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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

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**FORM 8-K**  
**CURRENT REPORT**

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

Date of Report (Date of earliest event reported): **December 6, 2007**

**Farmer Bros. Co.**

(Exact Name of Registrant as Specified in Charter)

**Delaware**  
(State or Other Jurisdiction  
of Incorporation)

**0-1375**  
(Commission File Number)

**95-0725980**  
(I.R.S. Employer  
Identification No.)

**20333 South Normandie Avenue, Torrance, California**  
(Address of Principal Executive Offices)

**90502**  
(Zip Code)

**(310) 787-5200**  
(Registrant's telephone number, including area code)

**Not Applicable**  
(Former Name or Former Address, if Changed Since Last Report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

- ☐ Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
  - ☐ Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
  - ☐ Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
  - ☐ Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))
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**Item 1.01. Entry into a Material Definitive Agreement.**

**2007 Omnibus Plan**

On December 6, 2007 at the 2007 Annual Meeting of Stockholders (the "Annual Meeting"), the stockholders of Farmer Bros. Co., a Delaware corporation (the "Company"), approved the Farmer Bros. Co. 2007 Omnibus Plan (the "Omnibus Plan"). The following description of the Omnibus Plan does not purport to be complete and is qualified in its entirety by reference to the Omnibus Plan, which was previously filed as Exhibit 10.1 to the Form 8-K filed by the Company with the SEC on August 29, 2007 and is incorporated herein by reference.

*Awards.* The Omnibus Plan provides for the grant or issuance of stock options, stock appreciation rights, restricted stock, restricted stock units, dividend equivalents, performance-based awards, stock payments, cash-based awards or other incentives payable in cash or shares of stock, or any combination thereof. Each award will be set forth in a separate agreement with the person receiving the award and will indicate the type, terms and conditions of the award. The number of shares available for issuance under the Omnibus Plan will be 1,000,000, and no individual may be granted awards representing more than 250,000 shares in any calendar year, in each case, subject to adjustment as provided in the Plan.

*Administration.* The Omnibus Plan will be administered by the Compensation Committee of the Board. Subject to the terms and conditions of the Omnibus Plan, the Compensation Committee has the authority to select the persons to whom awards are to be made, to determine the number of shares to be subject thereto and the terms and conditions thereof, and to make all other determinations and to take all other actions necessary or advisable for the administration of the Omnibus Plan. The Compensation Committee is also authorized to adopt, establish or revise rules relating to administration of the Omnibus Plan. The full Board will administer the Omnibus Plan with respect to awards to non-employee directors.

*Eligibility.* Awards under the Omnibus Plan may be granted to individuals who are then Company officers or employees or are the officers or employees of any of the Company's subsidiaries. Such awards, other than performance-based awards, may also be granted to the Company's directors and consultants. Only employees may be granted incentive stock options.

For additional information regarding the Omnibus Plan, refer to Item 3 (Proposal to Approve the 2007 Omnibus Plan) on pages 11-17 of the Company's 2007 Proxy Statement, as filed with the Securities and Exchange Commission on October 24, 2007, incorporated herein by reference.

**Item 5.02. Departure of Directors or Certain Officers; Election of Directors; Appointment of Certain Officers; Compensatory Arrangements of Certain Officers.**

(b) **Retirement of Chief Executive Officer**

Effective upon commencement of the Annual Meeting, Guenter W. Berger, Chairman and Chief Executive Officer of the Company, and a member of the Board of Directors of the Company and its subsidiaries, retired as Chief Executive Officer of the Company. Following his retirement, Mr. Berger will continue as Chairman of the Board. He also will continue as an employee of the Company through December 31, 2007. As a director, Mr. Berger will receive the Company's standard director compensation for non-employee directors. A copy of the press release announcing Mr. Berger's retirement and various other matters is filed herewith as Exhibit 99.1 and is incorporated herein by reference.

(c) **Appointment of New Chief Executive Officer**

Effective upon commencement of the Annual Meeting, Roger M. Lavery III, President and Chief Operating Officer, was promoted to Chief Executive Officer of the Company. A copy of the press release announcing Mr. Lavery's promotion and various other matters is filed herewith as Exhibit 99.1 and is incorporated herein by reference.

(d) **Appointment of Directors**

At the Annual Meeting, the stockholders of the Company elected Roger M. Lavery III, Martin A. Lynch and James J. McGarry to serve as Class I Directors of the Company for a three-year term of office expiring at the 2010 Annual Meeting of Stockholders. Mr. Lynch has been named to the Audit Committee and Mr. McGarry has been named to the Compensation Committee.

In connection with their service as directors, Messrs. Lynch and McGarry will receive the Company's standard non-employee director compensation. As a new director, Mr. Lynch and the Company will enter into the Company's standard form of Indemnification Agreement for directors and officers, pursuant to which the Company will, to the extent permitted by applicable law, indemnify and hold harmless Mr. Lynch against all expenses, judgments, fines, penalties and amounts paid in settlement in connection with any threatened, pending or completed proceeding by reason of his status as a director. The foregoing description is qualified in its entirety by the full text of the form of Indemnification Agreement, which was previously filed as Exhibit 10.01 to the Company's Current Report on Form 8-K filed with the SEC on May 22, 2006, and is filed herewith as Exhibit 10.1 (to update the schedule of indemnitees), and is incorporated herein by reference. Messrs. Lavery and McGarry previously entered into similar agreements with the Company.

(e) **2007 Omnibus Plan**

On December 6, 2007 at the 2007 Annual Meeting, the stockholders of the Company approved the Omnibus Plan. A brief description of the terms and conditions of the Omnibus Plan is set forth above in Item 1.01 and incorporated by reference herein.

**Incentive Compensation Plan Fiscal 2008 Target Awards**

On December 6, 2007, the Compensation Committee of the Board of Directors of Farmer Bros. Co., a Delaware corporation (the "Company"), established target awards under the Farmer Bros. Co. 2005 Incentive Compensation Plan (the "Plan") for the fiscal year ending June 30, 2008 ("fiscal 2008"). The Compensation Committee designated Roger M. Lavery III, John E. Simmons and Michael J. King (collectively, the "Named Executive Officers") as participants in the Plan for fiscal 2008. For fiscal 2008, the Company has set the target awards of Messrs. Lavery, Simmons and King at \$225,000, \$150,000 and \$150,000, respectively.

For fiscal 2008, the Compensation Committee has established that the Company's financial performance for purposes of the Plan will be based on the level of achievement of operating cash flow and net sales as determined from the Company's audited financial statements. "Operating cash flow" is defined as income from operations plus depreciation and ESOP compensation expense, excluding income from the sale of capital assets. A percentage between 25% and 150% will be derived based on the combined level of achievement of these two criteria. The matrix showing the levels of achievement and percentages has not been included in this description since such information relates to specific quantitative or qualitative performance related factors. The Compensation Committee has also assigned individual goals for fiscal 2008 to each of the Named Executive Officers. The individual goals have not been included in this description in order to maintain the confidentiality of the Company's confidential commercial or business information. The preliminary bonus awards for fiscal 2008 will be determined based on the level of achievement of the assigned individual goals within a range of 60% to 120%, multiplied by the financial performance percentage derived from the matrix, multiplied by the Named Executive Officer's fiscal 2008 target award.

The form of 2008 Target Award Notification Letter under the Plan is attached as Exhibit 10.2 to this Current Report on Form 8-K and is incorporated herein by reference.

**Item 5.05 Amendments to the Registrant's Code of Ethics, or Waiver of a Provision of the Code of Ethics.**

On December 6, 2007 in connection with his promotion to Chief Executive Officer, Mr. Lavery signed the Company's Code of Ethics (the "Code"). The Code's standards remain the same. The Code is attached to this report as Exhibit 14.1 and will be available on the Company's website at [www.farmerbroscousa.com](http://www.farmerbroscousa.com) as soon as practicable.

**Item 7.01 Regulation FD Disclosure**

On December 6, 2007, the Company held its Annual Meeting. For the benefit of stockholders who were unable to attend the Annual Meeting, the text of the opening remarks by Roger M. Lavery III, President and Chief Executive Officer and Management's Report on the State of the Company delivered by

John E. Simmons, Treasurer and Chief Financial Officer, are attached as Exhibit 99.2 to this Current Report on Form 8-K and incorporated herein by reference.

#### **Item 8.01 Other Events**

##### **Stockholder Voting Results at Annual Meeting and Declaration of Quarterly Dividend**

On December 7, 2007, the Company issued a press release announcing the stockholder voting results at the Annual Meeting and declaration of a quarterly dividend. A copy of the press release is attached as Exhibit 99.1 to this Current Report on Form 8-K and incorporated herein by reference.

Of the 16,075,080 shares of common stock outstanding and entitled to vote at the Annual Meeting, 15,460,506 were represented at the meeting, or a 96.3% quorum.

At the Annual Meeting, stockholders:

1. Elected each of the following three (3) individuals to the Board of Directors to serve a three-year term as Class I directors until the Annual Meeting of Stockholders in 2010 and until their successors have been duly elected and qualified:

<b>Director Nominee</b>	<b>Votes Cast For</b>	<b>Votes Withheld</b>
Roger M. Lavery III	15,142,040	338,466
Martin A. Lynch	15,110,047	370,459
James J. McGarry	15,176,719	303,787

2. Ratified the selection of Ernst & Young LLP as the Company's independent registered public accounting firm for the fiscal year ending June 30, 2008. There were 15,324,854 votes for the appointment, 49,247 votes against the appointment, 106,405 abstentions and no broker non-votes.

3. Approved the Farmer Bros. Co. 2007 Omnibus Plan. There were 13,420,832 votes for the proposal, 409,941 votes against the proposal, 674,177 abstentions and 975,556 broker non-votes.

#### **Election of Officers**

On December 6, 2007, the Board of Directors appointed Roger M. Lavery III President and Chief Executive Officer, John E. Simmons Treasurer and Chief Financial Officer, Michael J. King Vice President – Sales, and John M. Anglin Secretary.

#### **Item 9.01 Financial Statements and Exhibits.**

- (d) Exhibits.
- 10.1 Form of Indemnification Agreement for Directors and Officers of the Company as adopted on May 18, 2006 (with schedule of indemnitees attached)
- 10.2 Form of Target Award Notification Letter (fiscal 2008) Under Farmer Bros. Co. 2005 Incentive Compensation Plan
- 14.1 Code of Ethics
- 99.1 Press Release of Farmer Bros. Co. announcing the results of stockholder voting at the Annual Meeting of Stockholders on December 6, 2007, declaration of a quarterly dividend and

announcing the retirement of Guenter Berger as Chief Executive Officer and the promotion of Roger M. Lavery III to Chief Executive Officer.

99.2 Text of the Opening Remarks by Roger M. Lavery III, President and Chief Executive Officer, and Management's Report on the State of the Company delivered by John E. Simmons, Treasurer and Chief Financial Officer, at the Annual Meeting of Stockholders on December 6, 2007

#### **SIGNATURE**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

Dated: December 10, 2007

FARMER BROS. CO.

By: /S/ JOHN E. SIMMONS

**EXHIBIT INDEX**

<b>Exhibit No.</b>	<b>Description</b>
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**[FORM OF]  
INDEMNIFICATION AGREEMENT**

THIS INDEMNIFICATION AGREEMENT (this "Agreement") is made and entered into as of \_\_\_\_\_, by and between Farmer Bros. Co., a Delaware corporation (the "Company"), and \_\_\_\_\_ ("Indemnitee").

**RECITALS**

WHEREAS, highly competent persons have become more reluctant to serve publicly-held corporations as directors, officers or in other capacities unless they are provided with adequate protection through insurance or adequate indemnification against inordinate risks of claims and actions against them arising out of their service to and activities on behalf of the corporation;

WHEREAS, the Board of Directors of the Company (the "Board") has determined that, in order to attract and retain qualified individuals, the Company will attempt to maintain on an ongoing basis, at its sole expense, liability insurance to protect persons serving the Company and its subsidiaries from certain liabilities. Although the furnishing of such insurance has been a customary and widespread practice among United States-based corporations and other business enterprises, the Company believes that, given current market conditions and trends, such insurance may be available to it in the future only at higher premiums and with more exclusions. At the same time, directors, officers and other persons in service to corporations or business enterprises are being increasingly subjected to expensive and time-consuming litigation relating to, among other things, matters that traditionally would have been brought only against the Company or business enterprise itself. The Certificate of Incorporation (the "Charter") and the Bylaws of the Company require indemnification of the officers and directors of the Company. Indemnitee may also be entitled to indemnification pursuant to applicable provisions of the Delaware General Corporation Law (the "DGCL"). The Charter, the Bylaws and the DGCL expressly provide that the indemnification provisions set forth therein are not exclusive, and thereby contemplate that contracts may be entered into between the Company and members of the board of directors, officers and other persons with respect to indemnification;

WHEREAS, the uncertainties relating to such insurance and to indemnification have increased the difficulty of attracting and retaining such persons;

WHEREAS, the Board has determined that the increased difficulty in attracting and retaining such persons is detrimental to the best interests of the Company's stockholders and that the Company should act to assure such persons that there will be increased certainty of such protection in the future;

WHEREAS, it is reasonable, prudent and necessary for the Company contractually to obligate itself to indemnify, and to advance expenses on behalf of, such persons to the fullest extent permitted by applicable law so that they will serve or continue to serve the Company free from undue concern that they will not be so indemnified;

WHEREAS, this Agreement is a supplement to and in furtherance of the Charter, the Bylaws of the Company and any resolutions adopted pursuant thereto, and shall not be deemed a substitute therefor, nor diminish or abrogate any rights of Indemnitee thereunder; and

WHEREAS, Indemnitee does not regard the protection available under the Company's Charter, Bylaws and insurance as adequate in the present circumstances, and may not be willing to serve as an officer or director without adequate protection, and the Company desires Indemnitee to serve in such capacity. Indemnitee is willing to serve, continue to serve and to take on additional service for or on behalf of the Company on the condition that he or she be so indemnified;

NOW, THEREFORE, in consideration of the premises and the covenants contained herein and Indemnitee's agreement to serve as a director or officer after the date hereof, the Company and Indemnitee do hereby covenant and agree as follows:

1. Definitions. As used in this Agreement:

(a) References to "agent" shall mean any person who is or was a director, officer, or employee of the Company or a Subsidiary of the Company or other person authorized by the Company to act for the Company, to include such person serving in such capacity as a director, officer, employee, fiduciary or other official of another corporation, partnership, limited liability company, joint venture, trust or other enterprise at the request of, for the convenience of, or to represent the interests of the Company or a Subsidiary of the Company.

(b) The terms "Beneficial Owner" and "Beneficial Ownership" shall have the meanings set forth in Rule 13d-3 promulgated under the Exchange Act as in effect on the date hereof.

(c) A "Change in Control" shall be deemed to occur upon the earliest to occur after the date of this Agreement of any of the following events:

(i) Acquisition of Stock by Third Party. Any Person is or becomes the Beneficial Owner, directly or indirectly, of securities of the Company representing fifteen percent (15%) or more of the combined voting power of the Company's then outstanding securities entitled to vote generally in the election of directors, unless (1) the change in the relative Beneficial Ownership of the Company's securities by any Person results solely from a reduction in the aggregate number of outstanding shares of securities entitled to vote generally in the election of directors, or (2) such acquisition was approved in advance by the Continuing Directors and such acquisition would not constitute a Change in Control under part (iii) of this definition;

(ii) Change in Board of Directors. Individuals who, as of the date hereof, constitute the Board, and any new director whose election by the Board or nomination for election by the Company's stockholders was approved by a vote of at least two thirds of the directors then still in office who were directors on the date hereof or whose election for nomination for election was previously so approved (collectively, the "Continuing Directors"), cease for any reason to constitute at least a majority of the members of the Board;

(iii) Corporate Transactions. The effective date of a reorganization, merger or consolidation of the Company (a "Business Combination"), in each case, unless, following such Business Combination: (1) all or substantially all of the individuals and entities who were the Beneficial Owners of securities entitled to vote generally in the election of directors immediately prior to such Business Combination beneficially own, directly or

indirectly, more than 51% of the combined voting power of the then outstanding securities of the Company entitled to vote generally in the election of directors resulting from such Business Combination (including, without limitation, a corporation which as a result of such transaction owns the Company or all or substantially all of the Company's assets either directly or through one or more Subsidiaries) in substantially the same proportions as their ownership, immediately prior to such Business Combination, of the securities entitled to vote generally in the election of directors; (2) no Person (excluding any corporation resulting from such Business Combination) is the Beneficial Owner, directly or indirectly, of 15% or more of the combined voting power of the then outstanding securities entitled to vote generally in the election of directors of such corporation except to the extent that such ownership existed prior to the Business Combination; and (3) at least a majority of the Board of Directors of the corporation resulting from such Business Combination were Continuing Directors at the time of the execution of the initial agreement, or of the action of the Board of Directors, providing for such Business Combination;

(iv) Liquidation. The approval by the stockholders of the Company of a complete liquidation of the Company or an agreement or series of agreements for the sale or disposition by the Company of all or substantially all of the Company's assets (or, if such approval is not required, the decision by the Board to proceed with such a liquidation, sale, or disposition in one transaction or a series of related transactions); or

(v) Other Events. There occurs any other event of a nature that would be required to be reported in response to Item 6(e) of Schedule 14A of Regulation 14A (or a response to any similar item on any similar schedule or form) promulgated under the Exchange Act, whether or not the Company is then subject to such reporting requirement.

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(d) "Corporate Status" describes the status of a person who is or was a director, officer, trustee, general partner, managing member, fiduciary, employee or agent of the Company or of any other Enterprise which such person is or was serving at the request of the Company.

(e) "Delaware Court" shall mean the Court of Chancery of the State of Delaware.

(f) "Disinterested Director" shall mean a director of the Company who is not and was not a party to the Proceeding in respect of which indemnification is sought by Indemnitee.

(g) "Enterprise" shall mean the Company and any other corporation, constituent corporation (including any constituent of a constituent) absorbed in a consolidation or merger to which the Company (or any of its wholly owned subsidiaries) is a party, limited liability company, partnership, joint venture, trust, employee benefit plan or other enterprise of which Indemnitee is or was serving at the request of the Company as a director, officer, trustee, general partner, managing member, fiduciary, employee or agent.

(h) "Exchange Act" shall mean the Securities Exchange Act of 1934, as amended.

(i) "Expenses" shall include all direct and indirect costs, fees and expenses of any type or nature whatsoever, including, without limitation, attorneys' fees and costs, retainers, court costs, transcript costs, fees and disbursements of experts, witness fees, fees and disbursements of private investigators and professional advisors, travel expenses, duplicating costs, printing and binding costs, telephone and fax transmission charges, postage, delivery service fees, secretarial services, reasonable compensation for time spent by Indemnitee for which he is not otherwise compensated for by the Company or any third party, and all other disbursements or expenses in connection with prosecuting, defending, preparing to prosecute or defend, investigating, being or preparing to be a witness in, or otherwise participating in, a Proceeding or enforcing a right to indemnification under this Agreement. Expenses also shall include Expenses incurred in connection with any appeal resulting from any Proceeding, including without limitation the premium, security for, and other costs relating to any cost bond, supersedeas bond, or other appeal bond or its equivalent. Expenses, however, shall not include amounts paid in settlement by Indemnitee or the amount of judgments or fines against Indemnitee.

(j) "Independent Counsel" shall mean a law firm or a member of a law firm that is experienced in matters of corporation law and neither presently is, nor in the past five years has been, retained to represent: (i) the Company or Indemnitee in any matter material to either such party (other than with respect to matters concerning Indemnitee under this Agreement, or of other indemnitees under similar indemnification agreements); or (ii) any other party to the Proceeding giving rise to a claim for indemnification hereunder. Notwithstanding the foregoing, the term "Independent Counsel" shall not include any person who, under the applicable standards of professional conduct then prevailing, would have a conflict of interest in representing either the Company or Indemnitee in an action to determine Indemnitee's rights under this Agreement. The Company agrees to pay the reasonable fees of the Independent Counsel referred to above and to fully indemnify such counsel against any and all Expenses, claims, liabilities and damages arising out of or relating to this Agreement or its engagement pursuant hereto.

(k) References to "fines" shall include any excise tax assessed on Indemnitee with respect to any employee benefit plan; references to "serving at the request of the Company" shall include any service as a director, officer, employee, agent or fiduciary of the Company which imposes duties on, or involves services by, such director, officer, employee, agent or fiduciary with respect to an employee benefit plan, its participants or beneficiaries; and if Indemnitee acted in good faith and in a manner Indemnitee reasonably believed to be in the best interests of the participants and beneficiaries of an employee benefit plan, Indemnitee shall be deemed to have acted in a manner "not opposed to the best interests of the Company" as referred to in this Agreement.

(l) The term "Person" shall have the meaning as set forth in Sections 13(d) and 14(d) of the Exchange Act as in effect on the date hereof; provided, however, that "Person" shall exclude: (i) the Company; (ii) any Subsidiary of the Company; (iii) any employee benefit plan of the Company including, without limitation, the Company's Employee Stock Ownership Plan, or of any Subsidiary of the Company, or any Person or entity organized, appointed or established by the Company for or pursuant to the terms of any such plan; (iv) a corporation owned directly or indirectly by the stockholders of the Company in substantially the same proportions as their

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ownership of stock of the Company; and (v) Roy F. Farmer, deceased, his widow Emily Farmer and their descendants (collectively, "Farmer Family Members"), the estates of Farmer Family Members and the personal representatives thereof, and trusts, partnerships and other entities created by or for the benefit of Farmer Family Members and the trustees, partners and members thereof.

(m) A “Potential Change in Control” shall be deemed to have occurred if: (i) the Company enters into an agreement or arrangement, the consummation of which would result in the occurrence of a Change in Control; (ii) any Person or the Company publicly announces an intention to take or consider taking actions which if consummated would constitute a Change in Control; (iii) any Person who becomes the Beneficial Owner, directly or indirectly, of securities of the Company representing 5% or more of the combined voting power of the Company’s then outstanding securities entitled to vote generally in the election of directors increases its Beneficial Ownership of such securities by 5% or more over the percentage so owned by such Person on the date hereof; or (iv) the Board adopts a resolution to the effect that, for purposes of this Agreement, a Potential Change in Control has occurred.

(n) The term “Proceeding” shall include any threatened, pending or completed action, suit, arbitration, alternate dispute resolution mechanism, investigation, inquiry, administrative hearing or any other actual, threatened or completed proceeding, whether brought in the right of the Company or otherwise and whether of a civil (including intentional or unintentional tort claims), criminal, administrative or investigative nature, in which Indemnitee was, is or will be involved as a party or otherwise by reason of the fact that Indemnitee is or was a director or officer of the Company, by reason of any action (or failure to act) taken by him or of any action (or failure to act) on his part while acting as a director or officer of the Company, or by reason of the fact that he is or was serving at the request of the Company as a director, officer, trustee, general partner, managing member, fiduciary, employee or agent of any other Enterprise, in each case whether or not serving in such capacity at the time any liability or expense is incurred for which indemnification, reimbursement, or advancement of expenses can be provided under this Agreement.

(o) The term “Subsidiary,” with respect to any Person, shall mean any corporation or other entity of which a majority of the voting power of the voting equity securities or equity interest is owned, directly or indirectly, by that Person.

2. Agreement To Serve. Indemnitee agrees to serve and/or continue to serve as an agent of the Company, at its will (or under separate agreement, if such agreement exists), in the capacity Indemnitee currently serves as an agent of the Company; provided, however, that nothing contained in this Agreement is intended to or shall (i) restrict the ability of Indemnitee to resign at any time and for any reason from any current or future position or positions, (ii) create any right to continued employment of Indemnitee in any current or future position or positions, or (iii) restrict the ability of the Company to terminate the employment or agency of Indemnitee at any time and for any reason (subject to compliance with the terms of any employment or other applicable agreement to which the Company (or any of its Subsidiaries) and Indemnitee are parties).

3. Indemnification in Third-Party Proceedings. The Company shall indemnify and hold harmless Indemnitee in accordance with the provisions of this Section 3 if, by reason of his Corporate Status, Indemnitee was, is, or is threatened to be made, a party to or a participant (as a witness or otherwise) in any Proceeding, other than a Proceeding by or in the right of the Company to procure a judgment in its favor. Pursuant to this Section 3, Indemnitee shall be indemnified against all Expenses, judgments, penalties, fines and amounts paid in settlement (including all interest, assessments and other charges paid or payable in connection with or in respect of such Expenses, judgments, fines, penalties and amounts paid in settlement) actually and reasonably incurred by Indemnitee or on his behalf in connection with such Proceeding or any claim, issue or matter therein, if Indemnitee acted in good faith and in a manner he reasonably believed to be in or not opposed to the best interests of the Company and, in the case of a criminal Proceeding, had no reasonable cause to believe that his conduct was unlawful.

4. Indemnification in Proceedings by or in the Right of the Company. The Company shall indemnify and hold harmless Indemnitee in accordance with the provisions of this Section 4 if, by reason of his Corporate Status, Indemnitee was, is, or is threatened to be made, a party to or a participant (as a witness or otherwise) in any Proceeding brought by or in the right of the Company to procure a judgment in its favor. Pursuant to this Section 4, Indemnitee shall be indemnified against all Expenses actually and reasonably incurred by Indemnitee or on his

behalf in connection with such Proceeding or any claim, issue or matter therein, if Indemnitee acted in good faith and in a manner he reasonably believed to be in or not opposed to the best interests of the Company. Notwithstanding the foregoing, no indemnification shall be made under this Section 4 in respect of any claim, issue or matter as to which Indemnitee shall have been finally adjudged by a court to be liable to the Company, unless and only to the extent that any court in which the Proceeding was brought or the Delaware Court shall determine upon application that, despite the adjudication of liability but in view of all the circumstances of the case, Indemnitee is fairly and reasonably entitled to indemnification for such Expenses as the court shall deem proper.

5. Indemnification for Expenses of a Party Who is Wholly or Partly Successful. Notwithstanding any other provisions of this Agreement, to the extent that Indemnitee is, by reason of his Corporate Status, a party to (or a participant in) and is successful, on the merits or otherwise, in any Proceeding or in defense of any claim, issue or matter therein, in whole or in part, the Company shall indemnify and hold harmless Indemnitee against all Expenses actually and reasonably incurred by him or on his behalf in connection therewith. If Indemnitee is not wholly successful in such Proceeding but is successful, on the merits or otherwise, as to one or more but less than all claims, issues or matters in such Proceeding, the Company shall indemnify and hold harmless Indemnitee against all Expenses actually and reasonably incurred by him or on his behalf in connection with each successfully resolved claim, issue or matter. If Indemnitee is not wholly successful in such Proceeding, the Company also shall indemnify and hold harmless Indemnitee against all Expenses reasonably incurred in connection with a claim, issue or matter related to any claim, issue or matter on which Indemnitee was successful. For purposes of this Section and without limitation, the termination of any claim, issue or matter in such a Proceeding by dismissal, with or without prejudice, shall be deemed to be a successful result as to such claim, issue or matter.

6. Indemnification for Expenses of a Witness. Notwithstanding any other provision of this Agreement, to the extent that Indemnitee is, by reason of his Corporate Status, a witness in any Proceeding to which Indemnitee is not a party, he shall be indemnified and held harmless against all Expenses actually and reasonably incurred by him or on his behalf in connection therewith.

7. Additional Indemnification

(a) Notwithstanding any limitation in Sections 3, 4 or 5, the Company shall indemnify and hold harmless Indemnitee if, by reason of his Corporate Status, Indemnitee is a party to or threatened to be made a party to or participant in any Proceeding (including a Proceeding by or in the right of the Company to procure a judgment in its favor) against all Expenses, judgments, fines, penalties and amounts paid in settlement (including all interest, assessments and other charges paid or payable in connection with or in respect of such Expenses, judgments, fines, penalties and amounts paid in settlement) actually and reasonably incurred by Indemnitee in connection with the Proceeding. No indemnity shall be made under this Section 7(a) on account of Indemnitee’s conduct which constitutes a breach of Indemnitee’s duty of loyalty to the Company or its stockholders or is an act or omission not in good faith or which involves intentional misconduct or a knowing violation of the law.

(b) Notwithstanding any limitation in Sections 3, 4, 5 or 7(a), the Company shall indemnify and hold harmless Indemnitee if Indemnitee is a party to or threatened to be made a party to any Proceeding (including a Proceeding by or in the right of the Company to procure a judgment in its favor) against all Expenses, judgments, fines, penalties and amounts paid in settlement (including all interest, assessments and other charges paid or payable in connection with or in respect of such Expenses, judgments, fines, penalties and amounts paid in settlement) actually and reasonably incurred by Indemnitee in connection with the Proceeding.

8. Contribution

(a) Whether or not the indemnification provided in Sections 3, 4, 5 and 7 hereof is available, in respect of any threatened, pending or completed action, suit or proceeding in which the Company is jointly liable with Indemnitee (or would be if joined in such action, suit or proceeding), the Company shall pay, in the first instance, the entire amount of any judgment or settlement of such action, suit or proceeding without requiring Indemnitee to contribute to such payment and the Company hereby waives and relinquishes any right of contribution it may have against Indemnitee. The Company shall not enter into any settlement of any action, suit or proceeding in which the Company is jointly liable with Indemnitee (or would be if joined in such action, suit or proceeding) unless such settlement provides for a full and final release of all claims asserted against Indemnitee.

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(b) Without diminishing or impairing the obligations of the Company set forth in the preceding subparagraph, if, for any reason, Indemnitee shall elect or be required to pay all or any portion of any judgment or settlement in any threatened, pending or completed action, suit or proceeding in which the Company is jointly liable with Indemnitee (or would be if joined in such action, suit or proceeding), the Company shall contribute to the amount of expenses (including attorneys' fees), judgments, fines and amounts paid in settlement actually and reasonably incurred and paid or payable by Indemnitee in proportion to the relative benefits received by the Company and all officers, directors or employees of the Company, other than Indemnitee, who are jointly liable with Indemnitee (or would be if joined in such action, suit or proceeding), on the one hand, and Indemnitee, on the other hand, from the transaction from which such action, suit or proceeding arose; provided, however, that the proportion determined on the basis of relative benefit may, to the extent necessary to conform to law, be further adjusted by reference to the relative fault of the Company and all officers, directors or employees of the Company other than Indemnitee who are jointly liable with Indemnitee (or would be if joined in such action, suit or proceeding), on the one hand, and Indemnitee, on the other hand, in connection with the events that resulted in such expenses, judgments, fines or settlement amounts, as well as any other equitable considerations which the Law may require to be considered. The relative fault of the Company and all officers, directors or employees of the Company, other than Indemnitee, who are jointly liable with Indemnitee (or would be if joined in such action, suit or proceeding), on the one hand, and Indemnitee, on the other hand, shall be determined by reference to, among other things, the degree to which their actions were motivated by intent to gain personal profit or advantage, the degree to which their liability is primary or secondary and the degree to which their conduct is active or passive.

(c) The Company hereby agrees to fully indemnify and hold Indemnitee harmless from any claims of contribution which may be brought by officers, directors or employees of the Company, other than Indemnitee, who may be jointly liable with Indemnitee.

(d) To the fullest extent permissible under applicable law, if the indemnification provided for in this Agreement is unavailable to Indemnitee for any reason whatsoever, the Company, in lieu of indemnifying Indemnitee, shall contribute to the amount incurred by Indemnitee, whether for judgments, fines, penalties, excise taxes, amounts paid or to be paid in settlement and/or for Expenses, in connection with any claim relating to an indemnifiable event under this Agreement, in such proportion as is deemed fair and reasonable in light of all of the circumstances of such Proceeding in order to reflect (i) the relative benefits received by the Company and Indemnitee as a result of the event(s) and/or transaction(s) giving cause to such Proceeding; and/or (ii) the relative fault of the Company (and its directors, officers, employees and agents) and Indemnitee in connection with such event(s) and/or transaction(s).

9. Exclusions. Notwithstanding any provision in this Agreement, the Company shall not be obligated under this Agreement to make any indemnity in connection with any claim made against Indemnitee:

(a) for which payment has actually been received by or on behalf of Indemnitee under any insurance policy or other indemnity provision, except with respect to any excess beyond the amount actually received under any insurance policy, contract, agreement, other indemnity provision or otherwise;

(b) for an accounting of profits made from the purchase and sale (or sale and purchase) by Indemnitee of securities of the Company within the meaning of Section 16(b) of the Exchange Act or similar provisions of state statutory law or common law;

(c) except as otherwise provided in Sections 14(e) and (f) hereof, prior to a Change in Control, in connection with any Proceeding (or any part of any Proceeding) initiated by Indemnitee, including any Proceeding (or any part of any Proceeding) initiated by Indemnitee against the Company or its directors, officers, employees or other indemnitees, unless (i) the Board authorized the Proceeding (or any part of any Proceeding) prior to its initiation or (ii) the Company provides the indemnification, in its sole discretion, pursuant to the powers vested in the Company under applicable law;

(d) for any Expenses, judgments, liabilities, fines, penalties and amounts paid in settlement resulting from Indemnitee's conduct which is finally adjudged to have been willful misconduct, knowingly fraudulent or deliberately dishonest; or

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(e) if a court of competent jurisdiction shall finally determine that any indemnification hereunder is unlawful.

10. Advances of Expenses; Defense of Claim

(a) Notwithstanding any provision of this Agreement to the contrary, and to the fullest extent permitted by applicable law, the Company shall advance all Expenses incurred by or on behalf of Indemnitee (or reasonably expected by Indemnitee to be incurred by Indemnitee within three months) in connection with any Proceeding by reason of Indemnitee's Corporate Status within ten (10) days after the receipt by the Company of a statement or statements requesting such advances from time to time, whether prior to or after final disposition of any Proceeding. Advances shall be unsecured and interest free. Advances shall be made without regard to Indemnitee's ability to repay the Expenses and without regard to Indemnitee's ultimate entitlement to



indemnification under the other provisions of this Agreement. Advances shall include any and all reasonable Expenses incurred pursuing a Proceeding to enforce this right of advancement, including Expenses incurred preparing and forwarding statements to the Company to support the advances claimed. Indemnatee shall qualify for advances, to the fullest extent permitted by applicable law, solely upon the execution and delivery to the Company of an undertaking providing that Indemnatee undertakes to repay the advance to the extent that it is ultimately determined that Indemnatee is not entitled to be indemnified by the Company under the provisions of this Agreement, the Charter, the Bylaws of the Company, applicable law or otherwise. This Section 10(a) shall not apply to any claim made by Indemnatee for which indemnity is excluded pursuant to Section 9.

(b) The Company shall be entitled to participate in any Proceeding at its own expense.

(c) The Company shall not settle any action, claim or Proceeding (in whole or in part) which would impose any Expense, judgment, fine, penalty or limitation on Indemnatee without Indemnatee's prior written consent.

11. Procedure for Notification and Application for Indemnification

(a) Indemnatee agrees to notify promptly the Company in writing upon being served with any summons, citation, subpoena, complaint, indictment, information or other document relating to any Proceeding or matter which may be subject to indemnification or advancement of Expenses covered hereunder. The failure of Indemnatee to so notify the Company shall not relieve the Company of any obligation which it may have to Indemnatee under this Agreement, or otherwise.

(b) Indemnatee may deliver to the Company a written application to indemnify and hold harmless Indemnatee in accordance with this Agreement. Such application(s) may be delivered from time to time and at such time(s) as Indemnatee deems appropriate in his sole discretion. Following such a written application for indemnification by Indemnatee, Indemnatee's entitlement to indemnification shall be determined according to Section 12(a) of this Agreement.

12. Procedure Upon Application for Indemnification

(a) A determination, if required by applicable law, with respect to Indemnatee's entitlement to indemnification shall be made in the specific case by one of the following methods, which shall be at the election of the Board: (i) by a majority vote of the Disinterested Directors, even though less than a quorum of the Board or (ii) by Independent Counsel in a written opinion to the Board, a copy of which shall be delivered to Indemnatee. The Company promptly shall advise Indemnatee in writing with respect to any determination that Indemnatee is or is not entitled to indemnification, including a description of any reason or basis for which indemnification has been denied. If it is so determined that Indemnatee is entitled to indemnification, payment to Indemnatee shall be made within ten (10) days after such determination. Indemnatee shall reasonably cooperate with the person, persons or entity making such determination with respect to Indemnatee's entitlement to indemnification, including providing to such person, persons or entity upon reasonable advance request any documentation or information which is not privileged or otherwise protected from disclosure and which is reasonably available to Indemnatee and reasonably necessary to such determination. Any costs or Expenses (including attorneys' fees and disbursements) incurred by

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Indemnatee in so cooperating with the person, persons or entity making such determination shall be borne by the Company (irrespective of the determination as to Indemnatee's entitlement to indemnification) and the Company hereby indemnifies and agrees to hold Indemnatee harmless therefrom.

(b) In the event the determination of entitlement to indemnification is to be made by Independent Counsel pursuant to Section 12(a) hereof, the Independent Counsel shall be selected as provided in this Section 12(b). The Independent Counsel shall be selected by the Board of Directors, and the Company shall give written notice to Indemnatee advising him of the identity of the Independent Counsel so selected and certifying that the Independent Counsel so selected meets the requirements of "Independent Counsel" as defined in Section 1 of this Agreement. Indemnatee may, within ten (10) days after such written notice of selection shall have been received, deliver to the Company a written objection to such selection; provided, however, that such objection may be asserted only on the ground that the Independent Counsel so selected does not meet the requirements of "Independent Counsel" as defined in Section 1 of this Agreement, and the objection shall set forth with particularity the factual basis of such assertion. Absent a proper and timely objection, the person so selected shall act as Independent Counsel. If such written objection is so made and substantiated, the Independent Counsel so selected may not serve as Independent Counsel unless and until such objection is withdrawn or a court of competent jurisdiction has determined that such objection is without merit. If, within twenty (20) days after submission by Indemnatee of a written request for indemnification pursuant to Section 11(b) hereof, no Independent Counsel shall have been selected and not objected to, either the Company or Indemnatee may petition the Delaware Court for resolution of any objection which shall have been made by Indemnatee to the Company's selection of Independent Counsel and/or for the appointment as Independent Counsel of a person selected by the Delaware Court, and the person with respect to whom all objections are so resolved or the person so appointed shall act as Independent Counsel under Section 12(a) hereof. Upon the due commencement of any judicial proceeding or arbitration pursuant to Section 14(a) of this Agreement, Independent Counsel shall be discharged and relieved of any further responsibility in such capacity (subject to the applicable standards of professional conduct then prevailing). The Company shall pay any and all reasonable fees and expenses of Independent Counsel incurred by such Independent Counsel in connection with acting pursuant to Section 12(a) hereof, regardless of the manner in which such Independent Counsel was selected or appointed.

13. Presumptions and Effect of Certain Proceedings

(a) In making a determination with respect to entitlement to indemnification hereunder, the person, persons or entity making such determination shall presume that Indemnatee is entitled to indemnification under this Agreement if Indemnatee has submitted a request for indemnification in accordance with Section 11(b) of this Agreement, and the Company shall have the burden of proof to overcome that presumption in connection with the making by any person, persons or entity of any determination contrary to that presumption. Neither the failure of the Company (including by its directors or Independent Counsel) to have made a determination prior to the commencement of any action pursuant to this Agreement that indemnification is proper in the circumstances because Indemnatee has met the applicable standard of conduct, nor an actual determination by the Company (including by its directors or Independent Counsel) that Indemnatee has not met such applicable standard of conduct, shall be a defense to the action or create a presumption that Indemnatee has not met the applicable standard of conduct.

(b) If the person, persons or entity empowered or selected under Section 12 of this Agreement to determine whether Indemnatee is entitled to indemnification shall not have made a determination within thirty (30) days after receipt by the Company of the request therefor, the requisite determination of entitlement to indemnification shall be deemed to have been made and Indemnatee shall be entitled to such indemnification, absent (i) a misstatement by Indemnatee of a material fact, or an omission of a material fact necessary to make Indemnatee's statement not materially misleading, in

connection with the request for indemnification, or (ii) a final judicial determination that any or all such indemnification is expressly prohibited under applicable law; provided, however, that such 30-day period may be extended for a reasonable time, not to exceed an additional fifteen (15) days, if the person, persons or entity making the determination with respect to entitlement to indemnification in good faith requires such additional time for the obtaining or evaluating of documentation and/or information relating thereto.

(c) The termination of any Proceeding or of any claim, issue or matter therein, by judgment, order, settlement or conviction, or upon a plea of nolo contendere or its equivalent, shall not (except as otherwise expressly provided in this Agreement) of itself adversely affect the right of Indemnitee to indemnification or create a presumption that Indemnitee did not act in good faith and in a manner which he reasonably believed to be in or not opposed to the best interests of the Company or, with respect to any criminal Proceeding, that Indemnitee had reasonable cause to believe that his conduct was unlawful.

(d) For purposes of any determination of good faith, Indemnitee shall be deemed to have acted in good faith if Indemnitee's action is based on the records or books of account of the Enterprise, including financial statements, or on information supplied to Indemnitee by the officers of the Enterprise in the course of their duties, or on the advice of legal counsel for the Enterprise or on information or records given or reports made to the Enterprise by an independent certified public accountant or by an appraiser or other expert selected by the Enterprise. The provisions of this Section 13(d) shall not be deemed to be exclusive or to limit in any way the other circumstances in which Indemnitee may be deemed or found to have met the applicable standard of conduct set forth in this Agreement.

(e) The knowledge and/or actions, or failure to act, of any other director, officer, trustee, partner, managing member, fiduciary, agent or employee of the Enterprise shall not be imputed to Indemnitee for purposes of determining the right to indemnification under this Agreement.

#### 14. Remedies of Indemnitee

(a) In the event that (i) a determination is made pursuant to Section 12 of this Agreement that Indemnitee is not entitled to indemnification under this Agreement, (ii) advancement of Expenses, to the fullest extent permitted by applicable law, is not timely made pursuant to Section 10 of this Agreement, (iii) no determination of entitlement to indemnification shall have been made pursuant to Section 12(a) of this Agreement within thirty (30) days after receipt by the Company of the request for indemnification, (iv) payment of indemnification is not made pursuant to Section 5, 6, or the last sentence of Section 12(a) of this Agreement within ten (10) days after receipt by the Company of a written request therefor, (v) a contribution payment is not made in a timely manner pursuant to Section 8 of this Agreement, or (vi) payment of indemnification pursuant to Section 3 or 4 of this Agreement is not made within ten (10) days after a determination has been made that Indemnitee is entitled to indemnification, Indemnitee shall be entitled to an adjudication by the Delaware Court to such indemnification, contribution or advancement of Expenses. Alternatively, Indemnitee, at his option, may seek an award in arbitration to be conducted by a single arbitrator pursuant to the Commercial Arbitration Rules of the American Arbitration Association. Except as set forth herein, the provisions of Delaware law (without regard to its conflict of laws rules) shall apply to any such arbitration. The Company shall not oppose Indemnitee's right to seek any such adjudication or award in arbitration.

(b) In the event that a determination shall have been made pursuant to Section 12(a) of this Agreement that Indemnitee is not entitled to indemnification, any judicial proceeding or arbitration commenced pursuant to this Section 14 shall be conducted in all respects as a de novo trial, or arbitration, on the merits and Indemnitee shall not be prejudiced by reason of that adverse determination. In any judicial proceeding or arbitration commenced pursuant to this Section 14, Indemnitee shall be presumed to be entitled to indemnification under this Agreement and the Company shall have the burden of proving Indemnitee is not entitled to indemnification or advancement of Expenses, as the case may be, and the Company may not refer to or introduce into evidence any determination pursuant to Section 12(a) of this Agreement adverse to Indemnitee for any purpose. If Indemnitee commences a judicial proceeding or arbitration pursuant to this Section 14, Indemnitee shall not be required to reimburse the Company for any advances pursuant to Section 10 until a final determination is made with respect to Indemnitee's entitlement to indemnification (as to which all rights of appeal have been exhausted or lapsed).

(c) If a determination shall have been made pursuant to Section 12(a) of this Agreement that Indemnitee is entitled to indemnification, the Company shall be bound by such determination in any judicial proceeding or arbitration commenced pursuant to this Section 14, absent (i) a misstatement by Indemnitee of a material fact, or an omission of a material fact necessary to make Indemnitee's statement not materially misleading, in connection with the request for indemnification, or (ii) a prohibition of such indemnification under applicable law.

(d) The Company shall be precluded from asserting in any judicial proceeding or arbitration commenced pursuant to this Section 14 that the procedures and presumptions of this Agreement are not valid, binding and enforceable and shall stipulate in any such court or before any such arbitrator that the Company is bound by all the provisions of this Agreement.

(e) The Company shall indemnify and hold harmless Indemnitee to the fullest extent permitted by law against all Expenses and, if requested by Indemnitee, shall (within ten (10) days after the Company's receipt of such written request) advance to Indemnitee, to the fullest extent permitted by applicable law, such Expenses which are incurred by Indemnitee in connection with any judicial proceeding or arbitration brought by Indemnitee (i) to enforce his rights under, or to recover damages for breach of, this Agreement or any other indemnification, advancement or contribution agreement or provision of the Charter, or the Company's Bylaws now or hereafter in effect; or (ii) for recovery or advances under any insurance policy maintained by any person for the benefit of Indemnitee, regardless of whether Indemnitee ultimately is determined to be entitled to such indemnification, advance, contribution or insurance recovery, as the case may be.

(f) Interest shall be paid by the Company to Indemnitee at the legal rate under Delaware law for amounts which the Company indemnifies or is obliged to indemnify for the period commencing with the date on which Indemnitee requests indemnification, contribution, reimbursement or advancement of any Expenses and ending with the date on which such payment is made to Indemnitee by the Company.

15. Establishment of Trust. In the event of a Potential Change in Control, the Company shall, upon written request by Indemnitee, create a "Trust" for the benefit of Indemnitee and from time to time upon written request of Indemnitee shall fund such Trust in an amount sufficient to satisfy any and all Expenses reasonably anticipated at the time of each such request to be incurred in connection with investigating, preparing for, participating in or

defending any Proceedings, and any and all judgments, fines, penalties and amounts paid in settlement (including all interest, assessments and other charges paid or payable in connection with or in respect of such judgments, fines penalties and amounts paid in settlement) in connection with any and all Proceedings from time to time actually paid or claimed, reasonably anticipated or proposed to be paid. The trustee of the Trust (the “Trustee”) shall be a bank or trust company or other individual or entity chosen by Indemnatee and reasonably acceptable to the Company. Nothing in this Section 15 shall relieve the Company of any of its obligations under this Agreement. The amount or amounts to be deposited in the Trust pursuant to the foregoing funding obligation shall be determined by mutual agreement of Indemnatee and the Company or, if the Company and Indemnatee are unable to reach such an agreement, by Independent Counsel selected in accordance with Section 12(b) of this Agreement. The terms of the Trust shall provide that, except upon the consent of both Indemnatee and the Company, upon a Change in Control: (a) the Trust shall not be revoked or the principal thereof invaded, without the written consent of Indemnatee; (b) the Trustee shall advance, to the fullest extent permitted by applicable law, within two (2) business days of a request by Indemnatee and upon the execution and delivery to the Company of an undertaking providing that Indemnatee undertakes to repay the advance to the extent that it is ultimately determined that Indemnatee is not entitled to be indemnified by the Company, any and all Expenses to Indemnatee; (c) the Trust shall continue to be funded by the Company in accordance with the funding obligations set forth above; (d) the Trustee shall promptly pay to Indemnatee all amounts for which Indemnatee shall be entitled to indemnification pursuant to this Agreement or otherwise; and (e) all unexpended funds in such Trust shall revert to the Company upon mutual agreement by Indemnatee and the Company or, if Indemnatee and the Company are unable to reach such an agreement, by Independent Counsel selected in accordance with Section 12(b) of this Agreement, that Indemnatee has been fully indemnified under the terms of this Agreement. The Trust shall be governed by Delaware law (without regard to its conflicts of laws rules) and the Trustee shall consent to the exclusive jurisdiction of the Delaware Court in accordance with Section 23 of this Agreement.

16. Security. Notwithstanding anything herein to the contrary, to the extent requested by Indemnatee and approved by the Board, the Company may at any time and from time to time provide security to Indemnatee for the Company’s obligations hereunder through an irrevocable bank line of credit, funded trust or other collateral. Any such security, once provided to Indemnatee, may not be revoked or released without the prior written consent of Indemnatee.

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17. Non-Exclusivity; Survival of Rights; Insurance; Subrogation

(a) The rights of indemnification and to receive advancement of Expenses as provided by this Agreement shall not be deemed exclusive of any other rights to which Indemnatee may at any time be entitled under applicable law, the Charter, the Company’s Bylaws, any agreement, a vote of stockholders or a resolution of directors, or otherwise. No amendment, alteration or repeal of this Agreement or of any provision hereof shall limit or restrict any right of Indemnatee under this Agreement in respect of any action taken or omitted by such Indemnatee in his Corporate Status prior to such amendment, alteration or repeal. To the extent that a change in applicable law, whether by statute or judicial decision, permits greater indemnification or advancement of Expenses than would be afforded currently under the Charter, the Company’s Bylaws or this Agreement, it is the intent of the parties hereto that Indemnatee shall enjoy by this Agreement the greater benefits so afforded by such change. No right or remedy herein conferred is intended to be exclusive of any other right or remedy, and every other right and remedy shall be cumulative and in addition to every other right and remedy given hereunder or now or hereafter existing at law or in equity or otherwise. The assertion or employment of any right or remedy hereunder, or otherwise, shall not prevent the concurrent assertion or employment of any other right or remedy.

(b) The DGCL, the Charter and the Company’s Bylaws permit the Company to purchase and maintain insurance or furnish similar protection or make other arrangements including, but not limited to, providing a trust fund, letter of credit, or surety bond (“Indemnification Arrangements”) on behalf of Indemnatee against any liability asserted against him or incurred by or on behalf of him or in such capacity as a director, officer, employee or agent of the Company, or arising out of his status as such, whether or not the Company would have the power to indemnify him against such liability under the provisions of this Agreement or under the DGCL, as it may then be in effect. The purchase, establishment, and maintenance of any such Indemnification Arrangement shall not in any way limit or affect the rights and obligations of the Company or of Indemnatee under this Agreement except as expressly provided herein, and the execution and delivery of this Agreement by the Company and Indemnatee shall not in any way limit or affect the rights and obligations of the Company or the other party or parties thereto under any such Indemnification Arrangement.

(c) To the extent that the Company maintains an insurance policy or policies providing liability insurance for directors, officers, trustees, partners, managing members, fiduciaries, employees, or agents of the Company or of any other Enterprise which such person serves at the request of the Company, Indemnatee shall be covered by such policy or policies in accordance with its or their terms to the maximum extent of the coverage available for any such director, officer, trustee, partner, managing member, fiduciary, employee or agent under such policy or policies. If, at the time the Company receives notice from any source of a Proceeding as to which Indemnatee is a party or a participant (as a witness or otherwise), the Company has director and officer liability insurance in effect, the Company shall give prompt notice of such Proceeding to the insurers in accordance with the procedures set forth in the respective policies. The Company shall thereafter take all necessary or desirable action to cause such insurers to pay, on behalf of Indemnatee, all amounts payable as a result of such Proceeding in accordance with the terms of such policies.

(d) In the event of any payment under this Agreement, the Company shall be subrogated to the extent of such payment to all of the rights of recovery of Indemnatee, who shall execute all papers required and take all action necessary to secure such rights, including execution of such documents as are necessary to enable the Company to bring suit to enforce such rights.

(e) The Company’s obligation to indemnify or advance Expenses hereunder to Indemnatee who is or was serving at the request of the Company as a director, officer, trustee, partner, managing member, fiduciary, employee or agent of any other Enterprise shall be reduced by any amount Indemnatee has actually received as indemnification or advancement of expenses from such Enterprise.

18. Duration of Agreement. All agreements and obligations of the Company contained herein shall continue during the period Indemnatee serves as a director or officer of the Company or as a director, officer, trustee, partner, managing member, fiduciary, employee or agent of any other corporation, partnership, joint venture, trust, employee benefit plan or other Enterprise which Indemnatee serves at the request of the Company and shall continue thereafter so long as Indemnatee shall be subject to any possible Proceeding (including any rights of appeal thereto and any Proceeding commenced by Indemnatee pursuant to Section 14 of this Agreement) by reason of his

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Corporate Status, whether or not he is acting in any such capacity at the time any liability or expense is incurred for which indemnification can be provided under this Agreement.

19. Severability. If any provision or provisions of this Agreement shall be held to be invalid, illegal or unenforceable for any reason whatsoever: (a) the validity, legality and enforceability of the remaining provisions of this Agreement (including, without limitation, each portion of any Section, paragraph or sentence of this Agreement containing any such provision held to be invalid, illegal or unenforceable, that is not itself invalid, illegal or unenforceable) shall not in any way be affected or impaired thereby and shall remain enforceable to the fullest extent permitted by law; (b) such provision or provisions shall be deemed reformed to the extent necessary to conform to applicable law and to give the maximum effect to the intent of the parties hereto; and (c) to the fullest extent possible, the provisions of this Agreement (including, without limitation, each portion of any Section, paragraph or sentence of this Agreement containing any such provision held to be invalid, illegal or unenforceable, that is not itself invalid, illegal or unenforceable) shall be construed so as to give effect to the intent manifested thereby.

20. Enforcement and Binding Effect

(a) The Company expressly confirms and agrees that it has entered into this Agreement and assumed the obligations imposed on it hereby in order to induce Indemnitee to serve as a director or officer of the Company, and the Company acknowledges that Indemnitee is relying upon this Agreement in serving as a director or officer of the Company.

(b) Without limiting any of the rights of Indemnitee under the Charter or Bylaws of the Company as they may be amended from time to time, this Agreement constitutes the entire agreement between the parties hereto with respect to the subject matter hereof and supersedes all prior agreements and understandings, oral, written and implied, between the parties hereto with respect to the subject matter hereof. If the DGCL or any other applicable law is amended after the date hereof to permit the Company to indemnify Indemnitee for Expenses or liabilities, or to indemnify Indemnitee with respect to any action or Proceeding, not contemplated by this Agreement, then this Agreement (without any further action by either party hereto) shall automatically be deemed to be amended to require that the Company indemnify Indemnitee to the fullest extent permitted by the DGCL.

(c) The indemnification and advancement of expenses provided by or granted pursuant to this Agreement shall be binding upon and be enforceable by the parties hereto and their respective successors and assigns (including any direct or indirect successor by purchase, merger, consolidation or otherwise to all or substantially all of the business or assets of the Company), shall continue as to an Indemnitee who has ceased to be a director, officer, employee or agent of the Company or of any other Enterprise at the Company's request, and shall inure to the benefit of Indemnitee and his spouse, assigns, heirs, devisees, executors and administrators and other legal representatives.

(d) The Company shall require and cause any successor (whether direct or indirect by purchase, merger, consolidation or otherwise) to all, substantially all or a substantial part, of the business and/or assets of the Company, by written agreement in form and substance satisfactory to Indemnitee, expressly to assume and agree to perform this Agreement in the same manner and to the same extent that the Company would be required to perform if no such succession had taken place.

(e) The Company and Indemnitee agree herein that a monetary remedy for breach of this Agreement, at some later date, may be inadequate, impracticable and difficult of proof, and further agree that such breach may cause Indemnitee irreparable harm. Accordingly, the parties hereto agree that Indemnitee may enforce this Agreement by seeking injunctive relief and/or specific performance hereof, without any necessity of showing actual damage or irreparable harm and that by seeking injunctive relief and/or specific performance, Indemnitee shall not be precluded from seeking or obtaining any other relief to which he may be entitled. The Company and Indemnitee further agree that Indemnitee shall be entitled to such specific performance and injunctive relief, including temporary restraining orders, preliminary injunctions and permanent injunctions, without the necessity of posting bonds or other undertaking in connection therewith. The Company acknowledges that in the absence of a waiver, a bond or undertaking may be required of Indemnitee by the court, and the Company hereby waives any such requirement of such a bond or undertaking.

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21. Modification and Waiver. No supplement, modification or amendment of this Agreement shall be binding unless executed in writing by the parties hereto. No waiver of any of the provisions of this Agreement shall be deemed or shall constitute a waiver of any other provisions of this Agreement nor shall any waiver constitute a continuing waiver.

22. Notices. All notices, requests, demands and other communications under this Agreement shall be in writing and shall be deemed to have been duly given (i) if delivered by hand and receipted for by the party to whom said notice or other communication shall have been directed, or (ii) mailed by certified or registered mail with postage prepaid, on the third (3rd) business day after the date on which it is so mailed:

(a) If to Indemnitee, at the address indicated on the signature page of this Agreement, or such other address as Indemnitee shall provide in writing to the Company.

(b) If to the Company, to:

Farmer Bros. Co.  
20333 South Normandie Avenue  
Torrance, CA 90502  
Attention: Corporate Secretary

or to any other address as may have been furnished to Indemnitee in writing by the Company.

23. Applicable Law and Consent to Jurisdiction. This Agreement and the legal relations among the parties shall be governed by, and construed and enforced in accordance with, the laws of the State of Delaware, without regard to its conflict of laws rules. Except with respect to any arbitration commenced by Indemnitee pursuant to Section 14(a) of this Agreement, the Company and Indemnitee hereby irrevocably and unconditionally: (a) agree that any action or proceeding arising out of or in connection with this Agreement shall be brought only in the Delaware Court and not in any other state or federal court in the United States of America or any court in any other country; (b) consent to submit to the exclusive jurisdiction of the Delaware Court for purposes of any action or proceeding arising out of or in connection with this Agreement; (c) appoint irrevocably, to the extent such party is not a resident of the State of Delaware, RL&F Service Corp., One Rodney Square, 10th Floor, 10th and King Streets, P.O. Box 551, Wilmington, Delaware 19899 as its agent in the

State of Delaware as such party’s agent for acceptance of legal process in connection with any such action or proceeding against such party with the same legal force and validity as if served upon such party personally within the State of Delaware; (d) waive any objection to the laying of venue of any such action or proceeding in the Delaware Court; and (e) waive, and agree not to plead or to make, any claim that any such action or proceeding brought in the Delaware Court has been brought in an improper or inconvenient forum, or is subject (in whole or in part) to a jury trial.

24. Counterparts. This Agreement may be executed in one or more counterparts, each of which shall for all purposes be deemed to be an original but all of which together shall constitute one and the same Agreement. Only one such counterpart signed by the party against whom enforceability is sought needs to be produced to evidence the existence of this Agreement.

25. Miscellaneous. Use of the masculine pronoun shall be deemed to include usage of the feminine pronoun where appropriate. The headings of the paragraphs of this Agreement are inserted for convenience only and shall not be deemed to constitute part of this Agreement or to affect the construction thereof.

[SIGNATURE PAGE FOLLOWS]

IN WITNESS WHEREOF, the parties have caused this Agreement to be signed as of the day and year first above written.

FARMER BROS. CO.

By: \_\_\_\_\_  
Name:  
Title:

INDEMNITEE

\_\_\_\_\_  
Name:  
  
Address: \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

**SCHEDULE OF INDEMNITEES**

John M. Anglin  
Guenter W. Berger  
Kenneth R. Carson  
Lewis A. Coffman  
Michael J. King  
Roger M. Lavery III  
Martin A. Lynch  
Thomas A. Maloof  
James J. McGarry  
John H. Merrell  
John Samore, Jr.  
John E. Simmons  
Carol Farmer Waite

**FORM OF 2008 TARGET AWARD NOTIFICATION LETTER UNDER FARMER  
BROS. CO. 2005 INCENTIVE COMPENSATION PLAN**

Dear \_\_\_\_\_ :

The Compensation Committee ("Committee") has chosen you to be a participant in fiscal 2008 in the Farmer Bros. Co. 2005 Incentive Compensation Plan.

In general, your bonus for fiscal 2008 will be determined primarily by measuring the Company's financial performance and your achievement of individual goals which the Committee has assigned to you.

The Company's financial performance will be gauged by the level of achievement of operating cash flow and net sales as determined from the Company's audited financial statements. "Operating cash flow" is defined as income from operations plus depreciation and ESOP compensation expense, excluding income from the sale of capital assets. A matrix is attached which shows various percentages between 25% and 150% depending on the combined level of achievement of these two criteria.

The Committee has also assigned certain individual goals to you for fiscal 2008. After the end of each Fiscal Year and promptly upon availability of the Company's audited financial statements, the Committee will determine your level of achievement of the assigned goals within a range of 60% to 120%. This percentage will be multiplied by the financial performance percentage derived from the matrix. The resulting product will then be multiplied by your fiscal 2008 target award amount to determine your preliminary bonus award for the year.

The Committee has designed the 2008 performance matrix and assigned individual goals to encourage teamwork among key management personnel as well as individual achievement.

Your target award for fiscal 2008 is \$ \_\_\_\_\_ which the Committee determined by taking into consideration past total annual compensation, current base salary, job responsibilities and past and expected job performance.

Your assigned individual goals for fiscal 2008 are:

**Goals**

**Example:**

Your target award for 2008 is \$ \_\_\_\_\_. Assume that the Company's operating cash flow for fiscal 2008 is \$ \_\_\_\_\_, and net sales are \$ \_\_\_\_\_. The percentage applicable under the financial performance matrix, therefore, is \_\_\_\_%. Assume also that it is determined that your level of achievement of individual goals was 120% for the year. Your preliminary award is \$ \_\_\_\_\_ ( \_\_\_\_\_ % x 120% x \$ \_\_\_\_\_ ).

The preliminary award is subject to adjustment, upward or downward, by the Compensation Committee in its discretion. The Committee also has the discretion to alter the financial performance criteria and individual goals during the year and to decline to award any bonus should the Committee determine such actions to be warranted by a change in circumstances. Accordingly, no bonus is earned unless and until an award is actually made by the Committee after year-end.

The Committee can determine to pay awards on a current or deferred basis, or partly on each.

All awards are governed by the Plan provisions which control any inconsistency with this letter. A copy of the Plan is enclosed.

Please let me know if you have any questions. We wish you great success for 2008!

Very truly yours,

\_\_\_\_\_  
Thomas A. Maloof  
Compensation Committee Chairman

**FARMER BROS. CO.  
CODE OF ETHICS**

As the Chief Executive Officer, Chief Financial Officer or the holder of such other position to which Farmer Bros. Co. (the “Company”) has applied this code, I recognize that financial managers hold an important and elevated role in corporate governance. I certify that I will adhere to the following principles and responsibilities:

- Act with honesty and integrity, avoiding actual or apparent conflicts of interest between personal and professional relationships;
- Provide in the Company’s reports to the Securities and Exchange Commission and other public communications with information that is accurate, objective, relevant, timely and understandable;
- Comply with applicable rules and regulations of federal, state and local governments and other private and public regulatory agencies, including exchanges where the Company’s securities might be listed;
- Act in good faith, responsibly, with due care, competence and diligence, and without misrepresenting material facts or allowing my independent judgment to be subordinated;
- Maintain the confidentiality of information acquired in the course of my work except when authorized or otherwise legally obligated to disclose. Confidential information acquired in the course of my work will not be used for personal advantage;
- Share my knowledge and maintain skills important and relevant to my constituents’ needs.
- Promote ethical behavior as a responsible partner among peers in my work environment;
- Achieve responsible use of and control over all assets and resources employed or entrusted to me;
- Report known or suspected violations of this Code to the Audit Committee and in accordance with all applicable rules.
- Report to the Audit Committee any actual or apparent conflicts of interest between me and the Company and between any Company officer or director and the Company of which I become aware.

I understand that I will be accountable for adhering to this Code of Ethics and that violations will not be tolerated by the Company and will result in consequences which may include reprimand, suspension, dismissal or legal action.

Dated: December 6, 2007

/s/ Roger M. Lavery III  
President and Chief Executive Officer

Dated: December 6, 2007

/s/ John E. Simmons  
John E. Simmons, Treasurer and Chief Financial Officer

NEWS RELEASE: Dec. 7, 2008

## FARM - NASDAQ NATIONAL MARKET SYSTEM

**Farmer Bros. Declares Dividend; Reports Stockholder Voting Results;  
Announces Roger Lavery Is CEO After Planned Management Transition**

TORRANCE, Calif. – (BUSINESS WIRE) – Dec. 7, 2008 – Farmer Bros. Co. (NASDAQ: FARM) today said its Board of Directors approved payment of a dividend of \$0.11½ per share for stockholders of record on Jan. 25, 2008, payable Feb. 11, 2008.

The Company also reported that, at the 2007 Annual Meeting, held Dec.6, stockholders elected three individuals to the Board of Directors for three-year terms expiring in 2010. Here are the preliminary vote counts:

Director Nominee	Votes Cast For	Votes Withheld
Roger M. Lavery III (CEO and President)	15,141,960	338,466
Martin A. Lynch (Independent Director)	15,113,766	366,660
James M. McGarry (Independent Director)	15,176,639	303,787

Guenter W. Berger, 70, formally announced to the meeting his planned retirement as Chief Executive Officer. He remains Chairman of the Board of Directors. As planned, Roger M. Lavery III, 60, succeeded him as Chief Executive Officer and President.

In addition, stockholders approved the proposed 2007 Omnibus Plan that enables certain awards of incentive compensation to employees. The proposal was approved by a preliminary count of 13,420,752 votes, with 409,941 shares voting against the proposal and 674,177 abstentions and no broker non-votes.

Stockholders also ratified the selection of Ernst & Young LLP as the Company's independent registered public accounting firm for the fiscal year ending June 30, 2008. The preliminary results were 15,324,774 votes in favor of the proposal, 49,247 votes against and 106,405 abstentions and no broker non-votes.

Of the 16,075,000 shares of common stock outstanding and entitled to vote at the Annual Meeting, 15,480,426 or 96% were represented, a quorum.

Management presented stockholders its "State of the Company Report." The Company intends to file an edited version of that report on Form 8-K and will present the report on the investor section of its web site, [www.farmerbroscousa.com](http://www.farmerbroscousa.com). The Company will report the final vote counts in the Company's next financial report on Form 10-Q.

#### About Farmer Bros.

Farmer Bros. Co. is an institutional coffee roaster that sells a variety of coffee and allied products to the food service industry and private-label customers such as retailers. The Company's signature Farmer Bros. trucks and vans bearing the "Consistently Good" logo are seen throughout Farmer Brothers' 28-state service area. The Company's wholly owned Coffee Bean Intl. is one of the nation's leading specialty coffee roasters and wholesalers. Farmer Brothers has paid a dividend in every year since 1953, increased its dividend in every year since 1997, and its stock price has risen on a split-adjusted basis from \$1.80 a share in 1980. For more information, go to: [www.farmerbroscousa.com](http://www.farmerbroscousa.com).

Contact:     Abernathy MacGregor Group     Jim Lucas     213-630-6550



**Farmer Bros. Annual Meeting of Stockholders, December 6, 2007****Edited Opening Remarks by:****Rocky Laverty, President and Chief Executive Officer of Farmer Bros.**

Thank you, John – and, again, thank you, Guenter.

I have now been with Farmer Bros. For almost a year and a half, I have had the real pleasure of working side by side with Guenter Berger and the rest of our management team and board of directors. And, thanks to them, I have gained a very up close and personal understanding of our Company, its history, its successes, its strengths, its opportunities for the future and the obstacles in our way.

I especially want to thank Guenter for giving me such a thorough understanding of how the Company has grown and developed over the past 95 years. He has helped me appreciate, in real depth, the pride and commitment of all of our employees.

What I have seen, first-hand, is that we have an inspired and committed leadership team, and we have a large number of dedicated employees – and, together, they have created an organization that is poised to enter its second century with a bright future.

I have come to appreciate the genius and talent of Roy Farmer in developing and maintaining a line of products that are second to none in the industry. And, I have seen, first hand, the strengths we have in distribution, sales, manufacturing and quality control – these are the foundations upon which we will be building for the future.

During the past several months, as part of our planning process, we have taken a hard look at our strengths and our weaknesses. We have developed a plan to position our Company to be sustainable for the long term – to grow once again.

As a part of this planning process, we also took a hard look at our industry as a whole ... our competitors ... our customers – and the key trends that could re-shape this industry in the future.

We believe that, as a result of this analysis, we have developed a clear understanding of the opportunities that await us, the threats that we face and the strategies we must implement to be successful.

Some conclusions were obvious, but let me share them with you:

1. The coffee industry is changing. You might call it the Starbucks phenomenon or the Gen-x impact, but it's more than just that, and these trends have been brewing for many years now.

The fastest growing sector of the coffee industry is the "specialty coffee" sector. Everyone, big and small, is attempting to take advantage of this change.

From McDonalds – with new products that present a direct threat to Starbucks - to Proctor and Gamble – with its new packaging and specialty products to roasters like Intelligensia Coffee in Chicago, which today is offering a specialty coffee that it purchased at auction for \$130 a pound green, a price that even the most selective gourmet coffees wouldn't have dreamed of paying three years ago.

We moved quickly to position ourselves in the specialty coffee sector with our acquisition, earlier this year, of Coffee Bean International.

We believe they are a perfect complement to our existing business. They bring us expertise in customer segments we are not serving. We give them strengths in distribution, equipment and manufacturing and capital base. Together, we both will be stronger.

2. As we move into our second century we must continue to invest in our operations, our products and our people.

We are making planned investments in our manufacturing capabilities both in Torrance and in Portland. These investments will ensure that we maintain our competitive edge in our manufacturing efficiency and new product development. We have always been a leader in manufacturing and R&D innovations. That is one of Mr. Farmer's enduring legacies. In any business today the best companies are the lowest cost and the highest quality operators.

3. Our distribution system is second to none in our industry. It's a tremendous asset and a real advantage over our competition. Route sales, Custom Coffee Plan and now CBI all use this asset to better serve our customers. But we must continue to invest in improving this asset — expanding our national coverage — so there are no customers we can't handle. With this asset our mission—we sell great products one customer at a time — can be guaranteed.
4. Our products are terrific. Whether it be our restaurant quality "sierra blend" or a specialty fair trade Ethiopian yergacheffe our coffee offerings are the right products for each individual customer. Our allied products are the same. Whether cocoa, tea, biscuit mix or spices the Farmer Brothers quality is the best. We must continue to develop new products, new packaging and new marketing support to ensure that we have what our customers need. If their business grows, so will ours.

5. And last, but certainly not least, our people—their loyalty, commitment and dedication is second to none. Not many companies today can boast of the 25, 35, 45, or in the case of Guenter Berger, 47 year employee. We must build on this strength—investing in our human resources through

training, competitive compensation, and continued recognition of the unique character of our people and our Company.

I think the most encouraging aspect of our review process was this conclusion: Farmer Bros. is a strong Company with valuable assets and people.

We are adjusting our course to take advantage of the opportunities we see in the market, and we have sufficient capital to invest in important parts of our business – that is - we have the capital and the will to make the investments that are needed to make us stronger.

So today we look forward to our future with great anticipation and positive energy. I am grateful to Guenter and the board for having the confidence in me to be part of the Farmer Brothers tradition. I would also like to thank our former Director John Samore, for his 4 years of dedicated service and wise counsel to me and the board.

Finally, in closing, let me add that we are thankful to our shareholders for understanding and supporting our efforts to make your Company stronger.

We appreciate the confidence that you expressed in us when you approved proposal 3 on today's ballot – and we appreciate the mandate that you have placed on us to drive this Company into the future and to create value for ALL shareholders.

Now, I'd like to turn the chair over to John Simmons, our CFO, who will deliver, as he has for several years now, our state-of-the-Company presentation. At the conclusion of his remarks, we both will be available to address any questions.

Thanks

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### **Farmer Bros. Annual Meeting of Stockholders, December 6, 2007**

#### **Management's Report On The State of the Company**

**Edited Address delivered by:**

**John Simmons, Treasurer and Chief Financial Officer of Farmer Bros.**

#### **Looking Ahead**

With the arrival of 2008, we are only 4 years away from completing Farmer Brothers Coffee's first 100 years. A great deal has happened in the 27 years since I joined the Company, but this milestone anniversary, though a few years away, is very much on the minds of many of us.

We remember our past – and draw strength from it – because much of the “way we do business” today grew out of those early years.

Decades ago, Mr. Farmer, who passed away only a few years ago, introduced innovations that gave our business some of its competitive advantages: he expanded our route delivery approach, putting us in closer touch with our customers; he developed and perfected many of the coffee blends that we sell today; he was one of the first to recognize the benefits of switching to continuous roasters and high-speed packaging; and he encouraged the growth of the allied products in our product mix, which now generate much of our sales. Each of his innovations matured and stand as foundations of today's Company.

But this Company's foundations run deeper still. When I came here, veterans still talked about another Mr. Farmer – the Farmer who, with his brother, founded the Company in 1912. In his day the Company worked out of what is now our Brewmatic facility in Los Angeles on Main Street, near USC and just south of downtown. Back then, drivers of the Company's panel trucks would return from a day of deliveries and find Mr. Farmer waiting at the door. He would shake the hand of each returning driver – and, pulling each driver close, he would ask: “What did you do for Farmer Bros. today?”

In the past year, we've brought back this question – with both its short-term urgency and its call for long-term strategies to improve our business.

That is a question we know that you, as stockholders, should be asking us today.

In our annual meetings in the past, we have tried to make a balanced presentation: we have discussed the Company's challenges and how we are trying to overcome them, and we have tried to remind you of the Company's strengths: its people, its core business and its capital. In recent years, we have ended by reminding you that our goal is to launch this Company

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strongly into its second Century. Today, you will hear many of those same themes. But, as each year passes, we feel a greater sense of urgency as we consider Mr. Farmer's question from more than half a century ago.

The urgency grows, partly, out of our results.

Our sales have been relatively flat for more than half a dozen years. Unit volumes have declined for many products, but we have also passed through higher prices for many of our products, especially those that are commodity driven. Our sales teams are winning new customers, but they also are seeing an erosion of business as our many long-time customers, the independent restaurants, lose market share to bigger and stronger chain operations.

In the face of these challenges, we've maintained our base of employees and our infrastructure, including our far-reaching route system. In recent years, we have continued to invest to upgrade our operations – and, soon, we will go on line with our mobile sales system, giving us a tool to be even more efficient and effective in selling to our customers.

But the simple fact is that, in spite of all the hard work of past years, we are not satisfied with the results. As a Company we have been profitable, but we have sustained continuing operating losses since 2005.

Our goal is to pass this Company on to future generations and we realize that no business can prosper over the long term if its core operations continue to lose money.

This is reality. It's a cause for real concern. It calls for meaningful change.

While recognizing these immediate challenges: we – the management team of this Company – continue to be optimistic about the future, and we do believe that Farmer Bros. can extend its legacy well into the next century.

In fact, this Company's infrastructure – including its route system – can handle a larger volume of sales without adding nearly as much to its costs. In business terms, we believe we have the opportunity of gaining "operating leverage."

By accelerating growth and adding new sales, the operations of Farmer Bros. would once again generate the profit level required to sustain and continue to grow this business.

Indeed, Rocky and I – and many others – are here today because we believe, strongly, in this Company's future – and that Mr. Farmer set in place a foundation upon which to build a very successful future for all of us.

To help everyone understand where we are going and how we intend to achieve our goals, we would like to spend a few minutes talking about the industry environment.

Our industry is fragmented. We compete with food giants like Kraft, Proctor & Gamble and Sara Lee – and we also compete with a host of regional roasters. We try to compete with the

giants by offering closer and more personal service, while also competing against the smaller players with our broader range of products and services and our better infrastructure and systems and means of distribution. Throughout this group of wholesalers, we are not alone in the struggle for sales and profits, but we believe that – even in this environment – there will be winners, and that we can be one of the winners.

Although our competitors are diverse, our customers and potential customers are even more diverse: they include large chain operators, small chain operators and independent operators of restaurants.

As we looked hard at industry trends during our planning process, we have had to face the fact that most of our sales are coming from independent restaurant and food service operators – many of which are small Mom-and-Pop operations. Once, they made up the majority of our potential market. But, in recent years, they have been overtaken by the major chains. One recent industry publication reported a few months ago that, over the last seven years, the share of the restaurant market that was served by independents fell from 36 percent to 30 percent (a 16% decline). These independents have been losing their market share to the large restaurant chains. Trying to grow while selling into a shrinking market is extremely difficult, and as a result, our focus has changed.

Two years ago we established a national accounts group that focuses solely on the task of getting sales from major chain restaurants and food service operators. We began repackaging our products, identifying the right items for this new customer target and pursuing what is admittedly a long sales cycle for these larger accounts. Recently we have begun to see the fruit of this effort – we are pleased to report that we have signed new accounts with both a large restaurant chain and a national health-care provider. Many other potential new accounts are also in queue and we are confident that we are well positioned to win our fair share. We will continue to develop this area: major chains now compose the majority of all restaurants, and they make up a market where we simply must compete.

Another trend we noted was a shift in consumer taste.

According to the National Coffee Association, more than three out of four adult Americans say that they drink coffee either daily or regularly. This is a significant number of people – but, unfortunately, the amount of coffee that Americans consume has declined considerably since the 1960s. People are drinking less coffee in general and they also have been using less coffee per drink and they have turned more to the milky specialty coffee drinks.

Some of you have commented to me that the big retailers like Starbucks have been growing, apparently in the face of this trend. I would like to point out two things. First, Starbucks is a restaurant chain that competes with our customers and, second, it represents the portion of our industry that is showing real growth – specialty coffees. Not only that, it appears from news reports that even Starbucks is beginning to show the first signs of market saturation.

The legacy coffee blends of Farmer Bros. are considered to be traditional coffee blends. Traditional blends account for close to 90% of all the coffee consumed in this country.

The specialty coffees were largely born in the nation's coffee houses. While the demand for coffees with our traditional taste profile has been flat to down a little – and while the overall market for traditional coffees has grown at low single-digit rates, the demand for specialty coffee is growing at a national rate of about 7% per year. Although specialty coffees are still only a small part of the total market – they account for perhaps 10 percent of the total coffee market – the specialty coffee market is the sector of the market that is exhibiting real growth.

These two major trends – the rise of the chains and the growth of the specialty blends – were on display this past year. One example was McDonald's, which upgraded their coffee as a test. The results were even better than they hoped. Coffee sales went up and the entire breakfast day grew at a faster rate than ever. Recently they announced that they are adding the full range of coffee related drinks, lattes, cappuccinos, blended drinks, etc., that one finds at Starbucks or Peets. There is obviously a growth opportunity here that can benefit Farmer Brothers.

One attraction of specialty coffees is that many specialty coffee drinkers are less price sensitive than traditional coffee drinkers. There are other attractions, according to the National Coffee Association: Among adults in America, 16% drink specialty coffee daily, and 63% have had a cup of specialty coffee in the past year, and the average drinker of specialty coffee has 2.3 cups of coffee per day. In short, this is an important market – and we saw a need and a benefit to strengthening our products and expertise to better serve the demand for specialty coffees.

As we considered these trends this past year, we were fortunate to discover that Coffee Bean International Inc. (or CBI, as we call them) was up for sale. It has grown into one of the largest specialty coffee roasters in the US, and it has a well-earned reputation as high quality roaster and supplier. After many months of work – and after much thought about CBI, our industry, and how we and CBI meet our customers’ needs – we concluded that CBI would be a good fit with Farmer Brothers. This is your Company’s first acquisition in more than 30 years, so we wanted to be especially careful and especially disciplined in making sure that this acquisition would create value for stockholders – and that it would fit well with the rest of our family.

- As a wholesaler, CBI approaches its market much the same way we do: one customer at a time.
- CBI brings great managers in key areas of the business, including production & supply chain, marketing and brand development and coffee buying and coffee blend development – its senior team includes some of the most skillful coffee people we know.
- While Farmer Bros sells to the sector of the market that accounts for up to 90% of the coffee sold in the country, CBI specializes in the growing specialty coffee market – and CBI has a record of double digit rates of growth.

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- While Farmer Bros has a fledgling national accounts program that is starting to show some success; CBI has an established national accounts program that has focused primarily on specialty coffee.
- Whereas Farmer Bros. distributes to its customers by direct-store delivery, which makes us a strong regional supplier, we do not distribute extensively beyond the Mississippi River – and this has limited our attractiveness as a national supplier. In contrast, CBI has no direct-store delivery system, and has learned to use a variety of other means of serving customers nationally.
- While Farmer Bros distributes largely to independent restaurant and food service operators, CBI diversifies our base of customers – it sells to the independent coffee houses, to national chain restaurants and food service operators, and CBI has a growing business with private-label customers who include large regional and national retailers such as grocery chains, department stores and mass merchandisers who want to offer quality coffees under their own strong brands.
- Finally, the two companies approach coffee roasting in very different ways. Farmer Bros roasts a line of coffees with high-volume roasting and packaging equipment – this helps us control our production costs and delivers coffee that is consistently good, which is important to the price driven independent restaurant and food service operator. In contrast, CBI uses artisan-roasting techniques – it uses hand-tended roasting processes with small batches and its coffees are especially prized by coffee houses and others who love the unique flavors and the character of its specialty coffees, and, who are accustomed to higher prices.

We are well along with our integration of CBI into Farmer Bros. It operates as an independent subsidiary, but each business feeds the other. As a Company, we, and I emphasize the “WE”, now can provide an unmatched product list (for both coffee and allied products), and delivery and service options that meet the needs of virtually any customer, small or large. As CBI and Farmer Bros expand our combined efforts to develop and service old and new customers alike we believe that increasingly profitable and complementary opportunities will occur.

The growth initiatives we have discussed in the past will be continued in the coming year. Some of these will be enhanced by CBI. Others will continue as originally planned. Let me summarize some of the most important of those efforts.

- We are trying to grow our route sales revenues through new products, product revitalization, channel penetration and geographic expansion.
  - Some of this is going to require additional investment in production and packaging, and facilities. We believe our plans will ensure that these investments will create value for stockholders.
  - Some of this will require changes in the way our people work. These will be difficult steps, but we believe that the people of Farmer Bros. understand that everyone’s future will be less bright if we don’t take these hard steps in the near term.

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- We are helping CBI’s management team to apply their marketing and account management model and skills to a broader range of products and services.
  - The possibilities are exciting, for example, applying their marketing skills and approaches to the legacy products of Farmer Bros., or harnessing Farmer Brothers’ very strong distribution capabilities to move CBI’s products to customers.
- We are developing flexible pricing and product options to meet the needs of a broader range of customers, both to hold onto business and to take market share.
- We are testing our mobile sales system even now, and believe all of our 600+ route sales representatives will be live on the system before our next annual meeting. When this network is operating, it will constitute one of the largest truck-based point-of-sale systems anywhere. It will give us real-

time invoicing and inventory control; it will give us real-time information on the products that customers want and profitability per product, per customer and per truck.

The capital investments required to reposition our Company, accelerate our growth and realize the potential from our acquisition will be significant. However, they are necessary and, we strongly believe, they will generate superior long term returns on our stockholders' capital.

First, we will need new manufacturing capacity if we are to deliver greater volumes. Over the next two years we expect to spend in excess of \$12 million for a new plant in Portland to roast larger volumes – more efficiently – of CBI's specialty blends. In addition, we are preparing to spend up to \$10 million more here in Torrance to upgrade our plant, which hasn't had major improvements, outside of the computer systems, in many years.

We will also need to add some additional resources, some people with special skills – our costs for salaries, and related support and fringe benefits – will likely increase by \$1 million annually.

In addition, we expect to spend more through new programs of incentive compensation. The Proposal 3 that stockholders approved today is a key component of this – it is part of a larger effort to more directly incentivize key managers. We believe it will help us take the next step in aligning our employees' interests with the interests of stockholders – and we firmly believe this is a crucial tool for the Company's future success.

And so, back to the question that the original Mr. Farmer was fond of asking, "What have you done for Farmer Bros. today?" Here is how we would answer:

- We have invested in the right business – in CBI – which serves the fastest growing sub-market within our industry, and has great people, great products and a great opportunity to leverage our existing strengths to grow its business;
- We are harnessing the expertise within Farmer Bros and CBI to launch programs on many fronts in an effort to restore growth to our sales;

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- We are investing in the right facilities to deliver the volumes to support the increases we are hoping to achieve in sales;
- We are investing in the right expertise to help us cut our product costs, distribute our products better, organize our warehouses better and control our inventories better – all in an effort to make this Company more efficient in delivering its products and more effective in selling them.

I can tell you, without hesitation as we begin this Company's second century that we believe Farmer Bros. is on track to be as strong as ever. Our road ahead won't be easy – there is still much to do before we reach 100. This is still a work in progress, but we have a plan, we have the people, the core business, the capital and the sense of urgency to get the job done.

I hope Mr. Farmer would be pleased with the progress so far, and look forward to bringing you more news next year.

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