FARMER BROTHERS CO
Form 10-Q
February 07, 2018

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q
(Mark One)
þ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended December 31, 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)

None
(Former Address, if Changed Since Last Report)
Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES ý 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 ý NO ¨
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

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

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ¨
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). YES ¨ NO ý
As of February 6, 2018, the registrant had 16,899,667 shares outstanding of its common stock, par value $1.00 per share, which is the registrant's only class of common stock.

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

	December 31, 2017	June 30, 2017
ASSETS		
Current assets:		
Cash and cash equivalents	$5,414	$6,241
Short-term investments	—	368
Accounts receivable, net	62,275	46,446
Inventories	73,284	56,251
Income tax receivable	206	318
Prepaid expenses	9,176	7,540
Total current assets	150,355	117,164
Property, plant and equipment, net	178,148	176,066
Goodwill	21,861	10,996
Intangible assets, net	51,036	18,618
Other assets	7,263	6,837
Deferred income taxes	45,593	63,055
Total assets	$454,256	$392,736
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	51,218	39,784
Accrued payroll expenses	17,286	17,345
Short-term borrowings under revolving credit facility	84,430	27,621
Short-term obligations under capital leases	488	958
Short-term derivative liabilities	1,649	1,857
Other current liabilities	10,991	9,702
Total current liabilities	166,062	97,267
Accrued pension liabilities	50,505	51,281
Accrued postretirement benefits	19,112	19,788
Accrued workers' compensation liabilities	6,365	7,548
Other long-term liabilities-capital leases	116	237
Other long-term liabilities	2,156	1,480
Total liabilities	$244,316	$177,601
Commitments and contingencies (Note 21)		
Stockholders' equity:		
Preferred stock, $1.00 par value, 500,000 shares authorized; Series A Convertible Participating Cumulative Perpetual Preferred Stock, 21,000 shares authorized; 14,700 and zero shares issued and outstanding at December 31, 2017 and June 30, 2017, respectively; liquidation preference of $38.32 at December 31, 2017	15	—
Common stock, $1.00 par value, 25,000,000 shares authorized; 16,899,667 and 16,846,002 shares issued and outstanding at December 31, 2017 and June 30, 2017, respectively	16,900	16,846
Additional paid-in capital	53,322	41,495
Retained earnings	203,289	221,182
Unearned ESOP shares	(2,145)	(4,289)
Accumulated other comprehensive loss	(61,441)	(60,099)

Total stockholders' equity	$209,940	$215,135
Total liabilities and stockholders' equity	$454,256	$392,736

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

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

	Three Months Ended December 31,		Six Months Ended December 31,	
	2017	2016	2017	2016
Net sales	$167,366	$139,025	$299,079	$269,513
Cost of goods sold	101,847	83,929	184,553	163,219
Gross profit	65,519	55,096	114,526	106,294
Selling expenses	49,328	39,097	88,243	77,535
General and administrative expenses	13,914	13,793	25,241	22,729
Restructuring and other transition expenses	139	3,965	259	6,995
Net gain from sale of Torrance Facility	—	(37,449)	—	(37,449)
Net gains from sale of spice assets	(395)	(334)	(545)	(492)
Net losses (gains) from sales of other assets	91	114	144	(1,439)
Operating expenses	63,077	19,186	113,342	67,879
Income from operations	2,442	35,910	1,184	38,415
Other (expense) income:				
Dividend income	6	270	11	535
Interest income	1	159	2	288
Interest expense	(861)	(524)	(1,384)	(913)
Other, net	554	(2,323)	641	(2,132)
Total other expense	(300)	(2,418)	(730)	(2,222)
Income before taxes	2,142	33,492	454	36,193
Income tax expense	20,910	13,416	20,200	14,499
Net (loss) income	$(18,768)	$20,076	$(19,746)	$21,694
Less: Cumulative preferred dividends, undeclared and unpaid	129	—	129	—
Net (loss) income available to common stockholders	$(18,897)	$20,076	$(19,875)	$21,694
Net (loss) income per common share available to common stockholders—basic	$(1.13)	$1.21	$(1.19)	$1.31
Net (loss) income per common share available to common stockholders—diluted	$(1.13)	$1.20	$(1.19)	$1.30
Weighted average common shares outstanding—basic	16,723,498	16,584,106	16,711,660	16,573,545
Weighted average common shares outstanding—diluted	16,723,498	16,707,003	16,711,660	16,695,687

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

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

	Three Months Ended December 31,		Six Months Ended December 31,	
	2017	2016	2017	2016
Net (loss) income	$(18,768)	$20,076	$(19,746)	$21,694
Other comprehensive (loss) income, net of tax:				
Unrealized losses on derivative instruments designated as cash flow hedges, net of tax	(1,279)	(1,800)	(1,711)	(1,356)
Losses (gains) on derivative instruments designated as cash flow hedges reclassified to cost of goods sold, net of tax	365	(132)	369	153
Total comprehensive (loss) income, net of tax	$(19,682)	$18,144	$(21,088)	$20,491

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

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

	Six Months Ended December 31,	
	2017	2016
Cash flows from operating activities:		
Net (loss) income	$(19,746)	$21,694
Adjustments to reconcile net (loss) income to net cash (used in) provided by operating activities:		
Depreciation and amortization	15,330	10,086
Provision for (recovery of) doubtful accounts	129	(44)
Interest on sale-leaseback financing obligation	—	681
Restructuring and other transition expenses, net of payments	(958)	1,082
Deferred income taxes	19,375	13,640
Net gain from sale of Torrance Facility	—	(37,449)
Net gains from sales of spice assets and other assets	(401)	(1,931)
ESOP and share-based compensation expense	1,844	2,094
Net losses on derivative instruments and investments	1,033	2,583
Change in operating assets and liabilities:		
Purchases of trading securities	—	(2,959)
Proceeds from sales of trading securities	375	1,268
Accounts receivable	(8,102)	(4,545)
Inventories	(7,682)	(10,071)
Income tax receivable	112	(27)
Derivative assets (liabilities), net	(3,000)	4,329
Prepaid expenses and other assets	352	33
Accounts payable	1,264	18,356
Accrued payroll expenses and other current liabilities	1,178	(5,210)
Accrued postretirement benefits	(676)	(447)
Other long-term liabilities	(1,960)	(1,849)
Net cash (used in) provided by operating activities	$(1,533)	$11,314
Cash flows from investing activities:		
Acquisition of businesses, net of cash acquired	$(39,608)	$(11,183)
Purchases of property, plant and equipment	(14,672)	(26,864)
Purchases of assets for construction of New Facility	(1,577)	(21,783)
Proceeds from sales of property, plant and equipment	85	3,332
Net cash used in investing activities	$(55,772)	$(56,498)

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

	Six Months Ended December 31, 2017	2016
Cash flows from financing activities:		
Proceeds from revolving credit facility	$69,758	$34,323
Repayments on revolving credit facility	(12,949)	(15,900)
Proceeds from sale-leaseback financing obligation	—	42,455
Proceeds from New Facility lease financing obligation	—	7,662
Repayments of New Facility lease financing obligation	—	(35,772)
Payments of capital lease obligations	(591)	(641)
Payment of financing costs	(365)	—
Proceeds from stock option exercises	625	405
Net cash provided by financing activities	$56,478	$32,532
Net decrease in cash and cash equivalents	$(827)	$(12,652)
Cash and cash equivalents at beginning of period	6,241	21,095
Cash and cash equivalents at end of period	$5,414	$8,443
Supplemental disclosure of non-cash investing and financing activities:		
Net change in derivative assets and liabilities included in other comprehensive (loss) income, net of tax	$ (1,342)	$ (1,203)
Non-cash additions to property, plant and equipment	$ 557	$ 11,253
Non-cash portion of earnout receivable recognized—spice assets sale	$ 545	$ 492
Non-cash portion of earnout payable recognized—China Mist acquisition	$ —	$ 500
Non-cash receivable from West Coast Coffee—post-closing final working capital adjustment	$ 218	$ —
Non-cash consideration given—Issuance of Series A Preferred Stock	$ 11,756	$ —
Non-cash Multiemployer Plan Holdback payable recognized—Boyd Coffee	$ 1,056	$ —

acquisition				
Cumulative preferred dividends, undeclared and unpaid	$	129	$	—

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

FARMER BROS. CO.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Introduction and Basis of Presentation

Farmer Bros. Co., a Delaware corporation (including its consolidated subsidiaries unless the context otherwise requires, the “Company”), is a national coffee roaster, wholesaler and distributor of coffee, tea, and culinary products.

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States (“GAAP”) for complete consolidated financial statements. In the opinion of management, all adjustments (consisting only of normal recurring accruals, unless otherwise indicated) considered necessary for a fair presentation of the interim financial data have been included. Operating results for the three and six months ended December 31, 2017 are not necessarily indicative of the results that may be expected for the fiscal year ending June 30, 2018. Events occurring subsequent to December 31, 2017 have been evaluated for potential recognition or disclosure in the unaudited condensed consolidated financial statements for the three and six months ended December 31, 2017.

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

Principles of Consolidation

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

Use of Estimates

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

Note 2. Summary of Significant Accounting Policies

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

During the three and six months ended December 31, 2017, other than as set forth below and the adoption of Accounting Standards Update (“ASU”) No. 2017-12, “Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities” (“ASU 2017-12”), ASU No. 2016-09, “Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting” (“ASU 2016-09”), and ASU No. 2015-11, “Inventory (Topic 330): Simplifying the Measurement of Inventory” (“ASU 2015-11”), there were no significant updates made to the Company’s significant accounting policies.

Coffee Brewing Equipment and Service

The Company classifies certain expenses related to coffee brewing equipment provided to customers as cost of goods sold. These costs include the cost of the equipment as well as the cost of servicing that equipment (including service employees' salaries, cost of transportation and the cost of supplies and parts) and are considered directly attributable to the generation of revenues from its customers. Accordingly, such costs included in cost of goods sold in the accompanying unaudited condensed consolidated financial statements in the three months ended December 31, 2017 and 2016 were $7.1 million and $5.8 million, respectively. Coffee brewing equipment costs included in cost of goods sold in the six months ended December 31, 2017 and 2016 were $13.5 million and $12.3 million, respectively.

The Company capitalizes coffee brewing equipment and depreciates it over five years and reports the depreciation expense in cost of goods sold. Such depreciation expense related to capitalized coffee brewing equipment reported in cost of goods sold in the three months ended December 31, 2017 and 2016 was $2.3 million and $2.1 million, respectively, and $4.4 million and $4.5 million, respectively, in the six months ended December 31, 2017 and 2016. The Company capitalized coffee brewing equipment (included in machinery and equipment) in the amounts of $4.8 million and $5.9 million in the six months ended December 31, 2017 and 2016, respectively.

Net (Loss) Income Per Common Share

Net (loss) income per share ("EPS") represents net (loss) income available to common stockholders divided by the weighted-average number of common shares outstanding for the period, excluding unallocated shares held by the Company's Employee Stock Ownership Plan ("ESOP"). Dividends on the Company's outstanding Series A Convertible Participating Cumulative Perpetual Preferred Stock, par value $1.00 per share ("Series A Preferred Stock"), that the Company has paid or intends to pay are deducted from net (loss) income in computing net (loss) income available to common stockholders.

Under the two-class method, net (loss) income available to nonvested restricted stockholders and holders of Series A Preferred Stock is excluded from net (loss) income available to common stockholders for purposes of calculating basic and diluted EPS.

Diluted EPS represents net income available to holders of common stock divided by the weighted-average number of common shares outstanding, inclusive of the dilutive impact of common equivalent shares outstanding during the period. Common equivalent shares include potentially dilutive shares from share-based compensation including stock options, unvested restricted stock, performance-based restricted stock units, and shares of Series A Preferred Stock, as converted, because they are deemed participating securities. In the absence of contrary information, the Company assumes 100% of the target shares are issuable under performance-based restricted stock units.

The dilutive effect of Series A Preferred Stock is reflected in diluted EPS by application of the if-converted method. In applying the if-converted method, conversion will not be assumed for purposes of computing diluted EPS if the effect would be anti-dilutive. The Series A Preferred Stock is anti-dilutive whenever the amount of the dividend declared or accumulated in the current period per common share obtainable upon conversion exceeds basic EPS. See Note 19.

Impairment of Goodwill and Indefinite-lived Intangible Assets

Historically, the Company performed its annual assessment of impairment of goodwill and indefinite-lived intangible assets as of June 30. During the three months ended December 31, 2017, the Company voluntarily changed its annual impairment assessment date from June 30 to January 31. The Company believes this change in assessment date, which represents a change in the method of applying an accounting principle, is preferred under the circumstances. Due to recent acquisitions, the Company's goodwill and indefinite-lived intangible asset balances have increased. The Company believes the change in measurement date will provide additional time to complete the annual assessment of impairment of goodwill and indefinite-lived intangible assets in advance of year-end reporting.

Shipping and Handling Costs

Shipping and handling costs incurred through outside carriers are recorded as a component of the Company's selling expenses and were $6.9 million and $6.4 million, respectively, in the three months ended December 31, 2017 and 2016, and $12.1 million and $11.2 million, respectively, in the six months ended December 31, 2017 and 2016.

Share-based Compensation

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

In addition, the Company estimates the expected impact of forfeited awards and recognizes share-based compensation cost only for those awards ultimately expected to vest. If actual forfeiture rates differ materially from the Company's estimates, share-based compensation expense could differ significantly from the amounts the Company has recorded in the current period. The Company periodically reviews actual forfeiture experience and will revise its estimates, as necessary. The Company will recognize as compensation cost the cumulative effect of the change in estimated forfeiture rates on current and prior periods in earnings of the period of revision. As a result, if the Company revises its assumptions and estimates, the Company's share-based compensation expense could change materially in the future.

The Company's outstanding share-based awards include performance-based non-qualified stock options ("PNQs") and performance-based restricted stock units ("PBRSUs") that have performance-based vesting conditions in addition to time-based vesting. Awards with performance-based vesting conditions require the achievement of certain financial and other performance criteria as a condition to the vesting. The Company recognizes the estimated fair value of performance-based awards, net of estimated forfeitures, as share-based compensation expense over the service period based upon the Company's determination of whether it is probable that the performance targets will be achieved. At each reporting period, the Company reassesses the probability of achieving the performance criteria and the performance period required to meet those targets. Determining whether the performance criteria will be achieved involves judgment, and the estimate of share-based compensation expense may be revised periodically based on changes in the probability of achieving the performance criteria. Revisions are reflected in the period in which the estimate is changed. If performance goals are not met, no share-based compensation expense is recognized for the cancelled PNQs or PBRSUs, and, to the extent share-based compensation expense was previously recognized for those cancelled PNQs or PBRSUs, such share-based compensation expense is reversed. If performance goals are exceeded and the payout is more than 100% of the target shares, additional compensation expense is recorded in the period when that determination is certified by the Compensation Committee of the Board of Directors. See Note 16.

Recently Adopted Accounting Standards

In August 2017, the Financial Accounting Standards Board ("FASB") issued ASU 2017-12. ASU 2017-12 amends the hedge accounting model in Accounting Standards Codification ("ASC") 815 to enable entities to better portray the economics of their risk management activities in the financial statements and enhance the transparency and understandability of hedge results. ASU 2017-12 expands an entity's ability to hedge non-financial and financial risk components and reduce complexity in fair value hedges of interest rate risk. The guidance eliminates the requirement to separately measure and report hedge ineffectiveness and generally requires the entire change in the fair value of a hedging instrument to be presented in the same income statement line as the hedged item. The guidance also eases certain documentation and assessment requirements and modifies the accounting for components excluded from the assessment of hedge effectiveness. The guidance in ASU 2017-12 is effective for annual periods beginning after December 15, 2018, including interim periods within those fiscal years, and is effective for the Company beginning July 1, 2019. Early adoption is permitted in any interim period or fiscal year before the effective date. For cash flow and net investment hedges existing at the date of adoption, entities will apply the new guidance using a modified retrospective approach (i.e., with a cumulative effect adjustment recorded to the opening balance of retained earnings

as of the initial application date). The guidance provides transition relief to make it easier for entities to apply certain amendments to existing hedges (including fair value hedges) where the hedge documentation needs to be modified. The Company early adopted ASU 2017-12 as of September 30, 2017 for its cash flow hedges related to coffee commodity purchases. Adoption of ASU 2017-12 resulted in a cumulative adjustment of $0.3 million to the opening balance of retained earnings. Adoption of ASU 2017-12 did not have any other material effect on the results of operations, financial position or cash flows of the Company.
In March 2016, the FASB issued ASU 2016-09. ASU 2016-09 was issued as part of the FASB’s Simplification Initiative. The areas for simplification in ASU 2016-09 involve several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification

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

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

New Accounting Pronouncements

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

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

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

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

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

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

In May 2014, the FASB issued accounting guidance which requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers under ASU No. 2014-09, “Revenue from Contracts with Customers” (“ASU 2014-09”). ASU 2014-09 will replace most existing revenue recognition guidance in GAAP when it becomes effective. On August 12, 2015, the FASB issued ASU No. 2015-14, “Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date,” which defers the effective date of ASU 2014-09 by one year allowing early adoption as of the original effective date of January 1, 2017. The deferral results in the new accounting standard being effective for public business entities for annual reporting periods beginning after December 31, 2017, including interim periods within those fiscal years. ASU 2014-09 is effective for the Company beginning July 1, 2018. The Company is in the process of evaluating the provisions of ASU 2014-09 and assessing its impact on the Company’s financial statements, information systems, business processes, and financial statement disclosures. The Company has analyzed its revenue streams and is in the process of performing detailed contract reviews for each stream, and evaluating the impact ASU 2014-09 may have on revenue recognition. The Company primarily recognizes revenue at point of sale or delivery and does not expect that this will change under the new standard. Based on its preliminary reviews, the Company does not expect that the adoption of ASU 2014-09 will have a material impact on its consolidated financial statements; however, the Company's assessment of contracts related to recent acquisitions is still in process. At a minimum, the Company anticipates expanded disclosures related to revenue in order to comply with ASU 2014-09. The Company will continue to evaluate the impact of the adoption of ASU 2014-09. Preliminary assessments made by the Company are subject to change. The Company has not yet concluded which transition method it will elect but will determine the transition method in the third quarter of fiscal 2018.

Note 3. Acquisitions

China Mist Brands, Inc.

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

The Company acquired China Mist for aggregate purchase consideration of $12.2 million, consisting of $11.2 million in cash paid at closing including estimated working capital adjustments of $0.4 million, post-closing final working capital adjustments of $0.6 million, and up to $0.5 million in contingent consideration to be paid as earnout if certain sales levels are achieved in the calendar years of 2017 or 2018. This contingent earnout liability is estimated to have a fair value of $0.5 million as of the closing date and is recorded in other long-term liabilities on the Company's Condensed Consolidated Balance Sheet at December 31, 2017 and June 30, 2017. The earnout is estimated to be paid in calendar 2019.

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

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

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

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

In connection with this acquisition, the Company recorded goodwill of $2.9 million, which is deductible for tax purposes. The Company also recorded $3.0 million in finite-lived intangible assets that included recipes, a non-compete agreement and customer relationships and $5.1 million in indefinite-lived trade name/trademark. The weighted average amortization period for the finite-lived intangible assets is 8.9 years. See Note 13.

The determination of the fair value of intangible assets acquired was primarily based on significant inputs not observable in an active market and thus represent Level 3 fair value measurements as defined under GAAP.
The fair value assigned to the recipes was determined utilizing the replacement cost method, which captures the direct cost of the development effort plus lost profits over the time to re-create the recipes.
The fair value assigned to the non-compete agreement was determined utilizing the with and without method. Under the with and without method, the fair value of the intangible asset is estimated based on the difference in projected earnings with the agreement in place versus projected earnings based on starting with no agreement in place. Revenue and earnings projections were significant inputs into estimating the value of China Mist’s non-compete agreement.
The fair value assigned to the customer relationships was determined based on management’s estimate of the retention rate utilizing certain benchmarks. Revenue and earnings projections were also significant inputs into estimating the value of customer relationships.
The fair value assigned to the trade name/trademark was determined utilizing a multi-period excess earnings approach. Under the multi-period excess earnings approach, the fair value of the intangible asset is estimated to be the present value of future earnings attributable to the asset and this method utilizes revenue and cost projections including an assumed contributory asset charge.
West Coast Coffee Company, Inc.
On February 7, 2017, the Company acquired substantially all of the assets and certain specified liabilities of West Coast Coffee Company, Inc. (“West Coast Coffee”), a coffee roaster and distributor with a focus on the convenience store, grocery and foodservice channels. As part of the transaction, the Company entered into a three-year lease on West Coast Coffee’s existing 20,400 square foot production, distribution and warehouse facility in Hillsboro, Oregon, which expires January 31, 2020, and assumed leases on six branch warehouses consisting of an aggregate of 24,150 square feet in Oregon, California and Nevada, expiring on various dates through November 2020. The Company acquired West Coast Coffee for aggregate purchase consideration of $15.5 million, which included $14.7 million in cash paid at closing including working capital adjustments of $1.2 million, post-closing final working capital adjustments of $(0.2) million, and up to $1.0 million in contingent consideration to be paid as earnout if certain sales levels are achieved in the twenty-four months following the closing. This contingent earnout liability is estimated to have a fair value of $0.6 million as of the closing date and is recorded in other long-term liabilities on the Company’s Condensed Consolidated Balance Sheet at December 31, 2017 and June 30, 2017. The earnout is estimated to be paid within twenty-four months following the closing.
The financial effect of this acquisition was not material to the Company’s condensed consolidated financial statements. The Company has not presented pro forma results of operations for the acquisition because it is not significant to the Company’s consolidated results of operations.
The acquisition was accounted for as a business combination. The fair value of consideration transferred was allocated to the tangible and intangible assets acquired and liabilities assumed based on their estimated fair values on the acquisition date, with the remaining unallocated amount recorded as goodwill. The purchase price allocation is final.

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

(In thousands)	Fair Value	Estimated Useful Life (years)
Cash paid, net of cash acquired	$ 14,671	
Post-closing final working capital adjustments	(218)	
Fair value of contingent consideration	600	
Total consideration	$ 15,053	
Accounts receivable	$ 956	
Inventory	910	
Prepaid assets	16	
Property, plant and equipment	1,546	
Goodwill	7,630	
Intangible assets:		
Non-compete agreements	100	5
Customer relationships	4,400	10
Trade name—finite-lived	260	7
Brand name—finite-lived	250	1.7
Accounts payable	(833)	
Other liabilities	(182)	
Total consideration, net of cash acquired	$ 15,053	

In connection with this acquisition, the Company recorded goodwill of $7.6 million, which is deductible for tax purposes. The Company also recorded $5.0 million in finite-lived intangible assets that included non-compete agreements, customer relationships, a trade name and a brand name. The weighted average amortization period for the finite-lived intangible assets is 9.3 years. See Note 13.

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

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

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

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

Boyd Coffee Company

On October 2, 2017 (“Closing Date”), the Company, through a wholly owned subsidiary, acquired substantially all of the assets and certain specified liabilities of Boyd Coffee Company (“Boyd Coffee” or “Seller”), a coffee roaster and distributor with a focus on restaurants, hotels, and convenience stores on the West Coast of the United States. The acquired business of Boyd Coffee (the “Boyd Business”) is expected to add to the Company’s product portfolio, improve growth potential, increase the density and penetration of the Company’s distribution footprint, and increase capacity utilization at the Company's production facilities.

At closing, as consideration for the purchase, the Company paid the Seller $38.9 million in cash from borrowings under its senior secured revolving credit facility (see Note 15), and issued to Boyd Coffee 14,700 shares of the Company's Series A Preferred Stock, with a fair value of $11.8 million as of the Closing Date. Additionally, the Company held back $3.2 million in cash ("Holdback Cash Amount") and 6,300 shares of Series A Preferred Stock ("Holdback Stock") with a fair value of $4.8 million as of the Closing Date, for the satisfaction of any post-closing working capital adjustment and to secure the Seller's (and the other seller parties') indemnification obligations under the purchase agreement. Any Holdback Cash Amount and Holdback Stock not used to satisfy indemnification claims (including pending claims) will be released to the Seller on the 18-month anniversary of the Closing Date.

In addition to the Holdback Cash, as part of the consideration for the purchase, at closing the Company held back $1.1 million in cash (the "Multiemployer Plan Holdback") to pay, on behalf of the Seller, any assessment of withdrawal liability made against the Seller following the Closing Date in respect of the Seller's multiemployer plans. As the Company has not made this payment as of December 31, 2017 and expects settling the pension liability will take greater than twelve months, the Multiemployer Plan Holdback is recorded in other long-term liabilities on the Company's Condensed Consolidated Balance Sheet at December 31, 2017. See Note 17.

The parties are in the process of determining the final net working capital under the purchase agreement. At December 31, 2017, the Company estimated a net working capital adjustment of $(8.1) million, which is reflected in the preliminary purchase price allocation set forth below.

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

(In thousands)	Fair Value	Estimated Useful Life (years)
Cash paid	$38,871	
Holdback Cash Amount	3,150	
Multiemployer Plan Holdback	1,056	
Fair value of Series A Preferred Stock (14,700 shares)(1)	11,756	
Fair value of Holdback Stock (6,300 shares)(1)	4,825	
Preliminary estimated post-closing working capital adjustment	(8,059)	
Total consideration	$51,599	
Accounts receivable	$7,166	
Inventory	9,415	
Prepaid expense and other assets	1,951	
Property, plant and equipment	4,936	
Goodwill	11,032	
Intangible assets:		
Customer relationships	31,000	10
Trade name/trademark—indefinite-lived	2,800	
Accounts payable	(15,080)	
Other liabilities	(1,621)	
Total consideration	$51,599	

(1) Fair value of Series A Preferred Stock and Holdback Stock as of the Closing Date, estimated as the sum of (a) the present value of the dividends payable thereon and (b) the stated value of the Series A Preferred Stock or Holdback Stock, as the case may be, adjusted for both the conversion premium and the discount for lack of marketability arising from conversion restrictions.

The acquisition was accounted for as a business combination. The fair value of consideration transferred was allocated to the tangible and intangible assets acquired and liabilities assumed based on their estimated fair values on the acquisition date, with the remaining unallocated amount recorded as goodwill. The purchase price allocation is preliminary as the Company is in the process of finalizing the valuation inputs including growth assumptions, cost projections and discount rates which are used in the fair value calculation of certain assets as well as the determination of the final post-closing net working capital adjustment. The preliminary purchase price allocation is subject to change and such change could be material based on numerous factors, including the final estimated fair value of the assets acquired and liabilities assumed and the amount of the final post-closing net working capital adjustment.

In connection with this acquisition, the Company recorded goodwill of $11.0 million, which is deductible for tax purposes. The Company also recorded $31.0 million in finite-lived intangible assets that included customer relationships and $2.8 million in indefinite-lived intangible assets that included a trade name/trademark. The amortization period for the finite-lived intangible assets is 10.0 years. See Note 13.

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

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

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

The following table presents the net sales and income before taxes from the Boyd Business operations that are included in the Company’s Condensed Consolidated Statements of Operations for the three and six months ended December 31, 2017 (unaudited):

(In thousands)	Closing Date through December 31, 2017
Net sales	$ 26,290
Income before taxes	$ 511

The Company has not presented pro forma results of operations for the acquisition because it is not significant to the Company’s consolidated results of operations. However, the Company considers the acquisition to be material to the Company’s financial statements and has provided certain pro forma disclosures pursuant to ASC 805, “Business Combinations.”

The following table sets forth certain unaudited pro forma financial results for the Company for the three and six months ended December 31, 2017 and 2016, as if the acquisition of the Boyd Business was consummated on the same terms as of the first day of the applicable fiscal period.

	Three Months Ended December 31,		Six Months Ended December 31,	
	2017	2016	2017	2016
(In thousands)				
Net sales	$167,366	$166,107	$321,061	$319,411
Income before taxes	$2,142	$34,171	$779	$36,414

At closing, the parties entered into a transition services agreement where the Seller agreed to provide certain accounting, marketing, sales and distribution support during a transition period of up to 12 months. The Company also entered into a co-manufacturing agreement with the Seller for a transition period of up to 12 months as the Company

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transitions production into its plants. Amounts paid by the Company to the Seller for these services totaled $9.2 million in the three and six months ended December 31, 2017.

The Company incurred transaction costs related to the Boyd Business acquisition, consisting primarily of legal and consulting expenses of $1.0 million and $3.4 million during the three and six months ended December 31, 2017, respectively, which are included in general and administrative expenses in the Company's Condensed Consolidated Statements of Operations.

Note 4. Restructuring Plans

Corporate Relocation Plan

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

In the three and six months ended December 31, 2017, no expenses associated with the Corporate Relocation Plan were incurred. As of December 31, 2017, the Company had $0.1 million in unpaid expenses related to employee-related costs, which is expected to be paid by the end of fiscal 2018.

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

Direct Store Delivery (“DSD”) Restructuring Plan

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

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

Expenses related to the DSD Restructuring Plan in the three and six months ended December 31, 2017 consisted of $0 and $24,000, respectively, in employee-related costs and $0.1 million and $0.2 million, respectively, in other related costs. Since the adoption of the DSD Restructuring Plan through December 31, 2017, the Company has recognized and paid a total of $2.7 million in aggregate cash costs including $1.1 million in employee-related costs, and $1.6 million in other related costs. The remaining estimated costs of $1.0 million to $2.2 million are expected to be incurred in the remainder of fiscal 2018.

Note 5. New Facility

Lease Agreement and Purchase Option Exercise

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

Development Management Agreement

In conjunction with the Lease Agreement, the Company also entered into a Development Management Agreement with an affiliate of Stream Realty Partners (the "DMA") to manage, coordinate, represent, assist and advise the Company on matters from the pre-development through construction of the New Facility. Services under the DMA have concluded. The Company incurred and paid $4.0 million under this agreement which is included in "Buildings and Facilities" (see Note 12).

Amended Building Contract

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

Pursuant to the Amended Building Contract, Builder provided pre-construction and construction services, including specialized industrial design and construction work in connection with Builder's construction of certain production equipment installed in portions of the New Facility (the "Project"). In April 2017, the Company and Builder entered into a change order to change the scope of work which added $0.6 million to the Amended Building Contract. Builder's work on the Project has been completed. The Company incurred and paid $22.5 million for Builder's services in connection with the Project which amount is included in "Machinery and equipment" (see Note 12).

New Facility Costs

The Company estimated that the total construction costs including the cost of land for the New Facility would be approximately $60 million. As of December 31, 2017, the Company has incurred an aggregate of $60.8 million in construction costs. In addition to the costs to complete the construction of the New Facility, the Company estimated that it would incur approximately $35 million to $39 million for machinery and equipment, furniture and fixtures and related expenditures in connection with construction of the New Facility of which the Company has incurred an aggregate of $33.2 million as of December 31, 2017, including $22.5 million under the Amended Building Contract. The majority of the capital expenditures associated with machinery and equipment, furniture and fixtures, and related expenditures in connection with the initial construction of the New Facility were incurred in the first three quarters of fiscal 2017. The Company commenced distribution activities at the New Facility during the second quarter of fiscal 2017 and initial production activities late in the third quarter of fiscal 2017. The Company began roasting coffee in the New Facility in the fourth quarter of fiscal 2017.

At December 31, 2017, the Company had committed to purchase additional equipment for the New Facility totaling $6.3 million.

Note 6. Sales of Assets

Sale of Torrance Facility

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

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

Sale of Northern California Branch Property

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

Note 7. Derivative Instruments

Derivative Instruments Held

Coffee-Related Derivative Instruments

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

The following table summarizes the notional volumes for the coffee-related derivative instruments held by the Company at December 31, 2017 and June 30, 2017:

(In thousands)	December 31, 2017	June 30, 2017
Derivative instruments designated as cash flow hedges:		
Long coffee pounds	31,763	33,038
Derivative instruments not designated as cash flow hedges:		
Long coffee pounds	1,612	2,121
Total	33,375	35,159

Coffee-related derivative instruments designated as cash flow hedges outstanding as of December 31, 2017 will expire within 19 months.

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

Effect of Derivative Instruments on the Financial Statements
Balance Sheets
Fair values of derivative instruments on the Company's Condensed Consolidated Balance Sheets:

	Derivative Instruments Designated as Cash Flow Hedges		Derivative Instruments Not Designated as Accounting Hedges	
	December 31, 2017	June 30, 2017	December 31, 2017	June 30, 2017
(In thousands)				
Financial Statement Location:				
Short-term derivative assets(1):				
Coffee-related derivative instruments	$233	$66	$40	$—
Long-term derivative assets(2):				
Coffee-related derivative instruments	$99	$66	$—	$—
Short-term derivative liabilities(1):				
Coffee-related derivative instruments	$1,665	$1,733	$258	$190
Long-term derivative liabilities(2):				
Coffee-related derivative instruments	$—	$446	$—	$—

(1) Included in "Short-term derivative liabilities" on the Company's Condensed Consolidated Balance Sheets.
(2) Included in "Other assets" and "Other long-term liabilities" on the Company's Condensed Consolidated Balance Sheets at December 31, 2017 and June 30, 2017, respectively.

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

	Three Months Ended December 31,		Six Months Ended December 31,		Financial Statement Classification
(In thousands)	2017	2016	2017	2016	
Net losses recognized in AOCI	$(2,094)	$(2,943)	$(2,459)	$(2,217)	AOCI
Net (losses) gains recognized in earnings	$(597)	$215	$(604)	$(250)	Costs of goods sold
Net (losses) gains recognized in earnings (ineffective portion)(1)	$—	$(41)	$48	$(28)	Other, net

(1) Amount included in six months ended December 31, 2017 relates to trades terminated prior to the adoption of ASU 2017-12. See Note 2.

For the three and six months ended December 31, 2017 and 2016, there were no gains or losses recognized in earnings as a result of excluding amounts from the assessment of hedge effectiveness or as a result of reclassifications to earnings following the discontinuance of any cash flow hedges.

Net losses on derivative instruments and investments in the Company’s Condensed Consolidated Statements of Cash Flows also include net losses on coffee-related derivative instruments designated as cash flow hedges reclassified to cost of goods sold from AOCI in the six months ended December 31, 2017 and 2016. Gains and losses on derivative instruments not designated as accounting hedges are included in “Other, net” in the Company’s Condensed Consolidated Statements of Operations and in “Net losses on derivative instruments and investments” in the Company’s Condensed Consolidated Statements of Cash Flows.

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

(In thousands)	Three Months Ended December 31, 2017	2016	Six Months Ended December 31, 2017	2016
Net losses on coffee-related derivative instruments	$(190)	$(1,204)	$(93)	$(1,240)
Net gains (losses) on investments	16	(1,320)	7	(1,092)
Net losses on derivative instruments and investments(1)	(174)	(2,524)	(86)	(2,332)
Other gains, net	728	201	727	200
Other, net	$554	$(2,323)	$641	$(2,132)

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(1) Excludes net losses on coffee-related derivative instruments designated as cash flow hedges recorded in cost of goods sold in the three and six months ended December 31, 2017 and 2016.

Offsetting of Derivative Assets and Liabilities

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

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

(In thousands)		Gross Amount Reported on Balance Sheet	Netting Adjustments	Cash Collateral Posted	Net Exposure
December 31, 2017	Derivative Assets	$ 372	$ (372)	$ —	$ —
	Derivative Liabilities	$ 1,923	$ (372)	$ —	$ 1,551
June 30, 2017	Derivative Assets	$ 132	$ (132)	$ —	$ —
	Derivative Liabilities	$ 2,369	$ (132)	$ —	$ 2,237

Cash Flow Hedges

Changes in the fair value of the Company’s coffee-related derivative instruments designated as cash flow hedges, to the extent effective, are deferred in AOCI and reclassified into cost of goods sold in the same period or periods in which the hedged forecasted purchases affect earnings, or when it is probable that the hedged forecasted transaction will not occur by the end of the originally specified time period. Based on recorded values at December 31, 2017, $(4.1) million of net losses on coffee-related derivative instruments designated as cash flow hedges are expected to be reclassified into cost of goods sold within the next twelve months. These recorded values are based on market prices of the commodities as of December 31, 2017. Due to the volatile nature of commodity prices, actual gains or losses realized within the next twelve months will likely differ from these values.

Note 8. Investments

The following table shows gains and losses on trading securities:

	Three Months Ended December 31,		Six Months Ended December 31,	
(In thousands)	2017	2016	2017	2016
Total gains (losses) recognized from trading securities	$16	$(1,350)	$7	$(1,091)
Less: Realized (losses) gains from sales of trading securities	—	(2)	7	(2)
Unrealized gains (losses) from trading securities	$16	$(1,348)	$—	$(1,089)

Note 9. Fair Value Measurements

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

(In thousands)	Total	Level 1	Level 2	Level 3
December 31, 2017				
Preferred stock	$—	$ —	$—	$ —
Derivative instruments designated as cash flow hedges:				
Coffee-related derivative assets(1)	$332	$ —	$332	$ —
Coffee-related derivative liabilities(1)	$1,665	$ —	$1,665	$ —
Derivative instruments not designated as accounting hedges:				
Coffee-related derivative assets(1)	$40	$ —	$40	$ —
Coffee-related derivative liabilities(1)	$258	$ —	$258	$ —

	Total	Level 1	Level 2	Level 3
June 30, 2017				
Preferred stock(2)	$368	$ —	$368	$ —
Derivative instruments designated as cash flow hedges:				
Coffee-related derivative assets(1)	$132	$ —	$132	$ —
Coffee-related derivative liabilities(1)	$2,179	$ —	$2,179	$ —
Derivative instruments not designated as accounting hedges:				
Coffee-related derivative liabilities(1)	$190	$ —	$190	$ —

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

(2) Included in “Short-term investments” on the Company’s Condensed Consolidated Balance Sheets.

Note 10. Accounts Receivable, Net

(In thousands)	December 31, 2017	June 30, 2017
Trade receivables	$58,727	$44,531
Other receivables(1)	4,320	2,636
Allowance for doubtful accounts	(772)	(721)
Accounts receivable, net	$62,275	$46,446

(1) At December 31, 2017 and June 30, 2017, respectively, the Company had recorded $1.0 million and $0.4 million, in “Other receivables” included in “Accounts receivable, net” on its Condensed Consolidated Balance Sheets representing earnout receivable from Harris Spice Company.

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

Note 11. Inventories

(In thousands)	December 31, 2017	June 30, 2017
Coffee		
Processed	$ 14,514	$ 14,085
Unprocessed	27,436	17,083
Total	$ 41,950	$ 31,168
Tea and culinary products		
Processed	$ 23,432	$ 20,741
Unprocessed	999	74
Total	$ 24,431	$ 20,815
Coffee brewing equipment parts	$ 6,903	$ 4,268
Total inventories	$ 73,284	$ 56,251

In addition to product cost, inventory costs include expenditures such as direct labor and certain supply and overhead expenses incurred in bringing the inventory to its existing condition and location. The "Unprocessed" inventory values as stated in the above table represent the value of raw materials and the "Processed" inventory values represent all other products consisting primarily of finished goods.
The Company does not expect inventory levels at June 30, 2018 to decrease from the levels at June 30, 2017 and, therefore, recorded no expected beneficial effect of the liquidation of LIFO inventory quantities in the three and six months ended December 31, 2017. The Company recorded $0.8 million and $1.7 million in expected beneficial effect of the liquidation of LIFO inventory quantities in cost of goods sold in the three and six months ended December 31, 2016, respectively. Interim LIFO calculations must necessarily be based on management's estimates of expected fiscal year-end inventory levels and costs. Because these estimates are subject to many forces beyond management's control, interim results are subject to the final fiscal year-end LIFO inventory valuation.

Note 12. Property, Plant and Equipment

(In thousands)	December 31, 2017	June 30, 2017
Buildings and facilities	$ 108,999	$ 108,682
Machinery and equipment	212,180	201,236
Equipment under capital leases	7,516	7,540
Capitalized software	23,063	21,794
Office furniture and equipment	12,612	12,758
	364,370	352,010
Accumulated depreciation	(202,558)	(192,280)
Land	16,336	16,336
Property, plant and equipment, net	$ 178,148	$ 176,066

Note 13. Goodwill and Intangible Assets
The carrying value of goodwill in the six months ended December 31, 2017 increased by $10.9 million. This was due to the acquisition of the Boyd Business adding $11.0 million of goodwill as well as the final working capital adjustment made to the West Coast Coffee purchase price allocation which reduced goodwill by $0.1 million. The carrying value of goodwill at December 31, 2017 and June 30, 2017 was $21.9 million and $11.0 million, respectively.

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

	December 31, 2017		June 30, 2017	
(In thousands)	Gross Carrying Amount(1)	Accumulated Amortization(1)	Gross Carrying Amount(1)	Accumulated Amortization(1)
Amortized intangible assets:				
Customer relationships	$48,353	$ (12,074)	$17,353	$ (10,883)
Non-compete agreements	220	(61)	220	(38)
Recipes	930	(155)	930	(88)
Trade name/brand name	510	(185)	510	(84)
Total amortized intangible assets	$50,013	$ (12,475)	$19,013	$ (11,093)
Unamortized intangible assets:				
Trade names with indefinite lives	$3,640	$ —	$3,640	$ —
Trademarks and brand name with indefinite lives	9,858	—	7,058	—
Total unamortized intangible assets	$13,498	$ —	$10,698	$ —
Total intangible assets	$63,511	$ (12,475)	$29,711	$ (11,093)

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(1) Reflects the preliminary purchase price allocation for the acquisition of the Boyd Business. Subject to change based on numerous factors, including the final estimated fair value of the assets acquired and the liabilities assumed and the amount of the final post-closing net working capital adjustment. Adjustments in the purchase price allocation may require a recasting of the amounts allocated to goodwill and intangible assets.

Aggregate amortization expense for the three months ended December 31, 2017 and 2016 was $1.1 million and $0.1 million, respectively. Aggregate amortization expense for the six months ended December 31, 2017 and 2016 was $1.4 million and $0.1 million, respectively.

Note 14. Employee Benefit Plans

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

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

Single Employer Pension Plans

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

The Company also has two defined benefit pension plans for certain hourly employees covered under collective bargaining agreements (the "Brewmatic Plan" and the "Hourly Employees' Plan"). Effective October 1, 2016, the Company

froze benefit accruals and participation in the Hourly Employees' Plan. After the plan freeze, participants do not accrue any benefits under the plan, and new hires are not eligible to participate in the plan. After the freeze, the participants in the plan are eligible to receive the Company's matching contributions to their 401(k).
The net periodic benefit cost for the defined benefit pension plans is as follows:

	Three Months Ended December 31,		Six Months Ended December 31,	
	2017	2016	2017	2016
(In thousands)				
Service cost	$—	$124	$—	$248
Interest cost	1,432	1,397	2,864	2,794
Expected return on plan assets	(1,456)	(1,607)	(2,912)	(3,214)
Amortization of net loss(1)	418	508	836	1,016
Net periodic benefit cost	$394	$422	$788	$844

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

Weighted-Average Assumptions Used to Determine Net Periodic Benefit Cost

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

Basis Used to Determine Expected Long-Term Return on Plan Assets
The expected long-term return on plan assets assumption was developed as a weighted average rate based on the target asset allocation of the plan and the Long-Term Capital Market Assumptions (CMA) 2014. The capital market assumptions were developed with a primary focus on forward-looking valuation models and market indicators. The key fundamental economic inputs for these models are future inflation, economic growth, and interest rate environment. Due to the long-term nature of the pension obligations, the investment horizon for the CMA 2014 is 20 to 30 years. In addition to forward-looking models, historical analysis of market data and trends was reflected, as well as the outlook of recognized economists, organizations and consensus CMA from other credible studies.
Multiemployer Pension Plans
The Company participates in two multiemployer defined benefit pension plans that are union sponsored and collectively bargained for the benefit of certain employees subject to collective bargaining agreements, of which the Western Conference of Teamsters Pension Plan ("WCTPP") is individually significant. The Company makes contributions to these plans generally based on the number of hours worked by the participants in accordance with the provisions of negotiated labor contracts.
The risks of participating in multiemployer pension plans are different from single-employer plans in that: (i) assets contributed to a multiemployer plan by one employer may be used to provide benefits to employees of other participating employers; (ii) if a participating employer stops contributing to the plan, the unfunded obligations of the plan may be borne by the remaining participating employers; and (iii) if the Company stops participating in the multiemployer plan, the Company may be required to pay the plan an amount based on the underfunded status of the plan, referred to as a withdrawal liability.
On October 30, 2017, counsel to the Company received written confirmation that the Western Conference of Teamsters Pension Trust (the "WCT Pension Trust") will be retracting its claim, stated in its letter to the Company dated

July 10, 2017 (the “WCT Pension Trust Letter”), that certain of the Company’s employment actions in 2015 resulting from the Corporate Relocation Plan constituted a partial withdrawal from the WCTPP. The written confirmation stated that the WCT Pension Trust has determined that a partial withdrawal did not occur in 2015 and further stated that the withdrawal liability assessment has been rescinded. This rescinding of withdrawal liability assessment applies to Company employment actions in 2015 with respect to the bargaining units that were specified in the WCT Pension Trust Letter. As of

December 31, 2017, the Company is not able to predict whether the WCT Pension Trust may make a claim, or estimate the extent of potential withdrawal liability, related to the Corporate Relocation Plan for actions or bargaining units other than those specified in the WCT Pension Trust Letter.

In fiscal 2012, the Company withdrew from the Local 807 Labor-Management Pension Fund ("Pension Fund") and recorded a charge of $4.3 million associated with withdrawal from this plan, representing the present value of the estimated withdrawal liability expected to be paid in quarterly installments of $0.1 million over 80 quarters. On November 18, 2014, the Pension Fund sent the Company a notice of assessment of withdrawal liability in the amount of $4.4 million, which the Pension Fund adjusted to $4.9 million on January 5, 2015. The Company is in the process of negotiating a reduced liability amount. The Company has commenced quarterly installment payments to the Pension Fund of $91,000 pending the final settlement of the liability. The total estimated withdrawal liability is $4.0 million and its present value are reflected in the Company's Condensed Consolidated Balance Sheets at December 31, 2017 and June 30, 2017 as short-term with the expectation of paying off the liability in fiscal 2018.

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

Multiemployer Plans Other Than Pension Plans

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

401(k) Plan

The Company's 401(k) Plan is available to all eligible employees who have worked more than 1,000 hours during a calendar year and were employed at the end of the calendar year. Participants in the 401(k) Plan may choose to contribute a percentage of their annual pay subject to the maximum contribution allowed by the Internal Revenue Service. The Company's matching contribution is discretionary, based on approval by the Company's Board of Directors. For the calendar years 2018 and 2017, the Company's Board of Directors approved a Company matching contribution of 50% of an employee's annual contribution to the 401(k) Plan, up to 6% of the employee's eligible income. The matching contributions (and any earnings thereon) vest at the rate of 20% for each of the participant's first 5 years of vesting service, so that a participant is fully vested in his or her matching contribution account after 5 years of vesting service, subject to accelerated vesting under certain circumstances in connection with the Corporate Relocation Plan due to the closure of the Company's Torrance Facility, a reduction-in-force at another Company facility designated by the Administrative Committee of the Farmer Bros. Co. Qualified Employee Retirement Plans, or in connection with certain reductions-in-force that occurred during 2017. A participant is automatically vested in the event of death, disability or attainment of age 65 while employed by the Company. Employees are 100% vested in their contributions. For employees subject to a collective bargaining agreement, the match is only available if so provided in the labor agreement.

The Company recorded matching contributions of $0.5 million and $0.3 million in operating expenses in the three months ended December 31, 2017 and 2016, respectively, and $1.0 million and $0.8 million in operating expenses in the six months ended December 31, 2017 and 2016, respectively.

Postretirement Benefits

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

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

Retiree Medical Plan and Death Benefit

The following table shows the components of net periodic postretirement benefit cost for the Retiree Medical Plan and Death Benefit for the three and six months ended December 31, 2017 and 2016. Net periodic postretirement benefit cost for the three and six months ended December 31, 2017 was based on employee census information and asset information as of June 30, 2017.

	Three Months Ended December 31,		Six Months Ended December 31,	
	2017	2016	2017	2016
(In thousands)				
Service cost	$152	$190	$304	$380
Interest cost	209	207	418	414
Amortization of net gain	(210)	(157)	(420)	(314)
Amortization of prior service credit	(439)	(439)	(878)	(878)
Net periodic postretirement benefit credit	$(288)	$(199)	$(576)	$(398)

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

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

Note 15. Bank Loan

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

August 25, 2022.
At December 31, 2017, the Company was eligible to borrow up to a total of $110.0 million under the Revolving Facility and had outstanding borrowings of $84.4 million, utilized $1.1 million of the letters of credit sublimit, and had excess availability under the Revolving Facility of $24.5 million. At December 31, 2017, the weighted average interest rate
on the Company's outstanding borrowings under the Revolving Facility was 3.62% and the Company was in compliance with all of the restrictive covenants under the Revolving Facility.

Note 16. Share-based Compensation
Farmer Bros. Co. 2017 Long-Term Incentive Plan
On June 20, 2017 (the "Effective Date"), the Company's stockholders approved the Farmer Bros. Co. 2017 Long-Term Incentive Plan (the "2017 Plan"). The 2017 Plan succeeded the Company's prior long-term incentive plans, the Farmer Bros. Co. Amended and Restated 2007 Long-Term Incentive Plan (the "Amended Equity Plan") and the Farmer Bros. Co. 2007 Omnibus Plan (collectively, the "Prior Plans"). On the Effective Date, the Company ceased granting awards under the Prior Plans; however, awards outstanding under the Prior Plans will remain subject to the terms of the applicable Prior Plan. The 2017 Plan provides for the grant of stock options (including incentive stock options and non-qualified stock options), stock appreciation rights, restricted stock, restricted stock units, dividend equivalents, performance shares and other stock- or cash-based awards to eligible participants. The 2017 Plan also authorizes the grant of awards that are intended to qualify as "qualified performance-based compensation" within the meaning of Section 162(m) of the Internal Revenue Code. Non-employee directors of the Company and employees of the Company or any of its subsidiaries are eligible to receive awards under the 2017 Plan.
The 2017 Plan authorizes the issuance of (i) 900,000 shares of common stock plus (ii) the number of shares of common stock subject to awards under the Company's Prior Plans that are outstanding as of the Effective Date and that expire or are forfeited, cancelled or similarly lapse following the Effective Date. Subject to certain limitations, shares of common stock covered by awards granted under the 2017 Plan that are forfeited, expire or lapse, or are repurchased for or paid in cash, may be used again for new grants under the 2017 Plan. As of December 31, 2017, there were 950,914 shares available under the 2017 Plan including shares that were forfeited under the Prior Plans. Shares of common stock granted under the 2017 Plan may be authorized but unissued shares, shares purchased on the open market or treasury shares. In no event will more than 900,000 shares of common stock be issuable pursuant to the exercise of incentive stock options under the 2017 Plan.
The 2017 Plan contains a minimum vesting requirement, subject to limited exceptions, that awards made under the 2017 Plan may not vest earlier than the date that is one year following the grant date of the award. The 2017 Plan also contains provisions with respect to payment of exercise or purchase prices, vesting and expiration of awards, adjustments and treatment of awards upon certain corporate transactions, including stock splits, recapitalizations and mergers, transferability of awards and tax withholding requirements.
The 2017 Plan may be amended or terminated by the Board at any time, subject to certain limitations requiring stockholder consent or the consent of the applicable participant. In addition, the Administrator of the 2017 Plan may not, without the approval of the Company's stockholders, authorize certain re-pricings of any outstanding stock options or stock appreciation rights granted under the 2017 Plan. The 2017 Plan will expire on June 20, 2027.
Non-qualified stock options with time-based vesting ("NQOs")
In the six months ended December 31, 2017, the Company granted 124,278 shares issuable upon the exercise of NQOs to eligible employees under the 2017 Plan. These NQOs have an exercise price of $31.70 per share, which was the closing price of the Company's common stock as reported on the NASDAQ Global Select Market on the date of grant. One-third of the total number of shares subject to each such stock option vest ratably on each of the first three anniversaries of the grant date, contingent on continued employment, and subject to accelerated vesting in certain circumstances.

Following are the assumptions used in the Black-Scholes valuation model for NQOs granted during the six months ended December 31, 2017.

	Six Months Ended December 31, 2017
Weighted average fair value of NQOs	$31.70
Risk-free interest rate	2.0%
Dividend yield	—%
Average expected term	4.6 years
Expected stock price volatility	35.4%

The following table summarizes NQO activity for the six months ended December 31, 2017:

Outstanding NQOs:	Number of NQOs	Weighted Average Exercise Price ($)	Weighted Average Grant Date Fair Value ($)	Weighted Average Remaining Life (Years)	Aggregate Intrinsic Value ($ in thousands)
Outstanding at June 30, 2017	133,464	13.05	5.99	2.6	2,299
Granted	124,278	31.70	10.41	6.9	—
Exercised	(37,266)	12.09	5.57	—	752
Cancelled/Forfeited	(4,194)	24.41	10.60	—	—
Outstanding at December 31, 2017	216,282	23.71	8.51	4.8	1,825
Vested and exercisable at December 31, 2017	89,055	12.33	5.74	2.0	1,765
Vested and expected to vest at December 31, 2017	205,308	23.28	8.41	4.7	1,820

The aggregate intrinsic values outstanding at the end of each fiscal period in the table above represent the total pretax intrinsic values, based on the Company’s closing stock price of $32.15 at December 29, 2017 and $30.25 at June 30, 2017, representing the last trading day of the respective fiscal periods, which would have been received by NQO holders had all award holders exercised their NQOs that were in-the-money as of those dates. The aggregate intrinsic value of NQO exercises in the six months ended December 31, 2017 represents the difference between the exercise price and the value of the Company’s common stock at the time of exercise. NQOs outstanding that are expected to vest are net of estimated forfeitures.

During the six months ended December 31, 2017, 945 NQOs vested and 37,266 NQOs were exercised. Total fair value of NQOs vested during the six months ended December 31, 2017 was $12,000. The Company received $0.5 million and $0.4 million in proceeds from exercises of vested NQOs in the six months ended December 31, 2017 and 2016, respectively.

At December 31, 2017 and June 30, 2017, respectively, there was $1.3 million and $80,000 of unrecognized compensation cost related to NQOs. The unrecognized compensation cost related to NQOs at December 31, 2017 is expected to be recognized over the weighted average period of 2.8 years. Total compensation expense for NQOs in the three months ended December 31, 2017 and 2016 was $62,000 and $47,000, respectively. Total compensation expense for NQOs in the six months ended December 31, 2017 and 2016 was $64,000 and $89,000, respectively.

Non-qualified stock options with performance-based and time-based vesting ("PNQs")
In the six months ended December 31, 2017, the Company granted no shares issuable upon the exercise of PNQs. The following table summarizes PNQ activity for the six months ended December 31, 2017:

Outstanding PNQs:	Number of PNQs	Weighted Average Exercise Price ($)	Weighted Average Grant Date Fair Value ($)	Weighted Average Remaining Life (Years)	Aggregate Intrinsic Value ($ in thousands)
Outstanding at June 30, 2017	358,786	27.75	10.96	5.2	1,181
Granted	—	—	—	—	—
Exercised	(6,679)	26.10	10.87	—	45
Cancelled/Forfeited	(43,330)	32.10	11.43	—	—
Outstanding at December 31, 2017	308,777	27.17	10.93 10.90	4.6	1,590
Vested and exercisable at December 31, 2017	200,904	25.87	10.80	4.2	1,278
Vested and expected to vest at December 31, 2017	303,990	27.10	10.89	4.5	1,585

The aggregate intrinsic values outstanding at the end of each fiscal period in the table above represent the total pretax intrinsic values, based on the Company's closing stock price of $32.15 at December 29, 2017 and $30.25 at June 30, 2017 representing the last trading day of the respective fiscal periods, which would have been received by PNQ holders had all award holders exercised their PNQs that were in-the-money as of those dates. The aggregate intrinsic value of PNQ exercises in the six months ended December 31, 2017 represents the difference between the exercise price and the value of the Company's common stock at the time of exercise. PNQs outstanding that are expected to vest are net of estimated forfeitures.
During the six months ended December 31, 2017, 56,822 PNQs vested and 6,679 PNQs were exercised. Total fair value of PNQs vested during the six months ended December 31, 2017 was $0.6 million. The Company received $0.2 million and $0.1 million in proceeds from exercises of vested PNQs in the six months ended December 31, 2017 and 2016, respectively.
As of December 31, 2017, the Company met the performance targets for the fiscal 2016 PNQ awards and the fiscal 2015 PNQ awards.
In the six months ended December 31, 2017, based on the Company's failure to achieve certain financial objectives over the applicable performance period, a total of 33,738 shares subject to fiscal 2017 PNQ awards were forfeited, representing 20% of the shares subject to each such award. Subject to certain continued employment conditions and subject to accelerated vesting in certain circumstances, one half of the remaining PNQs subject to the fiscal 2017 PNQ awards are scheduled to vest on each of the second and third anniversaries of the grant date.
At December 31, 2017 and June 30, 2017, there was $0.9 million and $1.8 million, respectively, of unrecognized compensation cost related to PNQs. The unrecognized compensation cost related to PNQs at December 31, 2017 is expected to be recognized over the weighted average period of 1.2 years. Total compensation expense related to PNQs in the three months ended December 31, 2017 and 2016 was $0.2 million and $0.4 million, respectively. Total compensation expense related to PNQs in the six months ended December 31, 2017 and 2016 was $0.4 million and $0.6 million, respectively.
Restricted Stock
During the six months ended December 31, 2017, the Company granted 13,110 shares of restricted stock under the 2017 Plan, including 11,406 shares of restricted stock to non-employee directors with a grant date fair value of $34.20 per share and 1,704 shares of restricted stock to eligible employees with a grant date fair value of $31.70 per share. The fiscal 2018 restricted stock awards cliff vest on the earlier of the one year anniversary of the grant date or the date of the first annual meeting of the Company's stockholders immediately following the grant date, in the case of

non-employee directors, and the third anniversary of the grant date, in the case of eligible employees, in each case subject to continued service to the Company through the vesting date and the acceleration provisions of the 2017 Plan and restricted stock agreement. During the six months ended December 31, 2016, the Company granted 5,106 shares of restricted stock to non-employee directors.

During the six months ended December 31, 2017, 7,934 shares of restricted stock vested.

The following table summarizes restricted stock activity for the six months ended December 31, 2017:

Outstanding and Nonvested Restricted Stock Awards:	Shares Awarded	Weighted Average Grant Date Fair Value ($)	Weighted Average Remaining Life (Years)	Aggregate Intrinsic Value ($ in thousands)
Outstanding and nonvested at June 30, 2017	15,445	29.79	0.9	467
Granted	13,110	33.88	1.7	444
Vested/Released	(7,934)	32.77	—	272
Cancelled/Forfeited	(3,390)	25.57	—	—
Outstanding and nonvested at December 31, 2017	17,231	32.35	1.6	554
Expected to vest at December 31, 2017	16,411	32.32	1.5	528

The aggregate intrinsic values of shares outstanding at the end of each fiscal period in the table above represent the total pretax intrinsic values, based on the Company’s closing stock price of $32.15 at December 29, 2017 and $30.25 at June 30, 2017, representing the last trading day of the respective fiscal periods. Restricted stock that is expected to vest is net of estimated forfeitures.

At December 31, 2017 and June 30, 2017, there was $0.5 million and $0.3 million, respectively, of unrecognized compensation cost related to restricted stock. The unrecognized compensation cost related to restricted stock at December 31, 2017 is expected to be recognized over the weighted average period of 1.1 years. Total compensation expense for restricted stock was $0.1 million in each of the three months ended December 31, 2017 and 2016. Total compensation expense for restricted stock was $0.1 million in each of the six months ended December 31, 2017 and 2016.

Performance-Based Restricted Stock Units (“PBRSUs”)

During the six months ended December 31, 2017, the Company granted 37,414 PBRSUs under the 2017 Plan to eligible employees with a grant date fair value of $31.70 per unit. The fiscal 2018 PBRSU awards cliff vest on the third anniversary of the date of grant based on the Company’s achievement of certain financial performance goals for the performance period July 1, 2017 through June 30, 2020, subject to certain continued employment conditions and subject to acceleration provisions of the 2017 Plan and restricted stock unit agreement. At the end of the three-year performance period, the number of PBRSUs that actually vest will be 0% to 150% of the target amount, depending on the extent to which the Company meets or exceeds the achievement of those financial performance goals measured over the full three-year performance period. No PBRSUs were granted during the six months ended December 31, 2016.

The following table summarizes PBRSU activity for the six months ended December 31, 2017:

Outstanding and Nonvested PBRSUs:	PBRSUs Awarded	Weighted Average Grant Date Fair Value ($)	Weighted Average Remaining Life (Years)	Aggregate Intrinsic Value ($ in thousands)
Outstanding and nonvested at June 30, 2017	—	—	—	—
Granted(1)	37,414	31.70	—	1,186
Vested/Released	—	—	—	—
Cancelled/Forfeited	—	—	—	—
Outstanding and nonvested at December 31, 2017	37,414	31.70	2.9	1,203
Expected to vest at December 31, 2017	32,495	31.70	2.9	1,045

(1) The target number of PBRSUs is presented in the table. Under the terms of the awards, the recipient may earn between 0% and 150% of the target number of PBRSUs depending on the extent to which the Company meets or exceeds the achievement of the applicable financial performance goals.

The aggregate intrinsic value of PBRSUs outstanding at December 31, 2017 represents the total pretax intrinsic value, based on the Company’s closing stock price of $32.15 at December 29, 2017, representing the last trading day of the fiscal period. PBRSUs that are expected to vest are net of estimated forfeitures.

At December 31, 2017 and June 30, 2017, there was $1.1 million and $0, respectively, of unrecognized compensation cost related to PBRSUs. The unrecognized compensation cost related to PBRSUs at December 31, 2017 is expected to be recognized over the weighted average period of 2.9 years. Total compensation expense for PBRSUs was $48,000 and $0 for the three months ended December 31, 2017 and 2016, respectively. Total compensation expense for PBRSUs was $48,000 and $0 for the six months ended December 31, 2017 and 2016, respectively.

Note 17. Other Long-Term Liabilities

Other long-term liabilities include the following:

(In thousands)	December 31, 2017	June 30, 2017
Earnout payable(1)	$ 1,100	$ 1,100
Derivative liabilities—noncurrent	—	380
Multiemployer Plan Holdback—Boyd Coffee	1,056	—
Other long-term liabilities	$ 2,156	$ 1,480

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

Note 18. Income Taxes

On December 22, 2017, the President of the United States signed into law the Tax Cuts and Jobs Act of 2017 (the "Tax Act"). The SEC subsequently issued Staff Accounting Bulletin No. 118, "Income Tax Accounting Implications of the Tax Cuts and Jobs Act" ("SAB 118"), which provides guidance on accounting for the tax effects of the Tax Act. Under SAB 118, companies are able to record a reasonable estimate of the impacts of the Tax Act if one is able to be determined and report it as a provisional amount during the measurement period. The measurement period is not to extend beyond one year from the enactment date. Impacts of the Tax Act that a company is not able to make a reasonable estimate for should not be recorded until a reasonable estimate can be made during the measurement period.

In the three months ended December 31, 2017, the Company revised its estimated annual effective rate to reflect a change in the federal statutory rate from 35.0% to 28.1%. The change in statutory rate was made as a result of the Tax Act. The rate change is administratively effective as of the enactment date and the Company is using a blended rate of 28.1% for its fiscal year ending on June 30, 2018, as prescribed. In addition, in the three months ended December 31, 2017, the Company recognized tax expense related to adjusting its deferred tax balances to reflect the new corporate tax rate. Deferred tax amounts are calculated based on the rates at which they are expected to reverse in the future. The Company is analyzing certain aspects of the Tax Act and refining its calculations which could potentially affect the measurement of these balances or potentially give rise to new deferred tax amounts. The provisional amount recorded related to the re-measurement of the Company's deferred tax balance was $(20.3) million at December 31, 2017.

The Company's effective tax rates for the three months ended December 31, 2017 and 2016 were 976.2% and 40.1%, respectively. The Company's effective tax rates for the six months ended December 31, 2017 and 2016 were 4,449.3% and 40.1%, respectively. The effective tax rates for the three and six months ended December 31, 2017 and 2016 were higher than the U.S. statutory rates of 28.1% and 35.0%, respectively, primarily due to income tax expense of $(20.3) million resulting from the adjustment of deferred tax amounts due to enactment of the Tax Act.

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

As of December 31, 2017 and June 30, 2017 the Company had no unrecognized tax benefits.

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

Note 19. Net (Loss) Income Per Common Share

Computation of EPS for the three and six months ended December 31, 2017 excludes the dilutive effect of 525,059 shares issuable under stock options, 37,414 PBRSUs and 383,611 shares issuable upon the assumed conversion of the outstanding Series A Preferred Stock because the Company incurred net losses in the three and six months ended December 31, 2017 so their inclusion would be anti-dilutive.
Computation of EPS for the three and six months ended December 31, 2016 includes the dilutive effect of 122,897 shares and 122,142 shares, respectively, issuable under stock options with exercise prices below the closing price of the Company's common stock on the last trading day of the applicable period, but excludes the dilutive effect of 29,032 and 24,804 shares, respectively, issuable under stock options with exercise prices above the closing price of the Company's common stock on the last trading day of the applicable period because their inclusion would be anti-dilutive.

	Three Months Ended December 31,		Six Months Ended December 31,	
(In thousands, except share and per share amounts)	2017	2016	2017	2016
Undistributed net (loss) income available to common stockholders	$(18,887)	$ 20,052	$(19,865)	$ 21,669
Undistributed net (loss) income available to nonvested restricted stockholders	(10)	24	(10)	25
Net (loss) income available to common stockholders—basic	$(18,897)	$ 20,076	$(19,875)	$ 21,694
Weighted average common shares outstanding—basic	16,723,498	16,584,106	16,711,660	16,573,545
Effect of dilutive securities:				
Shares issuable under stock options	—	122,897	—	122,142
Shares issuable PBRSUs	—	—	—	—
Shares issuable under convertible preferred stock	—	—	—	—
Weighted average common shares outstanding—diluted	16,723,498	16,707,003	16,711,660	16,695,687
Net (loss) income per common share available to common stockholders—basic	$(1.13)	$ 1.21	$(1.19)	$ 1.31
Net (loss) income per common share available to common stockholders—diluted	$(1.13)	$ 1.20	$(1.19)	$ 1.30

Note 20. Preferred Stock
The Company is authorized to issue 500,000 shares of preferred stock at a par value of $1.00, including 21,000 authorized shares of Series A Preferred Stock.
Series A Convertible Participating Cumulative Perpetual Preferred Stock
On October 2, 2017, the Company issued 14,700 shares of Series A Preferred Stock in connection with the Boyd Coffee acquisition. The Series A Preferred Stock pays an annual dividend, when, as and if declared by the Company's Board of Directors, of 3.5% of the stated value per share payable in four quarterly installments in arrears, and has an initial stated value of $1,000 per share, adjustable up or down by the amount of undeclared and unpaid dividends or subsequent payment of accumulated dividends thereon, respectively, and a conversion premium of 22.5%. Dividends may be paid in cash. At December 31, 2017, the Company had undeclared and unpaid preferred dividends of $128,625 on 14,700 issued and outstanding shares of Series A Preferred Stock. Series A Preferred Stock is a participating security because it has rights to earnings that otherwise would have been available to common stockholders. On an as converted basis, holders of Series A Preferred Stock are entitled to vote together with the holders of the Company's common stock and are entitled to share in the dividends on common stock, when declared. Each share of Series A Preferred Stock is convertible into 26 shares of the Company's common stock (rounded down

to the nearest whole share and subject to adjustment in accordance with the terms of the Certificate of Designations filed with the Secretary of State of the State of Delaware). Series A Preferred Stock is a perpetual stock and, therefore, not redeemable. Based on its characteristics, the Company classified Series A Preferred Stock as permanent equity.

Series A Preferred Stock is carried on the Company's balance sheet at the amount recorded at inception until converted. The Company may mandatorily convert all but not a portion of the Series A Preferred Stock one year from the date of issue. The holder may convert 20%, 30% and 50%, of the Series A Preferred Stock at the end of the first, second and third year, respectively, from the date of issue. Series A Preferred Stock cannot be sold or transferred by the holder for a period of three years from the date of issue, with the exception of transfer by holder, not for value, or to the holder's shareholder.

Note 21. Commitments and Contingencies

For a detailed discussion about the Company's commitments and contingencies, see Note 23, "Commitments and Contingencies" to the consolidated financial statements in the 2017 Form 10-K. During the six months ended December 31, 2017, other than the following, there were no material changes in the Company's commitments and contingencies.

New Facility Construction and Equipment Contracts

At December 31, 2017, the Company had committed to purchase additional equipment for the New Facility totaling $6.3 million.

Borrowings Under Revolving Credit Facility

At December 31, 2017, the Company had outstanding borrowings of $84.4 million under its Revolving Facility, as compared to outstanding borrowings of $27.6 million at June 30, 2017. The increase in outstanding borrowings in the six months ended December 31, 2017 included $39.5 million to fund the cash paid at closing for the purchase of the Boyd Business and the initial Company obligations under the post-closing transition services agreement.

Non-cancelable Purchase Orders

As of December 31, 2017, the Company had committed to purchase green coffee inventory totaling $55.3 million under fixed-price contracts, and other purchases totaling $12.9 million under non-cancelable purchase orders.

Legal Proceedings

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

On August 31, 2012, CERT filed an amendment to a private enforcement action adding a number of companies as defendants, including CBI, which sell coffee in California. The suit alleges that the defendants have failed to issue clear and reasonable warnings in accordance with Proposition 65 that the coffee they produce, distribute and sell contains acrylamide. This lawsuit was filed in Los Angeles Superior Court (the "Court"). CERT has demanded that the alleged violators remove acrylamide from their coffee or provide Proposition 65 warnings on their products and pay $2,500 per day for each and every violation while they are in violation of Proposition 65.

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

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

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

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

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

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

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

At a final case management conference on August 21, 2017 the Court set August 31, 2017 as the new trial date for Phase 2, though later changed the starting date for trial to September 5, 2017. The Court elected to break up trial for Phase 2 into two segments, the first focused on liability and the second on remedies. After 14 days at trial, both sides rested on the liability segment, and the Court set a date of November 21, 2017 for the hearing for all evidentiary issues related to this liability segment. The Court also set deadlines for evidentiary motions, issues for oral argument, and oppositions to motions. This hearing date was subsequently moved to January 19, 2018. The Court has indicated that following the January 19, 2018 hearing it will schedule another hearing to announce its decision on the liability phase of the trial. Based upon the Court’s decision on the liability phase, if there is a remedies phase, then the remedies phase would commence later in 2018.

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

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

Note 22. Subsequent Event

On February 6, 2018, the Company entered into an amendment to the lease for its Portland, Oregon production and distribution facility. Pursuant to the lease amendment, the term of the lease is extended for 10 years, commencing on October 1, 2018 and expiring on September 30, 2028, with options to renew up to an additional 10 years. The aggregate of the future minimum operating lease payments over the 10-year lease term is $8.7 million.

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

Certain statements contained in this Quarterly Report on Form 10-Q are not based on historical fact and are forward-looking statements within the meaning of federal securities laws and regulations. These statements are based on management’s current expectations, assumptions, estimates and observations of future events and include any statements that do not directly relate to any historical or current fact; actual results may differ materially due in part to the risk factors set forth in Part I, Item 1A of our Annual Report on Form 10-K for the fiscal year ended June 30, 2017 filed with the Securities and Exchange Commission (the “SEC”) on September 28, 2017. These forward-looking statements can be identified by the use of words like “anticipates,” “estimates,” “projects,” “expects,” “plans,” “believes,” “inte “will,” “could,” “assumes” and other words of similar meaning. Owing to the uncertainties inherent in forward-looking statements, actual results could differ materially from those set forth in forward-looking statements. We intend these forward-looking statements to speak only at the time of this report and do not undertake to update or revise these statements as more information becomes available except as required under federal securities laws and the rules and regulations of the SEC. Factors that could cause actual results to differ materially from those in forward-looking statements include, but are not limited to, the success of the Corporate Relocation Plan, the timing and success of implementation of the DSD Restructuring Plan, the Company’s success in consummating acquisitions and integrating acquired businesses, the adequacy and availability of capital resources to fund the Company’s existing and planned business operations and the Company’s capital expenditure requirements, the relative effectiveness of compensation-based employee incentives in causing improvements in Company performance, the capacity to meet the demands of our large national account customers, the extent of execution of plans for the growth of Company business and achievement of financial metrics related to those plans, the success of the Company to retain and/or attract qualified employees, the effect of the capital markets as well as other external factors on stockholder value, fluctuations in availability and cost of green coffee, competition, organizational changes, the effectiveness of our hedging strategies in reducing price risk, changes in consumer preferences, our ability to provide sustainability in ways that do not materially impair profitability, changes in the strength of the economy, business conditions in the coffee industry and food industry in general, our continued success in attracting new customers, variances from budgeted sales mix and growth rates, weather and special or unusual events, as well as other risks described in this report and other factors described from time to time in our filings with the SEC. The results of operations for the three and six months ended December 31, 2017 are not necessarily indicative of the results that may be expected for any future period.

Overview

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

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

We operate production facilities in Northlake, Texas (the “New Facility”); Houston, Texas; Portland, Oregon; and Hillsboro, Oregon. Distribution takes place out of the New Facility, Portland and Hillsboro facilities, as well as separate distribution centers in Northlake, Illinois; Moonachie, New Jersey; and Scottsdale, Arizona. 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 Direct Store Delivery (“DSD”) network of 449 delivery routes and 111 branch warehouses as of December 31, 2017, or direct-shipped via common carriers or third-party distributors. DSD sales are made “off-truck” to our customers at their places of business. We operate a large fleet of trucks and other vehicles to distribute and deliver our products, and we rely on third-party logistics service providers for our long-haul distribution.

Corporate Relocation

In an effort to make the Company more competitive and better positioned to capitalize on growth opportunities, in fiscal 2015 we began the process of relocating our corporate headquarters, product development lab, and manufacturing and distribution operations from Torrance, California (the “Torrance Facility”) to the New Facility (the “Corporate Relocation Plan”). Approximately 350 positions were impacted as a result of the Torrance Facility closure. We completed the Corporate Relocation Plan in the fourth quarter of fiscal 2017.

Recent Developments

Acquisitions

On October 2, 2017, we acquired substantially all of the assets and certain specified liabilities of Boyd Coffee Company (“Boyd Coffee”), a coffee roaster and distributor with a focus on restaurants, hotels, and convenience stores on the West Coast of the United States, in consideration of cash and preferred stock. The acquired business of Boyd Coffee (the “Boyd Business”) is expected to add to our product portfolio, improve growth potential, increase the density and penetration of our distribution footprint, and increase capacity utilization at our production facilities.

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

See Liquidity, Capital Resources and Financial Condition below for further details of the impact of these acquisitions on our financial condition and liquidity, and Note 3, Acquisitions, of the Notes to Unaudited Condensed Consolidated Financial Statements included in Part I, Item 1 of this report.

DSD Restructuring Plan

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

Results of Operations

Financial Highlights

- Volume of green coffee pounds processed and sold increased 18.7% and 9.4%, respectively, in the three and six months ended December 31, 2017 as compared to the three and six months ended December 31, 2016.
- Gross profit increased $10.4 million to $65.5 million in the three months ended December 31, 2017 from $55.1 million in the three months ended December 31, 2016. Gross profit increased $8.2 million to $114.5 million in the six months ended December 31, 2017, from $106.3 million in the six months ended December 31, 2016.

- Gross margin decreased to 39.1% and 38.3%, respectively, in the three and six months ended December 31, 2017, from 39.6% and 39.4%, respectively, in the three and six months ended December 31, 2016.
- Income from operations was $2.4 million and $1.2 million, respectively, in the three and six months ended December 31, 2017 as compared to income from operations of $35.9 million and $38.4 million, respectively, in the three and six months ended December 31, 2016. Income from operations in the three and six months ended December 31, 2016 included a $37.4 million net gain from the sale of the Torrance Facility.
- Net loss was $(18.8) million, or $(1.13) per common share available to common stockholders, in the three months ended December 31, 2017, compared to net income of $20.1 million, or $1.20 per common share available to common stockholders—diluted, in the three months ended December 31, 2016. Net loss was $(19.7) million, or $(1.19) per common share available to common stockholders, in the six months ended December 31, 2017, compared to net income of $21.7 million, or $1.30 per common share available to common stockholders—diluted, in the six months ended December 31, 2016. Net loss in the three and six months ended December 31, 2017 included income tax expense of $20.9 million and $20.2 million, respectively, as compared to income tax expense of $13.4 million and $14.5 million, respectively, in the three and six months ended December 31, 2016.
- EBITDA decreased (71.7)% to $11.1 million and EBITDA Margin was 6.6% in the three months ended December 31, 2017, as compared to EBITDA of $39.1 million and EBITDA Margin of 28.1% in the three months ended December 31, 2016. EBITDA decreased (63.6)% to $17.2 million and EBITDA Margin was 5.7% in the six months ended December 31, 2017, as compared to EBITDA of $47.2 million and EBITDA Margin of 17.5% in the six months ended December 31, 2016.*
- Adjusted EBITDA increased 15.7% to $12.9 million and Adjusted EBITDA Margin was 7.7% in the three months ended December 31, 2017, as compared to Adjusted EBITDA of $11.2 million and Adjusted EBITDA Margin of 8.0% in the three months ended December 31, 2016. Adjusted EBITDA increased 0.3% to $22.2 million and Adjusted EBITDA Margin was 7.4% in the six months ended December 31, 2017, as compared to Adjusted EBITDA of $22.2 million and Adjusted EBITDA Margin of 8.2% in the six months ended December 31, 2016.*
- (* EBITDA, EBITDA Margin, Adjusted EBITDA and Adjusted EBITDA Margin are non-GAAP financial measures. See <u>Non-GAAP Financial Measures</u> in Part I, Item 2 of this report for a reconciliation of these non-GAAP measures to their corresponding GAAP measures.)

Net Sales

Net sales in the three months ended December 31, 2017 increased $28.4 million, or 20.4%, to $167.4 million from $139.0 million in the three months ended December 31, 2016 due to a $17.6 million increase in net sales of roast and ground coffee, a $5.5 million increase in net sales of other beverages, a $3.7 million increase in net sales of culinary products, a $0.8 million increase in net sales of frozen liquid coffee, a $0.4 million increase in net sales of tea products, and a $0.4 million increase in net sales of spice products. These changes were primarily due to the addition of the Boyd Business which added a total of $26.3 million to net sales as well as the benefit of higher prices to our cost plus customers. Net sales in the three months ended December 31, 2017 included $(0.4) 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 $(2.3) million in price decreases to customers utilizing such arrangements in the three months ended December 31, 2016.

Net sales in the six months ended December 31, 2017 increased $29.6 million, or 11.0%, to $299.1 million from $269.5 million in the six months ended December 31, 2016 due to a $19.2 million increase in net sales of roast and ground coffee, a $4.2 million increase in net sales of other beverages, a $3.6 million increase in net sales of culinary products, a $1.7 million increase in net sales of tea products, a $0.8 million increase in net sales of frozen liquid coffee, and a $0.3 million increase in net sales of spice products. These changes were primarily due to the addition of the Boyd Business which added a total of $26.3 million to net sales as well as the benefit of higher prices to our cost plus customers. Net sales in the six months ended December 31, 2017 included the benefit of $0.5 million in price increases to customers utilizing commodity-based pricing arrangements, where the changes in the green coffee commodity costs are passed on to the customer, as compared to $(6.6) million in price decreases to customers utilizing such arrangements in the six months ended December 31, 2016.

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The changes in net sales in the three and six months ended December 31, 2017 compared to the same periods in the prior fiscal year were due to the following:

(In millions)	Three Months Ended December 31, 2017 vs. 2016	Six Months Ended December 31, 2017 vs. 2016
Effect of change in unit sales	$ 29.7	$ 18.9
Effect of pricing and product mix changes	(1.3)	10.7
Total increase in net sales	$ 28.4	$ 29.6

Unit sales increased 21.6% in the three months ended December 31, 2017 as compared to the same period in the prior fiscal year, while average unit price decreased by (1.0)% resulting in an increase in net sales of 20.4%. The increase in unit sales was primarily due to a 76.9% increase in unit sales of other beverages, which accounted for approximately 13% of total net sales, a 53.2% increase in unit sales of frozen liquid coffee products, which accounted for approximately 6% of total net sales, a 24.8% increase in unit sales of culinary products, which accounted for approximately 10% of total net sales, and a 18.7% increase in unit sales of roast and ground coffee products, which accounted for approximately 62% of total net sales. Average unit price decreased (1.0)% primarily due to the addition of the Boyd Business. In the three months ended December 31, 2017, we processed and sold approximately 29.1 million pounds of green coffee as compared to approximately 24.5 million pounds of green coffee processed and sold in the three months ended December 31, 2016. There were no new product category introductions in the three months ended December 31, 2017 or 2016 which had a material impact on our net sales.

Unit sales increased 6.7% in the six months ended December 31, 2017 as compared to the same period in the prior fiscal year, and average unit price increased by 3.9% resulting in an increase in net sales of 11.0%. The increase in unit sales was primarily due to a 41.9% increase in unit sales of other beverages, which accounted for approximately 11% of total net sales, a 26.0% increase in unit sales of frozen liquid coffee products, which accounted for approximately 6% of total net sales, and a 9.4% increase in unit sales of roast and ground coffee which accounted for approximately 63% of total net sales, offset by a (22.8)% decrease in unit sales of culinary products, which accounted for approximately 10% of total net sales, and a (21.6)% decrease in unit sales of spice products, which accounted for approximately 4% of total net sales. Average unit price increased primarily due to price increases on substantially all of our products with the exception of coffee (frozen liquid). In the six months ended December 31, 2017, we processed and sold approximately 52.3 million pounds of green coffee as compared to approximately 47.8 million pounds of green coffee processed and sold in the six months ended December 31, 2016. There were no new product category introductions in the six months ended December 31, 2017 or 2016 which had a material impact on our net sales.

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

	Three Months Ended December 31,			
	2017		2016	
(In thousands)	$	% of total	$	% of total
Net Sales by Product Category:				
Coffee (Roast & Ground)	$104,457	62 %	$86,838	62 %
Coffee (Frozen Liquid)	9,326	6 %	8,484	6 %
Tea (Iced & Hot)	7,751	5 %	7,341	5 %
Culinary	17,376	10 %	13,689	10 %
Spice	6,333	4 %	5,966	4 %
Other beverages(1)	21,429	13 %	15,976	12 %

Net sales by product category	166,672	100 %	138,294	99 %
Fuel surcharge	694	— %	731	1 %
Net sales	$ 167,366	100 %	$ 139,025	100 %

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

	Six Months Ended December 31,			
	2017		2016	
(In thousands)	$	% of total	$	% of total
Net Sales by Product Category:				
Coffee (Roast & Ground)	$187,340	63 %	$168,180	62 %
Coffee (Frozen Liquid)	17,150	6 %	16,395	6 %
Tea (Iced & Hot)	15,423	5 %	13,709	5 %
Culinary	31,139	10 %	27,499	10 %
Spice	12,607	4 %	12,355	5 %
Other beverages(1)	34,035	11 %	29,884	11 %
Net sales by product category	297,694	99 %	268,022	99 %
Fuel surcharge	1,385	1 %	1,491	1 %
Net sales	$299,079	100%	$269,513	100%

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

Cost of Goods Sold

Cost of goods sold in the three months ended December 31, 2017 increased $17.9 million, or 21.3%, to $101.8 million, or 60.9% of net sales, from $83.9 million, or 60.4% of net sales, in the three months ended December 31, 2016. The increase in cost of goods sold was primarily due to the addition of the Boyd Business making up $16.2 million of the increase. Cost of goods sold as a percentage of net sales in the three months ended December 31, 2017 increased primarily due to higher manufacturing costs associated with the production operations in the New Facility, higher cost of green coffee, and the absence of the beneficial effect of the liquidation of LIFO inventory quantities in the three months ended December 31, 2017, as compared to the same period in the prior fiscal year. In the three months ended December 31, 2016, we recorded $0.8 million in expected beneficial effect of the liquidation of LIFO inventory quantities in cost of goods sold which increased income before taxes for the three months ended December 31, 2016 by $0.8 million. In the three months ended December 31, 2017, we recorded no expected beneficial effect of the liquidation of LIFO inventory quantities in cost of goods sold.

Cost of goods sold in the six months ended December 31, 2017 increased $21.3 million, or 13.1%, to $184.6 million, or 61.7% of net sales, from $163.2 million, or 60.6% of net sales, in the six months ended December 31, 2016. The increase in cost of goods sold was primarily due to the addition of the Boyd Business making up $16.2 million of the increase. Cost of goods sold as a percentage of net sales in the six months ended December 31, 2017 increased primarily due to higher manufacturing costs associated with the production operations in the New Facility, higher cost of green coffee, and the absence of the beneficial effect of the liquidation of LIFO inventory quantities in the six months ended December 31, 2017, as compared to the same period in the prior fiscal year. In the six months ended December 31, 2016, we recorded $1.7 million in expected beneficial effect of the liquidation of LIFO inventory quantities in cost of goods sold which increased income before taxes for the six months ended December 31, 2016 by $1.7 million. In the six months ended December 31, 2017, we recorded no expected beneficial effect of the liquidation of LIFO inventory quantities in cost of goods sold.

Gross Profit

Gross profit in the three months ended December 31, 2017 increased $10.4 million, or 18.9%, to $65.5 million from $55.1 million in the three months ended December 31, 2016 and gross margin decreased to 39.1% in the three months ended December 31, 2017 from 39.6% in the three months ended December 31, 2016. This increase in gross profit was primarily due to the addition of the Boyd Business, while the decrease in gross margin was primarily due to the addition of the Boyd Business carrying a slightly lower gross margin, higher manufacturing costs associated with the production operations in the New Facility, and the absence of the beneficial effect of the liquidation of LIFO inventory quantities in the three months ended December 31, 2017, as compared to the same period in the prior fiscal year.

Gross profit in the six months ended December 31, 2017 increased $8.2 million, or 7.7%, to $114.5 million from $106.3 million in the six months ended December 31, 2016 and gross margin decreased to 38.3% in the six months ended December 31, 2017 from 39.4% in the six months ended December 31, 2016. This increase in gross profit was primarily due to the addition of the Boyd Business, while the decrease in gross margin was primarily due to the addition of the Boyd Business carrying a slightly lower gross margin, higher manufacturing costs associated with the production operations in the New Facility, and the absence of the beneficial effect of the liquidation of LIFO inventory quantities in the six months ended December 31, 2017, as compared to the same period in the prior fiscal year.

Operating Expenses

In the three months ended December 31, 2017, operating expenses increased $43.9 million, or 228.8%, to $63.1 million, or 37.7% of net sales, from $19.2 million, or 13.8% of net sales, in the three months ended December 31, 2016, primarily due to the effect of the recognition of $37.4 million in net gain from the sale of the Torrance Facility in the three months ended December 31, 2016, a $10.2 million increase in selling expenses, and a $0.1 million increase in general and administrative expenses. The increase in operating expenses was partially offset by a $(3.8) million decrease in restructuring and other transition expenses associated with the Corporate Relocation Plan. Restructuring and other transition expenses in the three months ended December 31, 2017 included expenses associated with the DSD Restructuring Plan.

Selling expenses increased $10.2 million in the three months ended December 31, 2017 as compared to the same period in the prior fiscal year, primarily due to $5.9 million and $0.8 million in selling expenses from the addition of the Boyd Business and West Coast Coffee, respectively, exclusive of their related depreciation and amortization expense, and $1.4 million in higher depreciation and amortization expense.

General and administrative expenses increased $0.1 million in the three months ended December 31, 2017 as compared to the same period in the prior fiscal year primarily due to $2.6 million and $0.2 million in general and administrative expenses from the addition of the Boyd Business and West Coast Coffee, exclusive of their related depreciation and amortization expense, $1.0 million in acquisition and integration costs and $0.3 million in higher depreciation and amortization expense, partially offset by the absence of $3.7 million in non-recurring 2016 proxy contest expenses incurred in the three months ended December 31, 2016.

Restructuring and other transition expenses in the three months ended December 31, 2017 decreased $(3.8) million, as compared to the same period in the prior fiscal year primarily due to the absence of expenses related to our Corporate Relocation Plan, partially offset by $0.1 million in costs incurred in connection with the DSD Restructuring Plan in the three months ended December 31, 2017.

In the three months ended December 31, 2017 and 2016 net gains from sale of spice assets included $0.4 million and $0.3 million, respectively, in earnout.

In the six months ended December 31, 2017, operating expenses increased $45.5 million, or 67.0%, to $113.3 million or 37.9% of net sales, from $67.9 million, or 25.2% of net sales, in the six months ended December 31, 2016, primarily due to the effect of the recognition of $37.4 million in net gain from the sale of the Torrance Facility in the six months ended December 31, 2016, a $10.7 million increase in selling expenses, a $2.5 million increase in general and administrative expenses and a $1.6 million reduction in net gains from sales of other assets. The increase in operating expenses was partially offset by a $(6.7) million decrease in restructuring and other transition expenses associated with the Corporate Relocation Plan. Restructuring and other transition expenses in the six months ended

December 31, 2017 also included expenses associated with the DSD Restructuring Plan.
Selling expenses increased $10.7 million in the six months ended December 31, 2017 as compared to the same period in the prior fiscal year, primarily due to $5.9 million and $1.5 million in selling expenses from the addition of the Boyd

Business and West Coast Coffee, respectively, exclusive of their related depreciation and amortization expense and $2.1 million in higher depreciation and amortization expense.

General and administrative expenses increased $2.5 million in the six months ended December 31, 2017 as compared to the same period in the prior fiscal year primarily due to $3.4 million in acquisition and integration costs, $2.6 million in expenses from the addition of the Boyd Business, and $1.1 million in higher depreciation and amortization expense, partially offset by the absence of $5.0 million in non-recurring 2016 proxy contest expenses incurred in the six months ended December 31, 2016.

Restructuring and other transition expenses in the six months ended December 31, 2017 decreased $(6.7) million, as compared to the same period in the prior fiscal year primarily due to the absence of expenses related to our Corporate Relocation Plan, partially offset by $0.3 million in costs incurred in connection with the DSD Restructuring Plan in the six months ended December 31, 2017.

In each of the six months ended December 31, 2017 and 2016 net gains from sale of spice assets included $0.5 million in earnout.

Income from Operations

Income from operations in the three and six months ended December 31, 2017 was $2.4 million and $1.2 million, respectively, as compared to $35.9 million and $38.4 million, respectively, in the three and six months ended December 31, 2016.

Income from operations in the three and six months ended December 31, 2017 as compared to the comparable periods of the prior fiscal year was primarily driven by lower net gains from sales of assets, including $37.4 million in net gains from the sale of the Torrance Facility recognized in the prior year periods, and higher selling expenses and higher general and administrative expenses primarily due to the addition of the Boyd Business, acquisition and integration costs, and higher depreciation and amortization expense, partially offset by higher gross profit and lower restructuring and other transition expenses associated with the Corporate Relocation Plan.

Total Other (Expense) Income

Total other expense in the three and six months ended December 31, 2017 was $(0.3) million and $(0.7) million, respectively, compared to $(2.4) million and $(2.2) million in the three and six months ended December 31, 2016. The changes in total other expense in the three and six months ended December 31, 2017 were primarily a result of liquidating substantially all of our investment in preferred securities in the fourth quarter of fiscal 2017 to fund expenditures associated with our New Facility, and lower mark-to-market losses on coffee-related derivative instruments, offset by higher interest expense as compared to the same periods in the prior fiscal year.

Net gains on investments in the three and six months ended December 31, 2017 were $16,000 and $7,000, respectively, as compared to net losses on investments of $(1.3) million and $(1.1) million in the comparable periods of the prior fiscal year. Net losses on coffee-related derivative instruments in the three and six months ended December 31, 2017 were $(0.2) million and $(0.1) million, respectively, compared to $(1.2) million in each of the comparable periods of the prior fiscal year due to mark-to-market net losses on coffee-related derivative instruments not designated as accounting hedges.

Interest expense in the three and six months ended December 31, 2017, was $(0.9) million and $(1.4) million, respectively, as compared to $(0.5) million and $(0.9) million, respectively, in the comparable periods of the prior fiscal year. The higher interest expense in the three and six months ended December 31, 2017 was primarily due to higher outstanding borrowings on our revolving credit facility.

Income Taxes

In the three and six months ended December 31, 2017, we recorded income tax expense of $20.9 million and $20.2 million, respectively, compared to $13.4 million and $14.5 million, respectively, in the three and six months ended December 31, 2016. As of June 30, 2017, our net deferred tax assets totaled $63.1 million. In the six months ended December 31, 2017, our net deferred tax assets decreased by $17.5 million to $45.6 million. These changes are primarily the result of the Tax Cut and Jobs Act of 2017 effective December 22, 2017. See Note 18, Income Taxes, of the Notes to Unaudited Condensed Consolidated Financial Statements included in Part I, Item 1 of this report.

Net Loss

As a result of the foregoing factors, net loss was $(18.8) million, or $(1.13) per common share available to common stockholders, in the three months ended December 31, 2017 as compared to net income of $20.1 million, or $1.20 per common share available to common stockholders—diluted, in the three months ended December 31, 2016. Net loss was $(19.7) million, or $(1.19) per common share available to common stockholders, in the six months ended December 31, 2017 as compared to net income of $21.7 million, or $1.30 per common share available to common stockholders—diluted, in the six months ended December 31, 2016.

Non-GAAP Financial Measures

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

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

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

and including the impact of:

- income taxes on non-GAAP adjustments.

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

"EBITDA" is defined as net (loss) income excluding the impact of:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

	Three Months Ended December 31,		Six Months Ended December 31,	
(In thousands, except per share data)	2017	2016	2017	2016
Net (loss) income, as reported	$(18,768)	$20,076	$(19,746)	$21,694
Restructuring and other transition expenses	139	3,965	259	6,995
Net gain from sale of Torrance Facility	—	(37,449)	—	(37,449)
Net gains from sale of spice assets	(395)	(334)	(545)	(492)
Net losses (gains) from sales of other assets	91	114	144	(1,439)
Non-recurring 2016 proxy contest-related expenses	—	3,719	—	4,990
Interest expense on sale-leaseback financing obligation	—	371	—	681
Acquisition and integration costs	972	—	3,382	—
Income tax (benefit) expense on non-GAAP adjustments	(258)	11,549	(1,037)	10,418
Non-GAAP net (loss) income	$(18,219)	$2,011	$(17,543)	$5,398
Net (loss) income per common share—diluted, as reported	$(1.12)	$1.20	$(1.18)	$1.30
Impact of restructuring and other transition expenses	$0.01	$0.24	$0.02	$0.42
Impact of net gain from sale of Torrance Facility	$—	$(2.24)	$—	$(2.24)
Impact of net gains from sale of spice assets	$(0.02)	$(0.02)	$(0.03)	$(0.03)
Impact of net losses (gains) from sales of other assets	$0.01	$0.01	$0.01	$(0.09)
Impact of non-recurring 2016 proxy contest-related expenses	$—	$0.22	$—	$0.30
Impact of interest expense on sale-leaseback financing obligation	$—	$0.02	$—	$0.04
Impact of acquisition and integration costs	$0.06	$—	$0.20	$—
Impact of income tax (benefit) expense on non-GAAP adjustments	$(0.02)	$0.69	$(0.06)	$0.62
Non-GAAP net (loss) income per diluted common share	$(1.09)	$0.12	$(1.05)	$0.32

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

	Three Months Ended December 31,		Six Months Ended December 31,	
(In thousands)	2017	2016	2017	2016
Net (loss) income, as reported	$(18,768)	$20,076	$(19,746)	$21,694
Income tax expense	20,910	13,416	20,200	14,499
Interest expense	861	524	1,384	913
Depreciation and amortization expense	8,077	5,075	15,330	10,086
EBITDA	$11,080	$39,091	$17,168	$47,192
EBITDA Margin	6.6 %	28.1 %	5.7 %	17.5 %

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

	Three Months Ended December 31,		Six Months Ended December 31,	
(In thousands)	2017	2016	2017	2016
Net (loss) income, as reported	$(18,768)	$20,076	$(19,746)	$21,694
Income tax expense	20,910	13,416	20,200	14,499
Interest expense	861	524	1,384	913
(Income) loss from short-term investments	(21)	895	(19)	274
Depreciation and amortization expense	8,077	5,075	15,330	10,086
ESOP and share-based compensation expense	1,038	1,152	1,844	2,094
Restructuring and other transition expenses	139	3,965	259	6,995
Net gain from sale of Torrance Facility	—	(37,449)	—	(37,449)
Net gains from sale of spice assets	(395)	(334)	(545)	(492)
Net losses (gains) from sales of other assets	91	114	144	(1,439)
Non-recurring proxy contest-related expenses	—	3,719	—	4,990
Acquisition and integration costs	972	—	3,382	—
Adjusted EBITDA	$12,904	$11,153	$22,233	$22,165
Adjusted EBITDA Margin	7.7 %	8.0 %	7.4 %	8.2 %

Liquidity, Capital Resources and Financial Condition

Credit Facility

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

At December 31, 2017, we were eligible to borrow up to a total of $110.0 million under the Revolving Facility and had outstanding borrowings of $84.4 million, utilized $1.1 million of the letters of credit sublimit, and had excess availability under the Revolving Facility of $24.5 million. At December 31, 2017, the weighted average interest rate on our outstanding borrowings under the Revolving Facility was 3.62%. At December 31, 2017, we were in compliance with all of the restrictive covenants under the Revolving Facility.

At January 31, 2018, we had estimated outstanding borrowings of $80.2 million, utilized $1.1 million of the letters of credit sublimit, and had excess availability under the Revolving Facility of $28.7 million. At January 31, 2018, the weighted average interest rate on our outstanding borrowings under the Revolving Facility was 3.59%.

Liquidity

We generally finance our operations through cash flows from operations and borrowings under our Revolving Facility described above. At December 31, 2017, we had $5.4 million in cash and cash equivalents. In the fourth quarter of fiscal 2017, we liquidated substantially all of our preferred stock portfolio, net of purchases, to fund expenditures associated with our New Facility in Northlake, Texas. In the second quarter ended December 31, 2017, we liquidated the remaining security in our preferred stock portfolio and at December 31, 2017 the preferred stock portfolio was closed.

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

Changes in Cash Flows

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

Net cash used in operating activities was $(1.5) million in the six months ended December 31, 2017 compared to net cash provided by operating activities of $11.3 million in the six months ended December 31, 2016. Net cash used in operating activities in the six months ended December 31, 2017 was primarily due to a higher level of cash outflows from operating activities primarily due to an increase in inventory balances and payment of accounts payable balances, and lower cash inflows from operations due to an increase in accounts receivable balances. The increase in cash outflows was primarily related to the addition of the Boyd Business as well as softer than expected sales resulting in higher inventories. Net cash provided by operating activities in the six months ended December 31, 2016 was primarily due to higher net income and a higher level of cash inflows from operating activities resulting primarily from the increase in deferred income taxes and accounts payable balances, partially offset by cash outflows from increases in inventory, payment of previously accrued bonus and restructuring and other transition expenses related to the Torrance Facility closure, purchases of short-term investments, a decrease in derivative assets and lower cash inflows from higher accounts receivable balances.

Net cash used in investing activities in the six months ended December 31, 2017 was $55.8 million as compared to $56.5 million in the six months ended December 31, 2016. In the six months ended December 31, 2017, net cash used in investing activities included $39.6 million in cash, primarily used to acquire the Boyd Business, $14.7 million in cash used for purchases of property, plant and equipment, and $1.6 million in purchases of assets in connection with construction of the New Facility, partially offset by $0.1 million in proceeds from sales of property, plant and equipment, primarily equipment. In the six months ended December 31, 2016, net cash used in investing activities included $26.9 million for purchases of property, plant and equipment, $21.8 million in purchases of assets in connection with construction of the New Facility, and $11.1 million net of cash acquired, in connection with the China Mist acquisition, offset by $3.3 million in proceeds from sales of property, plant and equipment, primarily real estate.

Net cash provided by financing activities in the six months ended December 31, 2017 was $56.5 million as compared to $32.5 million in the six months ended December 31, 2016. Net cash provided by financing activities in the six months ended December 31, 2017 included $56.8 million in net borrowings under our Revolving Facility, and $0.6 million in proceeds from stock option exercises, partially offset by $0.6 million used to pay capital lease obligations and $0.4 million in financing costs associated with the amendment of the Revolving Facility. Net cash provided by financing activities in the six months ended December 31, 2016 included $42.5 million in proceeds from sale-leaseback financing associated with the sale of the Torrance Facility, $7.7 million in proceeds from lease financing in connection with the purchase of the partially constructed New Facility, $18.4 million in net borrowings under our Revolving Facility, and $0.4 million in proceeds from stock option exercises, partially offset by $35.8 million in repayments on lease financing to acquire the partially constructed New Facility upon purchase option closing, and $0.6 million used to pay capital lease obligations.

Acquisitions

On October 2, 2017, we acquired substantially all of the assets and certain specified liabilities of Boyd Coffee. At closing, for consideration of the purchase, we paid Boyd Coffee $38.9 million in cash from borrowings under our Revolving Facility and issued to Boyd Coffee 14,700 shares of Series A Convertible Participating Cumulative Perpetual Preferred Stock (“Series A Preferred Stock”), with a fair value of $11.8 million as of the closing date.

Additionally, we held back $3.2 million in cash and 6,300 shares of Series A Preferred Stock, with a fair value of $4.8 million as of the closing date, for the satisfaction of any post-closing working capital adjustments and to secure Boyd Coffee's (and the other seller parties') indemnification obligations under the purchase agreement.

In addition to the $3.2 million cash holdback, as part of the consideration for the purchase, at closing we held back $1.1 million in cash to pay, on behalf of Boyd Coffee, any assessment of withdrawal liability made against Boyd Coffee following the closing date in respect of Boyd Coffee's multiemployer plans. The parties are in the process of determining the final net working capital under the purchase agreement. At December 31, 2017, we estimated a net working capital adjustment of $(8.1) million, which is reflected in the preliminary purchase price allocation. The purchase price allocation is preliminary as we are in the process of finalizing the valuation inputs including growth assumptions, cost projections and discount rates which are used in the fair value calculation of certain assets as well as the determination of the final post-closing net working capital adjustment. The preliminary purchase price allocation is subject to change and such change could be material based on numerous factors, including the final estimated fair value of the assets acquired and liabilities assumed and the amount of the final post-closing net working capital adjustment.

At closing, the parties entered into a transition services agreement where Boyd Coffee agreed to provide certain accounting, marketing, sales and distribution support during a transition period of up to 12 months. We also entered into a co-manufacturing agreement with Boyd Coffee for a transition period of up to 12 months as we transition production into our plants. Amounts paid by the Company to Boyd Coffee for these services totaled $9.2 million in the three and six months ended December 31, 2017.

On October 11, 2016, we acquired substantially all of the assets and certain specified liabilities of China Mist for aggregate purchase consideration of $12.2 million, consisting of $11.2 million in cash paid at closing including working capital adjustments of $0.4 million, post-closing final working capital adjustments of $0.6 million, and up to $0.5 million in contingent consideration to be paid as earnout if certain sales levels are achieved in the calendar years of 2017 or 2018. On February 7, 2017, we acquired substantially all of the assets and certain specified liabilities of West Coast Coffee for aggregate purchase consideration of $15.5 million, which included $14.7 million in cash paid at closing including working capital adjustments of $1.2 million, post-closing working capital adjustment of $(0.2) million and up to $1.0 million in contingent consideration to be paid as earnout if certain sales levels are achieved in the twenty-four months following the closing. We funded the purchase price for these acquisitions with proceeds under our Revolving Facility and cash flows from operations. See Note 3, Acquisitions, of the Notes to Unaudited Condensed Consolidated Financial Statements included in Part I, Item 1 of this report.

DSD Restructuring Plan

On February 21, 2017, we announced the DSD Restructuring Plan. We have revised our estimated time of completion of the DSD Restructuring Plan from the end of the second quarter of fiscal 2018 to the end of fiscal 2018. We estimate that we will recognize approximately $3.7 million to $4.9 million of pre-tax restructuring charges by the end of fiscal 2018 consisting of approximately $1.9 million to $2.7 million in employee-related costs, including severance, prorated bonuses for bonus eligible employees, contractual termination payments and outplacement services, and $1.8 million to $2.2 million in other related costs, including legal, recruiting, consulting, other professional services, and travel. Expenses related to the DSD Restructuring Plan in the three and six months ended December 31, 2017 consisted of $0 and $24,000, respectively, in employee-related costs and $0.1 million and $0.2 million, respectively, in other related costs. Since the adoption of the DSD Restructuring Plan through December 31, 2017, we have recognized and paid a total of $2.7 million in aggregate cash costs including $1.1 million in employee-related costs, and $1.6 million in other related costs. The remaining estimated costs of $1.0 million to $2.2 million are expected to be incurred in the remainder of fiscal 2018. We may also incur other charges not currently contemplated due to events that may occur as a result of, or associated with, the DSD Restructuring Plan. See Note 4, Restructuring Plans-Direct Store Delivery ("DSD") Restructuring Plan, of the Notes to Unaudited Condensed Consolidated Financial Statements included in Part I, Item 1 of this report.

Corporate Relocation Plan

We estimated that we would incur approximately $31 million in cash costs in connection with the Corporate Relocation Plan consisting of $18 million in employee retention and separation benefits, $5 million in facility-related costs and $8 million in other related costs. Since the adoption of the Corporate Relocation Plan in fiscal 2015 through December 31, 2017, we have recognized a total of $31.5 million in aggregate cash costs, including $17.1 million in employee retention and separation benefits, $7.0 million in facility-related costs related to the temporary office space, costs associated with the move of the Company's headquarters, relocation of our Torrance operations and certain distribution operations and $7.4 million in other related costs recorded in "Restructuring and other transition expenses" in our Condensed Consolidated Statements of Operations. We completed the Corporate Relocation Plan in the fourth quarter of fiscal 2017 and have $0.1 million in unpaid expenses related to employee-related costs, which is expected to be paid by the end of fiscal 2018. Additionally, from inception through December 31, 2017, we recognized non-cash depreciation expense of $2.3 million associated with the Torrance production facility resulting from the consolidation of coffee production operations with the Houston and Portland production facilities and $1.4 million in non-cash rent expense recognized in the sale-leaseback of the Torrance Facility. We may incur certain pension-related costs in connection with the Corporate Relocation Plan which are not included in the estimated $31 million in aggregate cash costs. See Note 4, Restructuring Plans—Corporate Relocation Plan, of the Notes to Unaudited Condensed Consolidated Financial Statements included in Part I, Item 1 of this report.

New Facility Costs

We estimated that the total construction costs including the cost of the land for the New Facility would be approximately $60 million. As of December 31, 2017, we have incurred an aggregate of $60.8 million in construction costs. In addition to the costs to complete the construction of the New Facility, we estimated that we would incur approximately $35 million to $39 million for machinery and equipment, furniture and fixtures, and related expenditures in connection with construction of the New Facility of which we have incurred an aggregate of $33.2 million as of December 31, 2017, including $22.5 million under the amended building contract for the New Facility. See Note 5, New Facility of the Notes to Unaudited Condensed Consolidated Financial Statements included in Part I, Item 1 of this report. The majority of the capital expenditures associated with machinery and equipment, furniture and fixtures and related expenditures in connection with the initial construction of the New Facility were incurred in the first three quarters of fiscal 2017. We commenced distribution activities at the New Facility during the second quarter of fiscal 2017 and initial production activities late in the third quarter of fiscal 2017. We began roasting coffee in the New Facility in the fourth quarter of fiscal 2017.

The following table summarizes the expenditures incurred for construction of the New Facility as of December 31, 2017 as compared to the final budget:

	Expenditures Incurred			Budget	
(In thousands)	Six Months Ended December 31, 2017	Through Fiscal Year Ended June 30, 2017	Total	Lower bound	Upper bound
Building and facilities, including land	$—	$60,770	$60,770	$55,000	$60,000
Machinery and equipment; furniture and fixtures	—	33,241	$33,241	35,000	39,000
Total	$—	$94,011	$94,011	$90,000	$99,000

Capital Expenditures

For the six months ended December 31, 2017 and 2016, our capital expenditures paid were as follows:

	Six Months Ended December 31,	
(In thousands)	2017	2016
Coffee brewing equipment	$4,816	$5,885
Building and facilities	265	—
Vehicles, machinery and equipment	5,051	5,735
Software, office furniture and equipment	1,625	1,739
Capital expenditures excluding New Facility	$11,757	$13,359
New Facility:		
Building and facilities, including land(1)	$1,577	$21,783
Machinery and equipment	2,489	10,554
Software, office furniture and equipment	426	2,951
Capital expenditures, New Facility	$4,492	$35,288
Total capital expenditures	$16,249	$48,647

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(1) Includes $21.8 million in purchase of assets for New Facility construction in the six months ended December 31, 2016.

In the six months ended December 31, 2017, we paid $4.5 million in capital expenditures for the New Facility. In fiscal 2018 we anticipate paying between $8 million to $11 million in capital expenditures to support investments in the business and to expand our customer base of which $2.7 million has been paid in the six months ended December 31, 2017. Additionally, in fiscal 2018 we expect to pay approximately $20 million to $22 million in expenditures to replace normal wear and tear of coffee brewing equipment, vehicles, machinery and equipment and mobile sales solution hardware of which $9.1 million has been paid in the six months ended December 31, 2017.

Depreciation and amortization expense was $8.1 million and $5.1 million in the three months ended December 31, 2017 and 2016, respectively. Depreciation and amortization expense was $15.3 million and $10.1 million, in the six months ended December 31, 2017 and 2016, respectively. We anticipate our depreciation and amortization expense will be approximately $8.0 million to $8.5 million per quarter in the remainder of fiscal 2018 based on our existing fixed asset commitments and the useful lives of our intangible assets.

Working Capital

At December 31, 2017 and June 30, 2017, our working capital was composed of the following:

	December 31, 2017	June 30, 2017
(In thousands)		
Current assets	$150,355	$117,164
Current liabilities	166,062	97,267
Working capital	$(15,707)	$19,897

Contractual Obligations

During the three months ended December 31, 2017, other than the following, there were no material changes in our contractual obligations.

At December 31, 2017, we had committed to purchase additional equipment for the New Facility totaling $6.3 million.

At December 31, 2017, we had outstanding borrowings of $84.4 million under our Revolving Facility, as compared to outstanding borrowings of $27.6 million at June 30, 2017. The increase in outstanding borrowings in the six months ended December 31, 2017 included $39.5 million to fund the purchase price for the Boyd Business and initial Company obligations under the post-closing transition services agreement.

In connection with the Boyd Coffee acquisition, as part of the consideration for the purchase, at closing we held back $1.1 million in cash to pay, on behalf of Boyd Coffee, any assessment of withdrawal liability made against Boyd Coffee following the closing date in respect of Boyd Coffee’s multiemployer plans. As we have not made this payment as of December 31, 2017 and we expect settling the pension liability will take greater than twelve months, the multiemployer plan holdback is recorded in other long-term liabilities on our Condensed Consolidated Balance Sheet at December 31, 2017.

As of December 31, 2017, we had committed to purchase green coffee inventory totaling $55.3 million under fixed-price contracts and other purchases totaling $12.9 million under non-cancelable purchase orders.

Off-Balance Sheet Arrangements

We have no off-balance sheet arrangements.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Interest Rate Risk

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

preferred stock held, the slope of the U.S. Treasury yield curve, the expected volatility of U.S. Treasury yields, and the costs of using futures and/or options.
In the fourth quarter of fiscal 2017, we liquidated substantially all of our preferred stock portfolio, net of purchases, to fund expenditures associated with our New Facility in Northlake, Texas. In the second quarter ended December 31, 2017, we liquidated the remaining security in our preferred stock portfolio and at December 31, 2017 the preferred stock portfolio was closed.
Borrowings under our Revolving Facility bear interest based on average historical excess availability levels with a range of PRIME - 0.25% to PRIME + 0.50% or Adjusted LIBO Rate + 1.25% to Adjusted LIBO Rate + 2.00%.
At December 31, 2017, we had outstanding borrowings of $84.4 million, utilized $1.1 million of the letters of credit sublimit, and had excess availability under the Revolving Facility of $24.5 million. The weighted average interest rate on our outstanding borrowings under the Revolving Facility at December 31, 2017 was 3.62%.
The following table demonstrates the impact of interest rate changes on our annual interest expense on outstanding borrowings under the Revolving Facility, excluding interest on letters of credit, based on the weighted average interest rate on the outstanding borrowings as of December 31, 2017:

($ in thousands)	Principal	Interest Rate	Annual Interest Expense
–150 basis points	$84,430	2.13 %	$ 1,798
–100 basis points	$84,430	2.63 %	$ 2,221
Unchanged	$84,430	3.63 %	$ 3,065
+100 basis points	$84,430	4.63 %	$ 3,909
+150 basis points	$84,430	5.13 %	$ 4,331

Commodity Price Risk
We are exposed to commodity price risk arising from changes in the market price of green coffee. We value green coffee inventory on the LIFO basis. In the normal course of business we hold a large green coffee inventory and enter into forward commodity purchase agreements with suppliers. We are subject to price risk resulting from the volatility of green coffee prices. Due to competition and market conditions, volatile price increases cannot always be passed on to our customers.
We purchase over-the-counter coffee-related derivative instruments to enable us to lock in the price of green coffee commodity purchases. These derivative instruments also may be entered into at the direction of the customer under commodity-based pricing arrangements to effectively lock in the purchase price of green coffee under such customer arrangements, in certain cases up to 18 months or longer in the future. We account for certain coffee-related derivative instruments as accounting hedges in order to minimize the volatility created in our quarterly results from utilizing these derivative contracts and to improve comparability between reporting periods.
When we designate coffee-related derivative instruments as cash flow hedges, we formally document the hedging instruments and hedged items, and measure at each balance sheet date the effectiveness of our hedges. The effective portion of the change in fair value of the derivative is reported in AOCI and subsequently reclassified into cost of goods sold in the period or periods when the hedged transaction affects earnings. For the three months ended December 31, 2017 and 2016, respectively, we reclassified $(0.6) million in net losses and $0.2 million in net gains on derivative instruments designated as cash flow hedges, excluding tax, respectively, into cost of goods sold from AOCI. Any ineffective portion of the derivative's change in fair value is recognized currently in "Other, net." For the six months ended December 31, 2017 and 2016, respectively, we reclassified $(0.6) million and $(0.3) million in net losses on derivative instruments designated as cash flow hedges, excluding tax, respectively, into cost of goods sold from AOCI. Gains or losses deferred in AOCI associated with terminated derivative instruments, derivative instruments that cease to be highly effective hedges, derivative instruments for which the forecasted transaction is reasonably possible but no longer probable of occurring, and cash flow hedges that have been otherwise discontinued remain in AOCI until the hedged item affects earnings. If it becomes probable that the forecasted transaction designated as the hedged item in a cash flow hedge will not occur, we recognize any gain or loss

deferred in AOCI in “Other, net” at that time. For the three months ended December 31, 2017 and 2016, we recognized in “Other, net” $0 and $(41,000) in net losses, respectively, on coffee-related derivative instruments designated as cash flow hedges due to ineffectiveness. For the six months ended December 31, 2017 and 2016, we recognized in “Other, net” $48,000 in net gains and $(28,000) in net losses, respectively, on coffee-related derivative instruments designated as cash flow hedges due to ineffectiveness.

For derivative instruments that are not designated in a hedging relationship, and for which the normal purchases and normal sales exception has not been elected, the changes in fair value are reported in “Other, net.” In the three months ended December 31, 2017 and 2016, we recorded in “Other, net” net losses of $(0.2) million and $(1.2) million, respectively, on coffee-related derivative instruments not designated as accounting hedges. In the six months ended December 31, 2017 and 2016, we recorded in “Other, net” net losses of $(93,000) and $(1.2) million, respectively, on coffee-related derivative instruments not designated as accounting hedges.

The following table summarizes the potential impact as of December 31, 2017 to net income and AOCI from a hypothetical 10% change in coffee commodity prices. The information provided below relates only to the coffee-related derivative instruments and does not include, when applicable, the corresponding changes in the underlying hedged items:

	Increase (Decrease) to Net Income		Increase (Decrease) to AOCI	
(In thousands)	10% Increase in Underlying Rate	10% Decrease in Underlying Rate	10% Increase in Underlying Rate	10% Decrease in Underlying Rate
Coffee-related derivative instruments(1)	$211	$ (211)	$4,202	$ (4,202)

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(1) The Company’s purchase contracts that qualify as normal purchases include green coffee purchase commitments for which the price has been locked in as of December 31, 2017. These contracts are not included in the sensitivity analysis above as the underlying price has been fixed.

Item 4. Controls and Procedures

Disclosure Controls and Procedures

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

As of December 31, 2017, our management, with the participation of our Chief Executive Officer (principal executive officer) and Chief Financial Officer (principal financial and accounting officer), carried out an evaluation of the effectiveness of our disclosure controls and procedures pursuant to Rule 13a-15(e) promulgated under the Exchange Act. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective.

Changes in Internal Control Over Financial Reporting

Management has determined that there has been no change in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) promulgated under the Exchange Act) during our fiscal quarter ended December 31, 2017 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

On October 2, 2017, we completed the acquisition of substantially all of the assets and certain specified liabilities of Boyd Coffee Company. We are currently integrating processes, employees, technologies and operations. Management will continue to evaluate our internal controls over financial reporting as we complete the integration.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

The information set forth in Note 21, Commitments and Contingencies, of the Notes to Unaudited Condensed Consolidated Financial Statements included in Part I, Item 1 of this Form 10-Q is incorporated herein by reference.

Item 6. Exhibits

See Exhibit Index.

SIGNATURES

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

FARMER BROS. CO.	
By:	/s/ Michael H. Keown Michael H. Keown President and Chief Executive Officer (chief executive officer) February 7, 2018
By:	/s/ David G. Robson David G. Robson Treasurer and Chief Financial Officer (principal financial and accounting officer) February 7, 2018

EXHIBIT INDEX

2.1	Asset Purchase Agreement, dated as of November 16, 2015, by and between Farmer Bros. Co. and Harris Spice Company Inc. (filed as Exhibit 2.1 to the Company’s Current Report on Form 8-K filed with the SEC on November 20, 2015 and incorporated herein by reference).*
2.2	Purchase Agreement, dated as of September 9, 2016, among Tea Leaf Acquisition Corp., China Mist Brands, Inc., certain stockholders of China Mist Brands, Inc., for certain limited purposes, Daniel W. Schweiker and John S. Martinson, and Daniel W. Schweiker, in his capacity as the sellers’ representative (filed as Exhibit 10.1 to the Company’s Current Report on Form 8-K filed with the SEC on September 14, 2016 and incorporated herein by reference).*
2.3	Asset Purchase Agreement, dated as of August 18, 2017, by and among Farmer Bros. Co., Boyd Assets Co., Boyd Coffee Company, and each of the parties set forth on Exhibit A thereto (filed as Exhibit 10.1 to the Company’s Current Report on Form 8-K filed with the SEC on August 21, 2017 and incorporated herein by reference).*
3.1	Certificate of Incorporation of Farmer Bros. Co. (filed as Exhibit 3.1 to the Company’s Current Report on Form 8-K filed with the SEC on June 26, 2017 and incorporated herein by reference).
3.2	Certificate of Amendment to the Certificate of Incorporation of Farmer Bros. Co. (filed as Exhibit 3.2 to the Company's Current Report on Form 8-K filed with the SEC on June 26, 2017 and incorporated herein by reference).
3.3	Amended and Restated Bylaws (filed as Exhibit 3.2 to the Company’s Quarterly Report on Form 10-Q for the quarter ended March 31, 2016 filed with the SEC on May 6, 2016 and incorporated herein by reference).
3.4	Certificate of Elimination (filed as Exhibit 3.3 to the Company's Registration Statement on Form 8-A12B/A filed with the SEC on September 24, 2015 and incorporated herein by reference).
3.5	Certificate of Designations of Series A Convertible Participating Cumulative Perpetual Preferred Stock of Farmer Bros. Co. (filed as Exhibit 3.1 to the Company’s Current Report on Form 8-K filed with the SEC on October 3, 2017 and incorporated herein by reference).
4.1	Specimen Stock Certificate (filed as Exhibit 4.1 to the Company's Registration Statement on Form 8-A12B/A filed with the SEC on September 24, 2015 and incorporated herein by reference).
4.2	Specimen Stock Certificate for Series A Convertible Participating Cumulative Perpetual Preferred Stock (filed as Exhibit 4.2 to the Company’s Quarterly Report on Form 10-Q filed with the SEC on November 7, 2017 and incorporated herein by reference).
4.3	Registration Rights Agreement, dated as of June 16, 2016, among Farmer Bros. Co. and the Investors identified on the signature pages thereto (filed as Exhibit 10.1 to the Company’s Current Report on Form 8-K filed with the SEC on June 21, 2016 and incorporated herein by reference).
10.1	

	Credit Agreement, dated as of March 2, 2015, by and among Farmer Bros. Co., Coffee Bean International, Inc., FBC Finance Company, Coffee Bean Holding Co., Inc., the Lenders party thereto and JPMorgan Chase Bank, N.A., as Administrative Agent (filed as Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the SEC on March 6, 2015 and incorporated herein by reference).
10.2	Pledge and Security Agreement, dated as of March 2, 2015, by and among Farmer Bros. Co., Coffee Bean International, Inc., FBC Finance Company, Coffee Bean Holding Co., Inc. and JPMorgan Chase Bank, N.A., as Administrative Agent (filed as Exhibit 10.2 to the Company's Current Report on Form 8-K filed with the SEC on March 6, 2015 and incorporated herein by reference).

10.3	Joinder Agreement, dated as of October 11, 2016, by and among China Mist Brands, Inc., Farmer Bros. Co., as the Borrower Representative, and JPMorgan Chase Bank, N.A., as Administrative Agent, under that certain Credit Agreement dated as of March 2, 2015 (filed as Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q for the quarter ended December 31, 2016 filed with the SEC on February 9, 2017 and incorporated herein by reference).
10.4	Joinder to Pledge and Security Agreement, dated as of October 11, 2016, by and among Farmer Bros. Co., Coffee Bean International, Inc., FBC Finance Company, Coffee Bean Holding Co., Inc., China Mist Brands, Inc. and JPMorgan Chase Bank, N.A., as Administrative Agent (filed as Exhibit 10.4 to the Company's Quarterly Report on Form 10-Q for the quarter ended December 31, 2016 filed with the SEC on February 9, 2017 and incorporated herein by reference).
10.5	First Amendment to Credit Agreement and First Amendment to Pledge and Security Agreement, dated as of August 25, 2017, by and among Farmer Bros. Co., China Mist Brands, Inc., Coffee Bean International, Inc., FBC Finance Company, Coffee Bean Holding Company, Inc., the Lenders party thereto and JPMorgan Chase Bank, N.A., as Administrative Agent (filed as Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the SEC on August 30, 2017 and incorporated herein by reference).
10.6	Joinder Agreement, dated as of November 29, 2017, by and among Boyd Assets Co., Farmer Bros. Co., as the Borrower's Representative, and JPMorgan Chase Bank, N.A., as Administrative Agent, under that certain Credit Agreement dated as of March 2, 2015, as amended by that certain First Amendment to Credit Agreement, dated as of August 25, 2017(filed herewith).
10.7	Joinder to Pledge and Security Agreement, dated as of November 29, 2017, by and among Farmer Bros. Co., Coffee Bean International, Inc., FBC Finance Company, Coffee Bean Holding Co., Inc., China Mist Brands, Inc., Boyd Assets Co. and JPMorgan Chase Bank, N.A., as Administrative Agent (filed herewith).
10.8	Farmer Bros. Co. Pension Plan for Salaried Employees (filed (filed as Exhibit 10.6 to the Company's Quarterly Report on Form 10-Q filed with the SEC on November 7, 2017 and incorporated herein by reference).**
10.9	Amendment No. 1 to Farmer Bros. Co. Retirement Plan effective June 30, 2011 (filed as Exhibit 10.4 to the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 2016 filed with the SEC on September 14, 2016 and incorporated herein by reference).**
10.10	Action of the Administrative Committee of the Farmer Bros. Co. Qualified Employee Retirement Plans amending the Farmer Bros. Co. Retirement Plan, effective as of December 6, 2012 (filed as Exhibit 10.8 to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2013 filed with the SEC on May 6, 2013 and incorporated herein by reference).**
10.11	Farmer Bros. Co. 2005 Incentive Compensation Plan (filed as Exhibit 10.10 to the Company's Quarterly Report on Form 10-Q for the quarter ended December 31, 2013 filed with the SEC on February 10, 2014 and incorporated herein by reference).**
10.12	Amendment to Farmer Bros. Co. 2005 Incentive Compensation Plan (filed as Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the SEC on December 10, 2014 and incorporated herein by reference).**
10.13	Farmer Bros. Co. Amended and Restated Employee Stock Ownership Plan, as adopted by the Board of Directors on December 9, 2010 and effective as of January 1, 2010 (filed as Exhibit 10.8 to the Company's

	Quarterly Report on Form 10-Q for the quarter ended March 31, 2016 filed with the SEC on May 6, 2016 and incorporated herein by reference).**
10.14	Action of the Administrative Committee of the Farmer Bros. Co. Qualified Employee Retirement Plans amending the Farmer Bros. Co. Amended and Restated Employee Stock Ownership Plan, effective as of January 1, 2012 (filed as Exhibit 10.12 to the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 2017 filed with the SEC on September 28, 2017 and incorporated herein by reference).**

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10.15	Action of the Administrative Committee of the Farmer Bros. Co. Qualified Employee Retirement Plans amending the Farmer Bros. Co. Amended and Restated Employee Stock Ownership Plan, effective as of January 1, 2015 (filed as Exhibit 10.10 to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2015 filed with the SEC on November 9, 2015 and incorporated herein by reference).**
10.16	Action of the Administrative Committee of the Farmer Bros. Co. Qualified Employee Retirement Plans amending the Farmer Bros. Co. Amended and Restated Employee Stock Ownership Plan, effective as of January 1, 2015 (filed as Exhibit 10.11 to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2015 filed with the SEC on November 9, 2015 and incorporated herein by reference).**
10.17	Amendment dated October 6, 2016 to Farmer Bros. Co. Amended and Restated Employee Stock Ownership Plan (filed as Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the SEC on October 7, 2016 and incorporated herein by reference).**
10.18	Action of the Administrative Committee of the Farmer Bros. Co. Qualified Employee Retirement Plans amending the Farmer Bros. Co. Amended and Restated Employee Stock Ownership Plan, effective as of January 1, 2017 (filed herewith).**
10.19	ESOP Loan Agreement including ESOP Pledge Agreement and Promissory Note, dated March 28, 2000, between Farmer Bros. Co. and Wells Fargo Bank, N.A., Trustee for the Farmer Bros Co. Employee Stock Ownership Plan (filed as Exhibit 10.12 to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2016 filed with the SEC on May 6, 2016 and incorporated herein by reference).
10.20	Amendment No. 1 to ESOP Loan Agreement, dated June 30, 2003, between Farmer Bros. Co. and Wells Fargo Bank, N.A., Trustee for the Farmer Bros Co. Employee Stock Ownership Plan (filed as Exhibit 10.13 to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2016 filed with the SEC on May 6, 2016 and incorporated herein by reference).
10.21	ESOP Loan Agreement No. 2 including ESOP Pledge Agreement and Promissory Note, dated July 21, 2003 between Farmer Bros. Co. and Wells Fargo Bank, N.A., Trustee for the Farmer Bros Co. Employee Stock Ownership Plan (filed as Exhibit 10.14 to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2016 filed with the SEC on May 6, 2016 and incorporated herein by reference).
10.22	Employment Agreement, dated March 9, 2012, by and between Farmer Bros. Co. and Michael H. Keown (filed as Exhibit 10.18 to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2017 filed with the SEC on May 10, 2017 and incorporated herein by reference).**
10.23	Employment Agreement, effective as of May 27, 2015, by and between Farmer Bros. Co. and Scott W. Bixby (filed as Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the SEC on May 20, 2015 and incorporated herein by reference).**
10.24	Employment Agreement, effective as of August 6, 2015, by and between Farmer Bros. Co. and Thomas J. Mattei, Jr. (filed as Exhibit 10.20 to the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 2015 filed with the SEC on September 14, 2015 and incorporated herein by reference).**
10.25	Employment Agreement, dated as of February 17, 2017, by and between Farmer Bros. Co. and David G. Robson (filed as Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the SEC on February 23, 2017 and incorporated herein by reference).**

10.26	Employment Agreement, dated as of February 17, 2017, by and between Farmer Bros. Co. and Ellen D. Iobst (filed as Exhibit 10.2 to the Company’s Current Report on Form 8-K filed with the SEC on February 23, 2017 and incorporated herein by reference).**
10.27	Employment Agreement, dated as of February 17, 2017, by and between Farmer Bros. Co. and Scott A. Siers (filed as Exhibit 10.3 to the Company’s Current Report on Form 8-K filed with the SEC on February 23, 2017 and incorporated herein by reference).**

10.28	Form of First Amendment to Employment Agreement entered into between Farmer Bros. Co. and each of Michael H. Keown, David G. Robson, Ellen D. Iobst, Scott W. Bixby, Scott A. Siers and Thomas J. Mattei, Jr. (filed as Exhibit 10.25 to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2017 filed with the SEC on May 10, 2017 and incorporated herein by reference).**
10.29	Confidential General Release and Separation Agreement by and between Barry C. Fischetto and Farmer Bros. Co. dated February 17, 2017 (filed as Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the SEC on February 17, 2017 and incorporated herein by reference).**
10.30	Farmer Bros. Co. 2007 Omnibus Plan, as amended (as approved by the stockholders at the 2012 Annual Meeting of Stockholders on December 6, 2012) (filed as Exhibit 10.27 to the Company's Quarterly Report on Form 10-Q filed with the SEC on November 7, 2017 and incorporated herein by reference).**
10.31	Farmer Bros. Co. Amended and Restated 2007 Long-Term Incentive Plan (as approved by the stockholders at the 2013 Annual Meeting of Stockholders on December 5, 2013) (filed as Exhibit 10.2 to the Company's Current Report on Form 8-K filed with the SEC on December 11, 2013 and incorporated herein by reference).**
10.32	Addendum to Farmer Bros. Co. Amended and Restated 2007 Long-Term Incentive Plan (filed as Exhibit 10.30 to the Company's Quarterly Report on Form 10-Q for the quarter ended December 31, 2014 filed with the SEC on February 9, 2015 and incorporated herein by reference).**
10.33	Form of Farmer Bros. Co. 2017 Long-Term Incentive Plan Stock Option Award Agreement (filed as Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the SEC on December 4, 2017 and incorporated herein by reference).**
10.34	Form of Farmer Bros. Co. 2017 Long-Term Incentive Plan Stock Restricted Stock Unit Award Agreement (filed as Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the SEC on December 4, 2017 and incorporated herein by reference).**
10.35	Form of Farmer Bros. Co. 2017 Long-Term Incentive Plan Stock Restricted Stock Grant Agreement (Directors) (filed as Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the SEC on December 4, 2017 and incorporated herein by reference).**
10.36	Form of Farmer Bros. Co. 2017 Long-Term Incentive Plan Stock Restricted Stock Grant Agreement (Employees) (filed as Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the SEC on December 4, 2017 and incorporated herein by reference).**
10.37	Farmer Bros. Co. 2017 Long-Term Incentive Plan (as approved by the stockholders at the Special Meeting of Stockholders on June 20, 2017) filed as Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the SEC on June 26, 2017 and incorporated herein by reference)**
10.38	Form of Farmer Bros. Co. 2007 Omnibus Plan Stock Option Grant Notice and Stock Option Agreement (filed as Exhibit 10.2 to the Company's Current Report on Form 8-K filed with the SEC on April 4, 2013 and incorporated herein by reference).**
10.39	Form of Farmer Bros. Co. Amended and Restated 2007 Long-Term Incentive Plan Stock Option Grant Notice and Stock Option Agreement (filed as Exhibit 10.2 to the Company's Current Report on Form 8-K filed with

	the SEC on December 18, 2013 and incorporated herein by reference).**
10.40	Form of Farmer Bros. Co. 2007 Omnibus Plan Restricted Stock Award Grant Notice and Restricted Stock Award Agreement (filed as Exhibit 10.3 to the Company's Current Report on Form 8-K filed with the SEC on April 4, 2013 and incorporated herein by reference).**
10.41	Form of Farmer Bros. Co. Amended and Restated 2007 Long-Term Incentive Plan Restricted Stock Award Grant Notice and Restricted Stock Award Agreement (filed as Exhibit 10.3 to the Company's Current Report on Form 8-K filed with the SEC on December 18, 2013 and incorporated herein by reference).**

10.42	Stock Ownership Guidelines for Directors and Executive Officers (filed as Exhibit 10.27 to the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 2016 filed with the SEC on September 14, 2016 and incorporated herein by reference).**
10.43	Form of Change in Control Severance Agreement for Executive Officers of the Company (with schedule of executive officers attached) (filed as Exhibit 10.35 to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2017 filed with the SEC on May 10, 2017 and incorporated herein by reference).**
10.44	Form of First Amendment to Change in Control Severance Agreement entered into between Farmer Bros. Co. and each of Michael H. Keown, David G. Robson, Ellen D. Iobst, Scott W. Bixby, Scott A. Siers and Thomas J. Mattei, Jr. (filed as Exhibit 10.36 to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2017 filed with the SEC on May 10, 2017 and incorporated herein by reference).**
10.45	Form of Indemnification Agreement for Directors and Officers of the Company, as adopted on December 8, 2017 (with schedule of indemnitees attached) (filed as Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the SEC on December 13, 2017 and incorporated herein by reference).**
10.46	Lease Agreement, dated as of July 17, 2015, by and between Farmer Bros. Co. as Tenant, and WF-FB NLTX, LLC as Landlord (filed as Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the SEC on July 23, 2015 and incorporated herein by reference).
10.47	First Amendment to Lease Agreement dated as of December 29, 2015, by and between Farmer Bros. Co. as Tenant, and WF-FB NLTX, LLC as Landlord (filed as Exhibit 10.36 to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2016 filed with the SEC on May 6, 2016 and incorporated herein by reference).
10.48	Amendment No. 2 to Lease Agreement dated as of March 10, 2016, by and between Farmer Bros. Co. as Tenant, and WF-FB NLTX, LLC as Landlord (filed as Exhibit 10.37 to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2016 filed with the SEC on May 6, 2016 and incorporated herein by reference).
10.49	Termination of Lease Agreement, dated as of September 15, 2016, by and between Farmer Bros. Co. as Tenant, and WF-FB NLTX, LLC as Landlord (filed as Exhibit 10.33 to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2016 filed with the SEC on November 9, 2016 and incorporated herein by reference).
10.50	Development Management Agreement dated as of July 17, 2015, by and between Farmer Bros. Co., as Tenant and Stream Realty Partners-DFW, L.P., as Developer (filed as Exhibit 10.2 to the Company's Current Report on Form 8-K filed with the SEC on July 23, 2015 and incorporated herein by reference).
10.51	First Amendment to Development Management Agreement dated as of January 1, 2016, by and between Farmer Bros. Co., as Tenant and Stream Realty Partners-DFW, L.P., as Developer (filed as Exhibit 10.39 to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2016 filed with the SEC on May 6, 2016 and incorporated herein by reference).
10.52	Second Amendment to Development Management Agreement dated as of March 25, 2016, by and between Farmer Bros. Co., as Tenant and Stream Realty Partners-DFW, L.P., as Developer (filed as Exhibit 10.40 to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2016 filed with the SEC on May 6, 2016 and incorporated herein by reference).

10.53	AIA Document A141 - 2014, Standard Form of Agreement Between Owner and Design-Builder, dated as of September 22, 2015, between Farmer Bros. Co. and The Haskell Company (filed as Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the SEC on September 22, 2016 and incorporated herein by reference).
10.54	Change Order No. 12, dated as of September 17, 2016, between Farmer Bros. Co. and The Haskell Company (filed as Exhibit 10.2 to the Company's Current Report on Form 8-K filed with the SEC on September 22, 2016 and incorporated herein by reference).

10.55	Agreement of Purchase and Sale and Joint Escrow Instructions, dated as of April 11, 2016, by and between Farmer Bros. Co. as Seller, and Bridge Acquisition, LLC as Buyer (filed as Exhibit 10.41 to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2016 filed with the SEC on May 6, 2016 and incorporated herein by reference).
10.56	First Amendment to Agreement of Purchase and Sale and Joint Escrow Instructions, dated as of June 1, 2016, by and between Farmer Bros. Co. and Bridge Acquisition, LLC (filed as Exhibit 10.39 to the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 2016 filed with the SEC on September 14, 2016 and incorporated herein by reference).
31.1	Principal Executive Officer Certification Pursuant to Securities Exchange Act Rules 13a-14 and 15d-14 as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith).
31.2	Principal Financial and Accounting Officer Certification Pursuant to Securities Exchange Act Rules 13a-14 and 15d-14 as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith).
32.1	Principal Executive Officer Certification Pursuant to 18 U.S.C. Section 1350 as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (furnished herewith).
32.2	Principal Financial and Accounting Officer Certification Pursuant to 18 U.S.C. Section 1350 as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (furnished herewith).
101	The following financial statements from the Company's Quarterly Report on Form 10-Q for the fiscal period ended December 31, 2017, formatted in eXtensible Business Reporting Language: (i) Consolidated Balance Sheets, (ii) Consolidated Statements of Operations, (iii) Consolidated Statements of Comprehensive (Loss) Income, (iv) Consolidated Statements of Cash Flows, and (v) Notes to Unaudited Condensed Consolidated Financial Statements (furnished herewith).

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

** Management contract or compensatory plan or arrangement.