FARMER BROTHERS CO
Form 10-Q
February 08, 2012

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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended December 31, 2011

OR

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

For the transition period from to

Commission file number: 001-34249

FARMER BROS. CO.

(exact name of registrant as specified in its charter)

Delaware **(State of Incorporation)**	**95-0725980** **(I.R.S. Employer Identification No.)**
20333 South Normandie Avenue	
Torrance, California **(address of principal executive offices)**	**90502** **(Zip Code)**

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

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

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

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

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

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

On February 7, 2012, the registrant had 16,261,035 shares outstanding of its common stock, par value $1.00 per share, which is the registrant s only class of common stock.

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FARMER BROS. CO.

FORM 10-Q QUARTERLY REPORT

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PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

FARMER BROS. CO.

CONSOLIDATED BALANCE SHEETS

(Dollars in thousands, except share and per share data)

	December 31, 2011 (Unaudited)	June 30, 2011
ASSETS		
Current assets:		
Cash and cash equivalents	$ 4,121	$ 6,081
Short-term investments	18,881	24,874
Accounts and notes receivable, net	44,765	43,501
Inventories	78,185	79,759
Income tax receivable	170	448
Prepaid expenses	3,196	2,747
Total current assets	149,318	157,410
Property, plant and equipment, net	104,798	114,107
Goodwill and other intangible assets, net	13,902	14,639
Other assets	2,803	2,892
Deferred income taxes	1,005	1,005
Total assets	$ 271,826	$ 290,053
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 39,818	$ 42,473
Accrued payroll expenses	17,243	15,675
Short-term borrowings under revolving credit facility	25,971	31,362
Short-term obligations under capital leases	1,674	1,570
Deferred income taxes	500	500
Other current liabilities	10,183	11,882
Total current liabilities	95,389	103,462
Accrued postretirement benefits	24,352	23,585
Other long-term liabilities-capital leases	6,254	7,066
Accrued pension liabilities	22,495	22,371
Accrued workers compensation liabilities	3,624	3,639
Deferred income taxes	1,815	1,815
Total liabilities	153,929	161,938
Commitments and contingencies		
Stockholders equity:		

Preferred stock, $1.00 par value, 500,000 shares authorized and none issued		
Common stock, $1.00 par value, 25,000,000 shares authorized; 16,261,723 and 16,186,372 shares issued and outstanding at December 31, 2011 and June 30, 2011, respectively	16,262	16,186
Additional paid-in capital	33,071	36,470
Retained earnings	118,089	129,784
Unearned ESOP shares	(25,637)	(30,437)
Less accumulated other comprehensive loss	(23,888)	(23,888)
Total stockholders equity	117,897	128,115
Total liabilities and stockholders equity	$ 271,826	$ 290,053

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

FARMER BROS. CO.

CONSOLIDATED STATEMENTS OF OPERATIONS

(Dollars in thousands, except share and per share data)

(Unaudited)

	Three Months Ended December 31,		Six Months Ended December 31,	
	2011	**2010**	**2011**	**2010**
Net sales	$ 131,770	$ 119,227	$ 252,967	$ 227,970
Cost of goods sold	87,229	74,211	168,741	139,009
Gross profit	44,541	45,016	84,226	88,961
Selling expenses	36,771	43,624	72,452	86,787
General and administrative expenses	9,071	11,935	17,705	24,736
Pension withdrawal expense	4,348		4,348	
Operating expenses	50,190	55,559	94,505	111,523
Loss from operations	(5,649)	(10,543)	(10,279)	(22,562)
Other income (expense):				
Dividend income	304	918	663	1,597
Interest income	21	38	36	112
Interest expense	(506)	(481)	(1,081)	(883)
Other, net	1,780	1,245	(627)	3,401
Total other income (expense)	1,599	1,720	(1,009)	4,227
Loss before taxes	(4,050)	(8,823)	(11,288)	(18,335)
Income tax expense	60	89	406	450
Net loss	$ (4,110)	$ (8,912)	$ (11,694)	$ (18,785)
Net loss per common share basic and diluted	$ (0.27)	$ (0.59)	$ (0.77)	$ (1.25)
Weighted average common shares outstanding basic and diluted	15,247,215	15,078,026	15,214,712	15,050,644
Cash dividends declared per common share	$	$ 0.060	$	$ 0.175

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

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FARMER BROS. CO.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(Unaudited)

	Six Months Ended December 31, 2011	Six Months Ended December 31, 2010
Cash flows from operating activities:		
Net loss	$ (11,694)	$ (18,785)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	15,821	15,416
Provision for doubtful accounts	737	393
(Gain) loss on sales of assets	(662)	445
ESOP and share-based compensation expense	1,476	2,259
Net loss (gain) on derivatives and investments	2,250	(2,651)
Change in operating assets and liabilities:		
Short-term investments	3,743	19,101
Accounts and notes receivable	(2,000)	(601)
Inventories	1,110	(5,529)
Income tax receivable	277	5,762
Prepaid expenses and other assets	(361)	(961)
Accounts payable	(1,712)	913
Accrued payroll expenses and other liabilities	(165)	226
Accrued postretirement benefits	767	859
Other long-term liabilities	112	4,425
Net cash provided by operating activities	9,699	21,272
Cash flows from investing activities:		
Purchases of property, plant and equipment	(5,808)	(10,401)
Proceeds from sales of property, plant and equipment	1,227	495
Net cash used in investing activities	(4,581)	(9,906)
Cash flows from financing activities:		
Proceeds from revolving line of credit	9,400	18,550
Repayments on revolving line of credit	(15,700)	(26,150)
Payments on capital lease obligations	(778)	(609)
Dividends paid		(3,687)
Net cash used in financing activities	(7,078)	(11,896)
Net decrease in cash and cash equivalents	(1,960)	(530)
Cash and cash equivalents at beginning of period	6,081	4,149
Cash and cash equivalents at end of period	$ 4,121	$ 3,619

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

FARMER BROS. CO.

Notes to Consolidated Financial Statements

(Unaudited)

Note 1. Farmer Bros. Co. and Summary of Significant Accounting Policies

The Company

Farmer Bros. Co., a Delaware corporation (including its consolidated subsidiaries, unless the context otherwise requires, herein referred to as the Company, we, our or Farmer Bros.), is a manufacturer, wholesaler and distributor of coffee, tea and culinary products. The Company is a direct distributor of coffee to restaurants, hotels, casinos, hospitals and other food service providers, and is a provider of private brand coffee programs to grocery retailers, restaurant chains, convenience stores, and independent coffee houses, nationwide. The Company was founded in 1912, was incorporated in California in 1923, and reincorporated in Delaware in 2004. The Company operates in one business segment.

Basis of Presentation

The accompanying unaudited consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States (GAAP) for complete consolidated financial statements. In the opinion of management, all adjustments (consisting only of normal recurring accruals, unless otherwise indicated) considered necessary for a fair presentation of the interim financial data have been included. Operating results for the three and six months ended December 31, 2011 are not necessarily indicative of the results that may be expected for the fiscal year ending June 30, 2012. Events occurring subsequent to December 31, 2011 have been evaluated for potential recognition or disclosure in the unaudited consolidated financial statements for the three and six months ended December 31, 2011.

The accompanying unaudited consolidated financial statements should be read in conjunction with the consolidated financial statements and related notes included in the Company s Annual Report on Form 10-K for the fiscal year ended June 30, 2011, filed with the Securities and Exchange Commission (the SEC) on September 13, 2011.

Use of Estimates

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

Reclassifications

Certain reclassifications have been made to prior year balances to conform to the current year presentation.

Fair Value Measurements

Fair value is the price that would be received to sell an asset, or paid to transfer a liability, in an orderly transaction between market participants. The Company maximizes the use of observable market inputs, minimizes the use of unobservable market inputs and discloses in the form of an outlined hierarchy the details of such fair value measurements. See Note 2 for additional information.

Coffee Brewing Equipment and Service

The Company classifies certain expenses related to coffee brewing equipment provided to customers as cost of goods sold. These costs include the cost of equipment as well as the cost of servicing that equipment (including service employees salaries, cost of transportation and the cost of supplies and parts) and are considered directly attributable to the generation of revenues from the Company s customers. Accordingly, such costs included in cost of goods sold in the accompanying unaudited consolidated financial statements for the three months ended December 31, 2011 and 2010 are $6.4 million and $6.7 million, respectively. Cost of coffee brewing equipment and service for the six months ended December 31, 2011 and 2010 was $12.4 million and $13.9 million, respectively. The Company capitalized coffee brewing equipment in the amounts of $5.2

million and $6.2 million during the six months ended December 31, 2011 and 2010, respectively. Depreciation expense related to capitalized coffee brewing equipment reported as cost of goods sold was $2.9 million and $2.3 million in the three months ended December 31, 2011 and 2010, respectively. Depreciation expense related to capitalized coffee brewing equipment reported as cost of goods sold was $5.8 million and $4.4 million in the six months ended December 31, 2011 and 2010, respectively.

Revenue Recognition

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

In connection with the acquisition of the DSD Coffee Business in February 2009, the Company entered into an agreement with Sara Lee Corporation (Sara Lee) pursuant to which the Company performs co-packing services for Sara Lee as Sara Lee s agent. The Company recognizes revenue from this arrangement on a net basis, net of direct costs of revenue. As of December 31, 2011, the Company had $4.1 million of receivables from Sara Lee related to this arrangement, which are included in Other receivables (see Note 3).

Earnings (Loss) Per Common Share

Basic earnings (loss) per share represents net earnings attributable to common stockholders divided by the weighted-average number of common shares outstanding for the period. Diluted earnings (loss) per share represents net earnings attributable to common stockholders divided by the weighted-average number of common shares outstanding, inclusive of the dilutive impact of common equivalent shares outstanding during the period. However, nonvested restricted stock awards (referred to as participating securities) are excluded from the dilutive impact of common equivalent shares outstanding in accordance with authoritative guidance under the two-class method since the nonvested restricted stockholders are entitled to participate in dividends declared on common stock as if the shares were fully vested and hence are deemed to be participating securities. Under the two-class method, earnings (loss) attributable to nonvested restricted stockholders are excluded from net earnings (loss) attributable to common stockholders for purposes of calculating basic and diluted earnings (loss) per common share.

Computation of diluted EPS for the three and six months ended December 31, 2011 does not include the dilutive effect of 495,670 shares issuable under stock options since their inclusion would be anti-dilutive. Computation of EPS for the three and six months ended December 31, 2010 does not include the dilutive effect of 562,085 shares issuable under stock options since their inclusion would be anti-dilutive. Accordingly, the unaudited consolidated financial statements present only basic net income (loss) per common share for all periods presented (see Note 9).

Dividends Declared

In light of the Company s current financial position, in the fourth quarter of fiscal 2011 and in the first and second quarters of fiscal 2012, the Company s Board of Directors voted to omit the payment of a quarterly dividend for the first, second and third quarters of fiscal 2012, respectively. The amount, if any, of dividends to be paid in the future will depend upon the Company s then available cash, anticipated cash needs, overall financial condition, loan agreement restrictions, future prospects for earnings and cash flows, as well as other relevant factors.

Impairment of Goodwill and Intangible Assets

The Company performs its annual goodwill and indefinite-lived intangible assets impairment test as of June 30 of each fiscal year. Goodwill and other indefinite-lived intangible assets are not amortized but instead are reviewed for impairment annually and on an interim basis if events or changes in circumstances between annual tests indicate that an asset might be impaired. Indefinite-lived intangible assets are tested for impairment by comparing their fair values to their carrying values. Testing for impairment of goodwill is a two-step process. The first step requires the Company to compare the fair value of its reporting units to the carrying value of the net assets of the respective reporting units, including goodwill. If the fair value of the reporting unit is less than the carrying value, goodwill of the reporting unit is potentially impaired and the Company then completes step two to measure the impairment loss, if any. The second step requires the calculation of the implied fair value of goodwill by deducting the fair value of all tangible and intangible net assets of the reporting unit from the fair value of the reporting unit. If the implied fair value of goodwill is less than the carrying amount of goodwill, an impairment loss is recognized equal to the difference.

Farmer Bros. Co.

Notes to Consolidated Financial Statements

In addition to an annual test, goodwill and indefinite-lived intangible assets must also be tested on an interim basis if events or circumstances indicate that the estimated fair value of such assets has decreased below their carrying value. There were no such events or circumstances during the three months ended December 31, 2011.

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

The Company reviews the recoverability of its long-lived assets whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. The estimated future cash flows are based upon, among other things, assumptions about expected future operating performance, and may differ from actual cash flows. Long-lived assets evaluated for impairment are grouped with other assets to the lowest level for which identifiable cash flows are largely independent of the cash flows of other groups of assets and liabilities. If the sum of the projected undiscounted cash flows (excluding interest) is less than the carrying value of the assets, the assets will be written down to the estimated fair value in the period in which the determination is made. There were no such events or circumstances during the three months ended December 31, 2011.

Recently Adopted Accounting Standards

No new accounting pronouncements were adopted during the quarter ended December 31, 2011.

New Accounting Pronouncements

In September 2011, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2011-09, Compensation-Retirement Benefits-Multiemployer Plans (Subtopic 715-80), Disclosures about an Employer s Participation in a Multiemployer Plan (ASU 2011-09). ASU 2011-09 requires companies participating in multiemployer pension plans to disclose more information about the multiemployer plan(s), the employer s level of participation in the multiemployer plan(s), the financial health of the plan(s), and the nature of the employer commitments to the plan(s). For public entities, the amendments are effective for fiscal years ending after December 15, 2011 and, for the Company, the amendments are effective for the fiscal year ending June 30, 2012. Since ASU 2011-09 does not change the accounting for an employer s participation in a multiemployer plan, the Company believes that adoption of ASU 2011-09 will not impact the results of operations, financial position or cash flows of the Company.

In September 2011, the FASB issued ASU No. 2011-08, Goodwill and Other (Topic 350), Testing Goodwill for Impairment (ASU 2011-08). Pursuant to ASU 2011-08 companies will have the option to first assess qualitative factors to determine whether it is more likely than not (a likelihood of more than 50%) that the fair value of a reporting unit is less than its carrying amount. If after considering the totality of events and circumstances an entity determines it is not more likely than not that the fair value of a reporting unit is less than its carrying amount, performing the two-step impairment test is unnecessary. The amendments include examples of events and circumstances that an entity should consider. ASU 2011-08 is effective for fiscal years beginning after December 15, 2011 and is effective for the Company for fiscal 2013 beginning July 1, 2012. The Company believes that adoption of ASU 2011-08 will not impact the results of operations, financial position or cash flows of the Company.

In June 2011, the FASB issued ASU No. 2011-05, Comprehensive Income (Topic 220), Presentation of Comprehensive Income (ASU 2011-05). The new U.S. GAAP guidance gives companies two choices of how to present items of net income, items of other comprehensive income (OCI) and total comprehensive income: Companies can create one continuous statement of comprehensive income or two separate consecutive statements. Companies will no longer be allowed to present OCI in the statement of stockholders equity. Earnings per share would continue to be based on net income. Although existing guidance related to items that must be presented in OCI has not changed, companies will be required to display reclassification adjustments for each component of OCI in both net income and OCI. Also, companies will need to present the components of OCI in their interim and annual financial statements. The amendments in the ASU should be applied retrospectively. For public entities, the amendments are effective for fiscal years, and interim periods within those years, beginning after December 15, 2011 and, for the Company, the amendments are effective beginning July 1, 2012. The Company believes that adoption of ASU 2011-05 will not impact the results of operations, financial position or cash flows of the Company. In December 2011, the FASB issued ASU No. 2011-12, Comprehensive Income (Topic 220), Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in Accounting Standards Update No. 2011-05 (ASU 2011-12). ASU 2011-12 defers the ASU 2011-05 requirement that companies present reclassification adjustments out of accumulated other comprehensive income, until the FASB is able to address the concerns of stakeholders that the new presentation requirements would be difficult for preparers and may add unnecessary complexity to the financial statements.

Farmer Bros. Co.

Notes to Consolidated Financial Statements

In May 2011, the FASB issued ASU No. 2011-04, Fair Value Measurement (Topic 820), Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs (ASU 2011-04). ASU 2011-04 amends the fair value measurement and disclosure guidance in Accounting Standards Codification (ASC) 820, Fair Value Measurements and Disclosures (ASC 820), of the FASB for financial assets and liabilities to converge U.S. GAAP and International Financial Reporting Standards requirements for measuring amounts at fair value as well as disclosures about these measurements. Many of the amendments clarify existing concepts and are generally not expected to result in significant changes to how many companies currently apply the fair value principles. In certain instances, however, the FASB changed a principle to achieve convergence, and while limited, these amendments have the potential to significantly change practice for some companies. For public entities, the amendments are effective during interim and annual periods beginning after December 15, 2011 and, for the Company, the amendments are effective beginning July 1, 2012. The Company believes that adoption of ASU 2011-04 will not impact the results of operations, financial position or cash flows of the Company.

Note 2. Investments and Derivative Instruments

The Company purchases various derivative instruments as investments or to create economic hedges of its interest rate risk and commodity price risk. At December 31, 2011 and June 30, 2011, derivative instruments were not designated as accounting hedges as defined by ASC 815, Accounting for Derivative Instruments and Hedging Activities. The fair value of derivative instruments is based upon broker quotes. The Company records unrealized gains and losses on trading securities and changes in the market value of certain coffee contracts meeting the definition of derivatives in Other, net.

The Company groups its assets and liabilities at fair value in three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value. These levels are:

Level 1 Valuation is based upon quoted prices for identical instruments traded in active markets.

Level 2 Valuation is based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market.

Level 3 Valuation is generated from model-based techniques that use significant assumptions not observable in the market. These unobservable assumptions reflect estimates of assumptions that market participants would use in pricing the asset or liability. Valuation techniques include use of option pricing models, discounted cash flow models and similar techniques.

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

As of December 31, 2011	**Total**	**Level 1**	**Level 2**	**Level 3**
(In thousands)		**(Unaudited)**		
Preferred stock(1)	$ 17,512	$ 10,435	$ 7,077	$
Futures, options and other derivative assets(1)	$ 1,369	$	$ 1,369	$
Derivative liabilities(2)	$ 115	$	$ 115	$

As of June 30, 2011	**Total**	**Level 1**	**Level 2**	**Level 3**
(In thousands)				

Preferred stock(1)	$ 24,407	$ 7,181	$ 17,226	$
Futures, options and other derivative assets(1)	$ 467	$	$ 467	$
Derivative liabilities(2)	$ 1,647	$	$ 1,647	$

(1) Included in Short-term investments on the consolidated balance sheet.

(2) Included in Other current liabilities on the consolidated balance sheet.

There were no significant transfers of securities between Level 1 and Level 2 in each of the periods presented.

Farmer Bros. Co.

Notes to Consolidated Financial Statements

Gains and losses, both realized and unrealized, are included in Other, net. Net realized and unrealized gains and losses are as follows:

(In thousands)	Three Months Ended December 31, 2011		Six Months Ended December 31, 2011	
	2011	2010	2011	2010
	(Unaudited)		(Unaudited)	
Net realized (losses) gains	$ (38)	$ 1,212	$ 81	$ 1,561
Net unrealized gains (losses)	409	(458)	(2,331)	1,090
Net realized and unrealized gains (losses)	$ 371	$ 754	$ (2,250)	$ 2,651

Preferred stock investments as of December 31, 2011 consisted of securities with a fair value of $13.6 million in an unrealized gain position and securities with a fair value of $3.9 million in an unrealized loss position. Preferred stock investments as of June 30, 2011 consisted of securities with a fair value of $18.1 million in an unrealized gain position and securities with a fair value of $6.3 million in an unrealized loss position. The following tables show gross unrealized losses (although such losses have been recognized in the statements of operations) and fair value for those investments that were in an unrealized loss position as of December 31, 2011 and June 30, 2011, aggregated by the length of time those investments have been in a continuous loss position:

	December 31, 2011 (Unaudited)			
	Less than 12 Months		Total	
(In thousands)	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Preferred stock	$ 2,115	$ (12)	$ 3,857	$ (1,664)

	June 30, 2011			
	Less than 12 Months		Total	
(In thousands)	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Preferred stock	$ 319	$ (3)	$ 6,326	$ (1,122)

Note 3. Accounts and Notes Receivable, net

(In thousands)	December 31, 2011 (Unaudited)	June 30, 2011
Trade receivables	$ 41,968	$ 40,716
Other receivables	4,912	5,637
Allowance for doubtful accounts	(2,115)	(2,852)
	$ 44,765	$ 43,501

Note 4. Inventories

December 31, 2011 **(In thousands)**	**Processed**	**Unprocessed** **(Unaudited)**	**Total**
Coffee	$ 25,645	$ 11,563	$ 37,208
Tea and culinary products	27,126	4,535	31,661
Coffee brewing equipment	3,888	5,428	9,316
	$ 56,659	$ 21,526	$ 78,185

June 30, 2011 **(In thousands)**	**Processed**	**Unprocessed**	**Total**
Coffee	$ 22,464	$ 17,220	$ 39,684
Tea and culinary products	25,469	4,100	29,569
Coffee brewing equipment	3,930	6,576	10,506
	$ 51,863	$ 27,896	$ 79,759

Farmer Bros. Co.

Notes to Consolidated Financial Statements

Inventories are valued at the lower of cost or market. Costs of coffee, tea and culinary products are determined on the last in, first out (LIFO) basis. Costs of coffee brewing equipment manufactured are accounted for on the first in, first out (FIFO) basis. The Company anticipates that certain inventory quantities will be reduced as of June 30, 2012 and expects the reduction to result in a liquidation of LIFO inventory quantities carried at lower costs prevailing in prior years as compared with the estimated current year cost in fiscal 2012. As of December 31, 2011, the Company revised its estimate of inventory quantities at June 30, 2012 and, accordingly, revised its estimate of the liquidation of LIFO inventory quantities. The expected effect of this liquidation for fiscal year 2012 is $11.1 million of which the Company recorded $3.8 million and $5.5 million, respectively, in cost of goods sold for the three and six months ended December 31, 2011. An actual valuation of inventory under the LIFO method is made only at the end of each fiscal year based on the inventory levels and costs at that time. Accordingly, interim LIFO calculations must necessarily be based on management s estimates of expected fiscal year-end inventory levels and costs. Because these estimates are subject to many forces beyond management s control, interim results are subject to the final fiscal year-end LIFO inventory valuation.

At times the Company enters into specialized hedging transactions to purchase future coffee contracts to enable the Company to lock in green coffee prices within a pre-established range. For the six months ended December 31, 2011, the Company recorded $1.4 million in net unrealized gains related to hedging transactions. From time to time the Company may hold a mix of futures contracts and options to help hedge against volatility in green coffee prices. Gains and losses on these derivative instruments are realized immediately in Other, net.

Note 5. Employee Benefit Plans

Single Employer Pension Plans

The Company has a defined benefit pension plan, the Farmer Bros. Salaried Employees Pension Plan, for the majority of its employees who are not covered under a collective bargaining agreement (Farmer Bros. Plan) and two defined benefit pension plans for certain hourly employees covered under a collective bargaining agreement (the Brewmatic Plan and the Hourly Employees Plan). All assets and benefit obligations were determined using a measurement date of June 30.

The Company amended the Farmer Bros. Plan, freezing the benefit for all participants effective June 30, 2011. After the plan freeze, participants do not accrue any benefits under the plan, and new hires are not eligible to participate in the plan.

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

Components of net periodic benefit cost

	Three Months Ended December 31,		**Six Months Ended December 31,**	
	2011	**2010**	**2011**	**2010**
(In thousands)		**(Unaudited)**		
Service cost	$ 124	$ 1,300	$ 248	$ 2,600
Interest cost	1,525	1,569	3,050	3,139
Expected return on plan assets	(1,703)	(1,329)	(3,406)	(2,658)
Amortization of net (gain) loss*	342	836	685	1,671
Amortization of prior service cost (credit)*	5	41	10	82
Net periodic benefit cost	$ 293	$ 2,417	$ 587	$ 4,834

* These amounts represent the estimated portion of the net (gain)/loss and net prior service cost/(credit) remaining in accumulated other comprehensive income that is expected to be recognized as a component of net periodic benefit cost over the current fiscal year.

Farmer Bros. Co.

Notes to Consolidated Financial Statements

Weighted-average assumptions used to determine net periodic benefit cost

	Fiscal	
	2012	**2011**
Discount rate	5.60%	5.60%
Expected long-term rate of return	8.25%	8.25%
Rate of compensation increase*	3.00%	3.00%

* For Hourly Employees Plan only

Basis used to determine expected long-term return on plan assets

Historical and future expected rates of return of multiple asset classes were analyzed to develop a risk-free real rate of return and risk premiums for each asset class. The overall rate for each asset class was developed by combining a long-term inflation component, the risk-free real rate of return, and the associated risk premium. A weighted average rate of return was developed based on those overall rates and the target asset allocation of the plans.

Multiemployer Pension Plans

During the three months ended December 31, 2011, the Company withdrew from two multiemployer pension plans and recorded a charge of $4.3 million associated with withdrawal from one of these plans, representing the present value of the estimated withdrawal liability expected to be paid in quarterly installments of $0.1 million over 80 quarters. Installment payments will commence once the final determination of the amount of withdrawal liability is established, which determination may take up to 24 months from the date of withdrawal from the pension plan. Upon withdrawal, the employees covered under these multiemployer pension plans were included in the Company s defined contribution retirement plan (the 401(k) Plan). The $4.3 million estimated withdrawal charge is included in the Company s statement of operations for the three and six months ended December 31, 2011 as Pension withdrawal expense and in current and long-term liabilities on the Company s balance sheet at December 31, 2011.

The Company is currently in negotiations to withdraw from the remaining multiemployer pension plan in which it participates and, if successful, may incur a withdrawal liability, the amount of which could be material to the Company s results of operations and cash flows.

401(k) Plan

The Company s 401(k) Plan is available to all eligible employees who have worked more than 1,000 hours during a calendar year and were employed at the end of the calendar year. Participants in the 401(k) Plan may choose to contribute 1% to 15% of their annual pay subject to the maximum contribution allowed by the Internal Revenue Service. The Company s matching contribution is discretionary based on approval by the Company s Board of Directors. For the calendar years 2011 and 2012, the Company s Board of Directors approved a Company matching contribution of 50% of an employee s annual 401(k) contribution, up to 6% of the employee s eligible income. The matching contributions (and any earnings thereon) vest at the rate of 20% for each of the participant s first five years of vesting service, so that a participant is fully vested in his or her matching contribution account after five years of vesting service. A participant is automatically vested in the event of death, disability or attainment of age 65 while employed by the Company. Employees are 100% vested in their contributions. For employees subject to a collective bargaining agreement, the match is only available if so provided in the labor agreement.

For the calendar year ended December 31, 2011, the Company accrued a matching contribution of $0.7 million in operating expenses as of December 31, 2011.

Postretirement Benefits

The Company sponsors an unfunded postretirement medical, dental and vision plan that covers qualified non-union retirees and certain qualified union retirees. Under this postretirement plan, the Company s contributions toward premiums for retiree medical, dental and vision coverage for participants and dependents are scaled based on length of service, with greater Company contributions for retirees with greater length of service, but subject to a maximum monthly Company contribution.

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The following table shows the components of net periodic postretirement benefit cost for the three and six months ended December 31, 2011 and 2010.

Components of net periodic postretirement benefit cost

	$1,100	$1,100	$1,100	$1,100
	Three Months Ended December 31,		**Six Months Ended December 31,**	
	2011	**2010**	**2011**	**2010**
(In thousands)		**(Unaudited)**		
Service cost	$ 409	$ 474	$ 818	$ 948
Interest cost	330	314	660	628
Expected return on plan assets				
Amortization of net (gain) loss	(199)	(180)	(398)	(360)
Amortization of transition (asset) obligation				
Amortization of prior service cost (credit)	(58)	(58)	(116)	(116)
Net periodic postretirement benefit cost	$ 482	$ 550	$ 964	$ 1,100

Weighted-average assumptions used to determine net periodic postretirement benefit cost

	Fiscal	
	2012	**2011**
Discount rate	5.46%	5.52%

The fiscal 2012 estimate of net periodic postretirement benefit cost is based on July 1, 2010 census data assuming there were no demographic actuarial gains or losses during the fiscal year ended June 30, 2011.

Note 6. Bank Loan

On September 12, 2011, the Company entered into an Amended and Restated Loan and Security Agreement (the New Loan Agreement) among the Company and Coffee Bean International, Inc. (CBI), as Borrowers, certain of the Company s other subsidiaries, as Guarantors, the Lenders party thereto, and Wells Fargo Bank, National Association (Wells Fargo), as Agent. The New Loan Agreement provides for a senior secured revolving credit facility of up to $85 million, with a letter of credit sublimit of $20 million. The new revolving line of credit provides for advances of 85% of eligible accounts receivable and 75% of eligible inventory (subject to a $60 million inventory loan limit), as defined. The New Loan Agreement provides for a range of interest rates based on modified Monthly Average Excess Availability levels with a range of PRIME + 0.25% to PRIME + 0.75% or Adjusted Eurodollar Rate + 2.0% to Adjusted Eurodollar Rate + 2.5%. The New Loan Agreement has an amendment fee of 0.375% and an unused line fee of 0.25%. Outstanding obligations under the New Loan Agreement are collateralized by all of the Borrowers assets, including the Company s preferred stock portfolio. The term of the New Loan Agreement expires on March 2, 2015.

The New Loan Agreement contains a variety of affirmative and negative covenants of types customary in an asset-based lending facility, including those relating to reporting requirements, maintenance of records, properties and corporate existence, compliance with laws, incurrence of other indebtedness and liens, limitations on certain payments, including the payment of dividends and capital expenditures, and transactions and extraordinary corporate events. The New Loan Agreement allows the Company to pay dividends, subject to certain liquidity requirements.

The New Loan Agreement also contains financial covenants requiring the Borrowers to maintain minimum Excess Availability and Total Liquidity levels. The New Loan Agreement allows the Lender to establish reserve requirements, which may reduce the amount of credit otherwise available to the Company, to reflect events, conditions, or risks that would have a reasonable likelihood of adversely affecting the Lender s collateral or the Company s assets, including the Company s green coffee inventory.

On January 9, 2012, the New Loan Agreement was amended (Amendment No. 1) in connection with JPMorgan Chase Bank, N.A. (JPMorgan Chase), becoming an additional Lender thereunder. Pursuant to Amendment No. 1, Wells Fargo will provide a commitment of $60 million and JPMorgan Chase will provide a commitment of $25 million.

On December 31, 2011, the Company was eligible to borrow up to a total of $85.0 million under the credit facility. As of December 31, 2011, the Company had borrowed $26.0 million of this amount, utilized $9.5 million of its letters of credit sublimit, and had excess availability of $49.5 million under the credit facility. As of December 31, 2011, the interest rate on the Company s outstanding borrowings under the credit facility was 3.5%. The Company was in compliance with all restrictive covenants under the credit facility as of December 31, 2011.

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Note 7. Share-Based Compensation

The Company measures and recognizes compensation expense for all share-based payment awards made under the Farmer Bros. Co. 2007 Omnibus Plan (the Omnibus Plan) based on estimated fair values.

Stock Options

On December 8, 2011, the Company granted 96,834 shares issuable upon the exercise of non-qualified stock options with an exercise price of $7.32 per share to eligible employees and officers under the Omnibus Plan. Shares issuable under the options ratably vest over a three-year period. Following are the weighted average assumptions used in the Black-Scholes Merton valuation model for the grants issued during the six months ended December 31, 2011 and 2010:

	Six Months Ended December 31, 2011	2010
Weighted average fair value of options	$ 3.64	$ 8.17
Pre-vest forfeiture rate	6.50%	6.50%
Risk-free interest rate	1.09%	2.80%
Dividend yield	0%	2.00%
Average expected life	6.00 years	6.00 years
Expected stock price volatility	52.5%	54.9%

The Company estimates the fair value of share-based payment awards on the date of grant using an option-pricing model. The value of the portion of the award that is ultimately expected to vest is recognized as expense over the requisite service period in the Company s consolidated statement of operations. The Company estimates forfeitures based on its historical pre-vest forfeiture rate and will revise those estimates in subsequent periods if actual forfeitures differ from those estimates. The Company s assumption regarding expected stock price volatility is based on the historical volatility of its stock price. The risk-free interest rate is based on U.S. Treasury zero-coupon issues at the date of grant with a remaining term equal to the expected life of the stock options.

The following table summarizes stock option activity for the six months ended December 31, 2011:

	497,810	497,810	497,810	497,810	497,810
(Unaudited)	Number of Stock Options	Weighted Average Exercise Price	Weighted Average Grant Date Fair Value	Weighted Average Remaining Life (Years)	Aggregate Intrinsic Value (In thousands)
Outstanding at June 30, 2011	497,810	$ 17.19	$ 6.44	5.7	$ 61
Granted	96,834	$ 7.32	$ 3.64	7.0	$
Cancelled/forfeited	(98,974)	$ 21.03	$ 6.37		$
Outstanding at December 31, 2011	495,670	$ 14.50	$ 5.90	5.7	$ 27
Vested and exercisable, December 31, 2011	163,481	$ 19.88	$ 6.74	4.6	$
Vested and expected to vest, December 31, 2011	471,436	$ 14.64	$ 5.93	5.7	$

The aggregate intrinsic value in the table above represents the total pretax intrinsic value, based on the Company s closing stock price of $7.64 at December 30, 2011, representing the last trading day of the quarter, which would have been received by award holders had all award holders exercised their awards that were in-the-money as of that date. As of December 31, 2011, there was approximately $1.4 million of unrecognized compensation cost related to stock options and 73,852 shares vested during the six months ended December 31, 2011. Compensation expense recognized in general and administrative expenses in each of the three month periods ended December 31, 2011 and 2010 was $ 0.3 million and $0.2 million, respectively. Compensation expense recognized in general and administrative expenses in each of the six month periods ended December 31, 2011 and 2010 was $ 0.6 million and $0.4 million, respectively.

Restricted Stock

On December 8, 2011, the Company granted 78,756 shares of restricted stock with a grant date fair value of $7.32 per share to eligible employees, officers and directors under the Plan. Shares of restricted stock generally vest at the end of three

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Notes to Consolidated Financial Statements

years from the grant date for eligible employees and officers who are employees, with the exception of 10,384 shares of restricted stock granted in May 2011 to Patrick G. Criteser, the Company s Interim Co-Chief Executive Officer, which shares vest one year from the date of grant. Shares of restricted stock vest ratably over a period of three years for directors and officers who are not employees. Compensation expense is recognized on a straight-line basis over the service period based on the estimated fair value of the restricted stock that is ultimately expected to vest. Restricted stock based compensation expense recognized in general and administrative expenses in each of the three months ended December 31, 2011 and 2010 was $0.2 million. Restricted stock based compensation expense recognized in general and administrative expenses in each of the six months ended December 31, 2011 and 2010 was $0.3 million. As of December 31, 2011, there was approximately $1.3 million of unrecognized compensation cost related to restricted stock. During the six months ended December 31, 2011, 16,843 shares of restricted stock vested.

The following table summarizes restricted stock activity for the six months ended December 31, 2011:

	117,288	117,288	117,288	117,288
		Weighted		
		Average	**Weighted**	**Aggregate**
		Grant	**Average**	**Intrinsic**
	Shares	**Date**	**Remaining Life**	**Value**
(Unaudited)	**Awarded**	**Fair Value**	**(Years)**	**(In thousands)**
Outstanding at June 30, 2011	80,687	$ 17.31	2.6	$ 818
Granted	78,756	$ 7.32	2.9	$ 602
Vested	(16,843)	$ 19.61		$ 127
Cancelled/Forfeited	(3,405)	$ 18.19		$ 0
Outstanding at December 31, 2011	139,195	$ 11.36	2.3	$ 1,063
Expected to vest, December 31, 2011	117,288	$ 11.36	2.3	$ 896

Note 8. Income Taxes

The Company adjusts its effective tax rate each quarter based on its current estimated annual effective tax rate. The Company also records the tax impact of certain discrete items, unusual or infrequently occurring tax events and the effects of changes in tax laws or rates, in the interim period in which they occur. In addition, the Company evaluates its deferred tax assets quarterly to determine if a valuation allowance is required.

The Company considered whether a valuation allowance should be recorded against deferred tax assets based on the likelihood that the benefits of the deferred tax assets would or would not ultimately be realized in future periods. In making this assessment, significant weight was given to evidence that could be objectively verified such as recent operating results and less consideration was given to less objective indicators such as future earnings projections.

After consideration of positive and negative evidence, including the recent history of losses, the Company cannot conclude that it is more likely than not to generate future earnings sufficient to realize the Company s deferred tax assets. Accordingly, the Company increased its valuation allowance by $1.6 million in the three months ended December 31, 2011 to $65.1 million. The total valuation allowance as of June 30, 2011 was $60.4 million.

A summary of the income tax expense recorded in the three and six months ended December 31, 2011 and 2010 is as follows:

(In thousands)	Three Months Ended December 31, 2011	 2010	Six Months Ended December 31, 2011	 2010
		(Unaudited)		
Loss before taxes	$ (4,050)	$ (8,823)	$ (11,288)	$ (18,335)
Income tax expense at federal statutory rate	(1,377)	(3,000)	(3,838)	(6,234)
State income taxes and credits	(168)	(378)	(448)	(783)
Dividends received deduction	(9)	(81)	(58)	(496)
Valuation allowance	1,601	3,531	4,683	7,896
Other permanent items	13	17	67	67
Income tax expense	$ 60	$ 89	$ 406	$ 450

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As of December 31, 2011 and June 30, 2011 the Company had not recognized the following tax benefits in its consolidated financial statements:

(In thousands)	As of December 31, 2011 (Unaudited)	June 30, 2011
Total unrecognized tax benefits*	$ 3,902	$ 3,902
Unrecognized benefits that, if recognized, would affect the Company s effective tax rate, subject to the valuation allowance*	$ 3,637	$ 3,637

* Excluding interest and penalties

The Internal Revenue Service completed an audit of the Company s open tax years in December 2010. The Company is currently appealing the result of this audit. The State of California is currently conducting examinations of the Company s tax returns for the years ended June 30, 2006 and 2007 and the Company is in settlement negotiations with the State of California regarding its audit of the Company s June 30, 2002 to June 30, 2005 R&D tax credit claims. The Company believes it is reasonably possible that $3.6 million of its total unrecognized tax benefits could be released in the next twelve months upon the conclusion of these examinations.

Note 9. Earnings (Loss) Per Common Share

The following table sets forth the calculation of basic and diluted net loss per common share:

(In thousands, except share and per share data)	Three Months Ended December 31, 2011	Three Months Ended December 31, 2010	Six Months Ended December 31, 2011	Six Months Ended December 31, 2010
		(Unaudited)		
Net loss attributable to common stockholders - basic	$ (4,094)	$ (8,862)	$ (11,638)	$ (18,681)
Effect of dilutive securities:				
Net loss attributable to nonvested restricted stockholders	(16)	(50)	(56)	(104)
Total net loss	$ (4,110)	$ (8,912)	$ (11,694)	$ (18,785)
Weighted average common shares outstanding basic	15,247,215	15,078,026	15,214,712	15,050,644
Effect of dilutive securities:				
Shares issuable under stock options				
Weighted average common shares outstanding diluted	15,247,215	15,078,026	15,214,712	15,050,644
Net loss per common share basic	$ (0.27)	$ (0.59)	$ (0.77)	$ (1.25)
Net loss per common share diluted	$ (0.27)	$ (0.59)	$ (0.77)	$ (1.25)

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

Forward-Looking Statements

The following discussion contains forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from those anticipated in these forward-looking statements as a result of many factors. The results of operations for the three and six months ended December 31, 2011 and 2010 are not necessarily indicative of the results that may be expected for any future period. The following discussion should be read in combination with the consolidated financial statements and the notes thereto included in Part I, Item 1 of this report and with the Risk Factors described in Part II, Item 1A of this report.

Liquidity and Capital Resources

Credit Facility

On September 12, 2011, we entered into an Amended and Restated Loan and Security Agreement (the New Loan Agreement) among the Company and CBI, as Borrowers, certain of the Company s other subsidiaries, as Guarantors, the Lenders party thereto, and Wells Fargo Bank, National Association (Wells Fargo), as Agent. Capitalized terms used below are defined in the New Loan Agreement.

The New Loan Agreement provides for a senior secured revolving credit facility of up to $85 million, with a letter of credit sublimit of $20 million. The new revolving line of credit provides for advances of 85% of eligible accounts receivable and 75% of eligible inventory, as defined. The New Loan Agreement provides for a range of interest rates based on modified Monthly Average Excess Availability levels with a range of PRIME + 0.25% to PRIME + 0.75% or Adjusted Eurodollar Rate + 2.0% to Adjusted Eurodollar Rate + 2.5%. The New Loan Agreement has an amendment fee of 0.375% and an unused line fee of 0.25%. Outstanding obligations under the New Loan Agreement are collateralized by all of the Borrowers assets, including the Company s preferred stock portfolio. The term of the New Loan Agreement expires on March 2, 2015.

The New Loan Agreement contains a variety of affirmative and negative covenants of types customary in an asset-based lending facility, including those relating to reporting requirements, maintenance of records, properties and corporate existence, compliance with laws, incurrence of other indebtedness and liens, limitations on certain payments, including the payment of dividends and capital expenditures, and transactions and extraordinary corporate events. The New Loan Agreement allows us to pay dividends, subject to certain liquidity requirements. The New Loan Agreement also contains financial covenants requiring the Borrowers to maintain minimum Excess Availability and Total Liquidity levels. The New Loan Agreement allows the Lender to establish reserve requirements, which may reduce the amount of credit otherwise available to us, to reflect events, conditions, or risks that would have a reasonable likelihood of adversely affecting the Lender s collateral or our assets, including our green coffee inventory.

The New Loan Agreement provides that an event of default includes, among other things, subject to certain grace periods: (i) payment defaults; (ii) failure by any guarantor to perform any guarantee in favor of Lender; (iii) failure to abide by loan covenants; (iv) default with respect to other material indebtedness; (v) final judgment in a material amount not discharged or stayed; (vi) any change of control; (vii) bankruptcy or insolvency; and (viii) the failure of the Farmer Bros. Co. Employee Stock Ownership Benefit Trust, created by the Company to implement the ESOP, to be duly qualified under Section 401(a) of the Code or exempt from federal income taxation, or if the ESOP engages in a material non-exempt prohibited transaction.

On January 9, 2012, the New Loan Agreement was amended (Amendment No. 1) in connection with JPMorgan Chase Bank, N.A. (JPMorgan Chase), becoming an additional Lender thereunder. Pursuant to Amendment No. 1, Wells Fargo will provide a commitment of $60 million and JPMorgan Chase will provide a commitment of $25 million. The foregoing description of Amendment No. 1 is not complete and is qualified in its entirety by the actual terms of Amendment No. 1, a copy of which is incorporated herein by reference and attached hereto as Exhibit 10.2.

The New Loan Agreement replaces our previously existing Loan and Security Agreement, dated March 2, 2009, as amended (the Original Loan Agreement), among the Borrowers, Guarantors and Wells Fargo, as Lender. The Original Loan Agreement provided for a senior secured revolving credit facility of up to $50 million, with a letter of credit sublimit of $10 million. The original revolving line of credit provided for advances of 85% of eligible accounts receivable and 65% of eligible inventory, as defined. The Original Loan Agreement had an unused commitment fee of 0.375%. The Original Loan Agreement provided for a range of interest rates based on modified Monthly Average Excess Availability levels (as defined) with a range of PRIME + 0.25% to PRIME + 0.75% or Adjusted Eurodollar Rate + 2.5% to Adjusted Eurodollar Rate + 3.0%. All outstanding obligations under the Original Loan Agreement were collateralized by the Company s assets, excluding the preferred stock held in investment accounts. On September 12, 2011, the Lender and the Company amended the Original Loan Agreement to reduce required minimum excess availability and required minimum total liquidity for the period from July 1, 2011 through September 30, 2011.

The interest rate on our outstanding borrowings under the New Loan Agreement was 3.5% at December 31, 2011. As of December 31, 2011, we had outstanding borrowings of $26.0 million, utilized $9.5 million of the letters of credit sublimit, and had excess availability under the credit facility of $49.5 million. Due to the short-term nature of the credit facility and the variable interest rate, fair value of the balance outstanding approximates carrying value. As of December 31, 2011, we were in compliance with all restrictive covenants under the New Loan Agreement. There can be no assurance that the Lender will issue a waiver or grant an amendment to the covenants in future periods, if the Company required one. As of January 31, 2012, we had outstanding borrowings of $30.7 million, utilized $10.3 million of the letters of credit sublimit, and had excess availability under the credit facility of $44.0 million.

Liquidity

We generally finance our operations through cash flow from operations and borrowings under our revolving credit facility described above. As of December 31, 2011, we had $4.1 million in cash and cash equivalents and $18.9 million in short-term investments. We believe our revolving credit facility, to the extent available, in addition to our cash flows from operations and other liquid assets are sufficient to fund our working capital and capital expenditure requirements for the next 12 months.

We generate cash from operating activities primarily from cash collections related to the sale of our products. Net cash provided by operating activities was $9.7 million in the first half of fiscal 2012, compared with net cash provided by operating activities of $21.3 million in the first half of fiscal 2011. Net cash provided by operating activities in the first half of fiscal 2012 was primarily due to a decrease in inventory levels. Net cash provided by operating activities during the comparable period in the prior fiscal year was primarily due to proceeds from sale of investments.

Net cash used in investing activities decreased to $4.6 million in the first half of fiscal 2012 compared to $9.9 million in the first half of fiscal 2011 primarily due to reduced levels of capital expenditures.

Net cash used in financing activities was $7.1 million in the first half of fiscal 2012 compared to net cash used in financing activities of $11.9 million in the first half of fiscal 2011. Cash flows related to financing activities included net repayments of $6.3 million in the first half of fiscal 2012 compared to net repayments of $7.6 million and a dividend payment of $3.7 million in the first half of fiscal 2011.

Our expected capital expenditures for fiscal 2012 include expenditures to replace normal wear and tear of coffee brewing equipment, vehicles and machinery and equipment, and are not expected to deviate significantly from fiscal 2011 levels. In the first half of fiscal 2012, we capitalized $5.8 million in property and equipment purchases which included $5.2 million in expenditures to replace normal wear and tear of coffee brewing equipment. Our expected capital commitments for fiscal 2012 include an estimated $3.4 million for vehicle leases and purchases of which $0.1 million in vehicle leases has been committed to as of December 31, 2011.

During the three months ended December 31, 2011, we withdrew from two multiemployer pension plans and recorded a charge of $4.3 million associated with withdrawal from one of the plans, representing the present value of the estimated withdrawal liability expected to be paid in quarterly installments of $0.1 million over 80 quarters. We are currently in negotiations to withdraw from the remaining multiemployer pension plan in which we participate and, if successful, may incur a withdrawal liability, the amount of which could be material to our results of operations and cash flows.

Our working capital is comprised of the following:

(In thousands)	**As of December 31, 2011** **(Unaudited)**	**As of June 30, 2011**
Current assets	$ 149,318	$ 157,410
Current liabilities	95,389	103,462
Working capital	$ 53,929	$ 53,948

Liquidity Information:

(In thousands)	For the Six Months Ended December 31, 2011	 December 31, 2010
	(Unaudited)	
Capital expenditures	$ 5,808	$ 10,401
Dividends paid	$	$ 3,687

(In thousands)	As of December 31, 2011	As of December 31, 2010
	(Unaudited)	
Dividends payable	$	$ 969

Results of Operations

Our net sales in the three months ended December 31, 2011 increased $12.6 million, or 11%, to $131.8 million as compared to $119.2 million during the three months ended December 31, 2010. Our net sales in the first half of fiscal 2012 increased $25.0 million, or 11%, to $253.0 million as compared to $228.0 million in the first half of fiscal 2011, primarily due to the increases in list prices of our coffee, cappuccino, cocoa and selected spice products.

Gross profit in the three months ended December 31, 2011 decreased $0.5 million, or 1%, to $44.5 million, as compared to $45.0 million during the three months ended December 31, 2010. Gross margin decreased to 34% in the three months ended December 31, 2011 from 38% in the comparable period in the prior fiscal year. Gross profit during the six months ended December 31, 2011 decreased $4.8 million, or 5%, to $84.2 million as compared to $89.0 million during the six months ended December 31, 2010. Gross margin decreased to 33% in the six months ended December 31, 2011 from 39% in the comparable period of the prior fiscal year. Gross profit in the three and six months ended December 31, 2011 includes the expected beneficial effect of the liquidation of LIFO inventory quantities in the amount of $3.8 million and $5.5 million, respectively (see Note 4 to the consolidated financial statements). The decrease in gross margin is primarily due to higher raw material costs including a 59% increase in the average cost of green coffee beans compared to the same period in the prior fiscal year and changes in the mix of our customers and the products we sell to them, which has only been partly offset by price increases for finished goods and the expected effect of the liquidation of LIFO inventory quantities.

Operating expenses in the three months ended December 31, 2011 decreased $5.4 million, or 10%, to $50.2 million, or 38% of sales, from $55.6 million, or 47% of sales, in the comparable period of the prior fiscal year. During the six months ended December 31, 2011, operating expenses decreased $17.0 million, or 15%, to $94.5 million, or 37% of sales, from $111.5 million, or 49% of sales, in the comparable period of the prior fiscal year. The reduction in operating expenses in the three and six months ended December 31, 2011, as compared to the same periods in the prior fiscal year is primarily due to lower payroll and related expenses resulting from decreased employee headcount, savings from employee benefit plan restructuring and cost control measures put in place during the prior fiscal year. The reduction in operating expenses was offset in part by higher freight and fuel costs. In addition, during the three months ended December 31, 2011, we withdrew from two multiemployer pension plans and recorded a charge of $4.3 million associated with withdrawal from one of these plans, representing the present value of estimated withdrawal liability expected to be paid in quarterly installments of $0.1 million over 80 quarters. Installment payments will commence once the final determination of the amount of withdrawal liability is established, which determination may take up to 24 months from the date of withdrawal from the pension plan. Upon withdrawal, the employees covered under these multiemployer pension plans were included in the Company s 401(k) Plan. This $4.3 million charge is included in the Company s statement of operations for the three and six months ended December 31, 2011 as Pension withdrawal expense and in current and long-term liabilities on the Company s balance sheet at December 31, 2011.

Loss from operations in the three and six months ended December 31, 2011 was $(5.6) million and $(10.3) million, respectively, as compared to $(10.5) million and $(22.6) million, respectively, during the three and six months ended December 31, 2010, primarily due to reduction in operating expenses.

Total other income in the three months ended December 31, 2011 was $1.6 million compared to $1.7 million for the same period in the prior fiscal year. Total other expense in the six months ended December 31, 2011 was $(1.0) million compared to total other income of $4.2 million in the six months ended December 31, 2010. Total other expense in the six months ended December 31, 2011 included $(2.2) million in net unrealized derivative losses recorded and higher interest expense compared to $2.7 million in net realized and unrealized derivative gains recorded and lower interest expense in the six months ended December 31, 2010.

During the three months ended December 31, 2011 and 2010, we recorded income tax expense of $0.1 million. During the six months ended December 31, 2011, we recorded income tax expense of $0.4 million compared to $0.5 million recorded during the six months ended December 31, 2010.

As a result of the forgoing factors, net loss was $(4.1) million, or $(0.27) per common share, for the three months ended December 31, 2011, compared to net loss of $(8.9) million, or $(0.59) per common share, for the three months ended December 31, 2010. Net loss for the six months ended December 31, 2011 was $(11.7) million, or $(0.77) per common share, as compared to $(18.8) million, or $(1.25) per common share, in the comparable period of the prior fiscal year.

Non-GAAP Financial Measures

In addition to net income (loss) determined in accordance with GAAP, we use certain non-GAAP financial measures, such as Net income (loss) excluding LIFO impact, EBITDAE and Adjusted EBITDAE, in assessing our operating performance. We believe these non-GAAP measures serve as appropriate measures to be used in evaluating the performance of our business.

We define Net income (loss) excluding LIFO impact as net income (loss) excluding the impact of LIFO charge or credit. We define EBITDAE as net income (loss) excluding the impact of income taxes, interest expense, depreciation and amortization expense, ESOP and share-based compensation expense, non-cash impairment losses, non-cash pension withdrawal expense and net gains and losses from derivatives and investment portfolio. We reference this particular non-GAAP financial measure frequently in our decision-making because it provides supplemental information that facilitates internal comparisons to the historical operating performance of prior periods. In addition, incentive compensation is based on EBITDAE and we base certain of our forward-looking estimates on EBITDAE to facilitate quantification of planned business activities and enhance subsequent follow-up with comparisons of actual to planned EBITDAE. We define Adjusted EBITDAE as EBITDAE excluding the impact of LIFO charge or credit. We believe the use of the LIFO method of inventory valuation for coffee, tea and culinary products results in a better matching of costs and revenues. Net income (loss) excluding LIFO impact, EBITDAE and Adjusted EBITDAE as defined by us may not be comparable to similarly titled measures reported by other companies. We do not intend for non-GAAP financial measures to be considered in isolation or as a substitute for other measures prepared in accordance with GAAP.

Set forth below is a reconciliation of reported net loss and reported basic and diluted net loss per common share to net loss excluding LIFO impact and basic and diluted net loss per common share excluding LIFO impact, respectively:

	Three Months Ended December 31,		**Six Months Ended December 31,**	
(In thousands, except share and per share data)	**2011**	**2010**	**2011**	**2010**
Net loss, as reported	$ (4,110)	$ (8,912)	$ (11,694)	$ (18,785)
LIFO (credit) charge net of taxes of zero (1)(2)	(1,172)	5,211	3,750(3)	6,730(3)
Net loss, excluding LIFO impact	(5,282)	(3,701)	(7,944)	(12,055)
Weighted average common shares outstanding basic and diluted	15,247,215	15,078,026	15,214,712	15,050,644
Net loss per common share, as reported	$ (0.27)	$ (0.59)	$ (0.77)	$ (1.25)
Net loss per common share excluding LIFO impact basic and diluted	$ (0.35)	$ (0.25)	$ (0.52)	$ (0.80)

Set forth below is a reconciliation of reported net loss to EBITDAE and Adjusted EBITDAE:

	Three Months Ended December 31,		Six Months Ended December 31,	
(In thousands)	2011	2010	2011	2010
Net loss, as reported	$ (4,110)	$ (8,912)	$ (11,694)	$ (18,785)
Income tax expense	60	89	406	450
Interest expense	506	481	1,081	883
Depreciation and amortization expense	7,898	7,955	15,821	15,416
ESOP and share-based compensation expense	686	1,181	1,476	2,259
Pension withdrawal expense	4,348		4,348	
Net (gain) loss on derivatives and investments	(371)	(754)	2,250	(2,651)
EBITDAE	$ 9,017	$ 40	$ 13,688	(2,428)
LIFO (credit) charge net of taxes of zero (1)(2)	(1,172)	5,211	3,750(3)	6,730(3)
Adjusted EBITDAE	$ 7,845	$ 5,251	$ 17,438	$ 4,302

(1) LIFO charge had no impact on income tax expense since we have recorded a 100% valuation allowance against deferred tax assets.

(2) Actual valuation of inventory under the LIFO method is made only at the end of each fiscal year based on the inventory levels and costs at that time. Accordingly, interim LIFO calculations must necessarily be based on management s estimates of expected fiscal year-end inventory levels and costs. Because these estimates are subject to many forces beyond management s control, interim results are subject to the final fiscal year-end LIFO inventory valuation.

(3) Effective October 1, 2011, we refined the methodology that we use to estimate the LIFO impact and use the average purchase cost over the months of inventory-on-hand instead of the latest purchase cost to value the ending inventory. In an environment of escalating prices, using the average purchase cost provides a more accurate inventory value than using the latest purchase cost for that period. The effect of this refinement in methodology on previously disclosed non-GAAP financial measures is included in the six months ended December 31, 2011 and 2010 columns above and is summarized below:

	As Previously Reported		As Refined	
	Three Months Ended September 30,		Three Months Ended September 30,	
	2011	2010	2011	2010
(In thousands, except per share data)				
LIFO charge net of taxes of zero	$ 6,660	$ 3,595	$ 4,922	$ 1,519
Net loss, excluding LIFO impact	$ (924)	$ (6,278)	$ (2,662)	$ (8,354)
Net loss per common share excluding LIFO impact basic and diluted	$ (0.06)	$ (0.42)	$ (0.18)	$ (0.56)
Adjusted EBITDAE	$ 11,331	$ 1,127	$ 9,593	$ (949)

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Interest Rate Risk

We are exposed to market value risk arising from changes in interest rates on our securities portfolio. Our portfolio of preferred securities has sometimes included investments in derivatives that provide a natural economic hedge of interest rate risk. We review the interest rate sensitivity of these securities and (a) may enter into short positions in futures contracts on U.S. Treasury securities or (b) may hold put options on such futures contracts in order to reduce the impact of certain interest rate changes on such preferred stocks. Specifically, we attempt to manage the risk arising from changes in the general level of interest rates. We do not transact in futures contracts or put options for speculative purposes. The number and type of futures and options contracts entered into depends on, among other items, the specific maturity and issuer redemption provisions for each preferred stock held, the slope of the Treasury yield curve, the expected volatility of U.S. Treasury yields, and the costs of using futures and/or options.

The following table demonstrates the impact of varying interest rate changes based on the preferred stock holdings, futures and options positions, and market yield and price relationships at December 31, 2011. This table is predicated on an instantaneous change in the general level of interest rates and assumes predictable relationships between the prices of preferred securities holdings, the yields on U.S. Treasury securities, and related futures and options. At December 31, 2011, we had no futures contracts or put options designated as interest rate risk hedges.

Interest Rate Changes	Market Value of Preferred Securities at December 31, 2011	Change in Market Value
	(In thousands)	
150 basis points	$ 18,057	$ 545
100 basis points	$ 17,914	$ 402
Unchanged	$ 17,512	$
+100 basis points	$ 16,938	$ (575)
+150 basis points	$ 16,633	$ (879)

Our revolving line of credit with Wells Fargo is at a variable rate. The interest rate varies based upon line usage, borrowing base availability and market conditions. As of December 31, 2011, we had borrowed $26.0 million, utilized $9.5 million of our letters of credit sublimit, and had excess availability of $49.5 million under the credit facility. The interest rate on the Company s outstanding borrowings at December 31, 2011 was 3.5%. The New Loan Agreement entered on September 12, 2011, provides for a senior secured revolving credit facility of up to $85 million, with a letter of credit sublimit of $20 million. The New Loan Agreement provides for a range of interest rates based on modified Monthly Average Excess Availability levels with a range of PRIME + 0.25% to PRIME + 0.75% or Adjusted Eurodollar Rate + 2.0% to Adjusted Eurodollar Rate + 2.5%. The term of the New Loan Agreement expires on March 2, 2015.

The following table demonstrates the impact of interest rate changes on our interest expense under the revolving credit facility for a full year based on the outstanding balance and interest rate as of December 31, 2011:

Interest Rate Changes	Interest Rate	Annual Interest Expense
		(In thousands)
150 basis points	2.00%	$ 709
100 basis points	2.50%	$ 887
Unchanged	3.50%	$ 1,241
+100 basis points	4.50%	$ 1,596
+150 basis points	5.00%	$ 1,774

Commodity Price Risk

We are exposed to commodity price risk arising from changes in the market price of green coffee. We price green coffee inventory on the last-in, first-out (LIFO) basis. In the normal course of business we hold a large green coffee inventory and enter into forward commodity purchase agreements with suppliers. We are subject to price risk resulting from the volatility of green coffee prices. Due to competition and market conditions, volatile price increases cannot always be passed on to our customers.

At times we also enter into specialized hedging transactions to purchase future coffee contracts to enable us to lock in green coffee prices within a pre-established range. For the three and six months ended December 31, 2011 we recorded $2.6 million and $1.4 million in net unrealized gains related to hedging transactions. From time to time we may hold a mix of futures contracts and options to help hedge against volatility in green coffee prices. Gains and losses on these derivative instruments are realized immediately in Other, net.

The following table demonstrates the impact of hypothetical changes in the market value of coffee cost on the market value of our coffee inventory and coffee forward purchase contracts as of December 31, 2011:

		Market Value		Change in Market Value	
Coffee Cost Change	Coffee Inventory	Futures & Options	Total	Derivatives	Inventory
			(In thousands)		
10%	$ 33,000	$ (1,119)	$ 31,881	$ (1,119)	$ (4,208)
Unchanged	$ 37,208	$ 1,369	$ 38,577	$	$
10%	$ 41,000	$ 1,119	$ 42,119	$ 1,119	$ 3,792

Item 4. Controls and Procedures

Disclosure controls and procedures are controls and other procedures that are designed to ensure that information required to be disclosed by us in the reports that we file or submit under the Securities Exchange Act of 1934, as amended (the Exchange Act), is recorded, processed, summarized and reported, within the time periods specified in the rules and forms of the SEC. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information we are required to disclose in the reports that we file or submit under the Exchange Act is accumulated and communicated to our management, including our principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosures. In January 2010, we adopted Disclosure Controls and Procedures that included the organization of a Disclosure Committee designed to enhance our process of documenting our compliance with Rule 13a-15(e) promulgated under the Exchange Act. The Disclosure Committee performed its duties as prescribed by our Disclosure Controls and Procedures in preparing this Quarterly Report on Form 10-Q for the fiscal period ended December 31, 2011.

As of December 31, 2011, our management, with the participation of our principal executive and principal financial officers, or persons performing similar functions, carried out an evaluation of the effectiveness of our disclosure controls and procedures pursuant to Rule 13a-15(e) promulgated under the Exchange Act. Based upon this evaluation, our Interim Co-Chief Executive Officers and our Chief Financial Officer concluded that, as of December 31, 2011, our disclosure controls and procedures were effective.

Changes in Internal Control over Financial Reporting

Management has determined that there has been no change in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) promulgated under the Exchange Act) during our fiscal quarter ended December 31, 2011 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II OTHER INFORMATION

Item 1A. Risk Factors

Certain statements contained in this quarterly report on Form 10-Q are not based on historical fact and are forward-looking statements within the meaning of federal securities laws and regulations. These statements are based on management s current expectations, assumptions, estimates and observations of future events and include any statements that do not directly relate to any historical or current fact. These forward-looking statements can be identified by the use of words like anticipates, estimates, projects, expects, plans, believes, intends, will, assume words of similar meaning. Owing to the uncertainties inherent in forward-looking statements, actual results could differ materially from those set forth in forward-looking statements. We intend these forward-looking statements to speak only at the time of this report and do not undertake to update or revise these statements as more information becomes available except as required under federal securities laws and the rules and regulations of the SEC. Factors that could cause actual results to differ materially from those in forward-looking statements include, but are not limited to, fluctuations in availability and cost of green coffee, competition, organizational changes, our failure to realize synergies from the integration of the CBI and DSD Coffee Business acquisitions, our ability to refinance or replace our existing credit facility upon its expiration, the impact of a weaker economy, business conditions in the coffee industry and food industry in general, our continued success in attracting new customers, variances from budgeted sales mix and growth rates, weather and special or unusual events, changes in the quality or dividend stream of third parties securities and other investment vehicles in which we have invested our assets, as well as other risks described in this report and other factors described from time to time in our filings with the SEC.

You should consider each of the following factors as well as the other information in this report and in our Annual Report on Form 10-K for the fiscal year ended June 30, 2011, including our financial statements and the related notes, in evaluating our business and our prospects. The risks and uncertainties described below are not the only ones we face. Additional risks and uncertainties not presently known to us or that we currently consider immaterial may also negatively affect our business operations. If any of the following risks actually occurs, our business and financial results could be harmed. In that case, the trading price of our common stock could decline.

INCREASES IN THE COST OF GREEN COFFEE COULD REDUCE OUR GROSS MARGIN AND PROFIT.

Our primary raw material is green coffee, an agricultural commodity. Green coffee is mainly grown outside the United States and can be subject to volatile price fluctuations. Weather, real or perceived supply shortages, speculation in the commodity markets, political unrest, labor actions, currency fluctuations, armed conflict in coffee producing nations, and government actions, including treaties and trade controls between the U.S. and coffee producing nations, can affect the price of green coffee. In fiscal 2011, the market for green Arabica coffee increased approximately 80% per pound compared to the prior fiscal year. Additionally, green specialty coffees sell at a premium to other green coffees due to the inability of producers to increase supply in the short run to meet rising demand. As a result, the price spread between specialty coffee and non-specialty coffee is likely to widen as demand for specialty coffee continues to increase.

Green coffee prices can also be affected by the actions of producer organizations. The most prominent of these are the Colombian Coffee Federation, Inc. (CCF) and the International Coffee Organization (ICO). These organizations seek to increase green coffee prices largely by attempting to restrict supplies, thereby limiting the availability of green coffee to coffee consuming nations. As a result, these organizations or others may succeed in raising green coffee prices.

There can be no assurance that we will be successful in passing commodity price fluctuations on to our customers without losses in sales volume or gross margin in the future. Similarly, rapid, sharp decreases in the cost of green coffee could also force us to lower sales prices before realizing cost reductions in our green coffee inventory. Additionally, if green coffee beans from a region become unavailable or prohibitively expensive, we could be forced to use alternative coffee beans or discontinue certain blends, which could adversely impact our sales.

Some of the Arabica coffee beans of the quality we purchase do not trade directly on the commodity markets. Rather, we purchase the high-end Arabica coffee beans that we use on a negotiated basis. We depend on our relationships with coffee brokers, exporters and growers for the supply of our primary raw material, high quality Arabica coffee beans. If any of our relationships with coffee brokers, exporters or growers deteriorate, we may be unable to procure a sufficient quantity of high quality coffee beans at prices acceptable to us or at all. In such case, we may not be able to fulfill the demand of our existing customers, supply new customers or expand other channels of distribution. A raw material shortage could result in a deterioration of our relationship with our customers, decreased revenues or could impair our ability to expand our business.

OUR EFFORTS TO SECURE AN ADEQUATE SUPPLY OF QUALITY COFFEES MAY BE UNSUCCESSFUL AND EXPOSE US TO COMMODITY PRICE RISK.

Maintaining a steady supply of green coffee is essential to keep inventory levels low and secure sufficient stock to meet customer needs. To help ensure future supplies, we may purchase coffee on forward contracts for delivery up to twelve months in the future. Non-performance by suppliers could expose us to credit and supply risk. Additionally, entering into such future commitments exposes us to purchase price risk. Because we are not always able to pass price changes through to our customers due to competitive pressures, unpredictable price changes can have an immediate effect on operating results that cannot be corrected in the short run. To reduce our potential price risk exposure we have, from time to time, entered into futures contracts to hedge coffee purchase commitments. Open contracts associated with these hedging activities are described in Part I, Item 3 of this report.

WE FACE EXPOSURE TO OTHER COMMODITY COST FLUCTUATIONS, WHICH COULD IMPAIR OUR PROFITABILITY.

We are exposed to cost fluctuations in other commodities, including, without limitation, milk, spices, natural gas and gasoline. In addition, an increase in the cost of fuel could indirectly lead to higher electricity costs, transportation costs and other commodity costs. Much like green coffee costs, the costs of these commodities depend on various factors beyond our control, including economic and political conditions, foreign currency fluctuations, and global weather patterns. To the extent we are unable to pass along such costs to our customers through price increases, our margins and profitability will decrease.

IMPAIRMENT CHARGES RELATED TO OUR GOODWILL OR LONG-LIVED ASSETS COULD ADVERSELY AFFECT OUR FUTURE OPERATING RESULTS.

We perform an analysis on our goodwill balances to test for impairment on an annual basis or whenever events occur that may indicate impairment possibly exists. Goodwill is deemed to be impaired if the net book value of a reporting unit exceeds the estimated fair value. A long-lived intangible asset (other than goodwill) is only deemed to have become impaired if the sum of the forecasted undiscounted future cash flows related to the asset is less than the asset s carrying value. If the sum of the forecasted cash flows is less than the carrying value, then we must write down the carrying value to its estimated fair value.

For the purposes of analysis of our goodwill balances, our estimates of fair value were based on a combination of the income approach, which estimates the fair value of our reporting units based on the future discounted cash flows, and the market approach, which estimates the fair value of our reporting units based on comparable market prices. Our estimates of future cash flows included estimated growth rates and assumptions about the extent and duration of the current economic downturn and operating results of our subsidiary, CBI.

As of December 31, 2011, we had a goodwill balance of $5.3 million. Goodwill impairment analysis and measurement is a process that requires significant judgment and the use of significant estimates related to valuation such as discount rates, long-term growth rates and the level and timing of future cash flows. As a result, several factors could indicate potential impairment of our goodwill balance, including, but not limited to:

a decline in our stock price and resulting market capitalization, if we determine that the decline is sustained and is indicative of a reduction in the fair value of CBI below its carrying value; and further weakening of the economy or the failure of CBI to reach our internal forecasts thereby impacting our ability to achieve our forecasted levels of cash flows and reducing the estimated discounted cash flow value of CBI.

We will continue to review our goodwill and other intangible assets for possible impairment. We cannot be certain that a future downturn in CBI s business, changes in market conditions or a longer-term decline in the quoted market price of our stock will not result in an impairment of goodwill and the recognition of resulting expenses in future periods, which could adversely affect our results of operations for those periods.

We also test our other long-lived assets for impairment annually and whenever events or changes in circumstances indicate that their carrying amount may be impaired. In the fourth quarter of fiscal 2011, we determined that the customer relationships acquired, and the distribution agreement and co-pack agreement that we entered into, in connection with the DSD Coffee Business acquisition were impaired and wrote these intangible assets off in their entirety. The total impairment charge of $7.8 million was included in operating expenses in fiscal 2011. Failure to achieve our forecasted operating results, due to further weakness in the economic environment or other factors, and further declines in our market capitalization, among other things, could result in further impairment of our long-lived assets.

OUR LEVEL OF INDEBTEDNESS COULD ADVERSELY AFFECT OUR ABILITY TO RAISE ADDITIONAL CAPITAL TO FUND OUR OPERATIONS, AND LIMIT OUR ABILITY TO REACT TO CHANGES IN THE ECONOMY OR OUR INDUSTRY.

We have an $85 million senior secured revolving credit facility. As of January 31, 2012, we had outstanding borrowings of $30.7 million, utilized $10.3 million of the letters of credit sublimit, and had excess availability under the credit facility of $44.0 million. Maintaining a large loan balance under our credit facility could adversely affect our business and limit our ability to plan for or respond to changes in our business. Additionally, our borrowings under the credit facility are at variable rates of interest, exposing us to the risk of interest rate volatility, which could lead to a decrease in our net income. Our debt obligations could also:

increase our vulnerability to general adverse economic and industry conditions;

require us to dedicate a portion of our cash flow from operations to payments on our indebtedness, thereby reducing the availability of our cash flow for other purposes, including the payment of dividends, funding daily operations, investing in future business opportunities and capital expenditures;

limit our flexibility in planning for, or reacting to, changes in our business and the industry in which we operate thereby placing us at a competitive disadvantage compared to our competitors that may have less debt or debt with less restrictive debt covenants;

limit, by the financial and other restrictive covenants in our loan agreement, our ability to borrow additional funds; and

have a material adverse effect on us if we fail to comply with the covenants in our loan agreement because such failure could result in an event of default which, if not cured or waived, could result in our indebtedness becoming immediately due and payable.

RESTRICTIVE COVENANTS IN OUR CREDIT FACILITY MAY RESTRICT OUR ABILITY TO PURSUE OUR BUSINESS STRATEGIES.

Our revolving credit facility contains various covenants that limit our ability and/or our subsidiaries ability to, among other things:

incur additional indebtedness;

pay dividends on or make distributions in respect of capital stock or make certain other restricted payments or investments;

- sell assets;
- create liens on certain assets to secure debt; and
- consolidate, merge, sell or otherwise dispose of all or substantially all of our assets.

Our credit facility also contains restrictive covenants that require the Company and its subsidiaries to satisfy financial condition and liquidity tests. Our ability to meet those tests may be affected by events beyond our control, and there can be no assurance that we will meet those tests. The breach of any of these covenants or our failure to meet the financial condition or liquidity tests could result in a default under the credit facility, and the lender could elect to declare all amounts borrowed thereunder, together with accrued interest, to be due and payable and could proceed against the collateral securing that indebtedness.

OUR BUSINESS IS SUBJECT TO RISKS ASSOCIATED WITH THE CURRENT ECONOMIC CLIMATE.

Our success depends to a significant extent on a number of factors that affect discretionary consumer spending, including economic conditions, disposable consumer income and consumer confidence, which have deteriorated due to current economic conditions. In a slow economy, businesses and individuals scale back their discretionary spending on travel and entertainment, including dining out as well as the purchase of high-end consumables like specialty coffee. Economic conditions may also cause businesses to reduce travel and entertainment expenses, and may even cause office coffee benefits to be eliminated. The current economic downturn and decrease in consumer spending may continue to adversely impact our revenues, and may affect our ability to market our products or otherwise implement our business strategy. Additionally, many of the effects and consequences of the global financial crisis and a broader global economic downturn are currently unknown; any one or all of them could potentially have a material adverse effect on our liquidity and capital resources, including our ability to sell third party securities in which we have invested some of our short-term assets or raise additional capital, if needed, or the ability of our lender to honor draws on our credit facility, or otherwise negatively affect our business, financial condition, operating results and cash flows.

WE RELY ON INFORMATION TECHNOLOGY AND ARE DEPENDENT ON ENTERPRISE RESOURCE PLANNING SOFTWARE IN OUR OPERATIONS. ANY MATERIAL FAILURE, INADEQUACY, INTERRUPTION OR SECURITY FAILURE OF THAT TECHNOLOGY COULD AFFECT OUR ABILITY TO EFFECTIVELY OPERATE OUR BUSINESS.

We rely on information technology systems across our operations, including management of our supply chain, point-of-sale processing, and various other processes and transactions. Our ability to effectively manage our business and coordinate the production, distribution and sale of our products depends significantly on the reliability and capacity of these systems. The failure of these systems to operate effectively, problems with transitioning to upgraded or replacement systems, or a breach in security of these systems could result in delays in processing replenishment orders from our branches, our inability to record product sales and reduced operational efficiency. Significant capital investments could be required to remediate any potential problems.

VOLATILITY IN THE EQUITY MARKETS COULD REDUCE THE VALUE OF OUR INVESTMENT PORTFOLIO.

We maintain a significant portfolio of fixed-income based investments disclosed as cash equivalents and short-term investments on our consolidated balance sheet. The value of our investments may be adversely affected by interest rate fluctuations, downgrades in credit ratings, illiquidity in the capital markets and other factors which may result in other than temporary declines in the value of our investments. Any of these events could cause us to record impairment charges with respect to our investment portfolio or to realize losses on the sale of investments. If the Company s operating losses continue, a portion or this entire investment portfolio may be liquidated to fund those losses.

WE ARE LARGELY RELIANT ON MAJOR FACILITIES IN CALIFORNIA, TEXAS AND OREGON FOR PRODUCTION OF OUR PRODUCT LINE.

A significant interruption in operations at our manufacturing facilities in Torrance, California (our largest facility); Houston, Texas; or Portland, Oregon, whether as a result of an earthquake, hurricane, natural disaster, terrorism or other causes, could significantly impair our ability to operate our business. The majority of our green coffee comes through the Ports of Los Angeles, Long Beach, Houston, San Francisco and Portland. Any interruption to port operations, highway arteries, gas mains or electrical service in these areas could restrict our ability to supply our branches with product and would adversely impact our business.

WE MAY FAIL TO REALIZE THE EXPECTED SYNERGIES AND OTHER BENEFITS OF THE INTEGRATION OF THE DSD COFFEE BUSINESS, WHICH COULD ADVERSELY AFFECT OUR FUTURE RESULTS.

In fiscal 2010, we completed the integration of the DSD Coffee Business into our existing business. This was a complex, costly and time-consuming process which presented significant challenges and risks to our business, including:

distraction of management from ongoing business concerns;

assimilation and retention of employees and customers of the DSD Coffee Business;

differences in the culture of the DSD Coffee Business and the Company s culture;

unforeseen difficulties in integrating the DSD Coffee Business, including information systems and accounting controls;

failure of the DSD Coffee Business to continue to generate income at the levels upon which we based our acquisition decision;

managing the DSD Coffee Business operations through offices in Northlake, Illinois, which is distant from the Company s headquarters in Torrance, California;

expansion into new geographical markets in which we have limited or no experience;

integration of technologies, services and products; and

achievement of appropriate internal control over financial reporting.

We may fail to realize the operating efficiencies, synergies, economies of scale, cost savings and other benefits expected from the acquisition. We may fail to grow and build profits in the DSD Coffee Business or achieve sufficient cost savings through the integration of customers or administrative and other operational activities. Furthermore, we must achieve these objectives without adversely affecting our revenues. If we are not able to successfully achieve these objectives, the anticipated benefits of the acquisition may not be realized fully or at all, or it may take longer to realize them than expected, and our results of operations could be adversely affected.

INCREASED SEVERE WEATHER PATTERNS MAY INCREASE COMMODITY COSTS, DAMAGE OUR FACILITIES, AND IMPACT OR DISRUPT OUR PRODUCTION CAPABILITIES AND SUPPLY CHAIN.

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

OUR INDUSTRY IS HIGHLY COMPETITIVE AND WE MAY NOT HAVE THE RESOURCES TO COMPETE EFFECTIVELY.

We primarily compete with other coffee companies, including multi-national firms with substantially greater financial, marketing and operating resources than the Company. We face competition from many sources including the foodservice divisions of multi-national manufacturers of retail products such as The J.M. Smucker Company (Folgers Coffee) and Kraft Foods Inc. (Maxwell House Coffee), wholesale grocery distributors such as Sysco Corporation and U.S. Foods, regional coffee roasters such as S & D Coffee, Inc. and Boyd Coffee Company, and specialty coffee suppliers such as Green Mountain Coffee Roasters, Inc. and Peet s Coffee & Tea, Inc. If we do not succeed in differentiating ourselves from our competitors or our competitors adopt our strategies, then our competitive position may be weakened. In addition, from time to time, we may need to reduce our prices in response to competitive and customer pressures and to maintain our market share. Competition and customer pressures, however, also may restrict our ability to increase prices in response to commodity and other cost increases. Our results of operations will be adversely affected if our profit margins decrease, as a result of a reduction in prices or an increase in costs, and if we are unable to increase sales volumes to offset those profit margin decreases.

VOLATILITY IN THE EQUITY MARKETS OR INTEREST RATE FLUCTUATIONS COULD SUBSTANTIALLY INCREASE OUR PENSION FUNDING REQUIREMENTS AND NEGATIVELY IMPACT OUR FINANCIAL POSITION.

At the end of fiscal 2011, the projected benefit obligation of our single employer defined benefit pension plans was $111.8 million and assets were $83.7 million. The difference between plan obligations and assets, or the funded status of the plans, significantly affects the net periodic benefit costs of our single employer pension plans and the ongoing funding requirements of those plans. Among other factors, changes in interest rates, mortality rates, early retirement rates, investment returns and the market value of plan assets can affect the level of plan funding, cause volatility in the net periodic pension costs, and increase our future funding requirements. We expect to make approximately $7.5 million in contributions to our single employer pension plans in fiscal 2012 and record an accrued expense of approximately $1.2 million per year beginning in fiscal 2012. As of December 31, 2011, we have made $3.4 million in contributions to our single employer pension plans and accrued $0.6 million in expense. These payments are expected to continue at this level for several years, and the current economic environment increases the risk that we may be required to make even larger contributions in the future.

OUR SALES AND DISTRIBUTION NETWORK IS COSTLY TO MAINTAIN.

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

7,893 23,679(7) 19.82 8/07/2025

2/18/2016 34,486(9) 24.80 2/18/2026

Mark R. Munch

8/30/2013
45,177
15,059(4
)
20.04
8/30/2023
5/07/2013
8,000(6
)
169,440

8/08/2014 16,144 16,144(5) 20.68 8/08/2024 8/08/2014 8,461(6) 179,204

8/07/2015 12,403 37,210(7) 19.82 8/07/2025 8/07/2015 14,569(8) 308,571

10/04/2016 58,843(9) 22.19 10/04/2026 10/04/2016 18,477(10) 391,343

Juergen Srega

4/03/2013
54,000
36,000(5
)
18.57
4/03/2023
4/03/2013
8,616(6
)
182,487

8/08/2014 12,686 12,683(5) 20.68 8/08/2024 8/08/2014 6,648(6) 140,805

8/07/2015 8,859 26,579(7) 19.82 8/07/2025 8/07/2015 10,407(8) 220,420

10/04/2016 39,468(9) 22.19 10/04/2026 10/04/2016 12,393(10) 262,484

René Lenggenhager

12/01/2015
3,539
10,620(7
)
22.46
12/01/2025
12/01/2015
4,053(8
)
85,843

10/04/2016	17,942(9)	22.19	10/04/2026	10/04/2016	5,634(10)	119,328

(1) The amounts in this column were calculated by multiplying $21.18, the closing price of our common stock on the NASDAQ Global Select Market as of December 30, 2016, the last trading day of 2016, by the number of unvested shares.

(2) In addition to the awards reported for equity securities of Bruker Corporation, Dr. Laukien held options to purchase 10,000 shares of BEST. The BEST options have an exercise price of $3.50 per share, are fully vested and expire October 1, 2019.

(3) The unvested shares of restricted stock vest on the anniversary of the grant date in 2017.

(4) The options become exercisable on the anniversary of the grant date in 2017.

(5) The options become exercisable in equal annual installments on the anniversary of the grant date in 2017 and 2018.

(6) The unvested shares of restricted stock vest in equal annual installments on the anniversary of the grant date in 2017 and 2018.

(7) The options become exercisable in equal annual installments on the anniversary of the grant date in 2017, 2018 and 2019.

(8) The unvested shares of restricted stock vest in equal annual installments on the anniversary of the grant date in 2017, 2018 and 2019.

(8) The unvested shares of restricted stock vest in equal annual installments on the anniversary of the grant date in 2017, 2018 and 2019.

(9) The options become exercisable in equal annual installments on the anniversary of the grant date in 2017, 2018, 2019 and 2020.

(10) The unvested restricted stock units vest in equal annual installments on the anniversary of the grant date in 2017, 2018, 2019 and 2020.

(11) The unvested shares of restricted stock vest in equal annual installments on the anniversary of the grant date in 2017, 2018, 2019 and 2020.

2016 Option Exercises and Stock Vested

The following table provides information regarding the number of shares acquired by our named executive officers upon the exercise of options or vesting of restricted stock awards and the value realized at that time before payment of any applicable withholding taxes and brokerage commission.

	Option Awards		Stock Awards	
Name	Number of Shares Acquired on Exercise (#)	Value Realized on Exercise ($)(1)	Number of Shares Acquired on Vesting (#)	Value Realized on Vesting ($)(2)
Frank H. Laukien	3,750	31,219	55,460	1,232,559
Anthony L. Mattacchione				
Juergen Srega			11,101	276,381
Mark R. Munch	75,000	967,184	13,088	310,037
René Lenggenhager			1,350	30,389

(1) Represents the difference between the exercise price of the options exercised and the closing price of Bruker Corporation common stock as of the date of exercise. As of December 31, 2016, Dr. Laukien continued to hold all of the shares reported as acquired upon exercise in 2016.

(2) Represents the aggregate value of shares vested in 2016 based on the closing price of Bruker Corporation common stock as of the date of vesting or, if the NASDAQ Global Select Market was closed on such date, the next trading date thereafter. As of December 31, 2016, our named executive officers continued to hold all of the shares reported as acquired upon vesting in 2016, except as follows: 6,913 of the shares reported as acquired by Dr. Munch, with an aggregate value of $164,052, were withheld to satisfy tax withholding obligations upon vesting; and 13,446 of the shares reported as acquired by Dr. Laukien, with an aggregate value of $300,021, were withheld to satisfy tax withholding obligations upon vesting.

Pension Benefits

Retirement Plan for Mr. Srega. A personal pension scheme established for Mr. Srega's benefit, which was in part carried forward from his former employer, is funded by contributions made by Bruker Daltonik GmbH and voluntary contributions by Mr. Srega, if any, during the term of his employment. The personal pension scheme has three components: a contribution-based plan of Bruker Daltonik GmbH (the "Bruker Daltonik Plan"); a pension fund guarantee (the "Guarantee Plan"); and a cash value life insurance policy (the "Life Insurance Policy"). The Bruker Daltonik Plan provides for monthly Company contributions in the amount of €5,500 (approximately $5,786 per month or $71,988 per year) and a lifetime monthly retirement benefit based on the value of accumulated capital beginning at age 67 or a lump-sum payment. In the event of termination of employment or death prior to age 67, the Bruker Daltonik Plan provides for a reduced benefit to be determined based on the cash assets of the plan at such time. Mr. Srega may also elect to receive a reduced benefit beginning at age 62 in the event of early retirement. The Guarantee Plan provides an inflation hedge and an additional monthly retirement benefit, commencing December 1, 2019, with an annually increasing benefit based on Guarantee Plan earnings or, at Mr. Srega's election, a lump-sum payment. The Guarantee Plan is funded by annual Company contributions during the term of employment in amounts which increase annually by the same percentage as the upper earnings limit established under German law for pension insurance contributions. In the event of death prior to December 1, 2019, the Guarantee Plan provides for a lump-sum payment in an amount to be determined based on the plan assets at such time. In the event of death on or after December 1, 2019, benefits will terminate effective November 30, 2024. If Mr. Srega's employment terminates prior to the eligible retirement age, Mr. Srega may elect to continue funding through personal contributions or the Guarantee Plan may be transferred to a subsequent employer. Under the Life Insurance Policy, which matures on November 1, 2019, Mr. Srega is entitled to receive at the earlier of death or maturity a payment in the amount €53,028 (approximately $55,785), adjusted for increases in the value of accumulated surplus and reserves, if any. In the event Mr. Srega's employment terminates prior to the maturity date, other than by reason of death, the Life Insurance Policy and continued funding obligations are to be transferred to Mr. Srega. Amounts payable in euros are converted to U.S. dollars at the midpoint conversion rate of €1.0=$1.0520 as of December 31, 2016. Mr. Srega may also make voluntary contributions to the personal pension scheme during the term of his employment.

Swiss Pension Plan. As an employee of our BioSpin AG subsidiary in Switzerland, Dr. Lenggenhager was eligible to participate in a defined benefit plan available to all employees of our subsidiaries in Switzerland, which we refer to as the Swiss Pension Plan. Dr. Lenggenhager participated in the plan on the same terms and conditions as all other Swiss employees and did not receive any additional supplemental executive pension contributions. The Swiss Pension Plan is a cash balance based pension arrangement, under which we contribute an annual amount based on a percentage of salary and bonus and the participant's age. Employees may also make contributions based on a percentage of salary and bonus and age. Additionally, participants are allocated annual savings and interest credits based on age and account value, respectively. Payments to participants are based on accumulated capital in the participant's plan account and may be taken as a lump sum or annuity at normal retirement, beginning at age 65. Participants may also elect to receive a reduced benefit beginning at age 58 in the event of early retirement. In the event of premature death and disability, the Swiss Pension Plan also provides for payments in the form of an annuity based on a percentage of the participant's salary or as a lump-sum based on accumulated plan account assets.

Information about our contributions to the personal pension scheme of Mr. Srega and the Swiss Pension Plan in which Dr. Lenggenhager was a participant is provided in the Summary Compensation Table above under the column entitled "All Other Compensation" and the related footnotes.

2016 Pension Benefits Table

The following table provides information about the benefits provided for Dr. Lenggenhager under the Swiss Pension Plan. The amount reported represents the U.S. dollar equivalent of the benefits provided for Dr. Lenggenhager in Swiss Francs, based on the midpoint conversion rate of CHF 1.0=$0.9813 as of December 31, 2016.

Name	Plan Name	Number of Years of Credited Service (#)	Present Value of Accumulated Benefit ($)
René Lenggenhager(1)	Swiss Pension Plan	1.17	4,172,584

(1) The number of years of credited service is equal to Dr. Lenggenhager length of service with the Company.

During 2016, Dr. Lenggenhager made contributions to the Swiss Pension Plan of $53,307, which amount is included in the "*Salary*" column of the Summary Compensation Table. During 2016, Dr. Lenggenhager did not make any additional voluntary contribution to the Swiss Pension Plan nor did he receive any benefits. Company contributions in 2016 for the benefit of Dr. Lenggenhager totaled $59,851. For the twelve month period ended December 31, 2016, the effect of changes in actuarial assumptions and the measurement date on the present value of the accumulated benefit obligation was $315,371. The present value of accumulated benefit is calculated using the methodology and assumptions under Accounting Standards Codification Topic 715: *Compensation Retirement Benefits* for the fiscal year-end measurement (as of December 31, 2016). The present value is based on a discount rate of 0.6%, an expected return on plan assets of 1.50%, an expected rate of compensation increase of 1.00% and the BVG 2015 Generational mortality tables.

2016 Non-Qualified Deferred Compensation Table

The following table provides information about 2016 activity relating to the personal pension scheme established for Mr. Srega. All amounts reported are as of December 31, 2016 and are converted from euros to U.S. dollars at the 2016 average midpoint conversion rate of €1.0=$1.1068.

Name	Executive Contributions in Last Fiscal Year ($)	Registrant Contributions in Last Fiscal Year ($)(1)	Aggregate Earnings in Last Fiscal Year ($)(2)	Aggregate Balance at Last Fiscal Year-End ($)(3)
Juergen Srega	4,478	73,602	4,425	404,805

(1) The reported amount is included in the "*All Other Compensation*" column in the Summary Compensation Table.

(2) The reported amount includes earnings attributable to plan assets amounts contributed by Mr. Srega and Mr. Srega's former employer, which amounts were carried forward into the personal pension scheme following commencement of Mr. Srega's employment in 2013. The reported amount also reflects the impact of changes in exchange rates and currency translation from euros to U.S. dollars. Aggregate earnings in local currency were 3,998 euros, or approximately $4,435 on a constant currency basis.

(3) The reported amount includes $4,478 and $4,488 reported as 2016 and 2015 compensation, respectively, in the "*Salary*" column in the Summary Compensation Table, which was contributed by Mr. Srega from his compensation in those years. Also included in the reported amount is the value of contributions to and earnings on amounts contributed by Mr. Srega and Mr. Srega's former employer prior to his employment with the Company, which amounts were carried forward into the personal pension scheme following commencement of Mr. Srega's employment in 2013.

There were no withdrawals or distributions from Mr. Srega's personal pension scheme during 2016. Further information on the personal pension scheme established for Mr. Srega is included above under the heading *"Pension Benefits Retirement Plan."*

Potential Payments upon Termination or Change-in-Control

The following information describes and quantifies certain compensation and benefits that would have been payable under existing agreements, plans, and arrangements if the named executive officer's employment had terminated on December 31, 2016, given his compensation and service levels as of that date. These benefits are in addition to the benefits to which the named executive officer was already entitled or in which he was vested as of such date, as well as certain benefits that are generally available to salaried employees. Due to the number of factors that affect the nature and amount of the compensation and benefits potentially payable upon the events described below, any amounts actually paid or distributed may be different than those shown in the table. Factors that could affect these amounts include the nature of or basis for such termination, the timing during the year of any such event, whether and when a named executive officer decides to exercise stock options and our stock price on that date and the exercise of discretion by the Board or Compensation Committee regarding the payment of compensation and benefits.

Severance Benefits. The cash severance benefits contained in the employment agreement for Mr. Srega, and the amounts he would be paid in connection with a termination of employment within six months of a change in voting control of the Company are described in the Compensation and Discussion & Analysis section of this proxy statement under the heading "*Employment Agreements,* *Termination of Employment and Change in Control Arrangements*." Other than as contained in such agreement, we do not have arrangements with any of our other executive officers, including Dr. Laukien, Mr. Mattacchione, Dr. Munch and Dr. Lenggenhager, which provide cash severance benefits in the event of termination of employment or a change in control of the Company.

Equity Awards. The unvested equity awards held by each of the named executive officers as of December 31, 2016 are described above in the 2016 Outstanding Equity Awards table. Each of the stock option and restricted stock awards granted prior to May 20, 2016 were granted pursuant to our 2010 Incentive Compensation Plan, or 2010 Plan. Each of the stock option and restricted stock unit awards granted on or after May 20, 2016 were granted pursuant to our 2016 Plan. In accordance with the terms of the 2010 Plan and the 2016 Plan and our related award agreements, except as noted below, no accelerated vesting of stock options or stock awards would have occurred as of December 31, 2016 in the event of a voluntary termination by a named executive officer or an involuntary termination by us, whether with or without cause. Generally, upon termination of employment, (a) any unvested restricted stock is forfeited and (b) the participant has a period of 90 days from termination to exercise any vested option awards (or, if earlier, until the option expiration date). However, in the event of termination for cause, including as a result of dishonesty with respect to the Company or any of its affiliates, breach of fiduciary duty, insubordination, substantial malfeasance or non-feasance of duty, unauthorized disclosure of confidential information, material failure or refusal to comply with Company's published policies generally applicable to all employees or conduct materially harmful to the business of the Company or any of its affiliates, all vested and unexercised options are forfeited immediately upon termination. Additionally, in the event of death or disability of a plan participant, including any named executive officer, (a) any unvested restricted stock will become vested and (b) all vested stock options will remain exercisable for a period of 90 days following such event (or, if earlier, until the stock option expiration date).

The Compensation Committee has discretion to revise or amend outstanding equity awards and may, at its discretion, accelerate vesting of any unvested option or stock awards, including in connection with a "Change in Control" of the Company, as defined in our 2010 Plan or 2016 Plan, as applicable. Under these plans, a "Change in Control" occurs if: (a) within one year of any merger, consolidation, sale of a substantial part of the Company's assets, or contested election, the persons who were directors of the Company immediately before such transaction cease to constitute a majority of the board of directors of the Company or its successor to the Company; (b) if, as a result of any such transaction, the Company does not survive as an entity, or its shares are changed into the shares of another corporation unless the stockholders of the Company immediately prior to the transaction own a majority of the outstanding shares of such other corporation immediately following the transaction; (c) any person or group who owned less than twenty percent of the outstanding common stock of the Company at the time of adoption of the 2010 Plan or 2016 Plan, as applicable, acquires ownership of fifty percent or more of the Company's outstanding common stock; (d) the dissolution or liquidation of the Company is approved by its stockholders; or (e) the members of the board of directors as of the date the 2010 Plan or 2016 Plan, as applicable, was adopted cease to represent at least two thirds of the Board, subject to certain exceptions.

Additionally, with respect to awards granted pursuant to the 2016 Plan, in the event of a Change in Control, if (a) an award is assumed or continued (including through conversion or substitution for a substantially similar award of the successor) and, within twenty four (24) months following the Change in Control (or such shorter period as specified in the applicable award agreement), the executive officer's employment is terminated without cause or is voluntarily terminated for good reason (a "double-trigger" provision), or (b) an award is not assumed or continued, then any then outstanding awards of stock options will vest and become fully exercisable and any outstanding unvested RSU awards that are not performance-based will be treated as vested.

The values of (i) unvested in-the-money stock options that would have been received by each of the named executive officers in the event of acceleration upon a Change in Control, assuming the Change in Control was effective December 31, 2016 and (ii) unvested restricted stock that would have been received by each of the named executive officers in the event (a) of acceleration upon a Change in Control, assuming the Change in Control was effective December 31, 2016 or (b) of the death or disability of the respective named executive officer are set forth in the following table. All calculations are based on a price per share equal to the NASDAQ Global Select Market closing price of $21.18 per share on December 30, 2016, the last trading day of 2016.

Name	Unvested In-the-Money Stock Options ($)	Unvested Restricted Stock ($)	Unvested Restricted Stock Units ($)
Frank H. Laukien		2,089,301	1,026,065
Anthony L. Mattacchione	76,355	277,564	
Juergen Srega	136,449	543,712	262,484
Mark R. Munch	75,845	657,215	391,343
René Lenggenhager		85,843	119,328

Retirement Plans. The retirement plans provided for Mr. Srega and Dr. Lenggenhager are described under the heading "*Pension Benefits*" above. In the event of termination of employment as of December 31, 2016 by reason of death, Mr. Srega's beneficiary would be entitled to receive an estimated lump-sum payment of $384,762, which amount is payable in euros and converted to U.S. dollars based on the midpoint conversion rate of €1.0=$1.0520 as of December 31, 2016.

RELATED PERSONS TRANSACTIONS

Review and Approval of Transactions with Related Persons

We have adopted a written Related Person Transactions Policy that prohibits transactions involving the Company and any related person, except in accordance with the policy. For purposes of this policy, related persons include (a) our executive officers, directors, director nominees or greater than 5% shareholders, or any of their immediate family members and (b) any firm, academic entity or other entity in which any of the foregoing persons is employed or is a partner or principal or in a similar position or in which such person has more than a 10% beneficial ownership interest. The Related Person Transactions Policy applies to any transaction or series of transactions, other than product or service sales or purchases entered into in the ordinary course of business involving aggregate amounts of less than $50,000 annually, in which the Company is a participant and in which any related person has a direct or indirect interest.

Our Related Person Transactions Policy provides for standing pre-approval of certain categories of transactions with related persons, including:

- transactions involving indebtedness for ordinary business travel and expense payments and similar indebtedness transactions arising in the ordinary course of business;
- transactions in which a related person's interest arises solely from the ownership of a class of the Company's equity securities and in which all holders receive proportional benefits;
- transactions involving compensation to executive officers approved by the Compensation Committee; and
- transactions involving compensation to directors for services as a director of the Company.

Under our Related Person Transactions Policy, any related person transaction not in one of the preceding categories must be submitted to our Chief Financial Officer for review and approval. Related person transactions involving amounts of $500,000 or less, as well as all product or service sales and purchases in the ordinary course of business, are subject solely to review and approval, ratification, amendment, termination or rescission by our Chief Financial Officer. Any transaction in excess of $500,000, other than a transaction involving product or service sales or purchases in the ordinary course of business, must be forwarded to the Audit Committee for review and approval, ratification, amendment, termination or rescission, at the discretion of the Audit Committee. In reviewing such transactions, our Chief Financial Officer or Audit Committee, as applicable, evaluates all material facts relating to the transaction and takes into account, among other factors deemed appropriate, the related person's relationship to the Company and interest in the transaction, the terms of the transaction, including its aggregate value, whether the transaction is in the best interests of the Company, the impact on a director's independence in the event the related person is a director, a family member of a director, or an entity in which a director is a partner, shareholder or executive officer and, if applicable, the availability of other sources of comparable products or services and whether the transaction is on terms comparable to the terms available to an unrelated third party. Neither the Chief Financial Officer nor any member of the Audit Committee may participate in the review of any transaction involving such person or any of his or her immediate family members.

Our Chief Financial Officer must report to the Audit Committee any approval or other action taken with respect to a related party transaction at or prior to the next audit committee meeting following such approval or other action. Additionally, Company management must provide to the Audit Committee an annual report of any amounts paid or payable to, or received or receivable from, any related person. The Audit Committee is responsible for reviewing such reports and may make inquiries or take such actions as it deems appropriate upon consideration of all of the relevant facts and circumstances.

Transactions with Related Persons

Under two lease agreements, Bruker BioSpin Corporation rents laboratory, manufacturing and office space from trusts controlled by certain Laukien family members, including Dr. Frank Laukien. During 2016, Dr. Frank Laukien was paid $596,600 as a beneficiary of the trusts. The lease terms were equal to the estimated fair market value of the rentals.

Our Bruker Optics subsidiary rents various office space from Dr. Dirk Laukien, a director and employee of the Company until July 10, 2012 and half-brother of Dr. Frank Laukien, under lease agreements pursuant to which Dr. Dirk Laukien was paid $1,999,300 in 2016. Under two lease agreements, Bruker BioSpin Corporation rents laboratory, manufacturing and office space from trusts controlled by certain Laukien family members, including Dr. Dirk Laukien. During 2016, Dr. Dirk Laukien was paid $596,600 as a beneficiary of the trusts. Dr. Dirk Laukien is also a party to a lease agreement with Bruker BioSpin AG under which Bruker BioSpin AG rents certain office space. During 2016, Dr. Dirk Laukien was paid $113,300 under that agreement. Payments under the terms of each of the leases referenced above were equal to the estimated fair market value of the respective rental.

Joerg C. Laukien, a director of the Company, is Executive Chairman of Bruker BioSpin Corporation. During 2016, Joerg Laukien earned aggregate cash compensation of 256,080 euros in salary, or $283,429 based on a conversion rate of €1.0=$1.1068, which represents the 2016 average midpoint rate.

Isolde Laukien-Kleiner is the stepmother of Dr. Frank Laukien and Mr. Joerg Laukien and the mother of Dr. Dirk Laukien. With Dr. Dirk Laukien, Ms. Laukien-Kleiner is a party to a lease agreement with Bruker BioSpin AG under which Bruker BioSpin AG rents certain office and laboratory space. During 2016, Ms. Laukien-Kleiner was paid $339,900 under that agreement. Ms. Laukien-Kleiner is party to an additional lease agreement with Bruker BioSpin AG under which Bruker BioSpin AG rents certain office space. During 2016, Ms. Laukien-Kleiner was paid $232,800 under that agreement. Payments under the terms of each of the leases referenced above were equal to the estimated fair market value of the respective rental.

Dr. Gilles Martin, a director of the Company, is the Chairman, Chief Executive Officer and controlling shareholder of the Eurofins Scientific Group, a provider of analytical testing services, and a director of various of its affiliates. During 2016, the Company received approximately $1,093,800 from, and paid approximately $39,500 to, entities affiliated with the Eurofins Scientific Group in connection with purchases and sales of goods and services entered into in the normal course of business. We believe that the terms of such transactions are comparable to those that would have been reached by unrelated parties in arm's-length transactions. We expect to engage in similar commercial transactions with affiliates of the Eurofins Scientific Group during fiscal 2017.

Dr. Meike Hamester, the wife of Bruker CALID Group President Juergen Srega, is employed by our Bruker Daltonik GmbH subsidiary as the Director of Small Molecule Pharma & CRO. During 2016, Dr. Hamester received a base salary in the amount of $106,563 and earned an annual performance-based cash incentive bonus for 2016 performance of $20,144. She also received a bonus payment in the amount of $18,816, which was earned in 2015 but paid in 2016. Dr. Hamester's base salary and bonus are payable in euros; amounts are converted to U.S. dollars at a conversion rate of €1.0=$1.1068, which represents the 2016 average midpoint rate as published on www.oanda.com). Her compensation is consistent with the total compensation provided to other employees of the same level with similar responsibilities. Dr. Hamester continues to be an employee of Bruker Daltonik GmbH and she may receive compensation and other benefits in 2017 in amounts similar to those she received during 2016.

SECTION 16(A) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the Securities Exchange Act of 1934 and the rules promulgated thereunder require our officers and directors and persons owning more than 10% of the outstanding common stock of the Company to file reports of ownership and changes in ownership with the Securities and Exchange Commission and to furnish us with copies of all these filings. We believe, based solely upon a review of those reports and amendments thereto furnished to us during and with respect to our fiscal year ended December 31, 2016, that all of our directors and executive officers complied with the reporting requirements of Section 16(a) of the Exchange Act during fiscal 2016, with the exception of (i) one transaction involving an option award grant reported in a late Form 4 filing by each of the following directors due to an administrative error: Drs. Fesik, Kastner, Linton, Martin, Requardt and Rosenthal, and Messrs. van Ingen, Kniss, Ornell and Packer and (ii) one additional transaction reported in a late Form 4 filing by Mr. Packer due to an inadvertent oversight in reporting an acquisition effected through a broker-administered dividend reinvestment program.

AUDIT COMMITTEE REPORT

The Audit Committee, which operates pursuant to a written charter, assists the board of directors in fulfilling its oversight responsibilities by reviewing Bruker Corporation's financial reporting process on behalf of the board. Management is responsible for Bruker Corporation's internal controls, the financial reporting process and compliance with laws and regulations and ethical business standards. PricewaterhouseCoopers LLP ("PwC"), Bruker Corporation's independent registered public accounting firm, is responsible for expressing opinions on the conformity of Bruker Corporation's consolidated financial statements with generally accepted accounting principles and on the effectiveness of Bruker Corporation's internal control over financial reporting. The Audit Committee is responsible for overseeing and monitoring these practices. It is not the duty or responsibility of the Audit Committee to conduct auditing or accounting reviews or procedures.

In this context, the Audit Committee reviewed and discussed with management and PwC, among other things, the scope of the audit to be performed, the results of the audit performed, PwC's evaluation of Bruker Corporation's internal control over financial reporting and the independent registered public accounting firm's fees for the services performed. Management represented to the Audit Committee that Bruker Corporation's consolidated financial statements were prepared in accordance with generally accepted accounting principles. Discussions about Bruker Corporation's audited financial statements included the auditors' judgments about the quality, not just the acceptability, of the accounting principles, the reasonableness of significant judgments and the clarity of disclosures in its financial statements.

The Audit Committee also discussed with PwC other matters required by Auditing Standard 1301, *Communications with Audit Committees*, as adopted by the Public Company Accounting Oversight (PCAOB), including the quality, not just the acceptability, of the accounting principles, the reasonableness of significant judgments, and the clarity of the disclosures in the financial statements. PwC also provided to the Audit Committee written disclosures and the letter required by applicable requirements of the PCAOB regarding communications with the Audit Committee concerning independence. The Audit Committee discussed with PwC the registered public accounting firm's independence from Bruker Corporation and considered the compatibility of non-audit services with PwC's independence.

Based on the Audit Committee's discussion with management and PwC, and the Audit Committee's review of the representations of management and the report of PwC to the Audit Committee, the Audit Committee recommended to the board that that the audited financial statements be included in the Company's Annual Report on Form 10-K for the year ended December 31, 2016 filed with the Securities and Exchange Commission.

Submitted by the Audit Committee of Bruker Corporation's Board of Directors.

John Ornell, Chair
Chris van Ingen
Richard A. Packer
Robert Rosenthal

PROPOSAL NO. 2
ADVISORY VOTE ON EXECUTIVE COMPENSATION

The Board of Directors recognizes the interest our stockholders have in the compensation of our executives. In recognition of that interest and as required by the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act") and SEC rules, we are providing our stockholders the opportunity to cast a non-binding advisory vote on the compensation of our named executive officers, as disclosed pursuant to the compensation disclosure rules of the SEC.

The compensation of our named executive officers is disclosed in the Compensation Discussion and Analysis, or "CD&A," the compensation tables, and the related disclosures contained in this Proxy Statement. As described in our CD&A, we have adopted an executive compensation philosophy designed to deliver competitive total compensation, upon the achievement of financial and/or strategic performance objectives, which will attract, motivate and retain leaders who will drive the creation of shareholder value. In order to implement that philosophy, the Compensation Committee has established a disciplined and rigorous process for the adoption of executive compensation programs and individual executive officer pay actions.

We believe that our compensation policies and decisions are focused on pay-for-performance principles, are strongly aligned with the long-term interests of our stockholders, and provide an appropriate balance between risk and incentives. Stockholders are urged to read the CD&A section of this Proxy Statement, which discusses in greater detail how our compensation policies and procedures implement our executive compensation philosophy. We are asking our stockholders to indicate their support for our named executive officer compensation, as described in this Proxy Statement, by approval of the following resolution:

> "RESOLVED, that the compensation paid to the Company's named executive officers, as disclosed pursuant to Item 402 of Regulation S-K, including the Compensation Discussion and Analysis, compensation tables and narrative discussion, is hereby APPROVED."

Your vote on this Proposal No. 2 is advisory, and therefore not binding on the Company, the Compensation Committee, or the board of directors. The vote will not be construed to create or imply any change to the fiduciary duties of the Company or the board, or to create or imply any additional fiduciary duties for the Company or the board. The approval or disapproval of this proposal by stockholders will not require the Company's board of directors or the Compensation Committee to take any action regarding the Company's executive compensation practices. However, our board and our Compensation Committee value input from stockholders and will consider the outcome of the vote when making future executive compensation decisions.

The Board of Directors recommends a vote FOR the approval, on an advisory basis, of the 2016 compensation paid to the named executive officers, as disclosed in the Compensation Discussion and Analysis, the compensation tables, and related narratives in this Proxy Statement.

PROPOSAL NO. 3
ADVISORY VOTE ON FREQUENCY OF EXECUTIVE COMPENSATION ADVISORY VOTE

Pursuant to the Dodd-Frank Act and SEC rules, at least once every six years we are required to submit for stockholder vote a non-binding resolution to determine whether the stockholder advisory vote on executive compensation should occur every year, every two years, or every three years.

After careful consideration of the various arguments supporting each frequency level, the board of directors believes that submitting the advisory vote on executive compensation to stockholders every three years is appropriate for the Company and its stockholders at this time. The Company's compensation policies and procedures are developed with long-term objectives in mind, which is consistent with a multi-year stockholder approval cycle.

The proxy card provides four choices (every one, two, or three years, or abstain). Stockholders are being asked for their views on the frequency of the advisory vote on executive compensation, and are not voting to approve or disapprove the Board's recommendation.

As with your vote on Proposal No. 2, your vote on this Proposal No. 3 is advisory, and therefore not binding on the Company, the Compensation Committee, or the Company's board of directors. The vote will not be construed to create or imply any change to the fiduciary duties of the Company or the board, or to create or imply any additional fiduciary duties for the Company or the board. Although the vote is non-binding, the board and the Compensation Committee will consider the outcome of the frequency vote and other communications from stockholders when making future decisions regarding the frequency of such advisory votes regarding executive compensation.

The Board recommends a frequency of "EVERY THREE YEARS" for future advisory stockholder votes on compensation of our named executive officers.

PROPOSAL NO. 4
RATIFICATION OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

PricewaterhouseCoopers LLP has been our independent registered public accounting firm since June 1, 2016, and has been selected by the Audit Committee of the board of directors as our independent registered public accounting firm for the fiscal year ending December 31, 2017. Although the Company is not required to seek stockholder approval of this appointment, the board of directors believes it to be sound corporate governance to do so. In the event that the stockholders fail to ratify the appointment, the Audit Committee will investigate the reasons for stockholder rejection and will reconsider the appointment. Even if the selection is ratified, the Audit Committee in its discretion may direct the appointment of a different independent public accounting firm during the year if the Audit Committee believes that such a change would be in the best interests of the Company and its stockholders.

A representative of PricewaterhouseCoopers LLP is expected to be present at the 2017 Annual Meeting and will have the opportunity to make a statement if he or she so desires to do so and will be available to respond to appropriate stockholder questions.

The Board of Directors recommends a vote FOR the ratification of the appointment of PricewaterhouseCoopers LLP as the Company's independent registered public accounting firm for fiscal 2017.

INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

At a meeting held on June 1, 2016, the Audit Committee of the Company's Board of Directors approved the dismissal of Ernst & Young LLP ("Ernst & Young") as the Company's independent registered public accounting firm, effective June 1, 2016, and the appointment of PricewaterhouseCoopers LLP ("PwC") as the Company's independent registered public accounting firm, effective June 1, 2016, to perform independent audit services for the fiscal year ending December 31, 2016. During the fiscal years ended December 31, 2014 and 2015 and through June 1, 2016, neither the Company, nor anyone on its behalf, consulted PwC regarding either (i) the application of accounting principles to a specified transaction, either completed or proposed, or the type of audit opinion that might be rendered with respect to the consolidated financial statements of the Company, and no written report or oral advice was provided to the Company by PwC that was an important factor considered by the Company in reaching a decision as to any accounting, auditing or financial reporting issue; or (ii) any matter that was the subject of a disagreement within the meaning of Item 304(a)(1)(iv) of Regulation S-K and related instructions or a reportable event within the meaning of Item 304(a)(1)(v) of Regulation S-K.

The reports of Ernst & Young on the consolidated financial statements of the Company for each of the fiscal years ended December 31, 2015 and 2014 did not contain an adverse opinion or disclaimer of opinion and were not qualified or modified as to uncertainty, audit scope, or accounting principles.

In connection with the audits of our financial statements for each of the fiscal years ended December 31, 2015 and 2014, and in the subsequent interim period through June 1, 2016, there were no "disagreements" (as that term is defined in Item 304(a)(1)(iv) of Regulation S-K and the related instructions) with Ernst & Young on any matter of accounting principles or practices, financial statement disclosure, or auditing scope and procedures, which, if not resolved to the satisfaction of Ernst & Young, would have caused Ernst & Young to make reference to the matter in their reports for such years. There were no "reportable events" as that term is described in Item 304(a)(1)(v) of Regulation S-K, except for a material weakness in the Company's internal control over financial reporting as of December 31, 2015 concerning the accounting for income taxes, which material weakness was identified subsequent to the filing of our Annual Report on Form 10-K for the year ended December 31, 2015.

As a result of such material weakness, our management concluded in November 2016 that the Company's internal control over financial reporting was not effective at December 31, 2015. On November 15, 2016, the Company filed Amendment No. 1 to its Annual Report on Form 10-K for the fiscal year ended December 31, 2015, as well as amendments to each of its Quarterly Reports on Form 10-Q for the periods ended March 31, 2016, and June 30, 2016, to reflect the conclusion by management that there was a material weakness in internal control over financial reporting as of the end of the periods covered by those reports. The Company's Amendment No. 1 to its Annual Report on Form 10-K for the fiscal year ended December 31, 2015 also included revised auditor's reports from Ernst & Young stating that the Company's internal control over financial reporting at December 31, 2015 was not effective.

Fees Billed to the Company

Fees billed to the Company by its independent registered public accounting firms for fiscal years 2016 and 2015, all of which were approved by the Audit Committee, consisted of the following:

	2016($)(1)	2015($)(2)
Audit Fees	5,990,966	5,244,918
Audit Related Fees	5,887	3,000
Tax Fees	1,059,953	170,000
All Other Fees and Expenses	278,737	
Total Fees	7,335,543	5,417,918

(1) Reflects fees paid to PwC for the fiscal year ended December 31, 2016.

(2) Reflects fees paid to Ernst & Young for the fiscal year ended December 31, 2015.

Audit Fees. Audit fees for the years ended December 31, 2016 and 2015 were for the audit of the Company's annual consolidated financial statements, including the integrated audit of internal control over financial reporting, its review of the consolidated financial statements included in our quarterly reports on Form 10-Q, audits of statutory filings, comfort letter procedures and review of other regulatory filings.

Audit-Related Fees. Audit-related fees for the years ended December 31, 2016 and 2015 include amounts related to accounting consultations and services provided due to other statutory requirements.

Tax Fees. Tax fees for the years ended December 31, 2016 and 2015 were for tax services provided to us, including tax compliance, tax advice and planning.

All Other Fees. All other fees for the year ended December 31, 2016 relate to license fees for a web-based accounting research tool as well as other advisory non-audit services.

Audit Committee Pre-Approval Policies and Procedures

In order to ensure that audit and non-audit services proposed to be performed by the Company's independent registered public accounting firm do not impair the auditor's independence from the Company, the Audit Committee has adopted, and the board of directors has ratified, the following pre-approval policies and procedures.

Policies

Before engaging the independent registered public accounting firm to render the proposed service, the Audit Committee must either (i) approve the specific engagement ("specific pre-approval") or (ii) enter into the engagement pursuant to pre-approval policies and procedures established by the Audit Committee ("general pre-approval"), provided the policies and procedures are detailed for the particular service, the Audit Committee is informed of each service, and such policies and procedures do not include delegation of the Audit Committee's responsibilities to management. The Audit Committee annually reviews and pre-approves the services that may be provided by the independent registered public accounting firm without obtaining specific pre-approval. The Audit Committee will add to or subtract from this list of general pre-approved services from time to time, based on subsequent determinations.

Unless a type of service has received general pre-approval, it requires specific pre-approval by the Audit Committee if it is to be provided by the independent registered public accounting firm. Any proposed services exceeding pre-approved cost levels or budgeted amounts also require specific pre-approval by the Audit Committee.

For both types of pre-approval, the Audit Committee considers whether such services are consistent with the SEC's and the PCAOB's rules on auditor independence. The Audit Committee also considers whether the independent registered public accounting firm is best positioned to provide the most effective and efficient service, for reasons such as its familiarity with the Company's business, people, culture, accounting systems, risk profile and other factors, and whether the service might enhance the Company's ability to manage or control risk or improve audit quality. All such factors are considered as a whole, and no one factor will necessarily be determinative.

The Audit Committee also considers the relationship between fees for audit and non-audit services in deciding whether to pre-approve any such services and may determine, for each fiscal year, the appropriate ratio between the total amount of fees for Audit, Audit-related and Tax services and the total amount of fees for certain permissible non-audit services classified as All Other services.

The Audit Committee may delegate either type of pre-approval authority to one or more of its members. The member to whom such authority is delegated must report, for informational purposes only, any pre-approval decisions to the Audit Committee at its next scheduled meeting.

Procedures

Pre-approval fee levels or budgeted amounts for all services to be provided by the independent registered public accounting firm are established annually by the Audit Committee. Any proposed services exceeding these levels or amounts require specific pre-approval by the Audit Committee, even if previously generally pre-approved.

All requests or applications for services to be provided by the independent registered public accounting firm that do not require specific approval by the Audit Committee are submitted to the Chief Financial Officer and must include a detailed description of the services to be rendered.

Requests or applications to provide services that require specific approval by the Audit Committee must be submitted to the Audit Committee by both the independent registered public accounting firm and the Chief Financial Officer, and must include a joint statement as to whether, in their view, the request or application is consistent with the SEC's rules on auditor independence.

The Audit Committee monitors the performance of all services provided by the independent auditor and assesses whether such services are in compliance with this policy.

STOCKHOLDER COMMUNICATIONS

The board will give appropriate attention to written communications that are submitted by stockholders, and will respond if and as appropriate. Absent unusual circumstances or as contemplated by committee charters and subject to any required assistance or advice from legal counsel, Mr. Stein, the Secretary of the Company, is primarily responsible for monitoring communications from stockholders and for providing copies or summaries of such communications to the other directors as he considers appropriate.

Communications are forwarded to all directors if they relate to important substantive matters and include suggestions or comments that Mr. Stein considers to be important for the directors to know. In general, communications relating to corporate governance and long-term corporate strategy are more likely to be forwarded than communications relating to ordinary business affairs, personal grievances and matters as to which we may receive repetitive or duplicative communications.

Stockholders who wish to send communications on any topic to the board should address such communications to Richard M. Stein, Secretary, at Nixon Peabody LLP, 100 Summer Street, Boston, MA 02110.

TIME FOR SUBMISSION OF STOCKHOLDER PROPOSALS

Pursuant to Rule 14a-8 under the Exchange Act, stockholders may present proper proposals for inclusion in a company's proxy statement and for consideration at the next annual meeting of its stockholders by submitting their proposals to Bruker Corporation in a timely manner.

Stockholders interested in submitting a proposal for inclusion in the proxy materials for the annual meeting of stockholders in 2018 may do so by following the procedures set forth in Rule 14a-8 of the Securities Exchange Act of 1934, as amended. To be eligible for inclusion, stockholder proposals must be received by us no later than December 18, 2017.

Additionally, under our bylaws, no business may be brought before an annual meeting unless it is specified in the notice of meeting by or at the direction of the board of directors or by a stockholder entitled to vote who has delivered notice to Bruker Corporation (containing certain information specified in the bylaws) not less than 90 or more than 120 days prior to the first anniversary of the preceding year's annual meeting.

OTHER MATTERS

Management knows of no matters which may properly be and are likely to be brought before the meeting other than the matters discussed herein. However, if any other matters properly come before the meeting, the persons named in the enclosed proxy will vote in accordance with their best judgment.

ANNUAL REPORT

A copy (without exhibits) of our Annual Report on Form 10-K for the fiscal year ended December 31, 2016 is included in the 2016 Annual Report provided to stockholders with this proxy statement. We will provide an additional copy of the 2016 Annual Report to any stockholder, without charge, upon written request of such stockholder. Such requests should be addressed to the attention of Investor Relations at Bruker Corporation, 40 Manning Road, Billerica, Massachusetts 01821.

VOTING PROXIES

The board of directors recommends an affirmative vote on Proposal No. 1, Proposal No. 2 and Proposal No. 4, and a preference of EVERY THREE YEARS on Proposal No. 3. Proxies will be voted as specified. If signed proxies are returned without specifying an affirmative or negative vote or other preference on any proposal, the shares represented by such proxies will be voted in favor of the board of directors' recommendations.

By order of the board of directors

Frank H. Laukien, Ph.D.
Chairman, President and Chief Executive Officer

April 17, 2017

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