Our objective is to provide support toward a mission of supply chain stability with a focus on food security. Recipient organizations include those with strong local and regional networks that ensure that families have access to nutritious food. Donations may take the form of corporate cash contributions, product donations, employee volunteerism, and workplace giving (with or without matching contributions).

Recipient organizations include Feeding America, Mercy Corps, Ronald McDonald House, and local food banks. We support industry organizations such as World Coffee Research, which commits to grow, protect, and enhance supplies of quality coffee while improving the livelihoods of the families who produce it, and the Specialty Coffee Association of America ("SCAA") Sustainability Council and the Coalition for Coffee Communities, which are focused on sustainability in coffee growing regions.

Our employee-driven CAFÉ Crew organizes employee involvement at local charities and fund raisers, including running in the Chicago Marathon in support of Team Ronald McDonald House, riding in the Ride Against Hunger supported by Tarrant Area Food Bank, supporting delivery for Meals on Wheels, and hosting local food drives. All of our usable and near expiring products or products with damaged packaging are donated to Feeding America affiliated food banks nationwide, in an effort to fully eliminate edible food waste from the landfill.

Industry and Market Leadership

We have made the following investments in an effort to ensure we are well-positioned within the industry to take advantage of category trends, industry insights, and general coffee and tea knowledge to grow our business: Coffee Industry Leadership. Through our dedication to the craft of sourcing, blending and roasting coffee, and our participation and/or leadership positions with the SCAA, National Coffee Association, Coalition for Coffee Communities, International Women's Coffee Alliance, International Foodservice Manufacturers Association, Pacific Coast Coffee Association, Roasters Guild and World Coffee Research, we work to help shape the future of the coffee industry. We believe that due to our commitment to the industry, large retail and foodservice operators are drawn to working with us. We were among the first coffee roasters in the nation to receive SCAA certification of a state-of-the-art coffee lab and operate Public Domain®, a specialty coffeehouse in Portland, Oregon. Upon completion, we plan to submit our product development lab at the New Facility for SCAA certification.

Market Insight and Consumer Research. We have developed a market insight capability internally that reinforces our business-to-business positioning as a thought leader in the coffee industry. We provide trend insights that help our customers create winning products and integrated marketing strategies for their own coffee brands.

Within this, we are focused on understanding key demographic groups such as Millennials and Hispanics, and key channel trends.

Raw Materials and Supplies

Our primary raw material is green coffee, an agricultural commodity traded on the Commodities and Futures Exchange that is subject to price fluctuations. Over the past five years, coffee “C” market price per pound ranged from approximately \$1.02 to \$2.90. The coffee “C” market price as of June 30, 2016 and 2015 was \$1.46 and \$1.32 per pound, respectively. Our principal packaging materials include cartonboard, corrugated and plastic. We also use a significant amount of electricity, natural gas, and other energy sources to operate our production and distribution facilities.

We purchase green coffee beans from multiple coffee regions around the world. Although coffee “C” market prices in fiscal 2016 were relatively low compared to historical levels, there can be no assurance that green coffee prices will remain at these levels in the future. Some of the Arabica coffee beans we purchase do not trade directly on the commodity markets. Rather, we purchase these coffee beans on a negotiated basis from coffee brokers, exporters and growers, including Direct Trade, DTVS and Fair Trade Certified™ sources and Rainforest Alliance Certified™ farms. Fair Trade Certified™ provides an assurance that farmer groups are receiving the Fair Trade minimum price and an additional premium for certified organic products through arrangements with cooperatives. Direct Trade and DTVS products provide similar assurance except that the arrangements are provided directly to farmers instead of through cooperatives in an effort to promote investment in better and more sustainable farming practices as well as to ensure a fairer price. Rainforest Alliance Certified™ coffee is grown using methods that help promote and preserve biodiversity, conserve scarce natural resources, and help farmers build sustainable lives. Our business model strives to reduce the impact of green coffee price fluctuations on our financial results and to protect and stabilize our margins, principally through customer arrangements and derivative instruments, as further explained in Note 7, Derivative Instruments, of the Notes to Consolidated Financial Statements included in Part II, Item 8 of this report.

Intellectual Property

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

Seasonality

We experience some seasonal influences. The winter months are generally the strongest sales months. However, our product line and geographic diversity provide some sales stability during the warmer months when coffee consumption ordinarily decreases. Additionally, we usually experience an increase in sales during the summer and early fall months from seasonal businesses located in vacation areas and from grocery retailers ramping up inventory for the winter selling season. Because of the seasonality of our business, results for any quarter are not necessarily indicative of the results that may be achieved for the full fiscal year.

Distribution

We operate production facilities in Portland, Oregon and Houston, Texas. Distribution takes place out of our Portland facility as well as three separate distribution centers in Northlake, Illinois; Oklahoma City, Oklahoma; and Moonachie, New Jersey. As of June 30, 2016, the Torrance facility continued to house certain administrative functions and serve as a distribution facility and branch warehouse pending transition of the remaining Torrance operations to our other facilities. Upon completion, the New Facility will serve as a production facility and distribution center for our products. Our products reach our customers primarily in two ways: through our nationwide DSD network of 450 delivery routes and 109 branch warehouses as of June 30, 2016, or direct-shipped via common

carriers or third-party distributors.

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DSD sales are made “off-truck” to our customers at their places of business by our RSRs who generally are responsible for soliciting, selling and collecting from and otherwise maintaining our customer accounts. Our DSD business includes office coffee services whereby we provide office coffee products, including a variety of coffee brands and blends, brewing and beverage equipment, and foodservice supplies directly to offices. We operate a large fleet of trucks and other vehicles to distribute and deliver our products, and we rely on 3PL service providers for our long-haul distribution. We maintain inventory levels at each branch warehouse to promote minimal interruption in supply. We also sell directly to consumers through our website.

Customers

We serve a wide variety of customers, from small independent restaurants and foodservice operators to large institutional buyers like restaurant and convenience store chains, hotels, casinos, hospitals, and gourmet coffee houses, as well as grocery chains with private brand and consumer-branded coffee products. Although no single customer accounted for 10% or more of our net sales in any of the last three fiscal years, we have several large national account customers, the loss of or reduction in sales to one or more of which would be likely to have a material adverse effect on our results of operations. During fiscal 2016, our top five customers accounted for approximately 19% of our net sales.

Most of our customers rely on us for distribution; however, some of our customers use third-party distribution or conduct their own distribution. Some of our customers are “price” buyers, seeking the low-cost provider with little concern about service, while others find great value in the service programs we provide. We offer a full return policy to ensure satisfaction and extended terms for those customers who qualify.

Competition

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

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

Working Capital

We finance our operations internally and through borrowings under our existing credit facility. For a description of our liquidity and capital resources, see Results of Operations and Liquidity, Capital Resources and Financial Condition included in Part II, Item 7 of this report and Note 18, Other Current Liabilities, of the Notes to Consolidated Financial Statements included in Part II, Item 8 of this report. Our working capital needs are greater in the months leading up to our peak sales period during the winter months, which we typically finance with cash flows from operations. In anticipation of our peak sales period, we typically increase inventory in the first quarter of the fiscal year. We use various techniques including demand forecasting and planning to determine appropriate inventory levels for seasonal demand.

Regulatory Environment

The conduct of our businesses, including, among other things, the production, storage, distribution, sale, labeling, quality and safety of our products, and occupational safety and health practices, are subject to various laws and regulations administered by federal, state and local governmental agencies in the United States. Our facilities are subject to various laws and regulations regarding the release of material into the environment and the protection of the environment in other ways. We are not a party to any material legal proceedings arising under these regulations except as described in Note 22, Commitments and Contingencies, of the Notes to Consolidated Financial Statements included in Part II, Item 8 of this report.

Employees

On June 30, 2016, we employed 1,634 employees, 508 of whom are subject to collective bargaining agreements.

Other

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

Available Information

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

Item 1A. Risk Factors

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

Relocation to the New Facility may be unsuccessful or less successful than we presently anticipate, which may adversely affect our business, operating results and financial condition.

We cannot guarantee that we will be successful in implementing the relocation to the New Facility in accordance with our expectations, in a timely manner or at all, which may adversely impact our business, operating results and financial condition. Relocation to the New Facility could disrupt our supply chain and ongoing operations, which could adversely affect our ability to deliver products both on a timely basis and in accordance with customer requirements, the effect of which could delay revenues or result in lost business opportunities. Our existing production facilities in Portland and Houston have been operating at much higher utilization rates than they have historically pending completion of the New Facility. In the event of significant increases in demand that precede the completion of and relocation to the New Facility, we may be required to increase staffing, including through temporary labor and overtime, use third-party manufacturers, lease additional production facilities, or some combination of those alternatives or others to satisfy demand. There can be no assurance that we would be able to identify appropriate third-party providers on a timely basis or at all. In addition, our success depends, in large part, on our ability to attract and retain skilled people. Competition for the best people in many of our key positions may be intense, and we may not be able to attract and retain sufficiently skilled people at the New Facility. Costs associated with the exit from our Torrance facility and the construction and relocation to, and operation of, the New Facility may exceed our expectations, which could interfere with our ability to achieve our business objectives or could cause us to incur indebtedness in amounts in excess of expectations. In addition, failure to satisfy the conditions of governmental incentives relating to the New Facility could result in higher than expected costs.

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

Our primary raw material is green coffee, an agricultural commodity traded on the Commodities and Futures Exchange that is subject to price fluctuations. Although coffee "C" market prices in fiscal 2016 were relatively low compared to historical levels, there can be no assurance that green coffee prices will remain at these levels in the future. The supply and price of green coffee may be impacted by, among other things, weather, natural disasters, real or perceived supply shortages, crop disease (such as coffee rust) and pests, general increase in farm inputs and costs of production, political and economic conditions, labor actions, foreign currency fluctuations, armed conflict in coffee producing nations, acts of terrorism, government actions and trade barriers, and the actions of producer organizations that have historically attempted to influence green coffee prices through agreements establishing export quotas or by restricting coffee supplies. Speculative trading in coffee commodities can also influence coffee prices. Additionally, specialty green coffees tend to trade on a negotiated basis at a premium above the "C" market price which premium, depending on the supply and demand at the time of purchase, may be significant. Increases in the "C" market price may also impact our ability to enter into green coffee purchase commitments at a fixed price or at a price to be fixed whereby the price at which the base "C" market price will be fixed has not yet been established. There can be no assurance that our purchasing practices and hedging activities will mitigate future price risk. As a result, increases in the cost of green coffee could have an adverse impact on our profitability.

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

Maintaining a steady supply of green coffee is essential to keeping inventory levels low while securing sufficient stock to meet customer needs. Some of the Arabica coffee beans we purchase do not trade directly on the commodity markets. Rather, we purchase these coffee beans on a negotiated basis from coffee brokers, exporters and growers. If any of these supply relationships deteriorate, we may be unable to procure a sufficient quantity of high quality coffee beans at prices acceptable to us or at all. Further, non-performance by suppliers could expose us to credit and supply risk under coffee purchase commitments for delivery in the future. In addition, the political situation in many of the

Arabica coffee growing regions, including Africa, Indonesia, and Central and South America, can be unstable, and such instability could affect our

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ability to purchase coffee from those regions. If green coffee beans from a region become unavailable or prohibitively expensive, we could be forced to use alternative coffee beans or discontinue certain blends, which could adversely impact our sales. A raw material shortage could result in a deterioration of our relationship with our customers, decreased revenues or could impair our ability to expand our business.

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

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

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

Sales of roast and ground coffee represented approximately 61%, 61% and 60% of our net sales in the fiscal years ended June 30, 2016, 2015 and 2014, respectively. Demand for our products is affected by, among other things, consumer tastes and preferences, global economic conditions, demographic trends and competing products. Any decrease in demand for our roast and ground coffee products would cause our sales and profitability to decline.

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

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

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

We have a number of supply agreements with co-packers that require them to provide us with specific finished goods, including tea, spice and culinary products. For some of our products we essentially rely upon a single co-packer as our sole-source for the product. The failure for any reason of any such sole-source or other co-packer to fulfill its obligations under the applicable agreements with us or the termination or renegotiation of any such co-pack agreement could result in disruptions to our supply of finished goods and have an adverse effect on our results of operations. Additionally, our co-packers are subject to risk, including labor disputes, union organizing activities, financial liquidity, inclement weather, natural disasters, supply constraints, and general economic and political conditions that could limit their ability to timely provide us with acceptable products, which could disrupt our supply of finished goods, or require that we incur additional expense by providing financial accommodations to the co-packer or taking other steps to seek to minimize or avoid supply disruption, such as establishing a new co-pack arrangement with

another provider. A new co-pack arrangement may not be available on terms as favorable to us as our existing co-pack arrangements, if at all.

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

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

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

In addition to green coffee, we are exposed to cost fluctuations in other commodities under supply arrangements, including tea, spices, and packaging materials such as cartonboard, corrugated and plastic. We purchase certain finished goods and packaging materials under cost-plus supply arrangements whereby our cost may increase based on an increase in the underlying commodity price. The cost of these commodities depend on various factors beyond our control, including economic and political conditions, foreign currency fluctuations, and global weather patterns.

Unlike green coffee, we do not purchase any derivative instruments to hedge cost fluctuations in these other commodities. As a result, to the extent we are unable to pass along such costs to our customers through price increases, our margins and profitability will decrease.

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

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

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

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

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

Our ability to effectively manage our business, maintain financial accuracy and efficiency, comply with regulatory, financial reporting, legal and tax requirements, and coordinate the production, distribution and sale of our products depends significantly on the reliability, capacity and integrity of information technology systems on which we rely. We are also dependent on enterprise resource planning software for some of our information technology systems and support. The failure of these systems to operate effectively and continuously, problems with transitioning to upgraded or replacement systems, including, without limitation, in connection with the relocation to the New Facility, flaws in third-party software, or a breach in security of these systems could result in delays in processing replenishment orders from our branch warehouses, an inability to record input costs or product sales accurately or at all, an impaired understanding of our operations and results, and reduced operational efficiency. Failure to effectively allocate and manage our resources to support our information technology infrastructure could result in transaction errors, processing inefficiencies, the loss of customers, business disruptions, or the loss of sensitive or confidential data through security breach or otherwise. Significant capital investments could be required to remediate any potential problems or to otherwise protect against security breaches or to address problems caused by breaches. In addition, if we are unable to prevent security breaches, we may experience a loss of critical data or suffer financial or reputational damage or penalties because of the unauthorized disclosure of confidential information belonging to us or to our customers or suppliers. Our insurance policies do not cover losses caused by security breaches.

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

We rely on a limited number of production and distribution facilities. A disruption in operations at any of these facilities or any other disruption in our supply chain relating to green coffee supply, service by our 3PL service providers or common carriers, supply of raw materials and finished goods under vendor-managed inventory arrangements, or otherwise, whether as a result of casualty, natural disaster, power loss, telecommunications failure, terrorism, labor shortages, contractual disputes or other causes, could significantly impair our ability to operate our business and adversely affect our relationship with our customers. In such event, we may also be forced to contract with alternative, and possibly more expensive, suppliers or service providers, which would adversely affect our profitability. Additionally, the majority of our green coffee comes through the Ports of Houston and Seattle. Any interruption to port operations, highway arteries, gas mains or electrical service in the areas where we operate or obtain products or inventory could restrict our ability to manufacture and distribute our products for sale and would adversely impact our business.

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

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

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

Our success largely depends on the efforts and abilities of our executive officers and other key personnel. There is limited management depth in certain key positions throughout the Company. We must continue to recruit, retain and motivate management and other employees sufficiently to maintain our current business and support our projected

growth and strategic initiatives. The loss of key employees could adversely affect our operations and competitive position. We do not maintain key person life insurance policies on any of our executive officers.

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

We have invested and in the future may invest in acquisitions which may involve risks and uncertainties, including the risks involved with entering new product categories or geographic regions, the difficulty in integrating newly-acquired businesses or brands, contingent risks associated with the past operations of or other unanticipated problems arising in any acquired business, the challenges of achieving strategic objectives and other benefits expected from acquisitions, the diversion of our attention and resources from our operations and other initiatives, the potential impairment of acquired assets and liabilities, the performance of underlying products, capabilities or technologies, and the potential loss of key personnel and customers of the acquired businesses. Additionally, any such acquisitions may result in potentially dilutive issuances of our equity securities, the incurrence of additional debt, restructuring charges and the recognition of significant charges for depreciation and amortization related to intangible assets. There can be no assurance that any such acquisitions will be identified or that we will be able to consummate any such acquisitions on terms favorable to us or at all. If any such acquisitions are not successful, our business and results of operations could be adversely affected.

Volatility in the equity markets could reduce the value of our investment portfolio.

The value of our investment portfolio may be adversely affected by interest rate fluctuations, downgrades in credit ratings, illiquidity in the capital markets and other factors which may result in other than temporary declines in the value of our investments. Any of these events could cause us to record impairment charges with respect to our investment portfolio or to realize losses on the sale of investments. We have incurred operating losses in the past and if we incur operating losses in the future on a continual basis, a portion or all of this investment portfolio may be required to be liquidated to fund those losses.

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

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

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

At June 30, 2016, the projected benefit obligation under our single employer defined benefit pension plans exceeded the fair value of plan assets. The difference between the projected benefit obligation and the fair value of plan assets, or the funded status of the plans, significantly affects the net periodic benefit cost and ongoing funding requirements of those plans. Among other factors, changes in interest rates, mortality rates, early retirement rates, mix of plan asset investments, investment returns and the market value of plan assets can affect the level of plan funding, cause volatility in the net periodic benefit cost, increase our future funding requirements and require payments to the Pension Benefit Guaranty Corporation.

Our sales and distribution network is costly to maintain.

Our sales and distribution network requires a large investment to maintain and operate. Costs include the fluctuating cost of gasoline, diesel and oil, costs associated with managing, purchasing, leasing, maintaining and insuring a fleet of delivery vehicles, the cost of maintaining distribution centers and branch warehouses throughout the country, the

cost of our

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long-haul distribution, and the cost of hiring, training and managing our sales force. Many of these costs are beyond our control, and many are fixed rather than variable. Some competitors use alternate methods of distribution that fix, control, reduce or eliminate many of the costs associated with our method of distribution.

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

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

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

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

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

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

We participate in two multiemployer defined benefit pension plans and one multiemployer defined contribution pension plan for certain union employees. We make periodic contributions to these plans to allow them to meet their pension benefit obligations to their participants. In the event we withdraw from participation in one or more of these plans, we could be required to make an additional lump-sum contribution to the plan. Our withdrawal liability for any multiemployer pension plan would depend on the extent of the plan's funding of vested benefits. Future collective bargaining negotiations may result in our withdrawal from the remaining multiemployer pension plans in which we participate and, if successful, may result in a withdrawal liability, the amount of which could be material to our results of operations and cash flows.

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

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

Future impairment charges could adversely affect our operating results.

We perform an asset impairment analysis on an annual basis or whenever events occur that may indicate possible existence of impairment. Failure to achieve our forecasted operating results, due to weakness in the economic environment or other factors, and declines in our market capitalization, among other things, could result in impairment of our intangible assets and goodwill and adversely affect our operating results.

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

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

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

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

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

Our operating results may fluctuate from period to period as a result of a number of factors, including fluctuations in the price and supply of green coffee, fluctuations in the selling prices of our products, the success of our hedging strategy, competition, changes in consumer preferences, seasonality, our ability to retain and attract customers, our ability to manage inventory and fulfillment operations and maintain gross margin, and period and year-end LIFO inventory adjustments. Fluctuations in our operating results due to these factors or for any other reason could cause our stock price to decline. In addition, price and volume fluctuations in the stock market as a whole may affect the market price of our stock in ways that may be unrelated to our financial performance. Accordingly, we believe that period-to-period comparisons of our operating results are not necessarily meaningful, and such comparisons should not be relied upon as indicators of future performance.

If we experience a deterioration in operating performance, operating losses may recur and, as a result, could lead to increased leverage which may harm our financial condition and results of operations.

We incurred an operating loss in fiscal 2012 and a net loss in fiscal 2013 and 2012. If our current strategies are unsuccessful, we may not achieve the levels of sales and earnings we expect. As a result, we could suffer additional losses in future years and our stock price could decline leading to deterioration in our credit rating, which could limit the availability of additional financing and increase the cost of obtaining financing. In addition, an increase in leverage could raise the likelihood of a financial covenant breach which in turn could limit our access to existing funding under our credit facility.

Our ability to fund the costs associated with the New Facility, satisfy our lease obligations and make payments of principal and interest on our indebtedness depends on our future performance. Should we experience a deterioration in operating performance, we will have less cash inflows from operations available to meet these obligations. In addition, if such deterioration were to lead to the closure of leased facilities, we would need to fund the costs of terminating those leases. If we are unable to generate sufficient cash flows from operations in the future to satisfy these financial obligations, we may be required to, among other things:

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

Such measures might not be sufficient to enable us to satisfy our financial obligations. In addition, any such financing, refinancing or sale of assets might not be available on economically favorable terms.

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

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

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

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

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

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

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

The conduct of our business is subject to various laws and regulations. These laws and regulations and interpretations thereof are subject to change as a result of political, economic or social events. Such changes may include changes in: food and drug laws, including the Food Safety Modernization Act of 2011 which requires, among other things, that food facilities conduct contamination hazard analyses, implement risk-based preventive controls and develop track-and-trace capabilities; laws relating to product labeling, advertising and marketing practices; laws regarding ingredients used in our products; and increased regulatory scrutiny of, and increased litigation involving, product claims and concerns regarding the effects on health of ingredients in, or attributes of, our products. Any new laws and regulations or changes in existing laws and regulations or the interpretations thereof could require us to change certain of our operational processes and procedures, or implement new ones, and may increase our operating and compliance costs. If we fail to comply with applicable laws and

regulations, we may be subject to civil remedies, including fines, injunctions, recalls or seizures, as well as potential criminal sanctions, which could have a material adverse effect on our results of operations.

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

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

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

We are currently party to various legal and other proceedings, and additional claims may arise in the future. See Note 22, Commitments and Contingencies, of the Notes to Consolidated Financial Statements included in Part II, Item 8 of this report. Regardless of the merit of particular claims, litigation may be expensive, time-consuming, operationally disruptive and distracting to management, and could negatively affect our brand name and image and subject us to statutory penalties and costs of enforcement. We can provide no assurances as to the outcome of any litigation or the resolution of any other claims against us. An adverse outcome of any litigation or other claim could negatively affect our financial condition, results of operations or liquidity.

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

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

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

As of September 12, 2016, members of the Farmer family or entities controlled by the Farmer family (including trusts) beneficially owned approximately 32.4% of our outstanding common stock, including members of the Farmer family or entities controlled by the Farmer family (including trusts) comprising a group for purposes of Section 13 of the Securities Exchange Act of 1934, as amended (the “Exchange Act”) identified in a Schedule 13D/A filed with the SEC on September 8, 2016. As a result, these stockholders, acting together, may be able to influence the outcome of stockholder votes, including votes concerning the election and removal of directors, the amendment of our charter documents, and approval of significant corporate transactions. This level of concentrated ownership may have the effect of delaying or preventing a change in the management or voting control of the Company. In addition, this

significant concentration of share ownership

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may adversely affect the trading price of our common stock if investors perceive disadvantages in owning stock in a company with such concentrated ownership.

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

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

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

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

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

Item 1.B. Unresolved Staff Comments

None.

Item 2. Properties

Our current production and distribution facilities are as follows:

Location	Approximate Square Feet	Purpose	Status
Northlake, TX(1)	538,000	Under construction	Leased
Houston, TX	330,877	Manufacturing and warehouse	Owned
Portland, OR	114,000	Manufacturing and distribution	Leased
Northlake, IL	89,837	Distribution and warehouse	Leased
Oklahoma City, OK	142,115	Distribution and warehouse	Owned
Moonachie, NY	41,404	Distribution and warehouse	Leased
Torrance, CA(2)	665,000	Distribution and warehouse	Leased

(1) Upon completion, the New Facility will house our manufacturing, distribution, product development lab and corporate headquarters. In the fourth quarter of fiscal 2016, we exercised the purchase option under the Lease Agreement to acquire the partially constructed New Facility with a targeted closing date in the first quarter of fiscal 2017. Construction of and relocation to the New Facility are expected to be completed in the third quarter of fiscal 2017. In the interim, we have leased 32,000 square feet of temporary office space in Fort Worth, Texas near the New Facility to house our primary administrative offices. See Note 4, New Facility Lease Obligation, of the Notes to Consolidated Financial Statements included in Part II, Item 8 of this report.

We sold the Torrance facility on July 15, 2016, subject to a lease back as described in Note 24, Subsequent Events, of the Notes to Consolidated Financial Statements included in Part II, Item 8 of this report. As of June 30, 2016, (2) the Torrance facility continued to house certain administrative functions and serve as a distribution facility and a branch warehouse pending transition of the remaining Torrance operations to our other facilities.

As of June 30, 2016, we stage our products in 109 branch warehouses throughout the contiguous United States. These branch warehouses and our distribution centers, taken together, represent a vital part of our business, but no individual branch warehouse is material to the business as a whole. Our branch warehouses vary in size from approximately 1,000 to 50,000 square feet.

Approximately 52% of our facilities are leased with a variety of expiration dates through 2021. The lease on the Portland facility expires in 2018 and has options to renew up to an additional 10 years.

We calculate our utilization for all of our production facilities on an aggregate basis based on the number of product pounds manufactured during the actual number of production shifts worked during an average week, compared to the number of product pounds that could be manufactured based on the maximum number of production shifts that could be operated during the week (assuming three shifts per day, seven days per week), in each case, based on our current product mix. Utilization rates for our production facilities were approximately 90%, 66% and 65% during the fiscal years ended June 30, 2016, 2015 and 2014, respectively. The higher utilization rate in fiscal 2016 was primarily due to wind-down of production at our Torrance facility and the addition of those production volumes to our Portland and Houston production facilities.

We believe that our Portland and Houston production facilities, together with our existing distribution centers and branch warehouses, will provide adequate capacity for our current operations pending completion of the New Facility. In the event of significant increases in demand that precede the completion of and relocation to the New Facility, we may be required to increase staffing, including through temporary labor and overtime, use third-party manufacturers, lease additional production facilities or some combination of those alternatives or others to satisfy demand.

Item 3. Legal Proceedings

For information regarding legal proceedings in which we are involved, see Note 22, Commitments and Contingencies, of the Notes to Consolidated Financial Statements included in Part II, Item 8 of this report.

Item 4. Mine Safety Disclosures
Not applicable.

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PART II

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

Market Information

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

	Year Ended June 30, 2016		Year Ended June 30, 2015	
	High	Low	High	Low
1st Quarter	\$ 28.16	\$ 20.90	\$ 29.10	\$ 20.29
2nd Quarter	\$ 32.94	\$ 26.99	\$ 31.86	\$ 26.01
3rd Quarter	\$ 31.63	\$ 24.04	\$ 32.50	\$ 22.72
4th Quarter	\$ 32.50	\$ 26.69	\$ 25.96	\$ 23.39

On September 12, 2016, the last sale price reported on NASDAQ for our common stock was \$33.46 per share. Holders

As of September 12, 2016, there were approximately 2,250 holders of record. Determination of holders of record is based upon the number of record holders and individual participants in security position listings. This does not include persons whose stock is in nominee or "street name" accounts through brokers.

Dividends

The Company's Board of Directors has omitted the payment of a quarterly dividend since the third quarter of fiscal 2011. The amount, if any, of dividends to be paid in the future will depend upon the Company's then available cash, anticipated cash needs, overall financial condition, credit agreement restrictions, future prospects for earnings and cash flows, as well as other relevant factors. For a description of the credit agreement restrictions on the payment of dividends, see Liquidity, Capital Resources and Financial Condition included in Part II, Item 7 of this report, and Note 15, Bank Loan, of the Notes to Consolidated Financial Statements included in Part II, Item 8 of this report.

Equity Compensation Plan Information

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

Performance Graph

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

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

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

Comparison of Five-Year Cumulative Total Return

Farmer Bros. Co., Russell 2000 Index, Value Line Food Processing Index and Peer Group Index
(Performance Results Through June 30, 2016)

	2011	2012	2013	2014	2015	2016
Farmer Bros. Co.	\$ 100.00	\$ 78.50	\$ 138.66	\$ 213.12	\$ 231.76	\$ 316.17
Russell 2000 Index	\$ 100.00	\$ 97.92	\$ 121.63	\$ 150.38	\$ 160.61	\$