

FARMER BROTHERS CO  
Form 10-K  
September 28, 2017

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

FORM 10-K  
(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
For the fiscal year ended June 30, 2017

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

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

Commission file number: 001-34249

FARMER BROS. CO.

(Exact Name of Registrant as Specified in Its Charter)

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

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

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

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

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

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

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

YES  NO

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

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

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated

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filer,” “smaller reporting company,” and “emerging growth company” in Rule 12b-2 of the Exchange Act.

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

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

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

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

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

**DOCUMENTS INCORPORATED BY REFERENCE**

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

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## CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

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

our capital expenditure requirements, product sales, expenses, earnings per share (EPS), and liquidity and capital resources. We intend these forward-looking statements to speak only at the date of this report and do not undertake to update or revise these statements, whether as a result of new information, future events, changes in assumptions or otherwise, except as required under federal securities laws and the rules and regulations of the SEC.

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## PART I

### Item 1. Business

#### Overview

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

#### Corporate Relocation

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

#### Recent Developments

##### Acquisitions

In fiscal 2017, we completed two acquisitions. On October 11, 2016, we acquired substantially all of the assets and certain specified liabilities of China Mist Brands, Inc. dba China Mist Tea Company (“China Mist”), a provider of flavored iced teas and iced green teas, and on February 7, 2017, we acquired substantially all of the assets and certain specified liabilities of West Coast Coffee Company, Inc. (“West Coast Coffee”), a coffee roaster and distributor with a focus on the convenience store, grocery and foodservice channels. The China Mist acquisition is expected to extend our tea product offerings and give us a greater presence in the high-growth premium tea industry, while the West Coast Coffee acquisition is expected to broaden our reach in the Northwestern United States.

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

##### DSD Restructuring Plan

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

## Products

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

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

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

## Business Strategy

### Overview

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

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

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

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

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

a wide variety of coffee product offerings and packaging options across numerous brands and three quality tiers-value, premium and specialty;

consumer-branded coffee and tea products;

beverage equipment placement and service;

hassle-free inventory and product procurement management;

DSD service;

merchandising support;

product and menu insights; and

a robust approach to social, environmental and economic sustainability throughout our business.

Our services provided to DSD customers are conducted primarily in person through Route Sales Representatives, or RSRs, who develop personal relationships with chefs, restaurant owners and food buyers at their delivery locations.

We also provide comprehensive coffee programs to our national account customers, including private brand development, green coffee procurement, hedging, category management, sustainable sourcing and supply chain management. Through China Mist Tea-Loving Care<sup>®</sup>, we offer our customers an iced tea service that includes a diverse offering of on-trend products, brewing equipment expertly calibrated for extracting optimal flavor from our tea blends, specialized distribution, training and incentives, professional service, quality assurance, and strategic marketing support.

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

#### Strategic Initiatives

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

##### Reduce Costs to Compete More Effectively

- **New Facility.** In fiscal 2017, we completed construction of and relocation to our state-of-the-art facility in Northlake, Texas. We undertook this endeavor, in part, to pursue improved production efficiency to allow us to provide a more cost-competitive offering of high-quality products. We believe the ongoing improvements in production efficiency will allow us to operate at a lower cost, generally.

**DSD Restructuring Plan.** As a result of an ongoing operational review of various initiatives within our DSD selling organization, in the third quarter of fiscal 2017, we commenced the DSD Restructuring Plan to reorganize our DSD operations in an effort to realign functions into a channel-based selling organization, streamline operations, acquire certain channel specific expertise, and improve selling effectiveness and financial results. We began recognizing cost benefits associated with the restructuring in the fourth quarter of fiscal 2017 and we anticipate annualized savings from the restructuring plan beginning in the second quarter of fiscal 2018. We expect to complete the DSD Restructuring Plan by the end of the second quarter of fiscal 2018. We continue to analyze our DSD organization and evaluate other potential restructuring opportunities in light of our strategic priorities.

**Third-Party Logistics.** During the second half of fiscal 2016, we replaced our long-haul fleet operations with third-party logistics ("3PL"). In fiscal 2017, we experienced a reduction in our fuel consumption and empty

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

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

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

**Optimize Sales, Pricing and Portfolio of Products**

**Pricing and Products.** In fiscal 2016, we built capability to more strategically optimize our pricing strategy across product, channel, customer and geographic segments, which we continued in fiscal 2017. This process is designed to improve our average margins as well as retention rates. In addition, in fiscal 2017, we continued our prior work optimizing SKU count and identifying opportunities to consolidate suppliers to improve costs and supply chain efficiency.

**Channel-Based Selling Organization.** Changing from a geographic to a channel-based selling strategy as part of the DSD Restructuring Plan is expected to allow us to better serve our customers and improve sales growth while maintaining the value-add provided by the DSD delivery and service model. We believe this new, channel-based sales strategy will empower our sales organization to better address the unique needs of each customer channel thereby deepening our customer relationships, allow us to create a more comprehensive customer support structure, enhance our marketing efforts, and allow us to respond more quickly to industry trends.

**Strategic Investment in Assets and Evaluation of Cost Structure**

**Acquisitions.** One of our investment priorities is exploring acquisitions that we believe will enhance long-term stockholder value and complement or enhance our product, equipment, service and/or distribution offerings to existing and new customer bases. For example, in fiscal 2017, we completed the China Mist acquisition to extend our tea product offerings and give us a greater presence in the high-growth premium tea industry, and the West Coast Coffee acquisition to broaden our reach in the Northwestern United States. Additionally, on August 18, 2017, we entered into an agreement to acquire Boyd Coffee Company. The Boyd Coffee Company acquisition is expected to add to our product portfolio, improve our growth potential, broaden our distribution footprint with a deeper penetration on the West Coast of the United States, and increase our capacity utilization at our production facilities. The transaction is expected to close in the second quarter of fiscal 2018, subject to certain closing conditions. See [Note 3](#), Acquisitions, and [Note 26](#), Subsequent Events—Boyd's Purchase Agreement, of the Notes to Consolidated Financial Statements included in Part II, Item 8 of this report.

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

**Branch Consolidation and Property Sales.** In an effort to streamline our branch operations, in the fourth quarter of fiscal 2016, we sold two Northern California branch properties, with a third Northern California property under contract for sale, and we acquired a new branch facility in Hayward, California. The third Northern California property was sold in fiscal 2017. We evaluate our branch operation structure on an ongoing basis to identify opportunities to streamline the supply chain and reduce costs.

**Corporate Capabilities and Alignment to Create Stockholder Value**

**Investment in Human Resources.** In February 2017, we hired David G. Robson as our Treasurer and Chief Financial Officer and Ellen D. Iobst as our Chief Operations Officer. We also promoted Scott Siers to our





executive management team as Senior Vice President and General Manager—Direct Ship. Each of these individuals brings a proven track record of strategic and operational leadership capabilities in finance and/or manufacturing operations at large consumer goods organizations.

**Commitment to Employee Wellness.** We are committed to creating a healthier and happier workforce which we believe contributes to our success. We have received certifications as a Fit-Friendly Worksite and a Blue Zone Workplace based on the activities and environment created in our workplace to support healthy living and promote wellness of our associates.

**Employee Development.** We have invested in a Learning Management System to enable training facilitation and tracking of training modules to support the development of employees at all levels and functions within the organization. We recently completed a Talent Planning Process of all exempt level employees across the organization. We calibrated the assessment of talent and created succession charts for all critical roles to ensure we have the right talent and capabilities to support the business today and in the future.

**Performance Driven Culture**

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

**Drive High-Growth Product Categories and Address Broader Customer Needs**

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

**Growth in Premium Tea Industry.** In fiscal 2017, we increased our presence in the high-growth premium tea industry through the China Mist acquisition. In fiscal 2017, we introduced a new retail line of China Mist naturally flavored iced teas which are naturally gluten-free and blended with all-natural flavorings, and a new line of Artisan hot teas.

**Product Development Lab.** In fiscal 2017, we opened our product development lab at the New Facility where we are focused on developing innovative products in response to industry trends and customer needs. In fiscal 2017, we developed new products including Artisan Cold Brew Coffee and Artisan Direct Trade Coffee.

**SQF Certification.** We are committed to the highest standards in food quality and safety. We have obtained the Safety Quality Food (“SQF”) certification under the Global Food Safety Initiative in our Portland and Houston facilities and are in the process of obtaining the SQF certification for the New Facility.

**Expand Sustainability Leadership**

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

workers and farmers, and the environment in which tea is produced. As a member of the ETP, China Mist sources all its tea from tea plantations that are certified, monitored, and regularly audited by the ETP.

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

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

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

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

#### Charitable Activities

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

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

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

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

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

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

#### Industry and Market Leadership

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

Coffee Industry Leadership. Through our dedication to the craft of sourcing, blending and roasting coffee, and our participation and/or leadership positions with the SCA, National Coffee Association, Coalition for Coffee Communities, International Women's Coffee Alliance, International Foodservice Manufacturers Association, Pacific Coast Coffee Association, Roasters Guild and World Coffee Research, we work to help shape the future of the coffee industry. We believe that due to our commitment to the industry, large retail and foodservice operators are drawn to working with us. We were among the first coffee roasters in the nation to receive SCA certification of a state-of-the-art coffee lab and operate Public Domain®, a specialty coffeehouse in Portland, Oregon. We plan to submit our product development lab at the New Facility for SCA certification.

Market Insight and Consumer Research. We have developed a market insight capability internally that reinforces our business-to-business positioning as a thought leader in the coffee and tea industries. We provide trend insights that help our customers create winning products and integrated marketing strategies. Within this, we are focused on understanding key demographic groups such as Millennials and Hispanics, and key channel trends.

#### Raw Materials and Supplies

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

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

#### Intellectual Property

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

#### Seasonality

We experience some seasonal influences. The winter months are generally the strongest sales months. However, our product line and geographic diversity provide some sales stability during the warmer months when coffee consumption ordinarily decreases. Additionally, we usually experience an increase in sales during the summer and

early fall months from seasonal businesses located in vacation areas and from grocery retailers ramping up inventory for the winter selling season.

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

#### Distribution

We operate production facilities in Northlake, Texas; Houston, Texas; Portland, Oregon; Hillsboro, Oregon; and Scottsdale, Arizona. Distribution takes place out of the New Facility, the Portland, Hillsboro and Scottsdale facilities, as well as separate distribution centers in Northlake, Illinois; and Moonachie, New Jersey. We commenced distribution activities at the New Facility during the second quarter of fiscal 2017 and initial production activities late in the third quarter of fiscal 2017. We began roasting coffee in the New Facility in the fourth quarter of fiscal 2017. Our products reach our customers primarily in two ways: through our nationwide DSD network of 450 delivery routes and 114 branch warehouses as of June 30, 2017, or direct-shipped via common carriers or third-party distributors. DSD sales are made “off-truck” to our customers at their places of business by our RSRs who generally are responsible for soliciting, selling and collecting from and otherwise maintaining our customer accounts. Our DSD business includes office coffee services whereby we provide office coffee and tea products, including a variety of coffee brands and blends, brewing and beverage equipment, and foodservice supplies directly to offices. We operate a large fleet of trucks and other vehicles to distribute and deliver our products, and we rely on 3PL service providers for our long-haul distribution. We maintain inventory levels at each branch warehouse to promote minimal interruption in supply. We also sell coffee and tea products directly to consumers through our website and China Mist's website, respectively.

#### Customers

We serve a wide variety of customers, from small independent restaurants and foodservice operators to large institutional buyers like restaurant and convenience store chains, hotels, casinos, healthcare facilities, and gourmet coffee houses, as well as grocery chains with private brand and consumer-branded coffee and tea products. Although no single customer accounted for 10% or more of our net sales in any of the last three fiscal years, we have several large national account customers, the loss of or reduction in sales to one or more of which would be likely to have a material adverse effect on our results of operations. During fiscal 2017, our top five customers accounted for approximately 21% of our net sales.

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

#### Competition

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

We believe our longevity, product quality and offerings, national distribution network, industry and sustainability leadership, market insight, comprehensive approach to customer relationship management, and superior customer service are the major factors that differentiate us from our competitors. We compete well when these factors are

valued by our customers, and we are less effective when only price matters. Our customer base is price sensitive, and we are often faced with price competition.

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#### Working Capital

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

#### Regulatory Environment

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

#### Employees

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

#### Other

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

#### Available Information

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



#### Item 1A. Risk Factors

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

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

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

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

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

Maintaining a steady supply of green coffee is essential to keeping inventory levels low while securing sufficient stock to meet customer needs. We rely upon our ongoing relationships with our key suppliers to support our operations. Some of the Arabica coffee beans we purchase do not trade directly on the commodity markets. Rather, we purchase these coffee beans on a negotiated basis from coffee brokers, exporters and growers. If any of these supply relationships deteriorate or we are unable to renegotiate contracts with suppliers (with similar or more favorable terms) or find alternative sources for supply, we may be unable to procure a sufficient quantity of high quality coffee beans and other raw materials at prices acceptable to us or at all which could negatively affect our results of

operations. Further, non-performance by

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suppliers could expose us to credit and supply risk under coffee purchase commitments for delivery in the future. In addition, the political situation in many of the Arabica coffee growing regions, including Africa, Indonesia, and Central and South America, can be unstable, and such instability could affect our ability to purchase coffee from those regions. If green coffee beans from a region become unavailable or prohibitively expensive, we could be forced to use alternative coffee beans or discontinue certain blends, which could adversely impact our sales. A raw material shortage could result in disruptions in our ability to deliver products to our customers, a deterioration of our relationship with our customers, decreased revenues or could impair our ability to expand our business. Changes in green coffee commodity prices may not be immediately reflected in our cost of goods sold and may increase volatility in our results.

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

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

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

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

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

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

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



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

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

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

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

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

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

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

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

like, could lead to higher electricity, transportation and other commodity costs, including the pass-through of such costs under our agreements with 3PL service providers and other suppliers, that could negatively impact our profitability.

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

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

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

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

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

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

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

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

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

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

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

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

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

We have invested and in the future may invest in acquisitions which may involve risks and uncertainties, including the risks involved with entering new product categories or geographic regions, contingent risks associated with the past operations of or other unanticipated problems arising in any acquired business, limited warranties and indemnities



from the sellers of acquired businesses, the challenges of achieving strategic objectives and other benefits expected from acquisitions, failure to implement our business plan for the combined business, the diversion of our attention and resources from our operations and other initiatives, the potential impairment of acquired assets and liabilities, the performance of underlying

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products, capabilities or technologies, inconsistencies in standards, controls, procedures, policies and compensation structures of the acquired businesses and our business, the potential loss of key personnel, customers and suppliers of the acquired businesses, and other unanticipated issues, expenses and liabilities. The success of any such acquisitions will depend, in part, on our ability to realize all or some of the anticipated benefits from integrating the acquired businesses with our existing businesses, and to achieve revenue and cost synergies. The integration process may be complex, time consuming, costly, and subject to uncertainties and contingencies many of which may be beyond our control and difficult to predict, including issues in integrating financial, manufacturing, logistics, information, communications and other systems. Additionally, any such acquisitions may result in potentially dilutive issuances of our equity securities, the incurrence of additional debt, restructuring charges and the recognition of significant charges for depreciation and amortization related to intangible assets.

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

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

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

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

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

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

At June 30, 2017, the projected benefit obligation under our single employer defined benefit pension plans exceeded the fair value of plan assets. The difference between the projected benefit obligation and the fair value of plan assets, or the funded status of the plans, significantly affects the net periodic benefit cost and ongoing funding requirements of those plans. Among other factors, changes in interest rates, mortality rates, early retirement rates, mix of plan asset

investments,

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investment returns and the market value of plan assets can affect the level of plan funding, cause volatility in the net periodic benefit cost, increase our future funding requirements and require payments to the Pension Benefit Guaranty Corporation. In addition, facility closings may trigger cash payments or previously unrecognized obligations under our defined benefit pension plans, and the cost of such liabilities may be significant or may compromise our ability to close facilities or otherwise conduct cost reduction initiatives on time and within budget. A significant increase in future funding requirements could have a negative impact on our financial condition and results of operations.

Our sales and distribution network is costly to maintain.

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

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

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

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

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

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

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

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

terms and conditions of existing,

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renegotiated or new collective bargaining agreements could also increase our costs or otherwise affect our ability to fully implement future operational changes to enhance our efficiency or to adapt to changing business needs or strategy.

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

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

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

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

Future impairment charges could adversely affect our operating results.

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

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

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

position, which could harm our business.

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

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

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

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

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

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

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

To the extent we become more leveraged, we face an increased likelihood that one or more of the risks described above would materialize. In addition, if we are unable to make payments as they come due or comply with the



restrictions and covenants under the credit facility or any other agreements governing our indebtedness, there could be a default under

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the terms of such agreements. In such event, or if we are otherwise in default under the credit facility or any such other agreements, the lenders could terminate their commitments to lend and/or accelerate the loans and declare all amounts borrowed due and payable. Furthermore, our lenders under the credit facility could foreclose on their security interests in our assets. If any of those events occur, our assets might not be sufficient to repay in full all of our outstanding indebtedness and we may be unable to find alternative financing on acceptable terms or at all. Failure to maintain existing or secure new financing could have a material adverse effect on our liquidity and financial position.

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

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

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

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

• seek additional financing in the debt or equity markets;

• refinance or restructure all or a portion of our indebtedness;

• sell selected assets; or

• reduce or delay planned capital or operating expenditures, strategic acquisitions or investments.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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



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

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

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

Our Board of Directors has the authority to issue up to 500,000 shares of preferred stock and to determine the price, rights, preferences, privileges and restrictions, including voting rights, of those shares without any further vote or action by stockholders. The rights of the holders of our common stock may be subject to, and may be adversely affected by, the rights of the holders of any preferred stock that may be issued in the future. The issuance of preferred stock may have the effect of delaying, deterring or preventing a change in control of the Company without further action by stockholders and may adversely affect the voting and other rights of the holders of our common stock. Further, certain provisions of our charter documents, including a classified board of directors, provisions eliminating the ability of stockholders to take action by written consent, and provisions limiting the ability of stockholders to raise matters at a meeting of stockholders without giving advance notice, may have the effect of delaying or preventing changes in control or management of the Company, which could have an adverse effect on the market price of our stock. In addition, our charter documents do not permit cumulative voting, which may make it more difficult for a third party to gain control of our Board of Directors. Further, we are subject to the anti-takeover provisions of Section 203 of the Delaware General Corporation Law, which will prohibit us from engaging in a “business combination” with an “interested stockholder” for a period of three years after the date of the transaction in which the person became an interested stockholder, even if such combination is favored by a majority of stockholders, unless the business combination is approved in a prescribed manner. The application of Section 203 also could have the effect of delaying or preventing a change in control or management.

#### Item 1.B. Unresolved Staff Comments

None.

#### Item 2. Properties

Our current production and distribution facilities are as follows:

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

As part of the China Mist transaction, we assumed the lease on China Mist’s existing 17,400 square foot production, distribution and warehouse facility in Scottsdale, Arizona which is terminable upon twelve months’ notice. As part of the West Coast Coffee transaction, we entered into a three-year lease on West Coast Coffee’s existing 20,400 square foot



production, distribution and warehouse facility in Hillsboro, Oregon, which expires January 31, 2020, and assumed leases on six branch warehouses consisting of an aggregate of 24,150 square feet in Oregon, California and Nevada, expiring on various dates through November 2020. Our owned facility in Oklahoma City, Oklahoma, consisting of approximately 142,100 square feet, served as a distribution facility through the third quarter of fiscal 2017, when distribution operations were transitioned to the New Facility, and continues to serve as a warehouse facility and service center.

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

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

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

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

#### Item 3. Legal Proceedings

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

#### Item 4. Mine Safety Disclosures

Not applicable.



## PART II

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

## Market Information

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

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

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

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

## Dividends

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

## Equity Compensation Plan Information

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

## Performance Graph

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

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

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

Comparison of Five-Year Cumulative Total Return

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

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

Source: Value Line Publishing, LLC

## Item 6. Selected Financial Data

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

(In thousands, except per share data)	Year Ended June 30,				
	2017(1)	2016	2015	2014	2013
<b>Consolidated Statement of Operations Data:</b>					
Net sales	\$541,500	\$544,382	\$545,882	\$528,380	\$513,869
Cost of goods sold	\$327,765	\$335,907	\$348,846	\$332,466	\$328,693
Restructuring and other transition expenses(2)	\$11,016	\$16,533	\$10,432	\$—	\$—
Net gain from sale of Torrance Facility (3)	\$(37,449)	\$—	\$—	\$—	\$—
Net gains from sale of Spice Assets(4)	\$(919)	\$(5,603)	\$—	\$—	\$—
Net (gains) losses from sales of other assets	\$(1,210)	\$(2,802)	\$394	\$(3,814)	\$(4,467)
Impairment losses on intangible assets	\$—	\$—	\$—	\$—	\$92
Income from operations	\$42,166	\$8,179	\$3,284	\$8,916	\$372
Income from operations per common share—diluted	\$2.51	\$0.49	\$0.20	\$0.56	\$0.02
Income tax expense (benefit)(5)	\$15,954	\$(79,997)	\$402	\$705	\$(825)
Net income (loss)(6)	\$24,400	\$89,918	\$652	\$12,132	\$(8,462)
Net income (loss) per common share—basic	\$1.46	\$5.45	\$0.04	\$0.76	\$(0.54)
Net income (loss) per common share—diluted	\$1.45	\$5.41	\$0.04	\$0.76	\$(0.54)
Cash dividends declared per common share	\$—	\$—	\$—	\$—	\$—
	June 30,				
(In thousands)	2017	2016	2015	2014	2013
<b>Consolidated Balance Sheet Data:</b>					
Total current assets(7)	\$117,164	\$153,365	\$135,685	\$157,460	\$139,749
Property, plant and equipment, net(8)	\$176,066	\$118,416	\$90,201	\$95,641	\$92,159
Goodwill(9)	\$10,996	\$272	\$272	\$—	\$—
Intangible assets, net(9)	\$18,618	\$6,219	\$6,419	\$5,628	\$6,277
Deferred income taxes	\$63,055	\$80,786	\$751	\$414	\$467
Total assets	\$392,736	\$368,991	\$240,943	\$266,177	\$244,136
Short-term borrowings under revolving credit facility(10)	\$27,621	\$109	\$78	\$78	\$9,654
Capital lease obligations(11)	\$1,195	\$2,359	\$5,848	\$9,703	\$12,168
Long-term borrowings under revolving credit facility	\$—	\$—	\$—	\$—	\$10,000
Earn-out payable(12)	\$1,100	\$100	\$200	\$—	\$—
Long-term derivative liabilities	\$380	\$—	\$25	\$—	\$1,129
Total liabilities	\$177,601	\$186,397	\$150,932	\$151,313	\$162,298

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

- (2) See Note 4, Restructuring Plans, of the Notes to Consolidated Financial Statements included in Part II, Item 8 of this report.
- (3) See Note 6, Sales of Assets—Sale of Torrance Facility, of the Notes to Consolidated Financial Statements included in Part II, Item 8 of this report.
- (4) See Note 6, Sales of Assets—Sale of Spice Assets, of the Notes to Consolidated Financial Statements included in Part II, Item 8 of this report.
- (5) Includes non-cash income tax benefit of \$80.3 million in fiscal 2016 from the release of valuation allowance on deferred tax assets. See Note 21, Income Taxes, of the Notes to Consolidated Financial Statements included in Part II, Item 8 of this report.
- (6) Includes: the beneficial effect of liquidation of LIFO inventory quantities of \$3.4 million, \$4.2 million, \$4.9 million, \$0, and \$1.1 million in fiscal 2017, 2016, 2015, 2014 and 2013, respectively.
- (7) See Liquidity, Capital Resources and Financial Condition—Liquidity included in Part II, Item 7 of this report.
- (8) See Note 5, New Facility, and Note 13, Property, Plant and Equipment, of the Notes to Consolidated Financial Statements included in Part II, Item 8 of this report.
- (9) See Note 3, Acquisitions, and Note 14, Goodwill and Intangible Assets, of the Notes to Consolidated Financial Statements included in Part II, Item 8 of this report.
- (10) See Liquidity, Capital Resources and Financial Condition—Liquidity included in Part II, Item 7 of this report.
- (11) Excludes imputed interest.
- (12) See Note 20, Other Long-Term Liabilities, of the Notes to Consolidated Financial Statements included in Part II, Item 8 of this report.

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

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

### Overview

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

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

We operate production facilities in Northlake, Texas; Houston, Texas; Portland, Oregon; Hillsboro, Oregon; and Scottsdale, Arizona. Distribution takes place out of the New Facility, the Portland, Hillsboro and Scottsdale facilities, as well as separate distribution centers in Northlake, Illinois; and Moonachie, New Jersey. We commenced distribution activities at the New Facility during the second quarter of fiscal 2017 and initial production activities late in the third quarter of fiscal 2017. We began roasting coffee in the New Facility in the fourth quarter of fiscal 2017. Our products reach our customers primarily in two ways: through our nationwide DSD network of 450 delivery routes and 114 branch warehouses as of June 30, 2017, or direct-shipped via common carriers or third-party distributors. DSD sales are made "off-truck" to our customers at their places of business. We operate a large fleet of trucks and other vehicles to distribute and deliver our products, and we rely on 3PL service providers for our long-haul distribution.

### Corporate Relocation

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

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

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

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

#### Recent Developments

##### Acquisitions

In fiscal 2017, we completed two acquisitions. On October 11, 2016, we acquired substantially all of the assets and certain specified liabilities of China Mist, a provider of flavored iced teas and iced green teas, and on February 7, 2017, we acquired substantially all of the assets and certain specified liabilities of West Coast Coffee, a coffee roaster and distributor with a focus on the convenience store, grocery and foodservice channels. The China Mist acquisition is expected to extend our tea product offerings and give us a greater presence in the high-growth premium tea industry, while the West Coast Coffee acquisition is expected to broaden our reach in the Northwestern United States. See [Liquidity, Capital Resources and Financial Condition—Liquidity—Acquisitions](#) below, and Note 3, Acquisitions, of the Notes to Consolidated Financial Statements included in Part II, Item 8 of this report.

On August 18, 2017, we entered into an agreement to acquire substantially all of the assets of Boyd's, a privately-held coffee roaster and distributor with a focus on restaurants, hotels and convenience stores on the West Coast of the United States, with a combination of cash and stock. Boyd's business model is expected to be complementary to the Company across customer channels, product portfolios and distribution networks, including a high-touch service model of direct-store-delivery. The Boyd's acquisition is expected to add to our product portfolio, improve our growth potential, broaden our distribution footprint with a deeper penetration on the West Coast of the United States, and increase our capacity utilization at our production facilities. The transaction is expected to close in the second quarter of fiscal 2018, subject to certain

closing conditions. See Note 26, Subsequent Events—Boyd’s Purchase Agreement, of the Notes to Consolidated Financial Statements included in Part II, Item 8 of this report.

#### DSD Restructuring Plan

As a result of an ongoing operational review of various initiatives within our DSD selling organization, in the third quarter of fiscal 2017, we commenced the DSD Restructuring Plan to reorganize our DSD operations in an effort to realign functions into a channel-based selling organization, streamline operations, acquire certain channel specific expertise, and improve selling effectiveness and financial results. See Liquidity, Capital Resources and Financial Condition—Liquidity—DSD Restructuring Plan, below, and Note 4, Restructuring Plans—DSD Restructuring Plan, of the Notes to Consolidated Financial Statements included in Part II, Item 8 of this report.

#### Important Factors Affecting Our Results of Operations

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

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

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

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

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

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

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

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

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

#### Results of Operations

Fiscal Years Ended June 30, 2017 and 2016

#### Financial Highlights

Volume of green coffee pounds processed and sold increased 5.3% in fiscal 2017 as compared to fiscal 2016.

Gross profit increased 2.5% to \$213.7 million in fiscal 2017 from \$208.5 million in fiscal 2016.

Gross margin increased to 39.5% in fiscal 2017 from 38.3% in fiscal 2016.

Income from operations increased 415.5% to \$42.2 million in fiscal 2017 from \$8.2 million in fiscal 2016. Income from operations included a \$37.4 million net gain from the sale of the Torrance Facility in fiscal 2017 and net gains of \$5.6 million from the sale of Spice Assets in fiscal 2016.

Net income was \$24.4 million, or \$1.45 per common share—diluted, in fiscal 2017, primarily due to \$37.4 million in net gain from the sale of the Torrance Facility and non-cash income tax expense of \$16.0 million, compared to net income of \$89.9 million, or \$5.41 per common share—diluted, in fiscal 2016, primarily due to non-cash income tax benefit of \$80.3 million from the release of valuation allowance on deferred tax assets.

EBITDA increased 110.5% to \$65.5 million and EBITDA Margin was 12.1% in fiscal 2017, as compared to EBITDA of \$31.1 million and EBITDA Margin of 5.7% in fiscal 2016.\*

Adjusted EBITDA increased 11.1% to \$46.0 million and Adjusted EBITDA Margin was 8.5% in fiscal 2017, as compared to Adjusted EBITDA of \$41.4 million and Adjusted EBITDA Margin of 7.6% in fiscal 2016.\*

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



### Fiscal 2017 Strategic Initiatives

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

**Corporate Relocation Plan.** We completed the Corporate Relocation Plan that was initiated in the third quarter of fiscal 2015 by executing on the milestones described above under Corporate Relocation. We commenced distribution activities at the New Facility during the second quarter of fiscal 2017 and initial production activities late in the third quarter of fiscal 2017. We began roasting coffee in the New Facility in the fourth quarter of fiscal 2017. The roasting facility in the New Facility has increased our capacity to support existing and future customers and accommodate volume growth. We are in the process of obtaining SQF certification under the Global Food Safety Initiative for the New Facility.

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

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

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

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

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

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

### Net Sales

Net sales in fiscal 2017 decreased \$(2.9) million, or (0.5)%, to \$541.5 million from \$544.4 million in fiscal 2016. A \$6.8 million increase in net sales from roast and ground coffee, a \$4.2 million increase in net sales from tea products primarily from the addition of China Mist net sales from the date of its acquisition and a \$1.6 million increase in net sales from culinary products were offset by a \$(10.9) million decrease in net sales of spice products resulting from the sale of our institutional spice assets, a \$(3.1) million decrease in net sales of coffee (frozen liquid) products, primarily from the loss of a large casino customer, and a \$(1.0) million decrease in net sales of other beverages. Net sales in fiscal 2017 included \$(3.2) million in price decreases to customers utilizing commodity-based pricing arrangements, where the changes in the

green coffee commodity costs are passed on to the customer, as compared to \$(9.7) million in price decreases to customers utilizing such arrangements in fiscal 2016. In each of fiscal 2017 and 2016, a lower percentage of our roast and ground coffee volume was based on a price schedule and a higher percentage was sold to customers under commodity-based pricing arrangements as compared to fiscal 2015.

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

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

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

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

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

(1) Spice product net sales in fiscal 2016 included \$3.2 million in sale of inventory to Harris at cost upon conclusion of the transition services provided by the Company in connection with the sale of Spice Assets.

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

#### Cost of Goods Sold

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

Arabica “C” market price of green coffee increased 16.3% in fiscal 2017.

Inventories were higher at the end of fiscal 2017 due to the commencement of the New Facility's manufacturing operations and incremental inventory from China Mist and West Coast Coffee as compared to lower levels of inventory at

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the Torrance Facility at the end of fiscal 2016 due to its anticipated closing. Notwithstanding this increase in total inventories at the end of fiscal 2017 compared to fiscal 2016 levels, inventories of manufactured spice products decreased at the end of fiscal 2017 compared to fiscal 2016 levels, primarily due to the liquidation of spice inventories in connection with the sale of the Spice Assets. As a result, we recorded \$3.4 million in beneficial effect of the liquidation of LIFO inventory quantities in cost of goods sold in fiscal 2017, which increased income before taxes in fiscal 2017 by \$3.4 million. In fiscal 2016, a beneficial effect of liquidation of LIFO inventory quantities in the amount of \$4.2 million was recorded.

#### Gross Profit

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

#### Operating Expenses

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

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

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

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

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

#### Income from Operations

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

#### Total Other (Expense) Income

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

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

#### Income Taxes

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

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

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

#### Net Income

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

#### Fiscal Years Ended June 30, 2016 and 2015

##### Financial Highlights

⊖ Gross profit increased 5.8% to \$208.5 million in fiscal 2016 from \$197.0 million in fiscal 2015.

⊖ Gross margin increased to 38.3% in fiscal 2016 from 36.1% in fiscal 2015.

Income from operations increased 149.1% to \$8.2 million in fiscal 2016 from \$3.3 million in fiscal 2015.

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

#### Fiscal 2016 Strategic Initiatives

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

**Corporate Relocation Plan.** We continued to execute on the Corporate Relocation Plan that we initiated in the third quarter of fiscal 2015 by executing on the milestones described above under Corporate Relocation.

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

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

**DSD Reorganization.** In fiscal 2016, we continued our efforts to improve efficiencies in our sales and product offerings. During the second half of fiscal 2016, we began to realign our DSD organization by undertaking initiatives intended to streamline communication and decision making, enhance branch organizational structure, and improve customer focus, including toward a comprehensive training program for all DSD team members to strengthen customer engagement. In fiscal 2016, we executed a regional test of our first advertising and lead generation campaign designed to improve our new customer acquisition rate within our DSD network.

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

**Introduction of Collaborative Coffee™ and Redesign of Un Momento® Branded Retail Products.** In an effort to address what we believe to be unmet consumer needs and improve margin within the retail grocery environment, in fiscal 2016, we launched Collaborative Coffee™, a new brand of ethically sourced, whole bean direct trade coffees into the retail grocery channel. In addition, we completed a packaging redesign and product portfolio optimization of our Un Momento® retail branded product line.

#### Net Sales

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

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

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



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

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

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

(1) Spice product net sales included \$3.2 million in sale of inventory to Harris at cost in fiscal 2016 upon conclusion of the transition services provided by the Company in connection with the sale of Spice Assets.

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

#### Cost of Goods Sold

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

#### Gross Profit

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

#### Operating Expenses





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

#### Income from Operations

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

#### Total Other Income (Expense)

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

#### Income Taxes

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

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

We cannot conclude that certain state net operating loss carryforwards and tax credit carryovers will be utilized before expiration. Accordingly, we will maintain a valuation allowance of \$1.6 million to offset these deferred tax assets. We

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continue to monitor all available evidence, both positive and negative, in determining whether it is more likely than not that the Company will realize its remaining deferred tax assets.

#### Net Income

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

#### Non-GAAP Financial Measures

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

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

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

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

“EBITDA” is defined as net income excluding the impact of:

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

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

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

- income taxes;