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

FORM 10-Q

(Mark One)

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

For the quarterly period ended December 31, 2020

OR

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

For the transition period from to

Commission file number: 001-34249
FARMER BROS. CO.
(Exact Name of Registrant as Specified in Its Charter)

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

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

682 549-6600
(Registrant's Telephone Number, Including Area Code)

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

Title of Each Class	Trading Symbol(s)	Name of Each Exchange on Which Registered
Common Stock, $1.00 par value	**FARM**	**NASDAQ Global Select Market**

None
(Former Name, Former Address and Former Fiscal Year, if Changed Since Last Report)

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files). Yes ☒ NO ☐

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

Large accelerated filer	☐	Accelerated filer	☒
Non-accelerated filer	☐	Smaller reporting company	☐
		Emerging growth company	☐

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

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

As of January 26, 2021, the registrant had 17,771,241 shares outstanding of its common stock, par value $1.00 per share, which is the registrant's only class of common stock.

TABLE OF CONTENTS

PART I - FINANCIAL INFORMATION (UNAUDITED)
Item 1. Financial Statements

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

	December 31, 2020	June 30, 2020
ASSETS		
Current assets:		
Cash and cash equivalents	$ 5,857	$ 60,013
Accounts receivable, net	41,864	40,882
Inventories	80,617	67,408
Income tax receivable	—	831
Short-term derivative assets	3,772	165
Prepaid expenses	8,303	7,414
Total current assets	140,413	176,713
Property, plant and equipment, net	159,855	165,633
Intangible assets, net	19,457	20,662
Other assets	8,700	8,564
Long-term derivatives assets	—	10
Right-of-use operating lease assets	27,658	21,117
Total assets	$ 356,083	$ 392,699
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	49,797	36,987
Accrued payroll expenses	15,769	9,394
Operating leases liabilities - current	7,029	5,854
Short-term derivative liabilities	1,428	5,255
Other current liabilities	7,489	6,802
Total current liabilities	81,512	64,292
Long-term borrowings under revolving credit facility	82,000	122,000
Accrued pension liabilities	56,358	58,772
Accrued postretirement benefits	10,309	9,993
Accrued workers' compensation liabilities	3,687	4,569
Operating lease liabilities - noncurrent	20,770	15,628
Other long-term liabilities	5,254	5,532
Total liabilities	$ 259,890	$ 280,786
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, $1.00 par value, 500,000 shares authorized; Series A Convertible Participating Cumulative Perpetual Preferred Stock, 21,000 shares authorized; 14,700 shares issued and outstanding as of December 31, 2020 and June 30, 2020; liquidation preference of $16,463 and $16,178 as of December 31, 2020 and June 30, 2020, respectively	15	15
Common stock, $1.00 par value, 25,000,000 shares authorized; 17,591,084 and 17,347,774 shares issued and outstanding as of December 31, 2020 and June 30, 2020, respectively	17,591	17,348
Additional paid-in capital	63,739	62,043
Retained earnings	84,256	108,536
Accumulated other comprehensive loss	(69,408)	(76,029)
Total stockholders' equity	$ 96,193	$ 111,913
Total liabilities and stockholders' equity	$ 356,083	$ 392,699

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

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

	Three Months Ended December 31,		Six Months Ended December 31,	
	2020	**2019**	**2020**	**2019**
Net sales	$ 104,571	$ 152,498	$ 201,841	$ 291,098
Cost of goods sold	78,321	108,513	153,173	206,472
Gross profit	26,250	43,985	48,668	84,626
Selling expenses	24,769	34,906	48,268	68,520
General and administrative expenses	11,570	11,266	21,316	24,006
Net gains from sales of assets	(1,168)	(11,057)	(549)	(23,662)
Impairment of fixed assets	1,243	—	1,243	—
Operating expenses	36,414	35,115	70,278	68,864
(Loss) income from operations	(10,164)	8,870	(21,610)	15,762
Other (expense) income:				
Interest expense	(2,938)	(2,859)	(6,181)	(5,407)
Other, net	9,080	1,662	17,639	1,865
Total other income (expense)	6,142	(1,197)	11,458	(3,542)
(Loss) income before taxes	(4,022)	7,673	(10,152)	12,220
Income tax expense (benefit)	13,703	(81)	13,845	(188)
Net (loss) income	(17,725)	7,754	(23,997)	12,408
Less: Cumulative preferred dividends, undeclared and unpaid	143	138	284	275
Net (loss) income available to common stockholders	$ (17,868)	$ 7,616	$ (24,281)	$ 12,133
Net (loss) income available to common stockholders per common share—basic	$ (1.02)	$ 0.44	$ (1.39)	$ 0.71
Net (loss) income available to common stockholders per common share—diluted	$ (1.02)	$ 0.43	$ (1.39)	$ 0.69
Weighted average common shares outstanding—basic	17,531,521	17,159,108	17,477,268	17,127,153
Weighted average common shares outstanding—diluted	17,531,521	17,583,335	17,477,268	17,550,144

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

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

	Three Months Ended December 31,		Six Months Ended December 31,	
	2020	**2019**	**2020**	**2019**
Net (loss) income	$ (17,725)	$ 7,754	$ (23,997)	$ 12,408
Other comprehensive (loss) income, net of tax:				
Unrealized gains on derivative instruments designated as cash flow hedges, net of tax	3,367	11,284	7,327	7,395
(Losses) gains on derivative instruments designated as cash flow hedges reclassified to cost of goods sold, net of tax	(232)	4,661	(260)	7,249
Losses on derivative instruments de-designated as cash flow hedges reclassified to interest expense, net of tax	320	—	659	—
Change in pension and retiree benefit obligations, net of tax	6,184	—	(1,105)	—
Total comprehensive (loss) income, net of tax	$ (8,086)	$ 23,699	$ (17,376)	$ 27,052

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

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

	Preferred Shares	Preferred Stock Amount	Common Shares	Common Stock Amount	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balance at June 30, 2020	**14,700**	**15**	**17,347,774**	**17,348**	**62,043**	**108,536**	**(76,029)**	**$ 111,913**
Net loss	—	—	—	—	—	(6,270)	—	(6,270)
Net reclassification of unrealized gains on cash flow hedges, net of taxes	—	—	—	—	—	—	4,271	4,271
Change in the funded status of retiree benefit obligations, net of taxes	—	—	—	—	—	—	(7,289)	(7,289)
ESOP compensation expense, including reclassifications	—	—	76,671	77	323	—	—	400
Share-based compensation	—	—	—	—	745	—	—	745
Issuance of common stock and stock option exercises	—	—	7,370	7	(7)	—	—	—
Cumulative preferred dividends, undeclared and unpaid	—	—	—	—	—	(142)	—	(142)
Balance at September 30, 2020	**14,700**	**15**	**17,431,815**	**17,432**	**63,104**	**102,124**	**(79,047)**	**103,628**
Net loss	—	—	—	—	—	(17,725)	—	(17,725)
Net reclassification of unrealized losses on cash flow hedges, net of taxes	—	—	—	—	—	—	3,455	3,455
Change in the funded status of retiree benefit obligations, net of taxes	—	—	—	—	—	—	6,184	6,184
ESOP compensation expense, including reclassifications	—	—	108,426	108	287	—	—	395
Share-based compensation	—	—	—	—	399	—	—	399
Issuance of common stock and stock option exercises	—	—	50,843	51	(51)	—	—	—
Cumulative preferred dividends, undeclared and unpaid	—	—	—	—	—	(143)	—	(143)
Balance at December 31, 2020	**14,700**	**$ 15**	**17,591,084**	**$ 17,591**	**$ 63,739**	**$ 84,256**	**$ (69,408)**	**$ 96,193**

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

FARMER BROS. CO.
CONDENSED STATEMENTS OF STOCKHOLDERS' EQUITY (UNAUDITED) (Continued)
(In thousands, except share and per share data)

	Preferred Shares	Preferred Stock Amount	Common Shares	Common Stock Amount	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balance at June 30, 2019	**14,700**	**$ 15**	**17,042,132**	**$ 17,042**	**$ 57,912**	**$ 146,177**	**$ (63,652)**	157,494
Net income	—	—	—	—	—	4,654	—	4,654
Net reclassification of unrealized losses on cash flow hedges, net of taxes	—	—	—	—	—	—	(1,301)	(1,301)
ESOP compensation expense, including reclassifications	—	—	52,534	53	807	—	—	860
Share-based compensation	—	—	—	—	(1)	—	—	(1)
Issuance of common stock and stock option exercises	—	—	532	—	—	—	—	—
Cumulative preferred dividends, undeclared and unpaid	—	—	—	—	—	(137)	—	(137)
Balance at September 30, 2019	**14,700**	**15**	**17,095,198**	**17,095**	**58,718**	**150,694**	**(64,953)**	**161,569**
Net income	—	—	—	—	—	7,754	—	7,754
Net reclassification of unrealized gains on cash flow hedges, net of taxes	—	—	—	—	—	—	15,945	15,945
ESOP compensation expense, including reclassifications	—	—	55,623	56	525	—	—	581
Share-based compensation	—	—	—	—	319	—	—	319
Issuance of common stock and stock option exercises	—	—	26,627	29	101	—	—	130
Cumulative preferred dividends, undeclared and unpaid	—	—	—	—	—	(138)	—	(138)
Balance at December 31, 2019	**14,700**	**$ 15**	**17,177,448**	**$ 17,180**	**$ 59,663**	**$ 158,310**	**$ (49,008)**	**$ 186,160**

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

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

	Six Months Ended December 31,	
	2020	2019
Cash flows from operating activities:		
Net (loss) income	$ (23,997)	$ 12,408
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	14,349	15,211
Postretirement and Pension benefits gains	(14,577)	—
Deferred income taxes	13,472	—
Impairment of fixed assets	1,243	—
Net gains from sales of assets	(549)	(23,662)
Net (gains) losses on derivative instruments	(2,093)	4,075
Other adjustments	1,776	1,794
Change in operating assets and liabilities:		
Accounts receivable	(818)	(5,285)
Inventories	(13,209)	1,804
Derivative assets/liabilities, net	1,761	1,965
Other assets	2,418	361
Accounts payable	12,430	(10,608)
Accrued expenses and other	3,971	(258)
Net cash used by operating activities	$ (3,823)	$ (2,195)
Cash flows from investing activities:		
Purchases of property, plant and equipment	(9,636)	(9,007)
Proceeds from sales of property, plant and equipment	1,926	35,247
Net cash (used) provided in investing activities	$ (7,710)	$ 26,240
Cash flows from financing activities:		
Proceeds from revolving credit facility	$ 21,150	$ 38,000
Repayments on revolving credit facility	(61,150)	(60,000)
Payments of finance lease obligations	(9)	(27)
Payment of financing costs	(2,614)	—
Proceeds from stock option exercises	—	129
Net cash used by financing activities	$ (42,623)	$ (21,898)
Net (decrease) increase in cash and cash equivalents	$ (54,156)	$ 2,147
Cash and cash equivalents at beginning of period	60,013	6,983
Cash and cash equivalents at end of period	$ 5,857	$ 9,130

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

FARMER BROS. CO.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED) - (continued)

(In thousands)

	Six Months Ended December 31,	
	2020	2019
Supplemental disclosure of non-cash investing and financing activities:		
Non-cash additions to property, plant and equipment	$ 380	$ 284
Non-cash issuance of 401-K common stock	$ 185	$ 109
Cumulative preferred dividends, undeclared and unpaid	$ 284	$ 275

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

FARMER BROS. CO.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Introduction and Basis of Presentation

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

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States ("GAAP") for complete consolidated financial statements. In the opinion of management, all adjustments 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, 2020 are not necessarily indicative of the results that may be expected for the fiscal year ending June 30, 2021. Events occurring subsequent to December 31, 2020 have been evaluated for potential recognition or disclosure in the unaudited condensed consolidated financial statements for the three and six months ended December 31, 2020.

The accompanying unaudited condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and related notes included in the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 2020, filed with the Securities and Exchange Commission (the "SEC") on September 11, 2020 (the "2020 Form 10-K").

Principles of Consolidation

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

Use of Estimates

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

Note 2. Summary of Significant Accounting Policies

For a detailed discussion about the Company’s significant accounting policies, see Note 2, “*Summary of Significant Accounting Policies,*” in the Notes to Consolidated Financial Statements in the 2020 Form 10-K.

During the three and six months ended December 31, 2020, other than as set forth below and the adoption of Financial Accounting Standards Board Accounting (“FASB”) Standards Update (“ASU”) ASU No. 2016-13, “Measurement of Credit Losses on Financial Instruments” (“ASU 2016-13”) and ASU 2018-15, “Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service” (“ASU 2018-15”), there were no significant updates made to the Company’s significant accounting policies.

Concentration of Credit Risk

At December 31, 2020 and June 30, 2020, the financial instruments which potentially expose the Company to concentration of credit risk consist of cash in financial institutions (in excess of federally insured limits), derivative instruments and trade receivables.

The Company does not have any credit-risk related contingent features that would require it to post additional collateral in support of its net derivative asset positions. At December 31, 2020 and June 30, 2020, none of the cash in the Company’s coffee-related derivative margin accounts was restricted. Further changes in commodity prices and the number of coffee-related derivative instruments held, could have a significant impact on cash deposit requirements under certain of the Company's broker and counterparty agreements.

Approximately 29% and 39% of the Company’s trade accounts receivable balance was with five customers at December 31, 2020 and June 30, 2020, respectively. The Company estimates its maximum credit risk for accounts receivable at the amount recorded on the balance sheet. The trade accounts receivables are generally short-term and all estimated credit losses have been appropriately considered in establishing the allowance for doubtful accounts.

Recent Accounting Pronouncements

The Company considers the applicability and impact of all ASUs issued. ASUs not listed below were assessed and either determined to be not applicable or expected to have minimal impact on its condensed consolidated financial statements.

The following table provides a brief description of the applicable recent ASUs issued by the FASB:

Standard	Description	Effective Date	Effect on the Financial Statements or Other Significant Matters
In March 2020, the FASB issued ASU No. 2020-04, “Facilitation of the Effect of Reference Rate Reform on Financial Reporting” (“ASU 2020-04”)	The London Interbank Offered Rate (LIBOR) is set to expire at the end of 2021. Contracts affected by the rate change would be required to be modified. Under current U.S. GAAP, those modifications would have to be evaluated to determine whether they result in new contracts or continuation of the existing contracts. ASU 2020-04 provides temporary optional expedients and exceptions for applying U.S. GAAP to contracts, hedging relationships, and other transactions affected by the transition from LIBOR to alternative reference rate.	Issuance date of March 12, 2020 through December 31, 2022.	The Company is currently evaluating the impact ASU 2020-04 will have on its consolidated financial statements.
In December 2019, the FASB issued ASU 2019-12, "Simplifying the Accounting for Income Taxes" ("ASU 2019-12").	ASU 2019-12 guidance simplifies the accounting for income taxes by removing the exception to the incremental approach for intraperiod tax allocation when there is a loss from continuing operations and income or a gain from other items (for example, discontinued operations or other comprehensive income). With the removal of this exception, entities will determine the tax effect of pre-tax income or loss from continuing operations without consideration of the tax effects of other items that are not included in continuing operations.	Annual periods beginning after December 15, 2020, and interim periods within those fiscal years. Early adoption is permitted, including adoption in any interim period.	The Company is currently evaluating the impact ASU 2019-12 will have on its consolidated financial statements.
In August 2018, the FASB issued ASU No. 2018-15, “Intangibles—Goodwill and Other—Internal-Use Software (Subtopic 350-40): Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract” (“ASU 2018-15”).	ASU 2018-15 aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software.	Annual periods beginning after December 15, 2019, and interim periods within those fiscal years. Early adoption is permitted, including adoption in any interim period.	The Company adopted the new guidance effective July 1, 2020 on a prospective basis which did not require the Company to adjust comparative periods. Adoption of ASU 2018-15 did not have a material impact on the results of operations, financial position or cash flows of the Company.
In August 2018, the FASB issued ASU No. 2018-14, “Compensation—Retirement Benefits—Defined Benefit Plans—General (Subtopic 715-20): Disclosure Framework—Changes to the Disclosure Requirements for Defined Benefit Plans” (“ASU 2018-14”).	ASU 2018-14 modifies the disclosure requirements for employers that sponsor defined benefit pension or other postretirement plans by removing disclosures that no longer are considered cost beneficial, clarifying the specific requirements of disclosures and adding disclosure requirements identified as relevant.	Annual periods beginning after December 15, 2020. Early adoption is permitted.	Effective for the Company beginning July 1, 2021. The Company is currently evaluating the impact ASU 2018-14 will have on its consolidated financial statements.
In June 2016, the FASB issued ASU 2016-13, Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments. Since that date, the FASB has issued additional ASUs clarifying certain aspects of ASU 2016-13.	The objective of the guidance in ASU 2016-13 is to allow entities to recognize estimated credit losses in the period that the change in valuation occurs. The amendments in ASU 2016-13 requires an entity to present financial assets measured on an amortized cost basis on the balance sheet net of an allowance for credit losses. The model requires an estimate of the credit losses expected over the life of an exposure or pool of exposures. The income statement will reflect the measurement of credit losses for newly recognized financial assets, as well as the expected increases or decreases of expected credit losses that have taken place during the period.	Annual reporting periods beginning after December 15, 2019 and interim periods within those reporting periods.	The Company adopted the new guidance effective July 1, 2020 on a modified retrospective basis. Adoption of ASU 2016-13 did not have a material impact on the results of operations, financial position or cash flows of the Company.

Note 3. Leases

The Company has entered into leases for building facilities, vehicles and other equipment. The Company’s leases have remaining contractual terms of up to 10 years, some of which have options to extend the lease for up to 10 years. For purposes of calculating operating lease liabilities, lease terms are deemed not to include options to extend the lease renewal until it is reasonably certain that the Company will exercise that option. The Company's lease agreements do not contain any material residual value guarantees or material restrictive covenants.

In September 2020, the Company entered a new 89 month lease for its western U.S. distribution center. The lease terminates on March 31, 2028, with a one 5 year renewal option. The lease has been classified as an operating lease and included in the lease tables and the related disclosures below.

Supplemental unaudited consolidated balance sheet information related to leases is as follows:

(In thousands)	Classification	December 31, 2020	June 30, 2020
Operating lease assets	Right-of-use operating lease assets	$ 27,658	21,117
Finance lease assets	Property, plant and equipment, net	—	9
Total lease assets		**$ 27,658**	**$ 21,126**
Operating lease liabilities - current	Operating lease liabilities - current	$ 7,029	5,854
Operating lease liabilities - noncurrent	Operating lease liabilities - noncurrent	20,770	15,628
Finance lease liabilities	Other long-term liabilities	—	9
Total lease liabilities		**$ 27,799**	**$ 21,491**

The components of lease expense are as follows:

		Three Months Ended December 31,		Six Months Ended December 31,	
(In thousands)	Classification	2020	2019	2020	2019
Operating lease expense	General and administrative expenses and cost of goods sold	$ 1,953	$ 1,253	$ 3,578	$ 2,363
Finance lease expense:					
Amortization of finance lease assets	General and administrative expenses	—	13	9	26
Interest on finance lease liabilities	Interest expense	—	—	—	1
Total lease expense		**$ 1,953**	**$ 1,266**	**$ 3,587**	**$ 2,390**

	December 31, 2020	
(In thousands)	Operating Leases	Finance Leases
Maturities of lease liabilities are as follows:		
2021	$ 3,874	$ —
2022	5,971	—
2023	5,429	—
2024	5,159	—
2025	4,019	—
Thereafter	7,877	—
Total lease payments	32,329	—
Less: interest	(4,530)	—
Total lease obligations	**$ 27,799**	**$ —**

Lease term and discount rate:

	December 31, 2020	June 30, 2020
Weighted-average remaining lease terms (in years):		
Operating lease	7.7	8.3
Finance lease	0.0	0.2
Weighted-average discount rate:		
Operating lease	5.01 %	4.50 %
Finance lease	— %	4.50 %

Other Information:

	Six Months Ended December 31,	
(In thousands)	**2020**	**2019**
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from operating leases	$ 3,835	$ 2,165
Operating cash flows from finance leases	$ —	$ 1
Financing cash flows from finance leases	$ 9	$ 25
Leased assets obtained in exchange for new finance lease liabilities	$ —	$ —
Leased assets obtained in exchange for new operating lease liabilities	$ —	$ —

Note 4. Derivative Instruments

Derivative Instruments Held

Coffee-Related Derivative Instruments

The Company is exposed to commodity price risk associated with its price to be fixed green coffee purchase contracts, which are described further in Note 2 to the consolidated financial statements in the 2020 Form 10-K. The Company utilizes forward and option contracts to manage exposure to the variability in expected future cash flows from forecasted purchases of green coffee attributable to commodity price risk. Certain of these coffee-related derivative instruments utilized for risk management purposes have been designated as cash flow hedges, while other coffee-related derivative instruments have not been designated as cash flow hedges or do not qualify for hedge accounting despite hedging the Company's future cash flows on an economic basis.

The following table summarizes the notional volumes for the coffee-related derivative instruments held by the Company at December 31, 2020 and June 30, 2020:

(In thousands)	December 31, 2020	June 30, 2020
Derivative instruments designated as cash flow hedges:		
Long coffee pounds	17,100	36,413
Derivative instruments not designated as cash flow hedges:		
Long coffee pounds	8,003	8,348
Total	25,103	44,761

Coffee-related derivative instruments designated as cash flow hedges outstanding as of December 31, 2020 will expire within 12 months. At December 31, 2020 and June 30, 2020 approximately 68% and 81%, respectively, of the Company's outstanding coffee-related derivative instruments were designated as cash flow hedges.

Interest Rate Swap Derivative Instruments

Pursuant to an International Swap Dealers Association, Inc. Master Agreement ("ISDA") which was effective March 20, 2019, the Company on March 27, 2019, entered into an interest rate swap transaction utilizing a notional amount of $80.0 million, with an effective date of April 11, 2019 and a maturity date of October 11, 2023 (the "Rate Swap"). In December 2019, the Company amended the notional amount to $65.0 million. The Rate Swap is intended to manage the Company's interest rate risk on its floating-rate indebtedness under the Company's revolving credit facility. Under the terms of the Rate Swap, the Company receives 1-month LIBOR, subject to a 0% floor, and makes payments based on a fixed rate of 2.1975%. The Company's obligations under the ISDA are secured by the collateral which secures the loans under the revolving credit facility on a pari passu and pro rata basis with the principal of such loans. The Company had designated the Rate Swap derivative instrument as a cash flow hedge; however, during the quarter ended September 30, 2020, the Company de-designated the Rate Swap derivative instruments. As a result, the balance in AOCI was frozen at the time of de-designation. The Company recognized $0.3 million and $0.7 million, respectively, in interest expense for the three and six months ended December 31, 2020. The remaining balance of $3.2 million frozen in AOCI will be amortized over the life of the Rate Swap through November 6, 2023.

Effect of Derivative Instruments on the Financial Statements

Balance Sheets

Fair values of derivative instruments on the Company's condensed consolidated balance sheets:

	Derivative Instruments Designated as Cash Flow Hedges		Derivative Instruments Not Designated as Accounting Hedges	
(In thousands)	**December 31, 2020**	**June 30, 2020**	**December 31, 2020**	**June 30, 2020**
Financial Statement Location:				
Short-term derivative assets:				
Coffee-related derivative instruments(1)	$ 2,573	$ 35	$ 1,199	$ 130
Long-term derivative assets:				
Coffee-related derivative instruments (2)	$ —	$ 10	$ —	$ —
Short-term derivative liabilities:				
Coffee-related derivative instruments	$ 73	$ 3,322	$ 6	$ 706
Interest rate swap derivative instruments	$ —	$ 1,228	$ 1,349	$ —
Long-term derivative liabilities:				
Coffee-related derivative instruments (3)	$ —	$ 246	$ —	$ —
Interest rate swap derivative instruments (3)	$ —	$ 2,613	$ 2,224	$ —

(1) Included in "Short-term derivative assets" on the Company's condensed consolidated balance sheets.
(2) Included in "Long-term derivative assets" on the Company's condensed consolidated balance sheets.
(3) Included in "Other long-term liabilities" on the Company's condensed consolidated balance sheets.

Statements of Operations

The following table presents pretax net gains and losses for the Company's derivative instruments designated as cash flow hedges, as recognized in "AOCI," "Cost of goods sold" and "Other, net".

	Three Months Ended December 31,		Six Months Ended December 31,		
(In thousands)	**2020**	**2019**	**2020**	**2019**	**Financial Statement Classification**
Net losses recognized in AOCI - Interest rate swap	$ —	$ 448	$ (304)	$ (48)	AOCI
Net (losses) recognized from AOCI to earnings - Interest rate swap	$ (9)	$ (52)	$ (344)	$ (32)	Interest Expense
Net losses reclassified from AOCI to earnings for de-designated Interest rate swap (1)	$ (320)	$ —	$ (659)	$ —	Interest Expense
Net losses reclassified from AOCI to earnings for partial unwind of interest swap - Interest rate swap(2)	$ —	$ (407)	$ —	$ (407)	Interest Expense
Net gains (losses) recognized in AOCI - Coffee-related	$ 3,101	$ 12,130	$ 7,366	$ 7,431	AOCI
Net gains (losses) recognized in earnings - Coffee - related	$ 240	$ (3,451)	$ 604	$ (6,922)	Cost of goods sold

(1) The $320 thousand of realized loss was due to the amortization of de-designated interest rate swap.
(2) The $407 thousand of realized loss was due to partial unwinding of interest rate swap resulting from the amendment of the notional amount from $80.0 million to $65.0 million.

For the three and six months ended December 31, 2020 and 2019, there were no gains or losses recognized in earnings as a result of excluding amounts from the assessment of hedge effectiveness.

Net losses (gains) on derivative instruments in the Company's condensed consolidated statements of cash flows also include net losses (gains) on coffee-related derivative instruments designated as cash flow hedges reclassified to cost of goods sold from AOCI in the three and six months ended December 31, 2020 and 2019. Gains and losses on coffee-related derivative instruments not designated as accounting hedges are included in "Other, net" in the Company's condensed consolidated statements of operations and in "Net losses (gains) on derivative instruments and investments" in the Company's condensed consolidated statements of cash flows.

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

	Three Months Ended December 31,		Six Months Ended December 31,	
(In thousands)	2020	2019	2020	2019
Net gains (losses) on coffee-related derivative instruments(1)	$ 1,338	$ 419	$ 1,834	$ (624)
Non-operating pension and other postretirement benefit (2)	7,744	1,248	15,488	2,496
Other gains (losses), net	(2)	(5)	317	(7)
Other, net	$ 9,080	$ 1,662	$ 17,639	$ 1,865

____

(1) Excludes net gains and losses on coffee-related derivative instruments designated as cash flow hedges recorded in cost of goods sold in the three and six months ended December 31, 2020 and 2019.
(2) Presented in accordance with ASU 2017-07.

Offsetting of Derivative Assets and Liabilities

The Company has agreements in place that allow for the financial right of offset for derivative assets and liabilities at settlement or in the event of default under the agreements. Additionally, under certain coffee derivative agreements, the Company maintains accounts with its counterparties to facilitate financial derivative transactions in support of its risk management activities.

The following table presents the Company's net exposure from its offsetting derivative asset and liability positions, as well as cash collateral on deposit with its counterparties as of the reporting dates indicated:

(In thousands)		Gross Amount Reported on Balance Sheet	Netting Adjustments	Cash Collateral Posted	Net Exposure
December 31, 2020	Derivative Assets	$ 3,772	$ (79)	$ —	$ 3,693
	Derivative Liabilities	$ 3,652	$ (79)	$ —	$ 3,573
June 30, 2020	Derivative Assets	$ 175	$ (175)	$ —	$ —
	Derivative Liabilities	$ 8,115	$ (176)	$ —	$ 7,939

Cash Flow Hedges

Changes in the fair value of the Company's coffee-related derivative instruments designated as cash flow hedges are deferred in AOCI and subsequently reclassified into cost of goods sold in the same period or periods in which the hedged forecasted purchases affect earnings, or when it is probable that the hedged forecasted transaction will not occur by the end of the originally specified time period. Based on recorded values at December 31, 2020, $3.6 million of net gains on coffee-related derivative instruments designated as a cash flow hedge are expected to be reclassified into cost of goods sold within the next twelve months. These recorded values are based on market prices of the commodities as of December 31, 2020.

Changes in the fair value of the Company's interest rate swap derivative instruments designated as a cash flow hedge are deferred in AOCI and subsequently reclassified into interest expense in the period or periods when the hedged transaction affects earnings or when it is probable that the hedged forecasted transaction will not occur by the end of the originally specified time period. As of December 31, 2020, $1.3 million of net losses on interest rate swap derivative instruments de-designated as a cash flow hedge are expected to be reclassified into interest expense within the next twelve months assuming no significant changes in the LIBOR rates. Due to LIBOR volatility, actual gains or losses realized within the next twelve months will likely differ from these values.

Note 5. Fair Value Measurements

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

(In thousands) December 31, 2020	Total	Level 1	Level 2	Level 3
Derivative instruments designated as cash flow hedges:				
Coffee-related derivative assets (1)	$ 2,573	$ —	$ 2,573	$ —
Coffee-related derivative liabilities (1)	$ 73	$ —	$ 73	$ —
Derivative instruments not designated as accounting hedges:				
Coffee-related derivative assets(1)	$ 1,199	$ —	$ 1,199	$ —
Coffee-related derivative liabilities(1)	$ 6	$ —	$ 6	$ —
Interest rate swap derivative liabilities (2)	$ 3,573	—	$ 3,573	—

(In thousands) June 30, 2020	Total	Level 1	Level 2	Level 3
Derivative instruments designated as cash flow hedges:				
Coffee-related derivative assets (1)	$ 45	$ —	$ 45	$ —
Coffee-related derivative liabilities (1)	$ 3,568	$ —	$ 3,568	$ —
Interest rate swap derivative liabilities (2)	$ 3,841	$ —	$ 3,841	$ —
Derivative instruments not designated as accounting hedges:				
Coffee-related derivative assets (1)	$ 130	$ —	$ 130	$ —
Coffee-related derivative liabilities (1)	$ 706	$ —	$ 706	$ —

____

(1) The Company's coffee-related derivative instruments are traded over-the-counter and, therefore, classified as Level 2.
(2) The Company's interest rate swap derivative instrument are model-derived valuations with directly or indirectly observable significant inputs such as interest rate and, therefore, classified as Level 2.

Note 6. Accounts Receivable, Net

(In thousands)	December 31, 2020	June 30, 2020
Trade receivables	$ 40,946	$ 40,695
Other receivables(1)	2,134	1,983
Allowance for doubtful accounts	(1,216)	(1,796)
Accounts receivable, net	$ 41,864	$ 40,882

____

(1) Includes vendor rebates and other non-trade receivables.

The $0.6 million decrease in the allowance for doubtful accounts during the six months ended December 31, 2020 was due to improvement of the Company’s accounts receivable aging balance.

Note 7. Inventories

(In thousands)	December 31, 2020	June 30, 2020
Coffee		
Processed	$ 24,799	$ 17,840
Unprocessed	34,857	32,913
Total	$ 59,656	$ 50,753
Tea and culinary products		
Processed	$ 14,838	$ 10,627
Unprocessed	69	45
Total	$ 14,907	$ 10,672
Coffee brewing equipment parts	$ 6,054	$ 5,983
Total inventories	$ 80,617	$ 67,408

In addition to product cost, inventory costs include expenditures such as direct labor and certain supply, freight, warehousing, overhead variances, purchase price variance and other expenses incurred in bringing the inventory to its existing condition and location. The “Unprocessed” inventory values as stated in the above table represent the value of raw materials and the “Processed” inventory values represent all other products consisting primarily of finished goods.

Note 8. Property, Plant and Equipment

(In thousands)	December 31, 2020	June 30, 2020
Buildings and facilities	$ 98,002	$ 98,293
Machinery, vehicles and equipment	237,726	240,431
Capitalized software	23,659	29,765
Office furniture and equipment	13,270	14,042
	$ 372,657	$ 382,531
Accumulated depreciation	(225,646)	(229,829)
Land	12,844	12,931
Property, plant and equipment, net	$ 159,855	$ 165,633

During the second quarter ended December 31, 2020, the Company completed the implementation of a new route handheld equipment, and wrote-off $0.9 million of the remaining net book value of the previous route handheld equipment and $0.3 million of other assets.

Coffee Brewing Equipment (“CBE”) and Service

Capitalized CBE included in machinery and equipment above are:

(In thousands)	December 31, 2020	June 30, 2020
Coffee Brewing Equipment	$ 98,414	$ 98,734
Accumulated depreciation	(69,765)	$ (67,800)
Coffee Brewing Equipment, net	$ 28,649	$ 30,934

Depreciation expense related to capitalized CBE and other CBE related expenses (excluding CBE depreciation) provided to customers and reported in cost of goods sold were as follows:

	Three Months Ended December 31,		Six Months Ended December 31,	
(In thousands)	**2020**	**2019**	**2020**	**2019**
Depreciation expense	$ 2,334	$ 2,327	$ 4,694	$ 4,666
Other CBE expenses	$ 5,968	$ 8,446	$ 11,536	$ 16,171

Other expenses related to CBE provided to customers, such as the cost of servicing that equipment (including service employees' salaries, cost of transportation and the cost of supplies and parts), are considered directly attributable to the generation of revenues from the customers. Therefore, these costs are included in cost of goods sold.

Note 9. Goodwill and Intangible Assets

The carrying value of goodwill was fully impaired and written down to zero as of June 30, 2020.

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

		December 31, 2020			June 30, 2020			
(In thousands)	**Weighted Average Amortization Period as of December 31, 2020**	**Gross Carrying Amount**	**Accumulated Amortization**	**Net**	**Gross Carrying Amount**	**Accumulated Amortization**	**Impairment**	**Net**
Amortized intangible assets:								
Customer relationships	6.2	$ 33,003	$ (18,591)	$ 14,412	$ 33,003	$ (17,492)	$ —	$ 15,511
Non-compete agreements	1.0	220	(182)	38	220	(161)	—	59
Recipes	2.8	930	(553)	377	930	(487)	—	443
Trade name/brand name	2.9	510	(402)	108	510	(383)	—	127
Total amortized intangible assets		$ 34,663	$ (19,728)	$ 14,935	$ 34,663	$ (18,523)	$ —	$ 16,140
Unamortized intangible assets:								
Trademarks, trade names and brand name with indefinite lives		$ 4,522	$ —	$ 4,522	$ 10,328	$ —	$ (5,806)	$ 4,522
Total unamortized intangible assets		$ 4,522	$ —	$ 4,522	$ 10,328	$ —	$ (5,806)	$ 4,522
Total intangible assets		$ 39,185	$ (19,728)	$ 19,457	$ 44,991	$ (18,523)	$ (5,806)	$ 20,662

Aggregate amortization expense for the three months ended December 31, 2020 and 2019 was $0.6 million in each period. Aggregate amortization expense for the six months ended December 31, 2020 and 2019 was $1.2 million in each period.

Note 10. Employee Benefit Plans

Single Employer Pension Plans

Effective June 30, 2011, the Company amended its defined benefit pension plans, freezing the benefit for all participants. As of the effective date, participants do not accrue any benefits under the plans, and new hires are not eligible to participate in the plans.

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

	Three Months Ended December 31,		Six Months Ended December 31,	
	2020	2019	2020	2019
(In thousands)				
Service cost	$ —	$ —	$ —	$ —
Interest cost	859	1,059	1,718	2,118
Expected return on plan assets	(1,038)	(1,102)	(2,075)	(2,203)
Amortization of net loss(1)	502	370	1,005	740
Net periodic benefit cost	$ 323	$ 327	$ 648	$ 655

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

Weighted-Average Assumptions Used to Determine Net Periodic Benefit Cost

	December 31, 2020	June 30, 2020
Discount rate	2.55%	3.45%
Expected long-term return on plan assets	6.25%	6.75%

Multiemployer Pension Plans

The Company participates in two multiemployer defined benefit pension plans that are union sponsored and collectively bargained for the benefit of certain employees subject to collective bargaining agreements, of which the Western Conference of Teamsters Pension Plan ("WCTPP") is individually significant. The Company makes contributions to these plans generally based on the number of hours worked by the participants in accordance with the provisions of negotiated labor contracts.

Contributions made by the Company to the multiemployer pension plans were as follows:

	Three Months Ended December 31,		Six Months Ended December 31,	
	2020	2019	2020	2019
(In thousands)				
Contributions	$ 309	$ 452	$ 537	$ 880

Outstanding balance of settlement obligations of the Company to certain multiemployer pension plans are as follows:

(In thousands)	December 31, 2020	June 30, 2020
Local 807 Pension Fund	$ 182	$ 182

Multiemployer Plans Other Than Pension Plans

The Company participates in nine multiemployer defined contribution plans other than pension plans that provide medical, vision, dental and disability benefits for active, union-represented employees subject to collective bargaining agreements. The plans are subject to the provisions of the Employee Retirement Income Security Act of 1974, and provide that participating employers make monthly contributions to the plans in an amount as specified in the collective bargaining agreements. Also, the plans provide that participants make self-payments to the plans, the amounts of which are negotiated through the collective bargaining process. The Company's participation in these plans is governed by collective bargaining agreements which expire on or before January 31, 2025.

401(k) Plan

The Company's 401(k) Plan is available to all eligible employees. Participants in the 401(k) Plan may choose to contribute a percentage of their annual pay subject to the maximum contribution allowed by the Internal Revenue Service. The Company recorded matching contributions of $0.6 million and $1.3 million, respectively, in operating expenses in the three and six months ended December 31, 2019. Effective March 31, 2020, the Company temporarily suspended its 401K matching program in response to the COVID-19 pandemic.

Additionally, the Company makes an annual safe harbor non-elective contribution of shares of the Company's common stock equal to 4% of each eligible participant's annual plan compensation. During the three and six months ended December 31, 2020, the Company contributed a total of 162,259 and 270,685 shares of the Company's common stock with a value of $0.8 million and $1.2 million, respectively, to eligible participants' annual plan compensation. During the three and six months ended December 31, 2019, the Company contributed a total of 54,025 and 109,649 shares of the Company's common stock with a value of $0.6 million and $1.4 million, respectively, to eligible participants' annual plan compensation.

Postretirement Benefits

Retiree Medical Plan and Death Benefit

On March 23, 2020, the Company announced a plan to amend and terminate the postretirement medical benefit plan that covers qualified non-union retirees and certain qualified union retirees ("Retiree Medical Plan") effective December 31, 2020. The plan provides medical, dental and vision coverage for retirees under age 65 and medical coverage only for retirees age 65 and above. Under this postretirement plan, the Company's contributions toward premiums for retiree medical, dental and vision coverage for participants and dependents are scaled based on length of service, with greater Company contributions for retirees with greater length of service, subject to a maximum monthly Company contribution. The Company's retiree medical, dental and vision plan was unfunded and its liability was calculated using an assumed discount rate.

The Company's communication of its intention to amend and terminate the Retiree Medical Plan triggered re-measurement and curtailment of the plan. As a result, the re-measurement generated a prior service credit of $13.4 million to be amortized over the remaining months of the plan, and a revised net periodic postretirement benefit credit for fiscal 2021 of $14.6 million. Also, the Company recognized a one-time non-cash curtailment credit of $5.8 million for the fiscal year ended June 30, 2020. As of December 31, 2020, the Retiree Medical Plan has terminated.

The Company continues to provide a postretirement death benefit ("Death Benefit") to certain of its employees and retirees, subject, in the case of current employees, to continued employment with the Company until retirement and certain other conditions related to the manner of employment termination and manner of death.

The following table shows the components of net periodic postretirement benefit cost (credit) for the Retiree Medical Plan and Death Benefit for the three and six months ended December 31, 2020 and 2019. Net periodic postretirement benefit cost was based on employee census information and asset information as of June 30, 2020.

	Three Months Ended December 31,		Six Months Ended December 31,	
	2020	2019	2020	2019
(In thousands)				
Components of Net Periodic Postretirement Benefit Cost (Credit):				
Service cost	$ 5	$ 147	$ 10	$ 294
Interest cost	73	214	147	428
Amortization of net gain	(2,728)	(125)	(5,456)	(250)
Amortization of prior service credit	(4,481)	(392)	(8,961)	(784)
Net periodic postretirement benefit credit	$ (7,131)	$ (156)	$ (14,260)	$ (312)

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

	Fiscal	
	2021	2020
Retiree Medical Plan discount rate	0.06%	3.62%
Death Benefit discount rate	2.87%	3.64%

Note 11. Debt Obligations

The following table summarizes the Company's debt obligations:

				December 31, 2020		June 30, 2020	
(In thousands)	Debt Origination Date	Maturity	Original Borrowing Amount	Carrying Value	Weighted Average Interest Rate	Carrying Value	Weighted Average Interest Rate
Credit Facility	Revolver	11/6/2023	N/A	$ 82,000	6.56 %	$ 122,000	4.91 %

On July 23, 2020 (the "Effective Date"), pursuant to Amendment No. 3 to Amended and Restated Credit Agreement (the "Third Amendment"), the Company amended its existing senior secured revolving credit facility (such facility as amended to date, including pursuant to the Third Amendment, the "Amended Revolving Facility") with certain financial institutions.

The Third Amendment, among other things:

1. retained the amount of revolving commitments under the Amended Revolving Facility of $125.0 million and the sublimit on letters of credit and swingline loans of $15.0 million each;
2. added a $5.0 million quarterly commitment reduction beginning September 30, 2021;
3. adjusted from cash flow-based to an asset-based lending structure with borrowing a base equal to 85% of eligible accounts receivable plus 50% of eligible inventory with certain permitted maximum over advance amounts, minus certain reserves;
4. removed all previous financial covenants of net leverage ratio, interest coverage ratio and minimum EBITDA;
5. added a covenant relief period (commencing on the effective date and ending upon delivery of a compliance certificate on or after fiscal month ending September 30, 2021), during which the Company must comply with the following:
   (i) a minimum cumulative EBITDA covenant, tested on a monthly basis until the last day of June 2021;
   (ii) a standalone minimum monthly EBITDA covenant tested on the last day of July 2021 and August 2021; and
   (iii) a restriction on capital expenditures such that the amount of capital expenditures shall not exceed $25.0 million in the aggregate.
6. added covenant requiring the Company to comply with a minimum liquidity covenant, tested on a weekly basis;
7. added an anti-cash hoarding provision;
8. added a minimum fixed charge coverage ratio of 1.05:1.00 commencing with fiscal quarter ending September 30, 2021, and tested on a quarterly basis thereafter;
9. modified the applicable margin for base rate loans to range from PRIME + 3.50% to PRIME + 4.50% per annum and the applicable margin for Eurodollar loans to range from Adjusted LIBO Rate + 4.50% to Adjusted LIBO Rate + 5.50% per annum and fixed the commitment fee at 0.50%;
10. provided for the revolving commitments to be reduced upon the occurrence of certain asset dispositions and incurrence of non-permitted indebtedness and imposed additional restrictions on the Company's ability to utilize certain other negative covenant baskets; and
11. added a requirement to provide mortgages and related mortgage instruments with respect to certain specified real property owned by the Company.

The Amended Revolving Facility is subject to a variety of affirmative and negative covenants of types customary in a senior secured assets-based lending facility and it has no scheduled payback required on the principal prior to the maturity date on November 6, 2023.

As of December 31, 2020, the Company was in compliance with all of the covenants under the Amended Revolving Facility and had utilized $4.3 million of the letters of credit sublimit.

Effective March 27, 2019, the Company entered into an interest rate swap to manage the interest rate risk on its floating-rate indebtedness. See Note 4 for details.

Note 12. Employee Stock Ownership Plan

The Company’s ESOP was established in 2000. As of December 31, 2018, the Company froze the ESOP such that (i) no employees of the Company may commence participation in the ESOP on or after December 31, 2018; (ii) no Company contributions will be made to the ESOP with respect to services performed or compensation received after December 31, 2018; and (iii) the ESOP accounts of all individuals who are actively employed by the Company and participating in the ESOP on December 31, 2018 will be fully vested as of such date. Additionally, the Administrative Committee, with the consent of the Board of Directors, designated certain employees who were terminated in connection with certain reductions-in-force in 2018 to be fully vested in their ESOP accounts as of their severance dates.

Shares are held by the plan trustee for allocation among participants using a compensation-based formula. Subject to vesting requirements, allocated shares are owned by participants and shares are held by the plan trustee until the participant retires.

	December 31, 2020	June 30, 2020
Allocated shares	1,137,058	1,170,015
Committed to be released shares	—	—
Unallocated shares	—	—
Total ESOP shares	1,137,058	1,170,015
(In thousands)		
Fair value of ESOP shares	$ 5,310	$ 8,588

Note 13. Share-based Compensation

Farmer Bros. Co. Long-Term Incentive Plan

As of December 31, 2020, there were 632,592 shares available under the 2017 Plan including shares that were forfeited under the prior plans for future issuance. As of December 31, 2020, there were 171,371 shares available under the 2020 Inducement Plan.

Non-qualified stock options with time-based vesting ("NQOs")

One-third of the total number of shares subject to each stock option vest ratably on each of the first three anniversaries of the grant date, contingent on continued employment, and subject to accelerated vesting in certain circumstances.

Following are the assumptions used in the Black-Scholes valuation model for NQOs granted during the six months ended December 31, 2020:

	Six Months Ended December 31, 2020
Weighted average fair value of NQOs	$ 4.60
Risk-free interest rate	0.29 %
Dividend yield	— %
Average expected term	4.6 years
Expected stock price volatility	35.4 %

The following table summarizes NQO activity for six months ended December 31, 2020:

Outstanding NQOs:	Number of NQOs	Weighted Average Exercise Price ($)	Weighted Average Remaining Life (Years)	Aggregate Intrinsic Value ($ in thousands)
Outstanding at June 30, 2020	528,958	13.92	6.21	55
Granted	29,761	6.72	—	—
Exercised	—	—	—	—
Forfeited	(4,984)	18.16	—	—
Expired	(7,938)	28.51	—	—
Outstanding at December 31, 2020	545,797	13.28	5.83	—
Exercisable at December 31, 2020	147,743	16.17	5.58	—

The weighted-average grant-date fair value of options granted during six months ended December 31, 2020 was $2.36. The aggregate intrinsic values outstanding at the end of period in the table above represent the total pretax intrinsic values, based on the Company's closing stock price of $4.67 at December 31, 2020 and $7.34 at June 30, 2020, representing the last trading day of the respective periods, which would have been received by NQO holders had all award holders exercised their NQOs that were in-the-money as of those dates. The aggregate intrinsic value of NQO exercises in six months ended December 31, 2020 represents the difference between the exercise price and the value of the Company's common stock at the time of exercise. NQOs outstanding that are expected to vest are net of estimated forfeitures.

The were no options exercised during six months ended December 31, 2020. The Company received $129.3 thousand in proceeds from exercise of vested NQOs during the six months ended December 31, 2019.

At December 31, 2020 and June 30, 2020, respectively, there was $1.4 million and $1.7 million of unrecognized NQO compensation cost. The unrecognized NQO compensation cost at December 31, 2020 is expected to be recognized over the weighted average period of 1.8 years. Total compensation expense for NQOs was $208.3 thousand and $178.1 thousand for the three months ended December 31, 2020 and 2019, respectively. Total compensation expense for NQOs was $419.2 thousand and $277.2 thousand for the six months ended December 31, 2020 and 2019, respectively.

Non-qualified stock options with performance-based and time-based vesting ("PNQs")

The following table summarizes PNQ activity for the six months ended December 31, 2020:

Outstanding PNQs:	Number of PNQs	Weighted Average Exercise Price ($)	Weighted Average Remaining Life (Years)	Aggregate Intrinsic Value ($ in thousands)
Outstanding at June 30, 2020	13,630	28.60	2.36	—
Granted	—	—	—	—
Exercised	—	—	—	—
Forfeited	—	—	—	—
Expired	(1,880)	21.33	—	—
Outstanding at December 31, 2020	11,750	29.76	2.16	—
Exercisable at December 31, 2020	6,942	28.40	1.89	—

The aggregate intrinsic values outstanding at the end of each fiscal period in the table above represent the total pretax intrinsic values, based on the Company's closing stock price of $4.67 at December 31, 2020 and $7.34 at June 30, 2020, representing the last trading day of the respective fiscal periods, which would have been received by PNQ holders had all award holders exercised their PNQs that were in-the-money as of those dates. The aggregate intrinsic value of PNQ exercises in the six months ended December 31, 2020 represents the difference between the exercise price and the value of the Company's common stock at the time of exercise. PNQs outstanding that are expected to vest are net of estimated forfeitures.

There were no options exercised during six months ended December 31, 2020 and 2019.

At December 31, 2020 and June 30, 2020, there was no unrecognized PNQ compensation cost. Total compensation expense related to PNQs in the three months ended December 31, 2020 and 2019 was zero and $4.6 thousand, respectively. Total compensation expense related to PNQs in the six months ended December 31, 2020 and 2019 was zero and $18.3 thousand, respectively.

Restricted Stock

The following table summarizes restricted stock activity for the six months ended December 31, 2020:

Outstanding and Nonvested Restricted Stock Awards:	Shares Awarded	Weighted Average Grant Date Fair Value ($)
Outstanding and nonvested at June 30, 2020	218,604	13.00
Granted	709,473	5.05
Vested/Released	(57,596)	13.38
Cancelled/Forfeited	(11,466)	5.60
Outstanding and nonvested at December 31, 2020	859,015	5.46

The total grant-date fair value of restricted stock granted during the six months ended December 31, 2020 was $3.6 million.

At December 31, 2020 and June 30, 2020, there was $4.2 million and $1.7 million, respectively, of unrecognized compensation cost related to restricted stock. The unrecognized compensation cost related to restricted stock at December 31, 2020 is expected to be recognized over the weighted average period of 1.7 years. Total compensation expense for restricted stock was $0.6 million and $0.2 million, respectively, in the three months ended December 31, 2020 and 2019.
Total compensation expense for restricted stock was $1.1 million and $0.4 million, respectively, in the six months ended December 31, 2020 and 2019.

Performance-Based Restricted Stock Units ("PBRSUs")

The following table summarizes PBRSU activity for the six months ended December 31, 2020:

Outstanding and Nonvested PBRSUs:	PBRSUs Awarded(1)	Weighted Average Grant Date Fair Value ($)
Outstanding and nonvested at June 30, 2020	81,337	15.78
Granted(1)	306,095	4.10
Vested/Released	(805)	31.70
Cancelled/Forfeited	(2,572)	30.80
Outstanding and nonvested at December 31, 2020	384,055	6.34

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

The total grant-date fair value of PBRSUs granted during the six months ended December 31, 2020 was $1.3 million.

At December 31, 2020 and June 30, 2020, there was $1.3 million and $0.5 million, respectively, of unrecognized PBRSU compensation cost. The unrecognized PBRSU compensation cost at December 31, 2020 is expected to be recognized over the weighted average period of 2.9 years. Total compensation expense for PBRSUs was $21.0 thousand and $77.2 thousand, respectively, for the three months ended December 31, 2020 and 2019.

As of December 31, 2020, the Company reversed the previously recognized nonvested compensation expense of $295.8 thousand for awards granted prior to fiscal 2021 since it was deemed not probable that the Company will achieve the target performance conditions. Total PBRSUs compensation expense for the six months ended December 31, 2019 was $110.1 thousand.

Cash-Settled Restricted Stock Units ("CSRSUs")

In December 2020, the Company granted CSRSUs under the 2017 Plan to certain employees. CSRSUs vest in equal installments over a three-year period from the grant date, and are cash-settled upon vesting based on the Company's common stock closing share price on the vesting date.

The CSRSUs are accounted for as liability awards, and compensation expense is measured at fair value on the date of grant and recognized on a straight-line basis over the vesting period net of forfeitures. Compensation expense is remeasured at each reporting date with a cumulative adjustment to compensation cost during the period based on changes in the Company's common stock closing share price.

The following table summarizes CSRSU activity for the six months ended December 31, 2020:

Outstanding and Nonvested CSRSUs:	CSRSUs Awarded	Weighted Average Grant Date Fair Value ($)
Outstanding and nonvested at June 30, 2020	—	—
Granted	232,002	4.31
Vested/Released	—	—
Cancelled/Forfeited	—	—
Outstanding and nonvested at December 31, 2020	232,002	4.31

The total grant-date fair value of CSRSUs granted during the six months ended December 31, 2020 was $1.0 million.

At December 31, 2020, there was $1.1 million of unrecognized compensation cost related to CSRSU. The unrecognized compensation cost related to CSRSU at December 31, 2020 is expected to be recognized over the weighted average period of 2.9 years. Total compensation expense for CSRSUs was $20.6 thousand in the three and six months ended December 31, 2020.

Performance Cash Awards ("PCAs")

In November 2019, the Company granted PCAs under the 2017 Plan to certain employees. The PCAs cliff vest on the third anniversary of the date of grant based on the Company's achievement of certain financial performance goals for the performance period July 1, 2019 through June 30, 2022, subject to certain continued employment conditions and subject to acceleration provisions of the 2017 Plan. At the end of the three-year performance period, the amount of PCAs that actually vest will be 0% to 200% of the target amount, depending on the extent to which the Company meets or exceeds the achievement of those financial performance goals measured over the full three-year performance period.

The PCAs are measured initially based on a fixed amount of the awards at the date of grant and are required to be re-measured based on the probability of achieving the performance conditions at each reporting date until settlement. Compensation expense for PCAs is recognized over the applicable performance periods. The Company records a liability equal to the cost of PCAs for which achievement of the performance condition is deemed probable. As of December 31, 2020, the Company reversed the previously recognized nonvested accrued liabilities of $102.2 thousand since it was deemed not probable that the Company will achieve the target performance conditions.

At December 31, 2020, there was no unrecognized PCA compensation cost since it was deemed not probable that the Company will achieve the target performance conditions. Total compensation expense for PCAs was $16.9 thousand for the three and six months ended December 31, 2019.

Note 14. Other Current Liabilities

Other current liabilities consist of the following:

(In thousands)	December 31, 2020	June 30, 2020
Accrued postretirement benefits	$ 541	$ 744
Accrued workers' compensation liabilities	1,415	1,466
Cumulative preferred dividends, undeclared and unpaid (1)	1,763	1,477
Other (2)	3,770	3,115
Other current liabilities	$ 7,489	$ 6,802

(1) Represents the cumulative preferred dividends, undeclared and unpaid. Previously accrued long-term portion has been reclassified to current liabilities.
(2) Includes accrued property taxes, sales and use taxes and insurance liabilities.

Note 15. Other Long-Term Liabilities

Other long-term liabilities include the following:

(In thousands)	December 31, 2020	June 30, 2020
Derivative liabilities—noncurrent	$ 2,224	2,859
Deferred compensation(1)	1,544	1,170
Deferred income taxes and other liabilities(2)	1,486	1,494
Finance lease liabilities	—	9
Other long-term liabilities	$ 5,254	$ 5,532

(1) Includes payroll taxes and performance cash awards liabilities.
(2) Includes deferred tax liabilities that have an indefinite reversal pattern.

Note 16. Income Taxes

The income tax expense (benefit) and the related effective tax rates are as follows (in thousands, except effective tax rate):

	Three Months Ended December 31,		Six Months Ended December 31,	
	2020	2019	2020	2019
Income tax expense (benefit)	$ 13,703	$ (81)	$ 13,845	$ (188)
Effective tax rate	(340.7)%	(1.1)%	(136.4)%	(1.5)%

The effective tax rate is negative primarily due to the $13.5 million of previously deferred non-cash tax expense in accumulated other comprehensive income associated with gains on the postretirement medical plan in prior years. Upon termination of this plan on December 31, 2020, the deferred non-cash tax expense was recognized in net income in the second quarter of fiscal 2021. The Company's interim tax provision is determined using an estimated annual effective tax rate and adjusted for discrete taxable events that may occur during the quarter. The Company recognizes the effects of tax legislation in the period in which the law is enacted. Deferred tax assets and liabilities are remeasured using enacted tax rates expected to apply to taxable income in the years the Company estimates the related temporary differences to reverse. The Company evaluates its deferred tax assets quarterly to determine if a valuation allowance is required. In making such assessment, significant weight is given to evidence that can be objectively verified, such as recent operating results, and less consideration is given to less objective indicators such as future income projections.

The Company files its tax returns as prescribed by the tax laws of the jurisdictions in which it operates. In the normal course of business, the Company is subject to examination by U.S. federal, state and local tax authorities. With limited exceptions, as of December 31, 2020 and June 30, 2020, the Company is no longer subject to income tax audits by taxing authorities for any years prior to 2018. Although the outcome of tax audits is always uncertain, the Company does not believe the outcome of any future audit will have a material adverse effect on the Company's condensed consolidated financial statements.

Note 17. Net Income (loss) Per Common Share

Basic net income (loss) per common share is calculated by dividing net income (loss) attributable to the Company by the weighted average number of common shares outstanding during the periods presented. Diluted net income (loss) per common share is calculated by dividing diluted net income (loss) attributable to the Company by the weighted average number of common shares outstanding adjusted to include the effect, if dilutive, of the exercise of in-the-money stock options, unvested performance-based restricted stock units, and shares of Series A Preferred Stock, as converted, during the periods presented. The calculation of dilutive shares outstanding excludes out-of-the-money stock options (i.e., such option's exercise prices were greater than the average market price of our common shares for the period) and unvested performance-based restricted stock units because their inclusion would be have been anti-dilutive.

The following table presents the computation of basic and diluted earnings (loss) per common share:

(In thousands, except share and per share amounts)	Three Months Ended December 31, 2020	Three Months Ended December 31, 2019	Six Months Ended December 31, 2020	Six Months Ended December 31, 2019
Undistributed net (loss) income available to common stockholders	$ (17,223)	$ 7,595	$ (23,509)	$ 12,104
Undistributed net (loss) income available to nonvested restricted stockholders and holders of convertible preferred stock	(645)	21	(772)	29
Net (loss) earnings available to common stockholders—basic	$ (17,868)	$ 7,616	$ (24,281)	$ 12,133
Weighted average common shares outstanding—basic	17,531,521	17,159,108	17,477,268	17,127,153
Effect of dilutive securities:				
Shares issuable under stock options	—	1,236	—	1,819
Shares issuable under PBRSUs	—	8,091	—	6,272
Shares issuable under convertible preferred stock	—	414,900	—	414,900
Weighted average common shares outstanding—diluted	17,531,521	17,583,335	17,477,268	17,550,144
Net (loss) income available to common stockholders per common share—basic	$ (1.02)	$ 0.44	$ (1.39)	$ 0.71
Net (loss) income available to common stockholders per common share—diluted	$ (1.02)	$ 0.43	$ (1.39)	$ 0.69

The following table summarizes anti-dilutive securities excluded from the computation of diluted net income (loss) per common share for the periods indicated:

	Three Months Ended December 31, 2020	Three Months Ended December 31, 2019	Six Months Ended December 31, 2020	Six Months Ended December 31, 2019
Shares issuable under stock options	545,797	190,117	545,797	121,113
Shares issuable under convertible preferred stock	429,614	—	429,614	—
Shares issuable under PBRSUs	81,070	16,195	82,189	8,097

Note 18. Preferred Stock

The Company is authorized to issue 500,000 shares of preferred stock at a par value of $1.00, including 21,000 authorized shares of Series A Preferred Stock.

On October 2, 2017, the Company issued 14,700 shares of Series A Preferred Stock in connection with the Boyd Coffee acquisition. At December 31, 2020, Series A Preferred Stock consisted of the following:

(In thousands, except share and per share amounts)

Shares Authorized	Shares Issued and Outstanding	Stated Value per Share	Carrying Value	Cumulative Preferred Dividends, Undeclared and Unpaid	Liquidation Preference
21,000	14,700	$ 1,120	$ 16,463	$ 1,763	$ 16,463

Note 19. Revenue Recognition

The Company's primary sources of revenue are sales of coffee, tea and culinary products. The Company recognizes revenue when control of the promised good or service is transferred to the customer and in amounts that the Company expects to collect. The timing of revenue recognition takes into consideration the various shipping terms applicable to the Company's sales.

The Company delivers products to customers through Direct-store-delivery ("DSD") to the Company's customers at their place of business and direct ship from the Company's warehouse to the customer's warehouse, facility or address. Each delivery or shipment made to a third party customer is to satisfy a performance obligation. Performance obligations generally occur at a point in time and are satisfied when control of the goods passes to the customer. The Company is entitled to collection of the sales price under normal credit terms in the regions in which it operates.

The Company disaggregates net sales from contracts with customers based on the characteristics of the products sold:

	Three Months Ended December 31,				Six Months Ended December 31,			
	2020		2019		2020		2019	
(In thousands)	$	% of total	$	% of total	$	% of total	$	% of total
Net Sales by Product Category:								
Coffee (Roasted)	$ 69,427	66.4 %	$ 96,177	63.1 %	$ 135,581	67.2 %	$ 183,547	63.1 %
Coffee (Frozen Liquid)	4,077	3.9 %	8,556	5.6 %	6,621	3.3 %	16,484	5.7 %
Tea (Iced & Hot)	4,895	4.7 %	7,563	5.0 %	6,525	3.2 %	15,268	5.2 %
Culinary	11,497	11.0 %	15,158	10.0 %	21,920	10.9 %	29,361	10.1 %
Spice	4,264	4.1 %	6,126	4.0 %	9,010	4.5 %	12,332	4.2 %
Other beverages(1)	10,143	9.6 %	17,299	11.3 %	21,498	10.6 %	30,032	10.3 %
Other revenues(2)	—	— %	946	0.6 %	—	— %	2,701	0.9 %
Net sales by product category	104,303	99.7 %	151,825	99.6 %	201,155	99.7 %	289,725	99.5 %
Fuel surcharge	268	0.3 %	673	0.4 %	686	0.3 %	1,373	0.5 %
Net sales	**$ 104,571**	**100.0 %**	**$ 152,498**	**100.0 %**	**$ 201,841**	**100.0 %**	**$ 291,098**	**100.0 %**

(1) Includes all beverages other than roasted coffee, frozen liquid coffee, and iced and hot tea, including cappuccino, cocoa, granitas, and concentrated and ready-to drink cold brew and iced coffee.
(2) Represents revenues for certain transition services related to the sale of the Company's office coffee assets.

The Company does not have any material contract assets and liabilities as of December 31, 2020. Receivables from contracts with customers are included in "Accounts receivable, net" on the Company's condensed consolidated balance sheets. At December 31, 2020 and June 30, 2020, "Accounts receivable, net" included, $40.9 million and $40.7 million, respectively, in receivables from contracts with customers.

Note 20. Commitments and Contingencies

For a detailed discussion about the Company's commitments and contingencies, see Note 22, "*Commitments and Contingencies*" in the Notes to Consolidated Financial Statements in the 2020 Form 10-K. During the six months ended December 31, 2020, other than the following, or as otherwise disclosed in these footnotes in the current Form 10-Q, there were no material changes in the Company's commitments and contingencies.

Purchase Commitments

As of December 31, 2020, the Company had committed to purchase green coffee inventory totaling $49.5 million under fixed-price contracts, $5.6 million in other inventory under non-cancelable purchase orders and $8.6 million in other purchases under non-cancelable purchase orders.

Legal Proceedings

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

On August 31, 2012, CERT filed an amendment to a private enforcement action adding a number of companies as defendants, including the Company's subsidiary, Coffee Bean International, Inc., which sell coffee in California under the State of California's Safe Drinking Water and Toxic Enforcement Act of 1986 ("Prop 65"). The suit alleges that the defendants have failed to issue clear and reasonable warnings in accordance with Prop 65 that the coffee they produce, distribute, and sell contains acrylamide. This lawsuit was filed in Los Angeles Superior Court (the "Court"). CERT alleges that the Company and the other defendants failed to provide warnings for their coffee products of exposure to the chemical acrylamide as required *under* Prop 65. Plaintiff seeks equitable relief, including providing warnings to consumers of coffee products, as well as civil penalties in the amount of the statutory maximum of $2,500.00 per day per violation of Prop 65. The Plaintiff asserts that every consumed cup of coffee, absent a compliant warning, is equivalent to a violation under Prop 65.

The Company, as part of a joint defense group ("JDG") organized to defend against the lawsuit, disputes the claims of CERT. Acrylamide is not added to coffee but is present in all coffee in small amounts (parts per billion) as a byproduct of the coffee bean roasting process. Acrylamide is produced naturally in connection with the heating of many foods, especially starchy foods, and is believed to be caused by the Maillard reaction, though it has also been found in unheated foods such as olives. With respect to coffee, acrylamide is produced when coffee beans are heated during the roasting process-it is the roasting itself that produces the acrylamide. While there has been a significant amount of research concerning proposals for treatments and other processes aimed at reducing acrylamide content of different types of foods, to our knowledge there is currently no known strategy for reducing acrylamide in coffee without negatively impacting the sensorial properties of the product.

The Company has asserted multiple affirmative defenses. Trial of the first phase of the case commenced on September 8, 2014, and was limited to three affirmative defenses shared by all defendants. On September 1, 2015, the trial court issued a final ruling adverse to defendants on all Phase 1 defenses. Trial of the second phase of the case commenced in the fall of 2017. On May 7, 2018, the trial court issued a ruling adverse to defendants on the Phase 2 defense, the Company's last remaining defense to liability. On June 22, 2018, the California Office of Environmental Health Hazard Assessment (OEHHA) proposed a new regulation clarifying that cancer warnings are not required for coffee under Proposition 65. The case was set to proceed to a third phase trial on damages, remedies and attorneys' fees on October 15, 2018. However, on October 12, 2018, the California Court of Appeal granted the "defendants" request for a stay of the Phase 3 trial.

On June 3, 2019, the Office of Administrative Law (OAL) approved the coffee exemption regulation. The regulation became effective on October 1, 2019. On June 24, 2019, the Court of Appeal lifted the stay of the litigation. A status conference was held on July 11, 2019. The Court granted the JDG's motion for leave to amend its answers to add the coffee exemption regulation as a defense. Concurrently, the Court denied CERT's motion to add OEHHA as a party but granted CERT's motions to complete the administrative record with respect to the exemption and to undertake certain third party discovery. A status conference was held November 12, 2019 to discuss discovery issues and dispositive motions. Plaintiff's motion to compel OEHHA to add documents to the rulemaking file for the new coffee exemption regulation was denied. CERT continues to pursue third-party discovery with plans to file motions to compel appearances of proposed deponents. These motions, along with CERT's eight summary judgment motions, were heard at a January 21, 2020 hearing where the Court denied several of CERT's discovery requests. The JDG's reply in support of its motion for summary judgment was due to the Court on the March 16, 2020 however, on March 17, 2020, notice was given that the Court was rescheduling the hearings set for March 23, 2020. Due to COVID 19 restrictions, the Court continued the hearing on the nine motions until July 16, 2020. At the hearing, the Court denied three of CERT's motions for summary adjudication that challenged the OEHHA rulemaking, and rescheduled the balance of the pending motions for August 10, 2020. Subsequent to the hearing on January 21, 2020, Plaintiff made broad discovery requests against each of the defendants in hopes of opening up a third round of discovery. The discovery focuses on "additives to" and "flavorings" in coffee. The JDG has responded to the discovery requests but Plaintiff has filed a motion to compel further answers to discovery and production of documents. The Court continued a hearing on this matter until August 21, 2020.

At the August 10, 2020 hearing, the Court denied multiple motions by the Plaintiffs for summary adjudication. The hearing on the remaining motions was scheduled for August 25, 2020 and at that hearing, the Court denied CERT's motion for summary judgment and granted the JDG's motion for summary judgment, noting that the discovery and claims regarding additives were outside the scope of this case. Notice of Judgment in favor of defendants was entered on October 6, 2020.

On November 20, 2020, CERT filed an appeal with the Superior Court of California. On January 29, 2021, CERT filed another appeal with the Superior Court of California. At this time, the Company is unable to predict the timing of the final ruling. In addition, the Company believes that the likelihood that the Company will ultimately incur a loss in connection with this litigation is less than reasonably possible.

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

Note 21. Sales of Assets

Sale of Branch Property

During the six months ended December 31, 2020, the Company completed the sale of the following branch properties:

(In thousands) Name of Branch Property	Date Sold	Sales Price	Net Proceeds	Gain (loss)	Long-Term Leaseback	Lease Term	Monthly Base Rent
Austin, Texas	11/18/2020	$ 1,360	$ 1,239	$ 1,045	No	N/A	N/A
Bishop, California	12/4/2020	$ 220	$ 204	$ 204	No	N/A	N/A

Note 22. Subsequent Events

The Company evaluated all events or transactions that occurred after December 31, 2020 through the date the condensed consolidated financial statements were issued. During this period the Company had the following material subsequent events that require disclosure:

None.

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

Certain statements contained in this Quarterly Report on Form 10-Q are not based on historical fact and are forward-looking statements within the meaning of federal securities laws and regulations. These statements are based on management’s current expectations, assumptions, estimates and observations of future events and include any statements that do not directly relate to any historical or current fact; actual results may differ materially due in part to the risk factors set forth in Part I, Item 1A of our Annual Report on Form 10-K for the fiscal year ended June 30, 2020 filed with the Securities and Exchange Commission (the “SEC”) on September 11, 2020 (the “2020 Form 10-K”) and Part II, Item 1A of this report. These forward-looking statements can be identified by the use of words like “anticipates,” “estimates,” “projects,” “expects,” “plans,” “believes,” “intends,” “will,” “could,” “assumes” and other words of similar meaning. Owing to the uncertainties inherent in forward-looking statements, actual results could differ materially from those set forth in forward-looking statements. We intend these forward-looking statements to speak only at the time of this report and do not undertake to update or revise these statements as more information becomes available except as required under federal securities laws and the rules and regulations of the SEC. Factors that could cause actual results to differ materially from those in forward-looking statements include, but are not limited to, duration of the COVID-19 pandemic’s disruption to the Company’s business and customers, levels of consumer confidence in national and local economic business conditions, the duration and magnitude of the pandemic’s impact on unemployment rates, the success of the Company’s strategy to recover from the effects of the pandemic, the success of the Company's turnaround strategy, the execution of the five key initiatives, the impact of capital improvement projects, the adequacy and availability of capital resources to fund the Company’s existing and planned business operations and the Company’s capital expenditure requirements, the relative effectiveness of compensation-based employee incentives in causing improvements in Company performance, the capacity to meet the demands of our large national account customers, the extent of execution of plans for the growth of Company business and achievement of financial metrics related to those plans, the success of the Company to retain and/or attract qualified employees, the success of the Company’s adaptation to technology and new commerce channels, the effect of the capital markets as well as other external factors on stockholder value, fluctuations in availability and cost of green coffee, competition, organizational changes, the effectiveness of our hedging strategies in reducing price and interest rate risk, changes in consumer preferences, our ability to provide sustainability in ways that do not materially impair profitability, changes in the strength of the economy, business conditions in the coffee industry and food industry in general, our continued success in attracting new customers, variances from budgeted sales mix and growth rates, weather and special or unusual events, as well as other risks described in this report and other factors described from time to time in our filings with the SEC. The results of operations for the three and six months ended December 31, 2020 are not necessarily indicative of the results that may be expected for any future period.

Our Business

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

We serve a wide variety of customers, from small independent restaurants and foodservice operators to large institutional buyers like restaurants, department and convenience store retailers, hotels, casinos, healthcare facilities, and gourmet coffee houses, as well as grocery chains with private brand and consumer-branded coffee and tea products, and foodservice distributors. Through our sustainability, stewardship, environmental efforts, and leadership we are not only committed to serving the finest products available, considering the cost needs of the customer, but also emphasize their sustainable cultivation, manufacture and distribution whenever possible.

Our product categories consist of a robust line of roast and ground coffee, including organic, Direct Trade, Project D.I.R.E.C.T.® and other sustainably-produced offerings; frozen liquid coffee; flavored and unflavored iced and hot teas; culinary products including gelatins and puddings, soup bases, dressings, gravy and sauce mixes, pancake and biscuit mixes, jellies and preserves, and coffee-related products such as coffee filters, sugar and creamers; spices; and other beverages including cappuccino, cocoa, granitas, and concentrated and ready-to-drink cold brew and iced coffee. We offer a comprehensive approach to our customers by providing not only a breadth of high-quality products, but also value added services such as market insight, beverage planning, and equipment placement and service.

We operate production facilities in Northlake, Texas; Portland, Oregon; and Hillsboro, Oregon. We have stopped production in our Houston facility and plan to exit the facility by the fourth quarter of this fiscal year. Distribution takes place out of the Northlake, Texas, Portland, Oregon and Hillsboro, Oregon production facilities, as well as separate distribution centers in Northlake, Illinois; Moonachie, New Jersey; and Rialto, California. We opened and started operating the distribution center in Rialto, California in the third quarter of the current fiscal year. Our products reach our customers primarily in the following ways: through our nationwide direct-store-delivery ("DSD") network of approximately 212 delivery routes and 99 branch warehouses, some of which are located within the distribution facilities, as of December 31, 2020, or direct-shipped via common carriers or third-party distributors. DSD sales are made "off-truck" to our customers at their places of business. We operate a large fleet of trucks and other vehicles to distribute and deliver our products, and we rely on third-party logistics service providers for our long-haul distribution.

Impact of the COVID-19 Pandemic on Our Business

The COVID-19 pandemic continued to have a significant impact on our DSD sales network. During our fiscal first quarter ended September 30, 2020, sales from our DSD customers declined by 41% compared to prior year same quarter due to COVID-19. Although we experienced improvements early in the current quarter ended December 31, 2020 to where our weekly sales were down 32% from pre-COVID levels, due to the surge in the U.S. of COVID-19 cases later in the quarter, our DSD revenues deteriorated back to approximately 40% compared to prior year same quarter.

Compared to prior year second quarter, our Direct Ship revenues declined 13%. Although our Direct Ship sales channel was also affected by the COVID-19 pandemic, the impact was significantly less due to the types of customers we serve through this channel. These customers include our retail business and products sold by key grocery stores under their private labels, as well as third party e-commerce platforms, which have seen moderate increases in demand that have helped mitigate the impact of COVID-19 pandemic.

In addition to the costs saving initiatives to reduce operating expenses and capital expenditures implemented during the fiscal year ended June 30, 2020, we have also amended our existing senior secured revolving credit facility. The credit facility amendment, as described in the Liquidity section, provides us with increased flexibility to proactively manage our working capital, maintain compliance with our debt financial covenants, and preserve financial liquidity to mitigate the impact of the uncertain business environment resulting from the COVID-19 pandemic, while continuing to execute on key strategic initiatives. Due to the recent surge in COVID-19 cases during the current quarter, we took additional cost saving actions to mitigate the financial impact to our operating results.

The magnitude of the COVID-19 pandemic, including the extent of the weaker demand for our products, our financial position, results of operations and liquidity, which could be material, is still uncertain due to the rapid development and fluidity of the situation. While we anticipate that our revenue will continue to recover slowly as local and national governments ease COVID-19 related restrictions, and vaccines are distributed throughout the country, there can be no assurance that we will be successful in returning to the pre COVID-19 pandemic levels of revenue or profitability. Accordingly, we expect that our results of operations will be adversely affected for our fiscal year ending June 30, 2021.

Summary Overview of Three Months Ended December 31, 2020 Results of Operations

During the three months ended December 31, 2020, we experienced sales declines in our DSD and direct ship sales channels compared to the prior year period.

Our DSD network continued to be negatively impacted by the COVID-19 pandemic, and to a lesser extent, net customer attrition. Similar to our fiscal first quarter ended September 30, 2020, the largest DSD revenue declines were from restaurants, hotels and casino channels. Our direct ship channel sales were also impacted by lower coffee volumes due to COVID-19 pandemic and changes in coffee prices for our cost plus customers, partially offset by favorable customer mix within our direct ship channel.

During the three months ended December 31, 2020, we experienced lower gross margin compared to the prior year quarter primarily due to lower volumes and the impact of COVID-19 on our DSD business. Gross margins decreased by 3.7% to 25.1% from 28.8% compared to the same prior period mostly due to unfavorable customer mix since our DSD channel has higher margins. The gross margin decline was partially offset by lower production variances, lower write-down of slow moving inventories, lower freight cost and lower coffee brewing equipment (“CBE”) cost.

Operating expenses increased compared to the prior year quarter driven by a $9.9 million decrease in net gains realized from sales of assets, a $0.3 million increase in general and administrative expenses and a $1.2 million of fixed assets impairment, partially offset by a $10.1 million decrease in selling expenses. During the current quarter, we completed the sale of two branch properties for a net gain of $1.2 million compared to the prior year quarter sales of the Houston manufacturing facility and four branch properties for total gains of $11.4 million. The increase in general and administrative expenses was associated primarily with one-time severance and strategic costs saving action taken during the current quarter, partially offset by reductions in third party costs and reductions in headcount due to COVID-19. The fixed assets impairment is primarily related to the write-off of the remaining balance of our previous route handheld equipment since we completed the implementation of new route handheld equipment. Overall, operating expenses benefited from cost savings actions taken due to COVID-19 pandemic, and other cost controls implemented over variable spending which have reduced payroll, freight, fleet and other variable costs due to the lower sales volumes.

Our capital expenditures for the six months ended December 31, 2020 were $9.6 million, representing lower maintenance capital spend of $3.7 million, a 49.8% reduction compared to the prior year period, and various capital investment spending of $5.9 million. The spending reductions were driven by several key initiatives put in place, including a focus on refurbished CBE equipment to drive cost savings, and reductions across some capital categories due to additional cost controls implemented during the COVID-19 pandemic.

As of December 31, 2020, the outstanding debt on our revolver was $82.0 million, a decrease of $40.0 million since June 30, 2020. Our cash balance decreased by $54.2 million, from $60.0 million as of June 30, 2020, to $5.9 million as of December 31, 2020. These changes resulted from the repayments on our revolver completed under the terms of our amended credit facility. The net deterioration in our liquidity was due to our investment in inventory, capital expenditures to fund certain key growth initiatives, and pension funding requirements that were previously deferred under the Coronavirus Aid, Relief, and Economic Security Act.

Results of Operations

Financial Data Highlights (in thousands, except per share data and percentages)

	Three Months Ended December 31,		Favorable (Unfavorable)		Six Months Ended December 31,		Favorable (Unfavorable)	
	2020	2019	Change	% Change	2020	2019	Change	% Change
Income Statement Data:								
Net sales	$ 104,571	$ 152,498	$ (47,927)	(31.4)%	$ 201,841	$ 291,098	$ (89,257)	(30.7)%
Gross margin	25.1 %	28.8 %	(3.7)%	NM	24.1 %	29.1 %	(5.0)%	NM
Operating expenses as a % of sales	34.8 %	23.0 %	(11.8)%	NM	34.8 %	23.7 %	(11.1)%	NM
(Loss) income from operations	$ (10,164)	$ 8,870	$ (19,034)	NM	$ (21,610)	$ 15,762	$ (37,372)	NM
Net (loss) income	$ (17,725)	$ 7,754	$ (25,479)	NM	$ (23,997)	$ 12,408	$ (36,405)	NM
Net (loss) income available to common stockholders per common share—basic	$ (1.02)	$ 0.44	$ (1.46)	NM	$ (1.39)	$ 0.71	$ (2.10)	NM
Net (loss) income available to common stockholders per common share—diluted	$ (1.02)	$ 0.43	$ (1.45)	NM	$ (1.39)	$ 0.69	$ (2.08)	NM
Operating Data:								
Coffee pounds	21,407	29,360	(7,953)	(27.1)%	42,340	55,318	(12,978)	(23.5)%
EBITDA(1)	$ 5,288	$ 16,852	$ (11,564)	(68.6)%	$ 8,191	$ 30,292	$ (22,101)	(73.0)%
EBITDA Margin(1)	5.1 %	11.1 %	(6.0)%	NM	4.1 %	10.4 %	(6.3)%	NM
Adjusted EBITDA(1)	$ 8,274	$ 7,448	$ 826	11.1 %	$ 13,967	$ 11,464	$ 2,503	21.8 %
Adjusted EBITDA Margin(1)	7.9 %	4.9 %	3.0 %	NM	6.9 %	3.9 %	3.0 %	NM
Percentage of Total Net Sales By Product Category								
Coffee (Roasted)	66.4 %	63.1 %	3.3 %	5.2 %	67.2 %	63.1 %	4.1 %	6.5 %
Coffee (Frozen Liquid)	3.9 %	5.6 %	(1.7)%	(30.4)%	3.3 %	5.7 %	(2.4)%	(42.1)%
Tea (Iced & Hot)	4.7 %	5.0 %	(0.3)%	(6.0)%	3.2 %	5.2 %	(2.0)%	(38.5)%
Culinary	11.0 %	10.0 %	1.0 %	10.0 %	10.9 %	10.1 %	0.8 %	7.9 %
Spice	4.1 %	4.0 %	0.1 %	2.5 %	4.5 %	4.2 %	0.3 %	7.1 %
Other beverages(2)	9.6 %	11.3 %	(1.7)%	(15.0)%	10.6 %	10.3 %	0.3 %	2.9 %
Other revenues(3)	— %	0.6 %	(0.6)%	NM	— %	0.9 %	(0.9)%	NM
Net sales by product category	99.7 %	99.6 %	0.1 %	NM	99.7 %	99.5 %	1.1 %	NM
Fuel Surcharge	0.3 %	0.4 %	(0.1)%	NM	0.3 %	0.5 %	(0.2)%	NM
Total	100.0 %	100.0 %	— %	— %	100.0 %	100.0 %	— %	— %
Other data:								
Capital expenditures related to maintenance	$ 2,147	$ 3,107	$ (960)	(30.9)%	$ 3,741	$ 7,459	$ (3,718)	(49.8)%
Total capital expenditures	$ 5,271	$ 3,730	$ 1,541	41.3 %	$ 9,636	$ 9,007	$ 629	7.0 %
Depreciation and amortization expense	$ 7,308	$ 7,594	$ (286)	(3.8)%	$ 14,349	$ 15,211	$ (862)	(5.7)%

____

NM - Not Meaningful

(1) EBITDA, EBITDA Margin, Adjusted EBITDA and Adjusted EBITDA Margin are non-GAAP financial measures. See “Non-GAAP Financial Measures” below for a reconciliation of these non-GAAP measures to their corresponding GAAP measures.
(2) Includes all beverages other than roasted coffee, frozen liquid coffee, and iced and hot tea, including cappuccino, cocoa, granitas, and concentrated and ready-to-drink cold brew and iced coffee.
(3) Represents revenues for certain transition services related to the sale of our office coffee assets.

The following table sets forth information regarding our condensed consolidated results of operations for the three and six months ended December 31, 2020 and 2019 (in thousands, except percentages):

	Three Months Ended December 31,		Favorable (Unfavorable)		Six Months Ended December 31,		Favorable (Unfavorable)	
	2020	2019	Change	% Change	2020	2019	Change	% Change
Net sales	$ 104,571	$ 152,498	$ (47,927)	(31.4)%	$ 201,841	$ 291,098	$ (89,257)	(30.7)%
Cost of goods sold	78,321	108,513	30,192	27.8 %	153,173	206,472	53,299	25.8 %
Gross profit	26,250	43,985	(17,735)	(40.3)%	48,668	84,626	(35,958)	(42.5)%
Selling expenses	24,769	34,906	10,137	29.0 %	48,268	68,520	20,252	29.6 %
General and administrative expenses	11,570	11,266	(304)	(2.7)%	21,316	24,006	2,690	11.2 %
Net gains from sales of assets	(1,168)	(11,057)	(9,889)	(89.4)%	(549)	(23,662)	(23,113)	NM
Impairment of fixed assets	1,243	—	(1,243)	— %	1,243	—	(1,243)	— %
Operating expenses	36,414	35,115	(1,299)	(3.7)%	70,278	68,864	(1,414)	(2.1)%
(Loss) income from operations	(10,164)	8,870	(19,034)	NM	(21,610)	15,762	(37,372)	237.1 %
Other (expense) income:								
Interest expense	(2,938)	(2,859)	(79)	(2.8)%	(6,181)	(5,407)	(774)	(14.3)%
Other, net	9,080	1,662	7,418	NM	17,639	1,865	15,774	NM
Total other income (expense)	6,142	(1,197)	7,339	NM	11,458	(3,542)	15,000	NM
(Loss) income before taxes	(4,022)	7,673	(11,695)	152.4 %	(10,152)	12,220	(22,372)	183.1 %
Income tax expense (benefit)	13,703	(81)	(13,784)	NM	13,845	(188)	(14,033)	NM
Net (loss) income	$ (17,725)	$ 7,754	(25,479)	328.6 %	$ (23,997)	$ 12,408	(36,405)	293.4 %
Less: Cumulative preferred dividends, undeclared and unpaid	143	138	(5)	(3.6)%	284	275	(9)	(3.3)%
Net (loss) income available to common stockholders	$ (17,868)	$ 7,616	(25,484)	334.6 %	$ (24,281)	$ 12,133	(36,414)	300.1 %

NM - Not Meaningful

Three and Six Months Ended December 31, 2020 Compared to Three and Six Months Ended December 31, 2019

Net Sales

The following table presents changes in units sold, unit price and net sales by product category in the three and six months ended December 31, 2020 compared to the same periods in the prior fiscal year (in thousands, except unit price and percentages):

	Three Months Ended December 31,		Favorable (Unfavorable)		Six Months Ended December 31,		Favorable (Unfavorable)	
	2020	2019	Change	% Change	2020	2019	Change	% Change
Units sold								
Coffee (Roasted)	17,126	23,488	(6,362)	(27.1)%	33,873	44,254	(10,381)	(23.5)%
Coffee (Frozen Liquid)	47	100	(53)	(53.0)%	92	198	(106)	(53.5)%
Tea (Iced & Hot)	511	723	(212)	(29.3)%	861	1,348	(487)	(36.1)%
Culinary	1,248	1,934	(686)	(35.5)%	2,372	3,792	(1,420)	(37.4)%
Spice	122	171	(49)	(28.7)%	245	339	(94)	(27.7)%
Other beverages(1)	926	1,459	(533)	(36.5)%	1,519	2,397	(878)	(36.6)%
Total	19,980	27,875	(7,895)	(28.3)%	38,962	52,328	(13,366)	(25.5)%
Unit Price								
Coffee (Roasted)	$ 4.05	$ 4.12	$ (0.07)	(1.7)%	$ 4.00	$ 4.18	$ (0.18)	(4.3)%
Coffee (Frozen Liquid)	$ 86.74	$ 85.65	$ 1.09	1.3 %	$ 71.97	$ 83.21	$ (11.24)	(13.5)%
Tea (Iced & Hot)	$ 9.58	$ 10.46	$ (0.88)	(8.4)%	$ 7.58	$ 11.33	$ (3.75)	(33.1)%
Culinary	$ 9.21	$ 7.98	$ 1.23	15.4 %	$ 9.24	$ 7.95	$ 1.29	16.2 %
Spice	$ 34.95	$ 35.73	$ (0.78)	(2.2)%	$ 36.78	$ 36.40	$ 0.38	1.0 %
Other beverages(1)	$ 10.95	$ 11.95	$ (1.00)	(8.4)%	$ 14.15	$ 12.68	$ 1.47	11.6 %
Average unit price	$ 5.22	$ 5.47	$ (0.25)	(4.6)%	$ 5.16	$ 5.54	$ (0.38)	(6.9)%
Total Net Sales By Product Category(2)								
Coffee (Roasted)	$ 69,427	$ 96,692	$ (27,265)	(28.2)%	$ 135,581	$ 185,067	$ (49,486)	(26.7)%
Coffee (Frozen Liquid)	4,077	8,556	(4,479)	(52.3)%	6,621	16,484	(9,863)	(59.8)%
Tea (Iced & Hot)	4,895	7,563	(2,668)	(35.3)%	6,525	15,268	(8,743)	(57.3)%
Culinary	11,497	15,435	(3,938)	(25.5)%	21,920	30,145	(8,225)	(27.3)%
Spice	4,264	6,126	(1,862)	(30.4)%	9,010	12,332	(3,322)	(26.9)%
Other beverages(1)	10,143	17,440	(7,297)	(41.8)%	21,498	30,391	(8,893)	(29.3)%
Net sales by product category	$ 104,303	$ 151,812	$ (47,509)	(31.3)%	$ 201,155	$ 289,687	$ (88,532)	(30.6)%
Fuel Surcharge	268	686	(418)	(60.9)%	686	1,411	(725)	(51.4)%
Total	$ 104,571	$ 152,498	$ (47,927)	(31.4)%	$ 201,841	$ 291,098	$ (89,257)	(30.7)%

(1) Includes all beverages other than roasted coffee, frozen liquid coffee, and iced and hot tea, including cappuccino, cocoa, granitas, and concentrated and ready-to-drink cold brew and iced coffee.
(2) Certain transition service revenues related to the sale of our office coffee assets are not separately presented. The amounts are included in each of the product categories.

Net sales in the three months ended December 31, 2020 decreased $47.9 million, or 31.4%, to $104.6 million from $152.5 million in the three months ended December 31, 2019. The decline in net sales was primarily due to a decline in revenues and volume of green coffee processed and sold, and other beverages, culinary, spice and tea products sold through our DSD network mostly impacted by COVID-19 pandemic and the impact of changes in coffee prices for our cost plus customers, partially offset by favorable customer mix within our direct ship sales. Our direct ship net sales in the three months ended December 31, 2020 included $0.8 million in price decreases to customers utilizing commodity-based pricing arrangements, where the changes in the green coffee commodity costs are passed on to the customer, as compared to $2.5 million in price decreases to customers utilizing such arrangements in the three months ended December 31, 2019.

Net sales in the six months ended December 31, 2020 decreased $89.3 million, or 30.7%, to $201.8 million from $291.1 million in the six months ended December 31, 2019. The decline in net sales was primarily due to a decline in revenues and volume of green coffee processed and sold, other beverages, culinary, spice and tea products all sold through our DSD network mostly impacted by COVID-19 pandemic and the impact of changes in coffee prices for our cost plus customers, partially offset by favorable customer mix within our direct ship sales. Our direct ship net sales in the six months ended December 31, 2020 included $1.7 million in price decreases to customers utilizing commodity-based pricing arrangements, where the changes in the green coffee commodity costs are passed on to the customer, as compared to $5.1 million in price decreases to customers utilizing such arrangements in the six months ended December 31, 2019.

The following table presents the effect of changes in unit sales, unit pricing and product mix in the three and six months ended December 31, 2020 compared to the same periods in the prior fiscal year (in millions):

	Three Months Ended December 31, 2020 vs. 2019	**% of Total Mix Change**	**Six Months Ended December 31, 2020 vs. 2019**	**% of Total Mix Change**
Effect of change in unit sales	(41.2)	(86.0)%	(69.0)	(77.3)%
Effect of pricing and product mix changes	(6.7)	(14.0)%	(20.3)	(22.7)%
Total decrease in net sales	(47.9)	(100.0)%	(89.3)	(100.0)%

Unit sales decreased 28.3% and average unit price declined by 4.6% in the three months ended December 31, 2020 as compared to the same period in the prior fiscal year, resulting in a decrease in our net sales of 31.4%. Unit sales decreased 25.5% and average unit price declined by 6.9% in the six months ended December 31, 2020 as compared to the same period in the prior fiscal year, resulting in a decrease in our net sales of 30.7%. Average unit price decreased during three and six months ended December 31, 2020 due to a higher mix of product sold via direct ship versus DSD network, as direct ship has a lower average unit price. There were no new product category introductions in the three and six months ended December 31, 2020 or 2019, which had a material impact on our net sales.

Gross Profit

Gross profit in the three months ended December 31, 2020 decreased $17.7 million, or 40.3%, to $26.3 million from $44.0 million in the three months ended December 31, 2019. Gross margin decreased to 25.1% in the three months ended December 31, 2020 from 28.8% in the three months ended December 31, 2019. Gross profit in the six months ended December 31, 2020 decreased $36.0 million, or 42.5%, to $48.7 million from $84.6 million in the six months ended December 31, 2019. Gross margin decreased to 24.1% in the six months ended December 31, 2020 from 29.1% in the six months ended December 31, 2019.

The decrease in gross profit in three and six months ended December 31, 2020, was primarily driven by lower net sales of $47.9 million and $89.3 million, respectively, partially offset by lower costs of goods sold. Gross margin during the three and six months ended December 31, 2020, was negatively impacted by the COVID-19 pandemic on DSD customers and unfavorable customer mix since our DSD channel has higher margins, partially offset by lower production variances, lower freight costs, lower write-down of slow moving inventories, lower CBE costs and the impact of changes in coffee prices during the three and six months ended December 31, 2020.

Operating Expenses

In the three months ended December 31, 2020, operating expenses increased compared to prior year period at $36.4 million, or 34.8% of net sales, from $35.1 million, or 23.0% of net sales, due to a $9.9 million decrease in net gains realized from sales of assets, a $0.3 million increase in general and administrative expenses and a $1.2 million of fixed assets impairment, partially offset by a $10.1 million decrease in selling expenses.

The decrease in net gains from sales of assets were primarily due to the sales of two branch properties at a net gain of $1.2 million this quarter compared to the prior year quarter sales of the Houston manufacturing facility and four branch properties of $7.3 million and $4.1 million, respectively.

The fixed assets impairment is primarily related to the write-off of the remaining balance of our previous route handheld equipment since we completed the implementation of new route handheld equipment.

The increase in general and administrative expenses was associated primarily with one-time severance and strategic costs saving actions taken during the current quarter, partially offset by reductions in third party costs and reductions in headcount due to COVID-19.

The decrease in selling expenses was primarily driven by reductions in headcount, lower DSD sales commissions, lower travel expenses and lower fleet and freight costs.

In the six months ended December 31, 2020, operating expenses increased compared to prior year period at $70.3 million, or 34.8% of net sales, from $68.9 million, or 23.7% of net sales, due to a $23.1 million decrease in net gains realized from sales of assets and a $1.2 million of fixed assets impairment, offset by a $20.3 million decrease in selling expenses and a $2.7 million decrease in general and administrative expenses.

The decrease in net gains from sales of assets were primarily due to the sales of two branch properties at a net gain of $1.2 million this quarter compared to the prior year sales of the Houston manufacturing facility, the office coffee assets and five branch properties of $7.3 million, $7.2 million and $10.9 million, respectively.

The decrease in selling expenses was primarily driven by reductions in headcount, lower DSD sales commissions, lower travel expenses and lower fleet and freight costs. The decrease in general and administrative expenses was associated primarily with reductions in third party costs and reductions in headcount due to the COVID-19 pandemic, partially offset by non recurring costs for severance and strategic initiatives.

Total Other Income (Expense)

Total other income (expense) in the three months ended December 31, 2020 was $6.1 million of income compared to $1.2 million of expense in the three months ended December 31, 2019. Total other income (expense) in the six months ended December 31, 2020 was $11.5 million of income compared to $3.5 million of expense in the six months ended December 31, 2019. The change in total other income (expense) in the three and six months ended December 31, 2020 was primarily a result of:

- higher employee postretirement benefit gains due to the plan curtailment;
- higher net gains on coffee-related derivative instruments in the three and six months ended December 31, 2020;
- partially offset by higher interest expense.

Interest expense in the three and six months ended December 31, 2020 increased $0.1 million and $0.8 million to $2.9 million and $6.2 million from $2.9 million and $5.4 million, respectively, in the prior year period. The increase in interest expense in the three and six months ended December 31, 2020 was principally due to the write-off of deferred finance costs related to our debt amendment in July 2020 and the amortization of de-designated interest rate swap costs, partially offset by lower pension interest expense.

Other, net in the three months ended December 31, 2020 increased by $7.4 million to $9.1 million compared to $1.7 million in the prior year period. Other, net in the six months ended December 31, 2020 increased by $15.8 million to $17.6 million compared to $1.9 million in the prior year period. The increase in Other, net was primarily a result of higher amortized gains on our postretirement medical benefit plan due to the curtailment announced in March 2020 and higher mark-to-market net gains on coffee-related derivative instruments not designated as accounting hedges.

Income Taxes

In the three and six months ended December 31, 2020, we recorded income tax expense of $13.7 million and $13.8 million, respectively, compared to income tax benefit of $0.1 million and $0.2 million, respectively, in the three and six months ended December 31, 2019. The tax expense in the three and six months ended December 31, 2020 included $13.5 million of previously deferred non-cash tax expense in accumulated other comprehensive income associated with gains on the postretirement medical plan in prior years. Upon termination of this plan on December 31, 2020, the deferred non-cash tax expense was recognized in net income in the second quarter of fiscal 2021. The tax benefit in the three and six months ended December 31, 2019 was primarily driven by change in previously recorded valuation allowance and change in our estimated deferred tax liability. See Note 16, *Income Taxes*, of the Notes to Unaudited Condensed Consolidated Financial Statements included in Part I, Item 1 of this report.

Non-GAAP Financial Measures

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

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

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

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

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

- income taxes;
- interest expense (benefit);
- (loss) income from short-term investments;
- depreciation and amortization expense;
- ESOP and share-based compensation expense;
- non-cash impairment losses;
- non-cash pension withdrawal expense;
- restructuring and other transition expenses;
- severance costs;
- proxy contest-related expenses;
- non-recurring costs associated with the COVID-19 pandemic;
- net gains and losses from sales of assets;
- non-cash pension settlements and postretirement benefits curtailment; and
- acquisition, integration and strategic costs.

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

For purposes of calculating EBITDA and EBITDA Margin and Adjusted EBITDA and Adjusted EBITDA Margin, we have excluded the impact of interest expense resulting from the adoption of ASU 2017-07, non-cash pretax pension and postretirement benefits resulting from the amendment and termination of certain Farmer Bros. pension and postretirement benefits plans and severance because these items are not reflective of our ongoing operating results.

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

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

EBITDA, EBITDA Margin, Adjusted EBITDA and Adjusted EBITDA Margin, as defined by us, may not be comparable to similarly titled measures reported by other companies. We do not intend for non-GAAP financial measures to be considered in isolation or as a substitute for other measures prepared in accordance with GAAP.

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

(In thousands)	Three Months Ended December 31, 2020	Three Months Ended December 31, 2019	Six Months Ended December 31, 2020	Six Months Ended December 31, 2019
Net (loss) income, as reported	$ (17,725)	$ 7,754	$ (23,997)	$ 12,408
Income tax (benefit) expense	13,703	(81)	13,845	(188)
Interest expense (1)	2,002	1,585	3,994	2,861
Depreciation and amortization expense	7,308	7,594	14,349	15,211
EBITDA	$ 5,288	$ 16,852	$ 8,191	$ 30,292
EBITDA Margin	5.1 %	11.1 %	4.1 %	10.4 %

(1) Excludes interest expense related to pension plans and postretirement benefits.

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

(In thousands)	Three Months Ended December 31, 2020	Three Months Ended December 31, 2019	Six Months Ended December 31, 2020	Six Months Ended December 31, 2019
Net (loss) income, as reported	$ (17,725)	$ 7,754	$ (23,997)	$ 12,408
Income tax (benefit) expense	13,703	(81)	13,845	(188)
Interest expense(1)	2,002	1,585	3,994	2,861
Depreciation and amortization expense	7,308	7,594	14,349	15,211
ESOP and share-based compensation expense	794	909	1,950	1,778
Strategic initiatives (2)	1,333	—	1,675	—
Net losses (gains) from sales of other assets	(1,168)	(11,057)	(549)	(23,662)
Impairment of fixed assets	1,243	—	1,243	—
Non-recurring costs associated with the COVID-19 pandemic	149	—	260	—
Proxy contest-related expenses	—	259	—	259
Severance	635	485	1,197	2,797
Adjusted EBITDA(3)	$ 8,274	$ 7,448	$ 13,967	$ 11,464
Adjusted EBITDA Margin	7.9 %	4.9 %	6.9 %	3.9 %

(1) Excludes interest expense related to pension plans and postretirement benefits.
(2) Includes initiatives related to the Houston facility exit and opening of the Rialto distribution center..
(3) Adjusted EBITDA for the three and six months ended December 31, 2020 includes \$7.2 million and \$14.4 million, respectively, of higher amortized gains resulting from the curtailment of the postretirement medical plan in March 2020. These higher gains continued until the plan sunset on January 1, 2021. See Note 10 for details.

Liquidity, Capital Resources and Financial Condition

The following table summarizes our debt obligations:

(In thousands)	Debt Origination Date	Maturity	Original Borrowing Amount	December 31, 2020 Carrying Value	December 31, 2020 Weighted Average Interest Rate	June 30, 2020 Carrying Value	June 30, 2020 Weighted Average Interest Rate
Credit Facility	Revolver	11/6/2023	N/A	$ 82,000	6.56 %	$ 122,000	4.91 %

Revolving Credit Facility

On July 23, 2020 (the "Effective Date"), pursuant to Amendment No. 3 to Amended and Restated Credit Agreement (the “Third Amendment”), the Company amended its existing senior secured revolving credit facility (such facility as amended to date, including pursuant to the Third Amendment, the “Amended Revolving Facility”) with certain financial institutions. The Third Amendment, among other things:

1. retained the amount of revolving commitments under the Amended Revolving Facility of $125.0 million and the sublimit on letters of credit and swingline loans of $15.0 million each;
2. added a $5.0 million quarterly commitment reduction beginning September 30, 2021;
3. adjusted from cash flow-based to an asset-based lending structure with borrowing a base equal to 85% of eligible accounts receivable plus 50% of eligible inventory with certain permitted maximum over advance amounts, minus certain reserves;
4. removed all previous financial covenants of net leverage ratio, interest coverage ratio and minimum EBITDA;
5. added a covenant relief period (commencing on the effective date and ending upon delivery of a compliance certificate on or after fiscal month ending September 30, 2021), during which the Company must comply with the following:
   (i) a minimum cumulative EBITDA covenant, tested on a monthly basis until the last day of June 2021;
   (ii) a standalone minimum monthly EBITDA covenant tested on the last day of July 2021 and August 2021; and
   (iii) a restriction on capital expenditures such that the amount of capital expenditures shall not exceed $25.0 million in the aggregate.
6. added covenant requiring the Company to comply with a minimum liquidity covenant, tested on a weekly basis;
7. added an anti-cash hoarding provision;
8. added a minimum fixed charge coverage ratio of 1.05:1.00 commencing with fiscal quarter ending September 30, 2021, and tested on a quarterly basis thereafter;
9. modified the applicable margin for base rate loans to range from PRIME + 3.50% to PRIME + 4.50% per annum and the applicable margin for Eurodollar loans to range from Adjusted LIBO Rate + 4.50% to Adjusted LIBO Rate + 5.50% per annum and fixed the commitment fee at 0.50%;
10. provided for the revolving commitments to be reduced upon the occurrence of certain asset dispositions and incurrence of non-permitted indebtedness and imposed additional restrictions on the Company’s ability to utilize certain other negative covenant baskets; and
11. added a requirement to provide mortgages and related mortgage instruments with respect to certain specified real property owned by the Company.

The Amended Revolving Facility is subject to a variety of affirmative and negative covenants of types customary in a senior secured asset-based lending facility and it has no scheduled payback required on the principal prior to the maturity date on November 6, 2023.

Effective March 27, 2019, we entered into an interest rate swap to manage our interest rate risk on our floating-rate indebtedness. See Note 4 for details.

At January 26, 2021, we had outstanding borrowings of $82.0 million and utilized $4.3 million of the letters of credit sublimit under the Amended Revolving Facility. The amount available to borrow is subject to compliance with the applicable financial covenants set out under the Amended Revolving Facility.

Liquidity

We generally finance our operations through cash flows from operations and borrowings under our Amended Revolving Facility described above. In light of our financial position, operating performance and current economic conditions, including the state of the global capital markets, there can be no assurance as to whether or when we will be able to raise capital by issuing securities. We believe our Amended Revolving Facility, to the extent available, in addition to our cash flows from operations, collectively, will be sufficient to fund our working capital and capital expenditure requirements for the next 12 months.

The Amended Revolving Facility includes financial covenants as described above, and as further detailed therein. As of December 31, 2020, we were in compliance with all of the covenants under the Amended Revolving Facility, and no event of default has occurred or existed through February 4, 2021, the date we filed our fiscal second quarter ended December 31, 2020 Form 10-Q.

At December 31, 2020, we had $5.9 million in cash and cash equivalents and none of the cash in our coffee-related derivative margin accounts was restricted.

Impact of COVID-19 on Our Liquidity

The COVID-19 pandemic and related restrictive measures such as travel bans, quarantines, shelter-in-place orders, and shutdowns as well as changes in recent consumer behavior, have had an adverse impact on certain of our DSD customers, particularly restaurants, hotels, casinos and coffeehouses. Many of these customers have been forced to close or curtail operations, and are purchasing at reduced volumes, if at all. We are unable to predict the rate at which these customers will resume operations and purchases as the restrictive measures are lifted. As a result, sales from our DSD customers during the current quarter have declined compared to the prior year period. As of the end of the quarter ended December 31, 2020, due to the surge in COVID-19 cases during the quarter, our revenues declined about 40% compared to the prior year period.

Due to these factors, the degree to which the COVID-19 pandemic impacts our results will depend on future developments, which are highly uncertain and cannot be predicted with confidence, including, but not limited to, the duration and spread of the pandemic, its severity, the actions to contain the pandemic or treat its impact, and how quickly and to what extent normal economic and operating conditions can resume, as well as our effectiveness on serving our customer base and acquiring new customers. Therefore, with the uncertainty around the duration and breadth of the COVID-19 pandemic, the ultimate impact on our business, financial condition or operating results cannot be reasonably estimated.

We have modified our business practices due to the impact of COVID-19 pandemic on our operating results. To navigate through this period of uncertainty, we have reduced discretionary expenses, aggressively reduced certain capital expenditures, closely and proactively managed our inventory purchases, while prioritizing investments in e-commerce initiatives and serving current Direct Ship customers' needs. Additionally, we also continue to be focused on the rebalancing of volume across our manufacturing network, bringing additional production into our Northlake, Texas facility to generate additional savings.

These actions have improved our cost structure and helped in mitigating the impact of the COVID-19 pandemic on our operating results and liquidity; however we cannot make assurances that these actions will continue to be successful.

Cash Flows

The significant captions and amounts from our condensed consolidated statements of cash flows are summarized below:

	Six Months Ended December 31,	
	2020	**2019**
Condensed Consolidated Statements of cash flows data (in thousands)		
Net cash used by operating activities	$ (3,823)	$ (2,195)
Net cash (used) provided in investing activities	(7,710)	26,240
Net cash used by financing activities	(42,623)	(21,898)
Net (decrease) increase in cash and cash equivalents	$ (54,156)	$ 2,147

Operating Activities

Net cash used in operating activities were $3.8 million and $2.2 million, respectively, in the six months ended December 31, 2020 and 2019. The $1.6 million increase in net cash used in operating activities was primarily attributable to declines in revenues and related net income, partially off set by less net cash used for working capital.

Investing Activities

Net cash used by investing activities during the six months ended December 31, 2020 was $7.7 million as compared to net cash provided of $26.2 million in the six months ended December 31, 2019. The decrease in cash provided by investment activities was principally due to net cash proceeds from the sale of assets during the six months ended December 31, 2019 of $35.2 million as compared to $1.9 million in the current period.

Financing Activities

Net cash used in financing activities during the six months ended December 31, 2020 increased $20.7 million as compared to the six months ended December 31, 2019. The increase in net cash used in financing activities in the current period, is primarily due to $40.0 million in net payments under our revolving facility compared to $22.0 million in net payments in the prior period. The $40.0 million in net payments in the six months ended December 31, 2020, was due to compliance with the anti-cash hoarding provision under the Amended Revolving Facility, as well as financing costs associated with the amendment.

Capital Expenditures

For the three months ended December 31, 2020 and 2019, our capital expenditures paid were as follows:

(In thousands)	Three Months Ended December 31, 2020	Three Months Ended December 31, 2019	Six Months Ended December 31, 2020	Six Months Ended December 31, 2019
Maintenance:				
Coffee brewing equipment	$ 1,752	$ 1,990	$ 2,852	$ 4,135
Building and facilities	—	58	45	133
Vehicles, machinery and equipment	133	349	228	1,036
IT, software, office furniture and equipment	262	710	616	2,155
Capital expenditures, maintenance	$ 2,147	$ 3,107	$ 3,741	$ 7,459
Expansion Project:				
Machinery and equipment	$ 2,360	$ 623	$ 4,770	$ 1,548
IT equipment	$ 344	$ —	$ 705	$ —
Capital expenditures, Expansion Project	$ 2,704	$ 623	$ 5,475	$ 1,548
New Facility Costs				
Building and facilities, including land	420	—	420	—
Capital expenditures, New Facility	$ 420	$ —	$ 420	$ —
Total capital expenditures	$ 5,271	$ 3,730	$ 9,636	$ 9,007

In fiscal year 2021, we anticipate paying between $8.0 million to $11.0 million in maintenance capital expenditures. We expect to finance these expenditures through cash flows from operations and borrowings under our Revolving Facility.

Depreciation and amortization expenses were $7.3 million and $7.6 million in the three months ended December 31, 2020 and 2019, respectively. Depreciation and amortization expenses were $14.3 million and $15.2 million in the six months ended December 31, 2020 and 2019, respectively. We anticipate our depreciation and amortization expense will be approximately $6.9 million to $7.4 million per quarter in the remainder of fiscal year 2021 based on our existing fixed asset commitments and the useful lives of our intangible assets.

Commitments and Contingencies

As of December 31, 2020, we had committed to purchase green coffee inventory totaling $49.5 million under fixed-price contracts, $5.6 million in other inventory under non-cancelable purchase orders and $8.6 million in other purchases under non-cancelable purchase orders.

Critical Accounting Policies and Estimates

We prepare our consolidated financial statements in accordance with GAAP. In applying many of these accounting principles, we need to make assumptions, estimates or judgments that affect the reported amounts of assets, liabilities, revenues and expenses in our consolidated financial statements. We base our estimates and judgments on historical experience and other assumptions that we believe are reasonable under the circumstances. These assumptions, estimates or judgments, however, are both subjective and subject to change, and actual results may differ from our assumptions and estimates. If actual amounts are ultimately different from our estimates, the revisions are included in our results of operations for the period in which the actual amounts become known. For a summary of our significant accounting policies, see *Note 2, Summary of Significant Accounting Policies,* of the Notes to Unaudited Condensed Consolidated Financial Statements included in Part I, Item 1 of this report and in our 2020 Form 10-K. For a summary of our critical accounting estimates, please see "Management's Discussion and Analysis of Financial Condition and Results of Operations—Critical Accounting Policies and Estimates" in our 2020 Form 10-K.

Recent Accounting Pronouncements

See *Note 2, Summary of Significant Accounting Policies,* of the Notes to Unaudited Condensed Consolidated Financial Statements included in Part I, Item 1 of this report and in our 2020 Form 10-K. For a summary of our critical accounting estimates, please see "Management's Discussion and Analysis of Financial Condition and Results of Operations—Critical Accounting Policies and Estimates" in our 2020 Form 10-K.

Off-Balance Sheet Arrangements

We have no off-balance sheet arrangements.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Interest Rate Risk

At December 31, 2020, under our amended credit facility, we were eligible to borrow up to a total of $125.0 million, subject to compliance with applicable financial covenants under the Amended Revolving Facility as described above and had outstanding borrowings of $82.0 million and utilized $4.3 million of the letters of credit sublimit. As a result of the interest rate swap, only $17.0 million was subject to interest rate variability. The weighted average interest rate on our outstanding borrowings subject to interest rate variability under the Revolving Facility at December 31, 2020 was 6.56%.

The following table demonstrates the impact of interest rate changes on our annual interest expense on outstanding borrowings subject to interest rate variability under the Revolving Facility based on the weighted average interest rate on the outstanding borrowings as of December 31, 2020:

(In thousands)	Principal	Interest Rate	Annual Interest Expense
–150 basis points	$17,000	5.06 %	$ 860
–100 basis points	$17,000	5.56 %	$ 945
Unchanged	$17,000	6.56 %	$ 1,115
+100 basis points	$17,000	7.56 %	$ 1,285
+150 basis points	$17,000	8.06 %	$ 1,370

Commodity Price Risk

We are exposed to commodity price risk arising from changes in the market price of green coffee. We value green coffee inventory on the FIFO 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. See Note 4, *Derivative Instruments*, of the Notes to the Unaudited Condensed Consolidated Financial Statements for further discussions of our derivative instruments.

The following table summarizes the potential impact as of December 31, 2020 to net loss and AOCI from a hypothetical 10% change in coffee commodity prices. The information provided below relates only to the coffee-related derivative instruments and does not include, when applicable, the corresponding changes in the underlying hedged items:

	Increase (Decrease) to Net Loss		Increase (Decrease) to AOCI	
(In thousands)	10% Increase in Underlying Rate	10% Decrease in Underlying Rate	10% Increase in Underlying Rate	10% Decrease in Underlying Rate
Coffee-related derivative instruments(1)	$ 1,027	$ (1,027)	$ 2,235	$ (2,235)

(1) The Company’s purchase contracts that qualify as normal purchases include green coffee purchase commitments for which the price has been locked in as of December 31, 2020. These contracts are not included in the sensitivity analysis above as the underlying price has been fixed.

Item 4. Controls and Procedures

Disclosure Controls and Procedures

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

As of December 31, 2020, our management, with the participation of our Chief Executive Officer (principal executive officer) and Chief Financial Officer (principal financial and accounting officer), carried out an evaluation of the effectiveness of our disclosure controls and procedures pursuant to Rule 13a-15(e) promulgated under the Exchange Act. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective.

Changes in Internal Control Over Financial Reporting

Management has determined that there has been no change in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) promulgated under the Exchange Act) during our fiscal quarter ended December 31, 2020 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

The information set forth in Note 20, *Commitments and Contingencies*, of the Notes to Unaudited Condensed Consolidated Financial Statements included in Part I, Item 1 of this Form 10-Q is incorporated herein by reference.

Item 1A. Risk Factors

For a discussion of our other potential risks and uncertainties, see the information under “Item 1A. Risk Factors” in our Annual Report on Form 10-K for the year ended June 30, 2020, which is accessible on the SEC’s website at www.sec.gov. During the six months ended December 31, 2020, there have been no material changes to the risk factors disclosed in our 2020 Form 10-K.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

None

Item 3. Defaults Upon Senior Securities

None

Item 4. Mine Safety Disclosures

Not applicable

Item 5. Other Information

None

Item 6. Exhibits

Exhibit No.	Description
3.1	Certificate of Amendment of Amended and Restated Certificate of Incorporation of Farmer Bros. Co. filed March 20, 2020. (filed as Exhibit 3.2 to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2020 filed with the SEC on May 8, 2020 and incorporated herein by reference).
3.2	Amended and Restated Certificate of Incorporation of Farmer Bros. Co. (filed as Exhibit 3.1 to the Company's Annual Report on Form 10-K filed with the SEC on September 11, 2019 and incorporated herein by reference).
3.3	Amendment No. 1 to Amended and Restated Bylaws of Farmer Bros. Co. (filed as Exhibit 3.4 to the Company's Annual Report on Form 10-K filed with the SEC on September 11, 2020 and incorporated herein by reference).
3.4	Amended and Restated Bylaws (filed as Exhibit 3.3 to the Company's Quarterly Report on Form 10-Q for the quarter ended December 31, 2019 filed with the SEC on February 11, 2019 and incorporated herein by reference).
10.73*	Farmer Bros. Co. Amended and Restated 2017 Long-Term Incentive Plan (as approved by the stockholders at the Annual Meeting of Stockholders on December 9, 2020) (filed herewith).
31.1*	Principal Executive Officer Certification Pursuant to Securities Exchange Act Rules 13a-14 and 15d-14 as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2*	Principal Financial and Accounting Officer Certification Pursuant to Securities Exchange Act Rules 13a-14 and 15d-14 as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1**	Principal Executive Officer Certification Pursuant to 18 U.S.C. Section 1350 as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2**	Principal Financial and Accounting Officer Certification Pursuant to 18 U.S.C. Section 1350 as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS**	XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.
101.SCH**	Inline XBRL Taxonomy Extension Schema Document.
101.CAL**	Inline XBRL Taxonomy Extension Calculation Linkbase Document.
101.DEF**	Inline XBRL Taxonomy Extension Definition Linkbase Document.
101.LAB**	Inline XBRL Taxonomy Extension Label Linkbase Document.
101.PRE**	Inline XBRL Taxonomy Extension Presentation Linkbase Document.
104**	Cover Page Interactive Data File - the cover page interactive data file does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.

---

* Filed herewith

** Furnished, not filed, herewith

SIGNATURES

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

FARMER BROS. CO.

By: /s/ Deverl Maserang

Deverl Maserang
President and Chief Executive Officer
(principal executive officer)
February 4, 2021

By: /s/ Scott R. Drake

Scott R. Drake
Chief Financial Officer
(principal financial officer)
February 4, 2021

FARMER BROS. CO.

AMENDED AND RESTATED
2017 LONG-TERM INCENTIVE PLAN
Article I.

PURPOSE

The Plan's purpose is to enhance the Company's ability to attract, retain and motivate persons who make (or are expected to make) important contributions to the Company by providing these individuals with equity ownership opportunities. The Plan succeeds the Farmer Bros. Co. Amended and Restated 2007 Long-Term Incentive Plan and the Farmer Bros. Co. 2007 Omnibus Plan. This Farmer Bros. Co. Amended and Restated 2017 Long-Term Incentive Plan is an amendment and restatement and continuation of the Farmer Bros. Co. 2017 Long-Term Incentive Plan effective as provided in Section 11.3 below.

Article II.

DEFINITIONS

As used in the Plan, the following words and phrases will have the meanings specified below, unless the context clearly indicates otherwise:

tion i."***Administrator***" means the Board or a Committee to the extent that the Board's powers or authority under the Plan have been delegated to such Committee. With reference to the Board's or a Committee's powers or authority under the Plan that have been delegated to one or more officers pursuant to Section 4.2, the term "Administrator" shall refer to such person(s) unless and until such delegation has been revoked.

tion ii."***Applicable Law***" means any applicable law, including without limitation: (a) provisions of the Code, the Securities Act, the Exchange Act and any rules or regulations thereunder; (b) corporate, securities, tax or other laws, statutes, rules, requirements or regulations, whether federal, state, local or foreign; and (c) rules of any securities exchange or automated quotation system on which the Shares are listed, quoted or traded.

ion iii."***Award***" means an Option, Stock Appreciation Right, Restricted Stock award, Restricted Stock Unit award, Performance Bonus Award, Performance Share award or Other Stock or Cash Based Award granted to a Participant under the Plan.

ion iv."***Award Agreement***" means a written agreement or statement evidencing an Award, which may be electronic, that contains such terms and conditions as the Administrator determines, consistent with and subject to the terms and conditions of the Plan.

tion v."***Board***" means the Board of Directors of the Company.

ion vi.“*Cause*” unless otherwise defined in an employment or services agreement between a Participant and the Company or any of its Subsidiaries, means (a) the Company’s determination that the Participant willfully failed to substantially perform the Participant’s duties (other than a failure resulting from the Participant’s Disability); (b) the Company’s determination that the Participant willfully failed to carry out, or comply with any lawful and reasonable directive of the Board or Participant’s immediate supervisor; (c) the occurrence of any act or omission by the Participant that could reasonably be expected to result in (or has resulted in) he Participant’s conviction, plea of no contest, plea of *nolo contendere*, or imposition of unadjudicated probation for any felony or indictable offense or crime involving moral turpitude; (d) the Participant’s unlawful use (including being under the influence or using prescription drugs for non-medical purposes) or possession of illegal drugs (including possession of a prescription drug without a lawful prescription) on the premises of the Company or any of its Subsidiaries or while performing the Participant’s duties and responsibilities for the Company or any of its Subsidiaries; (e) the Participant’s commission of an act of fraud, embezzlement, misappropriation, misconduct, or breach of fiduciary duty against the Company or any of its Subsidiaries or affiliates; (f) the Participant’s unauthorized use or disclosure of confidential information or trade secrets of the Company or any Subsidiary; (g) the Company’s determination that the Participant materially violated any policy of the Company or any of its Subsidiaries; or (h) any other intentional misconduct by the Participant adversely affecting the business or affairs of the Company or any Subsidiary) in a material manner. The Company, in its sole discretion, shall determine conclusively whether Cause exists pursuant to the above definition, the date of the occurrence of the conduct constituting Cause and any incidental matters relating thereto, including, without limitation, the question of whether a termination of employment or service occurred by reason of Cause. The foregoing definition shall not in any way preclude or restrict the right of the Company or any Subsidiary to discharge or dismiss any Participant or other person in the service of the Company or any Subsidiary for any other acts or omissions, but such other acts or omissions shall not be deemed, for purposes of the Plan, to constitute grounds for termination for Cause.

on vii.“***Change in Control***” means and includes each of the following:

(1) A transaction or series of transactions (other than an offering of Common Stock to the general public through a registration statement filed with the Securities and Exchange Commission) whereby any “person” or related “group” of “persons” (as such terms are used in Sections 13(d) and 14(d)(2) of the Exchange Act) directly or indirectly acquires beneficial ownership (within the meaning of Rules 13d-3 and 13d-5 under the Exchange Act) of securities of the Company possessing more than 50% of the total combined voting power of the Company’s securities outstanding immediately after such acquisition; provided, however, that the following acquisitions shall not constitute a Change in Control: (i) any acquisition by the Company or any of its Subsidiaries; (ii) any acquisition by an employee benefit plan maintained by the Company or any of its Subsidiaries, (iii) any acquisition which complies with Sections 2.7(c)(i), 2.7(c)(ii), or 2.7(c)(iii); or (iv) in respect of an Award held by a particular Participant, any acquisition by the Participant or any group of persons including the Participant (or any entity controlled by the Participant or any group of persons including the Participant); or

(2) The individuals who, as of the Effective Date, constitute the Board, together with any new Director(s) (other than a Director designated by a person who shall have entered into an agreement with the Company to effect a transaction described in Section 2.7(a) or Section 2.7(c)), whose election or nomination for election to the Board was approved by a vote of at least two-thirds (2/3) (either by a specific vote or by approval of the proxy statement of the Company in which such person is named as a nominee for Director without objection to such nomination) of the Directors then still in office, who either were Directors as of the Effective Date or whose election or nomination for election was previously so approved (the "***Incumbent Directors***") cease for any reason to constitute a majority of the Board. No individual initially elected or nominated as a Director of the Company as a result of an actual or threatened election contest with respect to Directors or as a result of any other actual or threatened solicitation of proxies by or on behalf of any Person other than the Board shall be an Incumbent Director hereunder.

(3) The consummation by the Company (whether directly involving the Company or indirectly involving the Company through one or more intermediaries) of (x) a merger, consolidation, reorganization, or business combination, (y) a sale or other disposition of all or substantially all of the Company's assets in any single transaction or series of related transactions or (z) the acquisition of assets or stock of another entity, in each case other than a transaction:

(a) which results in the Company's voting securities outstanding immediately before the transaction continuing to represent (either by remaining outstanding or by being converted into voting securities of the Company or the person that, as a result of the transaction, controls, directly or indirectly, the Company or owns, directly or indirectly, all or substantially all of the Company's assets or otherwise succeeds to the business of the Company (the Company or such person, the "***Successor Entity***")) directly or indirectly, at least a majority of the combined voting power of the Successor Entity's outstanding voting securities immediately after the transaction, and

(b) after which no person or group beneficially owns voting securities representing 50% or more of the combined voting power of the Successor Entity; provided, however, that no person or group shall be treated for purposes of this Section 2.7(c)(ii) as beneficially owning 50% or more of the combined voting power of the Successor Entity solely as a result of the voting power held in the Company prior to the consummation of the transaction; and

(c) after which at least a majority of the members of the board of directors (or the analogous governing body) of the Successor Entity were Board members at the time of the Board's approval of the execution of the initial agreement providing for such transaction; or

(4) The approval of a plan of liquidation or dissolution of the Company.

Notwithstanding the foregoing, if a Change in Control constitutes a payment event with respect to any Award (or any portion of an Award) that provides for the deferral of compensation that is subject to Section 409A, to the extent required to avoid the imposition of additional taxes under Section 409A, the transaction or event described in subsection (a), (b),

(c) or (d) with respect to such Award (or portion thereof) shall only constitute a Change in Control for purposes of the payment timing of such Award if such transaction also constitutes a “change in control event,” as defined in Treasury Regulation Section 1.409A-3(i)(5).

on viii.“***Code***” means the Internal Revenue Code of 1986, as amended, and all regulations, guidance, compliance programs and other interpretative authority issued thereunder.

ion ix.“***Committee***” means one or more committees or subcommittees of the Board, which may include one or more Company directors or executive officers, to the extent Applicable Laws permit. To the extent required to comply with the provisions of Rule 16b-3, it is intended that each member of the Committee will be, at the time the Committee takes any action with respect to an Award that is subject to Rule 16b-3, a “non-employee director” within the meaning of Rule 16b-3; provided, however, that a Committee member’s failure to qualify as a “non-employee director” within the meaning of Rule 16b-3 will not invalidate any Award granted by the Committee that is otherwise validly granted under the Plan.

tion x.“***Common Stock***” means the common stock of the Company.

ion xi.“***Company***” means Farmer Bros. Co., a Delaware corporation, or any successor.

on xii.“***Designated Beneficiary***” means the beneficiary or beneficiaries the Participant designates, in a manner the Company determines, to receive amounts due or exercise the Participant’s rights if the Participant dies. Without a Participant’s effective designation, “Designated Beneficiary” will mean the Participant’s estate.

on xiii.“***Director***” means a Board member.

on xiv.“***Disability***” means a permanent and total disability under Section 22(e)(3) of the Code, without regard to the final sentence thereof.

on xv.“***Dividend Equivalents***” means a right granted to a Participant to receive the equivalent value (in cash or Shares) of dividends paid on a specified number of Shares. Such Dividend Equivalents shall be converted to cash or additional Shares, or a combination of cash and Shares, by such formula and at such time and subject to such limitations as may be determined by the Administrator.

on xvi.“***Effective Date***” and “***Original Effective Date***” have the meaning set forth in Section 11.3.

n xvii.“***Employee***” means any employee of the Company or any of its Subsidiaries.

n xviii.“***Equity Restructuring***” means a nonreciprocal transaction between the Company and its stockholders, such as a stock dividend, stock split (including a reverse stock split), spin-off or recapitalization through a large, nonrecurring cash dividend, that affects the number or kind of Shares (or other Company securities) or the share price of Common Stock (or other Company securities) and causes a change in the per share value of the Common Stock underlying outstanding Awards.

on xix.“***Exchange Act***” means the Securities Exchange Act of 1934, as amended, and all regulations, guidance and other interpretative authority issued thereunder.

on xx.“***Fair Market Value***” means, as of any date, the value of a Share determined as follows: (i) if the Common Stock is listed on any established stock exchange, the value of a Share will be the closing sales price for a Share as quoted on such exchange for such date, or if no sale occurred on such date, the last day preceding such date during which a sale occurred, as reported in *The Wall Street Journal* or another source the Company deems reliable; (ii) if the Common Stock is not listed on an established stock exchange but is quoted on a national market or other quotation system, the value of a Share will be the closing sales price for a Share on such date, or if no sales occurred on such date, then on the last date preceding such date during which a sale occurred, as reported in *The Wall Street Journal* or another source the Administrator deems reliable; or (iii) if the Common Stock is not listed on any established stock exchange or quoted on a national market or other quotation system, the value of a Share will be established by the Administrator in its sole discretion.

on xxi.“***Full Value Award***” shall mean any Award that is settled in Shares other than: (a) an Option, (b) a Stock Appreciation Right or (c) any other Award for which the Participant pays the intrinsic value existing as of the date of grant (whether directly or by forgoing a right to receive a payment from the Company or any Subsidiary).

n xxii.“***Greater Than 10% Stockholder***” means an individual then owning (within the meaning of Section 424(d) of the Code) more than 10% of the total combined voting power of all classes of stock of the Company or any parent corporation or subsidiary corporation of the Company, as determined in accordance with in Section 424(e) and (f) of the Code, respectively.

n xxiii.“***Incentive Stock Option***” means an Option that meets the requirements to qualify as an “incentive stock option” as defined in Section 422 of the Code.

n xxiv.“***Nonqualified Stock Option***” means an Option that is not an Incentive Stock Option.

n xxv.“***Option***” means a right granted under Article 6 to purchase a specified number of Shares at a specified price per Share during a specified time period. An Option may be either an Incentive Stock Option or a Nonqualified Stock Option.

n xxvi.“***Other Stock or Cash Based Awards***” means cash awards, awards of Shares, and other awards valued wholly or partially by referring to, or are otherwise based on, Shares or other property.

xxvii.“***Overall Share Limit***” means the sum of (i) 2,175,000 Shares (including Shares already issued under the Original Plan); and (ii) the number of Shares that are subject to Prior Plan Awards that become available for issuance under the Plan pursuant to Article 5.

xxviii.“***Participant***” means a Service Provider who has been granted an Award.

ı **xxix.**“***Performance-Based Award***” means an Award (other than an Option or SAR) granted pursuant to Article 7 or 8, but which is subject to the terms and conditions set forth in Section 11.18. All Performance-Based Awards are intended to qualify as Performance-Based Compensation.

n xxx.“***Performance Bonus Award***” has the meaning set forth in Section 8.3.

ı **xxxi.**“***Performance Criteria***” mean the criteria (and adjustments) that the Administrator, in its sole discretion, may select to establish one or more performance goals for an Award for a specified Performance Period; provided, that:

(1) The Performance Criteria that may be used to establish performance goals for Performance-Based Awards may include but are not limited to the following: (i) net earnings (either before or after one or more of (A) interest, (B) taxes, (C) depreciation, (D) amortization, and (E) non-cash equity-based compensation expense); (ii) gross or net sales or revenue or sales or revenue growth; (iii) gross or net organic sales volume or organic sales volume growth, (iv) net income (either before or after taxes) or adjusted net income; (v) sales related goals; (vi) sales from one or more products (or categories of products) as a percentage of total sales or revenue; (vii) profits (including but not limited to gross profits, net profits, profit growth, net operation profit or economic profit), profit return ratios or operating profit margin; (viii) operating earnings (either before or after taxes or before or after allocation of corporate overhead and bonus); (ix) cash on hand; (x) cash flow (including operating cash flow and free cash flow or cash flow return on capital); (xi) return on assets, asset growth or asset turnover; (xii) return on capital or invested capital; (xiii) cost of capital; (xiv) return on stockholders’ equity; (xv) total stockholder return; (xvi) costs, reductions in costs and cost control measures; (xvii) expense management; (xviii) working capital; (xix) net earnings per share; (xx) adjusted net earnings per share; (xxi) price per share or dividends per share (or appreciation in or maintenance of such price or dividends); (xxii) regulatory achievements or compliance; (xxiii) implementation, completion or attainment of objectives relating to systems, research, development, regulatory, commercial, or strategic milestones or developments; (xxiv) market share; (xxv) economic value or economic value added models;(xxvi) division, group or corporate financial goals; (xxvii) customer satisfaction/growth; (xxviii) customer service; (xxix) employee satisfaction; (xxx) effective recruitment and retention of personnel; (xxxi) succession plan development and implementation; (xxxii) human resources management; (xxxiii) supervision of litigation and other legal matters; (xxxiv) strategic partnerships and transactions; (xxxv) financial ratios (including those measuring liquidity, activity, profitability or leverage); (xxxvi) debt levels or reductions and financial risk management; (xxxvii) financing and other capital raising transactions; (xxxviii) acquisition activity;(xxxix) investment sourcing activity; (xl) marketing initiatives; (xli) safety enhancement; (xlii) improved product quality; (xliii) expansion of product lines; (xliv) creation of operating efficiencies; and/or (xlv) geographic expansion, any of which may be measured in absolute terms or as compared to any incremental increase or decrease. Such performance goals also may be expressed in terms of the Company’s performance or the performance of a Subsidiary, division, business segment or business unit of the Company or a Subsidiary, or an individual, or may be expressed in terms of performance relative to performance of one or more other companies or by comparisons of any of the indicators of performance relative to performance of other companies.

Any performance goals that are financial metrics may be determined in accordance with U.S. Generally Accepted Accounting Principles ("GAAP"), in accordance with accounting principles established by the International Accounting Standards Board ("IASB Principles"), or may be adjusted when established to include or exclude any items otherwise includable or excludable under GAAP or under IASB Principles.

(2) The Committee, in its sole discretion, may provide that one or more objectively determinable adjustments shall be made to one or more of the Performance Criteria, with any such adjustment to reflect the inclusion or exclusion of the impact of an event or occurrence which the Committee determines should appropriately be included or excluded, including but not limited to (i) restructurings, discontinued operations, special items, and other unusual, infrequently occurring or non-recurring charges, events or items; (ii) asset sales or write-downs; (iii) litigation or claim judgments or settlements; (iv) acquisitions or divestitures; (v) reorganization or change in the corporate structure or capital structure of the Company; (vi) an event either not directly related to the operations of the Company, Subsidiary, division, business segment or business unit or not within the reasonable control of management; (vii) foreign exchange gains and losses; (viii) a change in the fiscal year of the Company; (ix) the refinancing or repurchase of bank loans or debt securities; (x) unbudgeted capital expenditures; (xi) the issuance or repurchase of equity securities and other changes in the number of outstanding shares; (xii) conversion of some or all of convertible securities to Common Stock; (xiii) any business interruption event; (xiv) changes in pricing;(xv) changes in foreign currency exchange rates; (xvi) the cumulative effects of tax or accounting changes in accordance with U.S. generally accepted accounting principles; (xvii) gains and losses that are treated as unusual in nature or that occur infrequently under Accounting Standards Codification Topic 225; or (xviii) the effect of changes in other laws or regulatory rules affecting reported results.

xxxii."***Performance Period***" means one or more periods of time, which may be of varying and overlapping durations, as the Committee may select, over which the attainment of one or more performance goals will be measured for the purpose of determining a Participant's right to, and the payment of, a Performance-Based Award.

xxxiii."***Performance Share***" means a right granted to a Participant pursuant to Section 8.1 and subject to Section 8.2, to receive Shares, the payment of which is contingent upon achieving certain performance goals or other performance-based targets established by the Administrator.

xxxiv."***Plan***" means this Farmer Bros. Co. Amended and Restated 2017 Long-Term Incentive Plan and "***Original Plan***" means the Farmer Bros. Co. 2017 Long-Term Incentive Plan prior to its restatement.

xxxv."***Prior Plans***" means, collectively, the Farmer Bros. Co. 2007 Omnibus Plan, the Farmer Bros. Co. Amended and Restated 2007 Long-Term Incentive Plan, and any prior equity incentive plans of the Company or its predecessor (in each case, as such plan(s) may be amended or restated from time to time).

xxxvi."***Prior Plan Award***" means an award outstanding under the Prior Plans as of the Effective Date.

xxxvii."***Restricted Stock***" means Shares awarded to a Participant under Article 7, subject to certain vesting conditions and other restrictions.

xxviii."***Restricted Stock Unit***" means an unfunded, unsecured right to receive, on the applicable settlement date, one Share or an amount in cash or other consideration determined by the Administrator to be of equal value as of such settlement date, subject to certain vesting conditions and other restrictions.

xxxix."***Rule 16b-3***" means Rule 16b-3 promulgated under the Exchange Act.

ion xl."***Section 409A***" means Section 409A of the Code.

on xli."***Securities Act***" means the Securities Act of 1933, as amended, and all regulations, guidance and other interpretative authority issued thereunder.

n xlii."***Service Provider***" means an Employee or Director.

n xliii."***Shares***" means shares of Common Stock.

n xliv."***Stock Appreciation Right***" or "***SAR***" means a right granted under Article 6 to receive a payment equal to the excess of the Fair Market Value of a specified number of Shares on the date the right is exercised over the exercise price set forth in the applicable Award Agreement.

n xlv."***Subsidiary***" means any entity (other than the Company), whether domestic or foreign, in an unbroken chain of entities beginning with the Company if each of the entities other than the last entity in the unbroken chain beneficially owns, at the time of the determination, securities or interests representing at least 50% of the total combined voting power of all classes of securities or interests in one of the other entities in such chain.

n xlvi."***Substitute Awards***" means Awards granted or Shares issued by the Company in assumption of, or in substitution or exchange for, awards previously granted, or the right or obligation to make future awards, in each case by a company or other entity acquired by the Company or any Subsidiary or with which the Company or any Subsidiary combines.

n xlvii."***Termination of Service***" means:

(1) As to a Director, the time when a Participant who is a Director ceases to be a Director for any reason, including, without limitation, a termination by resignation, failure to be elected, death or retirement, but excluding terminations where the Participant simultaneously commences or remains in employment or service as a consultant with the Company or any Subsidiary.

(2) As to an Employee, the time when the employee-employer relationship between a Participant and the Company or any Subsidiary is terminated for any reason, including, without limitation, a termination by resignation, discharge, death, disability or retirement; but excluding terminations where the Participant simultaneously commences or remains in employment or service as a consultant or director with the Company or any Subsidiary.

The Company, in its sole discretion, shall determine the effect of all matters and questions relating to any Termination of Service, including, without limitation, whether a Termination of Service has occurred, the circumstances under which the Termination of Service has occurred and all questions of whether particular leaves of absence constitute a Termination of Service. For purposes of the Plan, a Participant's employee-employer relationship or consultancy relations shall be deemed to be terminated in the event that the Subsidiary employing or contracting with such Participant ceases to remain a Subsidiary following any merger, sale of stock or other corporate transaction or event (including, without limitation, a spin-off), even though the Participant may subsequently continue to perform services for that entity.

Article III.

ELIGIBILITY

Service Providers are eligible to be granted Awards under the Plan, subject to the limitations described herein. No Service Provider shall have any right to be granted an Award pursuant to the Plan.

Article IV.

ADMINISTRATION AND DELEGATION

tion i.Administration. The Plan is administered by the Administrator. The Administrator has authority to determine which Service Providers receive Awards, grant Awards and set Award terms and conditions, subject to the conditions and limitations in the Plan. The Administrator also has the authority to take all actions and make all determinations under the Plan, to interpret the Plan and Award Agreements and to adopt, amend and repeal Plan administrative rules, guidelines and practices as it deems advisable. The Administrator may correct defects and ambiguities, supply omissions, reconcile inconsistencies in the Plan or any Award and make all other determinations that it deems necessary or appropriate to administer the Plan and any Awards. The Administrator's determinations under the Plan are in its sole discretion and will be final and binding on all persons having or claiming any interest in the Plan or any Award.

tion ii.Appointment of Committees. To the extent Applicable Laws permit, the Board or any Committee may delegate any or all of its powers under the Plan to one or more Committees or officers of the Company or any of its Subsidiaries. Any delegation hereunder shall be subject to the restrictions and limits that the Board or Committee specifies at the time of such delegation or that are otherwise included in the applicable organizational documents of the Company, and the Board or Committee, as applicable, may at any time rescind the authority so delegated or appoint a new delegatee. At all times, the delegatee appointed under this Section 4.2 shall serve in such capacity at the pleasure of the Board or the Committee, as applicable, and the Board or the Committee may abolish any Committee to which authority has been delegated at any time and re-vest in itself any previously delegated authority.

Article V.

STOCK AVAILABLE FOR AWARDS

tion i.Number of Shares. Subject to adjustment under Article 9 and the terms of this Article 5, Awards may be made under the Plan covering up to the Overall Share Limit. As of the Original Effective Date, the Company ceased granting awards under the Prior Plans; provided, however, Prior Plan Awards remained subject to the terms of the applicable Prior Plan. Shares issued or delivered under the Plan may consist of authorized but unissued Shares, Shares purchased on the open market or treasury Shares.

tion ii.Share Counting. If all or any part of an Award or Prior Plan Award expires, lapses or is terminated, exchanged for cash, surrendered, repurchased, canceled without having been fully exercised or forfeited, in any case, in a manner that results in the Company acquiring Shares covered by the Award or Prior Plan Award at a price not greater than the price (as adjusted to reflect any Equity Restructuring) paid by the Participant for such Shares or not issuing any Shares covered by the Award or Prior Plan Award, the unused Shares covered by the Award or Prior Plan Award will, as applicable, become or again be available for Awards under the Plan. Notwithstanding anything to the contrary contained herein, the following Shares shall not become or again be available for Awards under the Plan: (i) Shares tendered by a Participant or withheld by the Company in payment of the exercise price of an Option or any stock option granted under a Prior Plan; (ii) Shares tendered by the Participant or withheld by the Company to satisfy any tax withholding obligation with respect to an Award or an award granted under a Prior Plan; (iii) Shares subject to a Stock Appreciation Right or a stock appreciation right granted under a Prior Plan that are not issued in connection with the settlement of such Award on exercise thereof; and (iv) Shares purchased on the open market with cash proceeds from the exercise of Options or stock options granted under a Prior Plan. The payment of Dividend Equivalents in cash in conjunction with any outstanding Awards or Prior Plan Awards shall not count against the Overall Share Limit. Notwithstanding the provisions of this Section 5.2, no Shares may again be optioned, granted or awarded if such action would cause an Incentive Stock Option to fail to qualify as an incentive stock option under Section 422 of the Code.

ion iii.Incentive Stock Option Limitations. Notwithstanding anything to the contrary herein, no more than 2,175,000 Shares (as adjusted to reflect any Equity Restructuring) may be issued pursuant to the exercise of Incentive Stock Options.

ion iv.Substitute Awards. In connection with an entity's merger or consolidation with the Company or any Subsidiary or the Company's or any Subsidiary's acquisition of an entity's property or stock, the Administrator may grant Awards in substitution for any options or other stock or stock-based awards granted before such merger or consolidation by such entity or its affiliate. Substitute Awards may be granted on such terms and conditions as the Administrator deems appropriate, notwithstanding limitations on Awards in the Plan. Substitute Awards will not count against the Overall Share Limit (nor shall Shares subject to a Substitute Award be added to the Shares available for Awards under the Plan as provided above), except that Shares acquired by exercise of substitute Incentive Stock Options will count against the maximum number of Shares that may be issued pursuant to the exercise of Incentive Stock Options under the Plan. Additionally, in the event that a company acquired by the Company or any Subsidiary or with which the Company or any Subsidiary combines has shares available under a pre-existing plan approved by stockholders and not adopted in contemplation of such acquisition or combination, the shares available for grant pursuant to the terms of such pre-existing plan (as appropriately adjusted to reflect the transaction) may be used for Awards under the Plan and shall not reduce the Shares authorized for grant under the Plan (and Shares subject to such Awards (which, for the avoidance of doubt excludes Substitute Awards) may again become available for Awards under the Plan as provided under Section 5.2 above); provided, that Awards using such available shares (or any Shares that again become available for issuance under the Plan under Section 5.2 above) shall not be made after the date awards or grants could have been made under the terms of the pre-existing plan, absent the acquisition or combination, and shall only be made to individuals who were not employees or directors of the Company or any of its Subsidiaries prior to such acquisition or combination.

tion v.Non-Employee Director Award Limit. Notwithstanding any provision to the contrary in the Plan or in any policy of the Company regarding non-employee Director compensation, the sum of the grant date fair value (determined as of the grant date in accordance with Financial Accounting Standards Board Accounting Standards Codification Topic 718, or any successor thereto) of all equity-based Awards and the maximum amount that may become payable pursuant to all cash-based Awards that may be granted under the Plan to a Director as compensation for services as a non-employee Director during any calendar year shall not exceed $300,000.

Article VI.

STOCK OPTIONS AND STOCK APPRECIATION RIGHTS

tion i.General. The Administrator may grant Options or Stock Appreciation Rights to one or more Service Providers, subject to such terms and conditions not inconsistent with the Plan as the Administrator shall determine. The Administrator will determine the number of Shares covered by each Option and Stock Appreciation Right, the exercise price of each Option and Stock Appreciation Right and the conditions and limitations applicable to the exercise of each Option and Stock Appreciation Right. A Stock Appreciation Right will entitle the Participant (or other person entitled to exercise the Stock Appreciation Right) to receive from the Company upon exercise of the exercisable portion of the Stock Appreciation Right an amount determined by multiplying the excess, if any, of the Fair Market Value of one Share on the date of exercise over the exercise price per Share of the Stock Appreciation Right by the number of Shares with respect to which the Stock Appreciation Right is exercised, subject to any limitations of the Plan or that the Administrator may impose and payable in cash, Shares valued at Fair Market Value on the date of exercise or a combination of the two as the Administrator may determine or provide in the Award Agreement.

tion ii.Exercise Price. The Administrator will establish each Option’s and Stock Appreciation Right’s exercise price and specify the exercise price in the Award Agreement. The exercise price will not be less than 100% of the Fair Market Value on the grant date of the Option or Stock Appreciation Right.

ion iii.Duration of Options. Each Option or Stock Appreciation Right will be exercisable at such times and as specified in the Award Agreement, provided that the term of an Option or Stock Appreciation Right will not exceed ten (10) years.

ion iv.Exercise. Options and Stock Appreciation Rights may be exercised by delivering to the Company a notice of exercise, in a form and manner the Company approves (which may be electronic or telephonic), signed or authenticated by the person authorized to exercise the Option or Stock Appreciation Right, together with, as applicable, payment in full of (i) the exercise price for the number of Shares for which the Option is exercised in a manner specified in Section 6.5 and (ii) all applicable taxes in a manner specified in Section 10.5. Unless the Company otherwise determines, an Option or Stock Appreciation Right may not be exercised for a fraction of a Share.

tion v.Payment Upon Exercise. The Administrator shall determine the methods (or combination of methods) by which payment of the exercise price of an Option shall be made, including, without limitation:

(1) cash, check or wire transfer of immediately available funds;

(2) if there is a public market for Shares at the time of exercise, unless the Company otherwise determines, (A) delivery (including telephonically to the extent permitted by the Company) of a notice that the Participant has placed a market sell order with a broker acceptable to the Company with respect to Shares then issuable upon exercise of the Option and that the broker has been directed to deliver promptly to the Company funds sufficient to pay the exercise price, or (B) the Participant’s delivery to the Company of a copy of irrevocable and unconditional instructions to a broker acceptable to the Company to deliver promptly to the Company an amount sufficient to pay the exercise price by cash, check or wire transfer of immediately available funds; provided, that such amount is paid to the Company at such time as may be required by the Company;

(3) to the extent permitted by the Administrator, delivery (either by actual delivery or attestation) of Shares owned by the Participant valued at their Fair Market Value on the date of delivery (or such other date determined by the Administrator); or

(4) to the extent permitted by the Administrator, surrendering Shares then issuable upon the Option’s exercise valued at their Fair Market Value on the exercise date.

ion vi.Additional Terms of Incentive Stock Options. The Administrator may grant Incentive Stock Options only to Employees of the Company, any of its present or future parent or Subsidiary corporations, as defined in Sections 424(e) or (f) of the Code, respectively, and any other entities the employees of which are eligible to receive Incentive Stock Options under the Code. If an Incentive Stock Option is granted to a Greater Than 10% Stockholder, the exercise price will not be less than 110% of the Fair Market Value on the Option’s grant date, and the term of the Option will not exceed five (5) years. All Incentive Stock Options will be subject to and construed consistently with Section 422 of the Code. By accepting an Incentive Stock Option, the Participant agrees to give prompt notice to the Company of dispositions or other transfers (other than in connection with a Change in Control) of Shares acquired under the Option made within (i) two (2) years from the grant date of the Option or (ii) one (1) year after the transfer of such Shares to the Participant, specifying the date of the disposition or other transfer and the amount the Participant realized, in cash, other property, assumption of indebtedness or other consideration, in such disposition or other transfer. Neither the Company nor the Administrator will be liable to a Participant, or any other party, if an Incentive Stock Option fails or ceases to qualify as an "incentive stock option" under Section 422 of the Code. Any Incentive Stock Option or portion thereof that fails to qualify as an "incentive stock option" under Section 422 of the Code for any reason, including becoming exercisable with respect to Shares having a fair market value exceeding the $100,000 limitation under Treasury Regulation Section 1.422-4, will be a Nonqualified Stock Option.

Article VII.

RESTRICTED STOCK;
RESTRICTED STOCK UNITS

tion i.General. The Administrator may grant Restricted Stock, or the right to purchase Restricted Stock, to any Service Provider, subject to forfeiture or the Company's right to repurchase all or part of such Shares at their issue price or other stated or formula price from the Participant if conditions the Administrator specifies in the Award Agreement are not satisfied before the end of the applicable restriction period or periods that the Administrator establishes for such Award. In addition, the Administrator may grant to Service Providers Restricted Stock Units, which may be subject to vesting and forfeiture conditions during the applicable restriction period or periods, as set forth in an Award Agreement. The Award Agreement for each Restricted Stock and Restricted Stock Unit Award shall set forth the terms and conditions not inconsistent with the Plan as the Administrator shall determine.

tion ii.Restricted Stock.

(1) *Dividends*. Subject to any limitations approved by the Administrator and set forth in the Award Agreement, Participants holding shares of Restricted Stock will be entitled to all ordinary cash dividends paid with respect to such Shares; provided, that, notwithstanding anything herein to the contrary, any dividend payable with respect to Shares of Restricted Stock held by a Participant that are not vested at the time that such dividend is paid shall be accumulated and subject to vesting to the same extent as the related Shares of Restricted Stock, with such accumulated dividends paid to the applicable Participant as soon as administratively practicable following the time the applicable Shares of Restricted Stock vest and become non-forfeitable (or such later time as may be set forth in the Award Agreement). In addition, if any dividends or distributions are paid in Shares, or consist of a dividend or distribution to holders of Common Stock of cash or property other than an ordinary cash dividend, the Shares or other cash or property will be subject to the same restrictions on transferability and forfeitability as the shares of Restricted Stock with respect to which they were paid.

(2) *Stock Certificates*. The Company may require that the Participant deposit in escrow with the Company (or its designee) any stock certificates issued in respect of Shares of Restricted Stock, together with a stock power endorsed in blank.

(3) *Section 83(b) Election*. If a Participant makes an election under Section 83(b) of the Code to be taxed with respect to Restricted Stock as of the date of transfer of the Restricted Stock, rather than as of the date or dates upon which the Participant would otherwise be taxed with respect to the Restricted Stock under Section 83(a) of the Code, the Participant shall be required to deliver a copy of such election to the Company promptly after filing such election with the Internal Revenue Service, along with proof of the timely filing thereof with the Internal Revenue Service.

ion iii.Restricted Stock Units. The Administrator may provide that settlement of Restricted Stock Units will occur upon or as soon as reasonably practicable after the Restricted Stock Units vest or will instead be deferred, on a mandatory basis or at the Participant's election, in each case, as provided in the applicable Award Agreement and subject to the terms of the Plan.

Article VIII.

OTHER TYPES OF AWARDS

tion i.General. The Administrator may grant Performance Share awards, Performance Bonus Awards, Dividend Equivalents or Other Stock or Cash Based Awards, to one or more Service Providers, in such amounts and subject to such terms and conditions not inconsistent with the Plan as the Administrator shall determine. For the avoidance of doubt, no Participant holding a Performance Share award described in Section 8.2, a Performance Bonus Award described in Section 8.3, or an Other Stock or Cash Based Award described in Section 8.5, in each case, that is eligible to receive dividends (if any) shall be entitled to receive a distribution of dividends with respect to such award or any Shares covered by such award unless and until such award vests and becomes non-forfeitable.

tion ii.Performance Share Awards. Each Performance Share award shall be denominated in a number of Shares or in unit equivalents of Shares and/or units of value (including a dollar value of Shares) and may be linked to any one or more of the Performance Criteria or other specific criteria, including service to the Company or Subsidiaries, determined to be appropriate by the Administrator, in each case on a specified date or dates or over any Performance Period. In making such determinations, the Administrator may consider (among such other factors as it deems relevant in light of the specific type of Award) the contributions, responsibilities and other compensation of the particular Participant.

ion iii.Performance Bonus Awards. Each right to receive a bonus granted under this Section 8.3 shall be denominated in the form of cash and shall be initially payable in cash (but may, in the discretion of the Administrator, be payable in Shares or a combination of cash and Shares) (a "***Performance Bonus Award***") and shall be payable upon the attainment of performance goals that are established by the Administrator and relate to one or more of the Performance Criteria or other specific criteria, including service to the Company or Subsidiaries, in each case on a specified date or dates or over any Performance Period.

ion iv.Dividend Equivalents. If the Administrator provides, an Award (other than an Option or Stock Appreciation Right) may provide a Participant with the right to receive Dividend Equivalents. Dividend Equivalents may be paid currently or credited to an account for the

Participant, settled in cash or Shares and subject to the same restrictions on transferability and forfeitability as the Award with respect to which the Dividend Equivalents are granted and subject to other terms and conditions as set forth in the Award Agreement; provided, that, notwithstanding anything herein to the contrary, Dividend Equivalents with respect to Awards that are not vested at the time that the underlying dividend is paid shall be accumulated and subject to vesting to the same extent as the related Award, with such accumulated Dividend Equivalents paid to the applicable Participant as soon as administratively practicable following the time the applicable Award vests and becomes non-forfeitable (or such later time as may be set forth in the Award Agreement).

tion v.Other Stock or Cash Based Awards. Other Stock or Cash Based Awards may be granted to Participants, including Awards entitling Participants to receive Shares to be delivered in the future and including annual or other periodic or long-term cash bonus awards (whether based on specified Performance Criteria or otherwise), in each case subject to any conditions and limitations in the Plan. Such Other Stock or Cash Based Awards will also be available as a payment form in the settlement of other Awards, as standalone payments and as payment in lieu of compensation to which a Participant is otherwise entitled. Other Stock or Cash Based Awards may be paid in Shares, cash or other property, as the Administrator determines. Subject to the provisions of the Plan, the Administrator will determine the terms and conditions of each Other Stock or Cash Based Award, including any purchase price, performance goal (which may be based on the Performance Criteria), transfer restrictions, and vesting conditions, which will be set forth in the applicable Award Agreement.

Article IX.

ADJUSTMENTS FOR CHANGES IN COMMON STOCK AND CERTAIN OTHER EVENTS

tion i.Equity Restructuring. In connection with any Equity Restructuring, notwithstanding anything to the contrary in this Article 9 the Administrator will equitably adjust the terms of the Plan and each outstanding Award as it deems appropriate to reflect the Equity Restructuring, which may include (i) adjusting the number and type of securities subject to each outstanding Award and/or with respect to which Awards may be granted under the Plan (including, but not limited to, adjustments of the limitations in Article 5 hereof on the maximum number and kind of shares that may be issued); (ii) adjusting the terms and conditions of (including the grant or exercise price), and the performance goals or other criteria included in, outstanding Awards; and (iii) granting new Awards or making cash payments to Participants. The adjustments provided under this Section 9.1 will be nondiscretionary and final and binding on all interested parties, including the affected Participant and the Company; provided, that the Administrator will determine whether an adjustment is equitable.

tion ii.Corporate Transactions. In the event of any dividend or other distribution (whether in the form of cash, Common Stock, other securities, or other property), reorganization, merger, consolidation, split-up, spin off, combination, amalgamation, repurchase, recapitalization, liquidation, dissolution, or sale, transfer, exchange or other disposition of all or substantially all of the assets of the Company, or sale or exchange of Common Stock or other securities of the

Company, Change in Control, issuance of warrants or other rights to purchase Common Stock or other securities of the Company, other similar corporate transaction or event, other unusual or nonrecurring transaction or event affecting the Company or its financial statements or any change in any Applicable Laws or accounting principles, the Administrator, on such terms and conditions as it deems appropriate, either by the terms of the Award or by action taken prior to the occurrence of such transaction or event (except that action to give effect to a change in Applicable Law or accounting principles may be made within a reasonable period of time after such change) and either automatically or upon the Participant's request, is hereby authorized to take any one or more of the following actions whenever the Administrator determines that such action is appropriate in order to (x) prevent dilution or enlargement of the benefits or potential benefits intended by the Company to be made available under the Plan or with respect to any Award granted or issued under the Plan, (y) to facilitate such transaction or event or (z) give effect to such changes in Applicable Laws or accounting principles:

(1) To provide for the termination of any such Award in exchange for an amount of cash and/or other property with a value equal to the amount that would have been attained upon the exercise of such Award or realization of the Participant's rights (and, for the avoidance of doubt, if as of the date of the occurrence of the transaction or event described in this Section 9.2 the Administrator determines in good faith that no amount would have been attained upon the exercise of such Award or realization of the Participant's rights, then such Award may be terminated by the Company without payment);

(2) To provide that such Award be assumed by the successor or survivor corporation, or a parent or subsidiary thereof, or shall be substituted for by similar options, rights or awards covering the stock of the successor or survivor corporation, or a parent or subsidiary thereof, with appropriate adjustments as to the number and kind of shares and applicable exercise or purchase price, in all cases, as determined by the Administrator;

(3) To make adjustments in the number and type of Shares of the Company's stock (or other securities or property) subject to outstanding Awards, and/or in the terms and conditions of (including the grant or exercise price), and the criteria included in, outstanding Awards and Awards which may be granted in the future;

(4) To provide that such Award shall be exercisable or payable or fully vested with respect to all Shares covered thereby, notwithstanding anything to the contrary in the Plan or the applicable Award Agreement;

(5) To replace such Award with other rights or property selected by the Administrator; and/or

(6) To provide that the Award cannot vest, be exercised or become payable after such event;

provided, however, that, unless otherwise provided in an applicable Award Agreement or other written agreement entered into between the Company and a Participant, if a Change in Control occurs and a Participant's Awards are not continued, converted, assumed, or replaced in accordance with subsections (b) or (e) above, such Awards shall become fully vested and exercisable, and all forfeiture, repurchase and other restrictions on such awards shall lapse immediately prior to such Change in Control; provided, further, that, with respect to Awards subject to performance-based vesting, the number of Shares subject to any such Award that becomes vested pursuant to this proviso shall be determined based on (i) target performance pro-rated based on the number of days elapsed in the applicable performance period through the date of the Change in Control over the total number of days in the applicable performance period or (ii) actual performance through the applicable performance period through the date of the Change in Control with the applicable performance goals, to the extended possible, adjusted to reflect the truncated performance period, whichever results in the greatest number of vested Shares.

ion iii.Administrative Stand Still. In the event of any pending stock dividend, stock split, combination or exchange of shares, merger, consolidation or other distribution (other than normal cash dividends) of Company assets to stockholders, or any other extraordinary transaction or change affecting the Shares or the share price of Common Stock (including any Equity Restructuring, Change in Control or any securities offering or other similar transaction) or for reasons of administrative convenience or to facilitate compliance with any Applicable Laws, the Company may refuse to permit the exercise or settlement of one or more Awards for such period of time as the Company may determine to be reasonably appropriate under the circumstances.

ion iv.General. Except as expressly provided in the Plan or the Administrator’s action under the Plan, no Participant will have any rights due to any subdivision or consolidation of Shares of any class, dividend payment, increase or decrease in the number of Shares of any class or dissolution, liquidation, merger, or consolidation of the Company or other corporation. Except as expressly provided with respect to an Equity Restructuring under Section 9.1 above or the Administrator’s action under the Plan, no issuance by the Company of Shares of any class, or securities convertible into Shares of any class, will affect, and no adjustment will be made regarding, the number of Shares subject to an Award or the Award’s grant or exercise price. The existence of the Plan, any Award Agreements and the Awards granted hereunder will not affect or restrict in any way the Company’s right or power to make or authorize (i) any adjustment, recapitalization, reorganization or other change in the Company’s capital structure or its business, (ii) any merger, consolidation, spinoff, dissolution or liquidation of the Company or sale of Company assets or (iii) any sale or issuance of securities, including securities with rights superior to those of the Shares or securities convertible into or exchangeable for Shares. The Administrator may treat Participants and Awards (or portions thereof) differently under this Article 9.

Article X.

PROVISIONS APPLICABLE TO AWARDS

tion i.Transferability. Except as the Administrator may determine or provide in an Award Agreement or otherwise for Awards other than Incentive Stock Options, Awards may not be sold, assigned, transferred, pledged or otherwise encumbered, either voluntarily or by operation of law, except by will or the laws of descent and distribution, or, subject to the Administrator’s consent, pursuant to a domestic relations order, and, during the life of the Participant, will be exercisable only by the Participant. Any permitted transfer of an Award hereunder shall be without consideration, except as required by applicable law. References to a Participant, to the extent relevant in the context, will include references to a transferee approved by the Administrator.

tion ii.Documentation. Each Award will be evidenced in an Award Agreement, which may be written or electronic, as the Administrator determines. Each Award may contain such terms and conditions as are not inconsistent with those set forth in the Plan.

ion iii.Discretion. Except as the Plan otherwise provides, each Award may be made alone or in addition or in relation to any other Award. The terms of each Award to a Participant need not be identical, and the Administrator need not treat Participants or Awards (or portions thereof) uniformly.

ion iv.Changes in Participant's Status. The Company will determine how the disability, death, retirement, authorized leave of absence or any other change or purported change in a Participant's Service Provider status affects an Award and the extent to which, and the period during which, the Participant, the Participant's legal representative, conservator, guardian or Designated Beneficiary may exercise rights under the Award, if applicable. Except to the extent otherwise required by Applicable Law or expressly authorized by the Company or by the Company's written policy on leaves of absence, no service credit shall be given for vesting purposes for any period the Participant is on a leave of absence.

tion v.Withholding. Each Participant must pay the Company, or make provision satisfactory to the Administrator for payment of, any taxes required by law to be withheld in connection with such Participant's Awards by the date of the event creating the tax liability. The Company may deduct an amount sufficient to satisfy such tax obligations based on the applicable statutory withholding rates for federal, state, local and foreign income tax and payroll tax purposes (or such other rate as may be determined by the Company after considering any accounting consequences or costs, but which shall in no event exceed, and may be less than, the maximum statutory withholding rates) from any payment of any kind otherwise due to a Participant. Subject to any Company insider trading policy (including blackout periods) and the terms of the applicable Award Agreement, Participants may satisfy such tax obligations (i) in cash, by wire transfer of immediately available funds, by check made payable to the order of the Company, (ii) to the extent permitted by the Administrator, in whole or in part by delivery of Shares, including Shares delivered by attestation and Shares retained from the Award creating the tax obligation, valued at their Fair Market Value on the date of delivery (or such other date determined by the Administrator), (iii) if there is a public market for Shares at the time the tax obligations are satisfied, unless the Administrator otherwise determines, (A) delivery (including telephonically to the extent permitted by the Administrator) of a notice that the Participant has placed a market sell order with a broker acceptable to the Administrator with respect to Shares then issuable upon exercise of the Award and that the broker has been directed to deliver promptly to the Company funds sufficient to satisfy the tax obligations, or (B) the Participant's delivery to the Company of a copy of irrevocable and unconditional instructions to a broker acceptable to the Administrator to deliver promptly to the Company an amount sufficient to satisfy the tax withholding by cash, check or wire transfer of immediately available funds; provided, that such amount is paid to the Company at such time as may be required by the Administrator, (iv) to the extent permitted by the Administrator, delivery of a promissory note or any other lawful consideration, or (v) any combination of the foregoing payment forms approved by the Administrator. If any tax withholding obligation will be satisfied under clause (ii) of the immediately preceding sentence by the Company's retention of Shares from the Award creating the tax obligation and there is a public market for Shares at the time the tax obligation is satisfied, the Company may elect to instruct any brokerage firm determined acceptable to the Company for such purpose to sell on the applicable Participant's behalf some or all of the Shares retained and to remit the proceeds of the sale to the Company or its designee, and each Participant's acceptance of an Award under the Plan will constitute the Participant's authorization to the Company and instruction and authorization to such brokerage firm to complete the transactions described in this sentence.

ion vi.Amendment of Award; Prohibition on Repricing. The Administrator may amend, modify or terminate any outstanding Award, including by substituting another Award of the same or a different type, changing the exercise or settlement date, converting an Incentive Stock Option to a Nonqualified Stock Option and providing for cash settlement of an outstanding Award. The Participant's consent to such action will be required unless (i) the action, taking into account any related action, does not materially and adversely affect the economic benefits to be delivered under the Award as of the date of such amendment, modification or termination, or (ii) the change is permitted under Article 9 or pursuant to Sections 11.5 or 11.6. Other than pursuant to Sections 9.1 and 9.2, the Administrator shall not without the approval of the Company's stockholders (a) lower the exercise price per Share of an Option or Stock Appreciation Right after it is granted, (b) cancel an Option or Stock Appreciation Right when the exercise price per Share exceeds the Fair Market Value of one Share in exchange for cash or another Award, or (c) take any other action with respect to an Option or Stock Appreciation Right that the Company determines would be treated as a repricing under the rules and regulations of the principal U.S. national securities exchange on which the Shares are listed.

on vii.Conditions on Delivery of Stock. The Company will not be obligated to deliver any Shares under the Plan or remove restrictions from Shares previously delivered under the Plan until (i) all Award conditions have been met or removed to the Company's satisfaction, (ii) as determined by the Company, all other legal matters regarding the issuance and delivery of such Shares have been satisfied, including any applicable securities laws and stock exchange or stock market rules and regulations, and (iii) the Participant has executed and delivered to the Company such representations or agreements as the Company deems necessary or appropriate to satisfy any Applicable Laws. The Company's inability to obtain authority from any regulatory body having jurisdiction, which the Company determines is necessary to the lawful issuance and sale of any securities, will relieve the Company of any liability for failing to issue or sell such Shares as to which such requisite authority has not been obtained.

n viii.Award Vesting Limitations. Notwithstanding any other provision of the Plan to the contrary, but subject to Sections 9.1 and 9.2 of the Plan, Awards granted under the Plan shall vest no earlier than the first anniversary of the date the Award is granted; provided, however, that, notwithstanding the foregoing, the minimum vesting requirement of this Section 10.8 shall not apply to: (a) any Substitute Awards, (b) any Awards delivered in lieu of fully-vested cash based awards or payments, (c) any Awards to a non-employee Director for which the vesting period runs from the date of one annual meeting of the Company's stockholders to the next annual meeting of the Company's stockholders, or (d) any other Awards granted by the Administrator from time to time that result in the issuance of an aggregate of up to 5% of the shares available for issuance under Section 5.1 as of the Effective Date. Nothing in this Section 10.8 shall preclude the Administrator from taking action, in its sole discretion, to accelerate the vesting of any Award in connection with or following a Participant's death, Disability, Termination of Service (other than for Cause) or, subject to Section 9.2, the consummation of a Change in Control.

ion ix.Fractional Shares. No fractional shares of Stock shall be issued and the Company shall determine, in its sole and absolute discretion, whether cash shall be given in lieu of fractional shares or whether such fractional shares shall be eliminated by rounding down.

Article XI.

MISCELLANEOUS

tion i.No Right to Employment or Other Status. No person will have any claim or right to be granted an Award, and the grant of an Award will not be construed as giving a Participant the right to continue employment or any other relationship with the Company. The Company expressly reserves the right at any time to dismiss or otherwise terminate its relationship with a Participant free from any liability or claim under the Plan or any Award, except as expressly provided in an Award Agreement.

tion ii.No Rights as Stockholder; Certificates. Subject to the Award Agreement, no Participant or Designated Beneficiary will have any rights as a stockholder with respect to any Shares to be distributed under an Award until becoming the record holder of such Shares. Notwithstanding any other provision of the Plan, unless the Company otherwise determines or Applicable Laws require, the Company will not be required to deliver to any Participant certificates evidencing Shares issued in connection with any Award and instead such Shares may be recorded in the books of the Company (or, as applicable, its transfer agent or stock plan administrator). The Company may place legends on any share certificate or book entry to reference restrictions applicable to the Shares (including, without limitation, restrictions applicable to Restricted Stock).

ion iii.Effective Date and Term of Plan. Original Plan was effective [DATE]. This Plan will become effective on the date it is approved by the Company's stockholders (the "Effective Date"). The Plan will expire on, and no Award may be granted pursuant to the Plan after the tenth (10th) anniversary of the Effective Date, but Awards previously granted may extend beyond that date and shall remain in force according to the terms of the Plan and the applicable Award Agreement. If the Plan, as amended and restated in the form of this Farmer Bros. Co. Amended and Restated 2017 Long-Term Incentive Plan is not approved by the Company's stockholders, then it will not become effective and the Original Plan will remain in full force and effect as originally adopted.

ion iv.Amendment of Plan. The Board or the Compensation Committee of the Board may amend, suspend or terminate the Plan at any time and from time to time; provided that (a) no amendment requiring stockholder approval to comply with Applicable Laws shall be effective unless approved by the Board and the Company's stockholders, and (b) no amendment, other than an increase to the Overall Share Limit, may materially and adversely affect the economic benefits to be delivered under any outstanding Award as of the date of such amendment without the affected Participant's consent. No Awards may be granted under the Plan during any suspension period or after Plan termination. Awards outstanding at the time of any Plan suspension or termination will continue to be governed by the Plan and the Award Agreement, as in effect before such suspension or termination. The Board will obtain stockholder approval of any Plan amendment to the extent necessary to comply with Applicable Laws.

tion v.Provisions for Foreign Participants. The Administrator may modify Awards granted to Participants who are foreign nationals or employed outside the United States or establish subplans or procedures under the Plan to address differences in laws, rules, regulations or customs of such foreign jurisdictions with respect to tax, securities, currency, employee benefit or other matters.

ion vi.Section 409A.

(1) *General*. The Company intends that all Awards be structured to comply with, or be exempt from, Section 409A, such that no adverse tax consequences, interest, or penalties under Section 409A apply. Notwithstanding anything in the Plan or any Award Agreement to the contrary, the Administrator may, without a Participant's consent, amend the Plan or Awards, adopt policies and procedures, or take any other actions (including amendments, policies, procedures and retroactive actions) as are necessary or appropriate to preserve the intended tax treatment of Awards, including any such actions intended to (A) exempt the Plan or any Award from Section 409A, or (B) comply with Section 409A, including regulations, guidance, compliance programs and other interpretative authority that may be issued after an Award's grant date. The Company makes no representations or warranties as to an Award's tax treatment under Section 409A or otherwise. The Company will have no obligation under this Section 11.6 or otherwise to avoid the taxes, penalties or interest under Section 409A with respect to any Award and will have no liability to any Participant or any other person if any Award, compensation or other benefits under the Plan are determined to constitute noncompliant "nonqualified deferred compensation" subject to taxes, penalties or interest under Section 409A.

(2) *Separation from Service*. If an Award constitutes "nonqualified deferred compensation" under Section 409A, any payment or settlement of such Award upon a Participant's Termination of Service will, to the extent necessary to avoid taxes under Section 409A, be made only upon the Participant's "separation from service" (within the meaning of Section 409A), whether such "separation from service" occurs upon or after the Participant's Termination of Service. For purposes of the Plan or any Award Agreement relating to any such payments or benefits, references to a "termination," "termination of employment" or like terms means a "separation from service."

(3) *Payments to Specified Employees*. Notwithstanding any contrary provision in the Plan or any Award Agreement, any payment(s) of "nonqualified deferred compensation" required to be made under an Award to a "specified employee" (as defined under Section 409A and as the Company determines) due to his or her "separation from service" will, to the extent necessary to avoid taxes under Section 409A(a)(2)(B)(i) of the Code, be delayed for the six-month period immediately following such "separation from service" (or, if earlier, until the specified employee's death) and will instead be paid (as set forth in the Award Agreement) on the day immediately following such six-month period or as soon as administratively practicable thereafter (without interest). Any payments of "nonqualified deferred compensation" under such Award payable more than six months following the Participant's "separation from service" will be paid at the time or times the payments are otherwise scheduled to be made.

(4) *Dividend Equivalents*. Dividend Equivalents and any amounts that may become distributable in respect thereof shall be treated separately from any Award(s) to which such Dividend Equivalents relate, and the rights arising in connection therewith for purposes of the designation of time and form of payments required by Section 409A.

on vii.Limitations Applicable to Section 16 Persons. Notwithstanding any other provision of the Plan, the Plan and any Award granted or awarded to any Participant who is then subject to Section 16 of the Exchange Act shall be subject to any additional limitations set forth in any applicable exemptive rule under Section 16 of the Exchange Act (including any amendment to Rule 16b-3 under the Exchange Act or any successor rule) that are requirements for the application of such exemptive rule. To the extent permitted by Applicable Law, the Plan and Awards granted or awarded hereunder shall be deemed amended to the extent necessary to conform to such applicable exemptive rule.

n viii.Limitations on Liability. Notwithstanding any other provisions of the Plan, no individual acting as a Director, officer or other Employee of the Company or any Subsidiary will be liable to any Participant, former Participant, spouse, beneficiary, or any other person for any claim, loss, liability, or expense incurred in connection with the Plan or any Award, and such individual will not be personally liable with respect to the Plan because of any contract or other instrument executed in his or her capacity as an Administrator, Director, officer or other Employee of the Company or any Subsidiary. The Company will indemnify and hold harmless each Director, officer or other Employee of the Company or any Subsidiary that has been or will be granted or delegated any duty or power relating to the Plan's administration or interpretation, against any cost or expense (including attorneys' fees) or liability (including any sum paid in settlement of a claim with the Company's approval) arising from any act or omission concerning the Plan unless arising from such person's own fraud or bad faith; provided, that he or she gives the Company an opportunity, at its own expense, to handle and defend the same before he or she undertakes to handle and defend it on his or her own behalf.

ion ix.Data Privacy. As a condition for receiving any Award, each Participant explicitly and unambiguously consents to the collection, use and transfer, in electronic or other form, of personal data as described in this Section by and among the Company and its Subsidiaries and affiliates exclusively for implementing, administering and managing the Participant's participation in the Plan. The Company and its Subsidiaries and affiliates may hold certain personal information about a Participant, including the Participant's name, address and telephone number; birthdate; social security, insurance number or other identification number; salary; nationality; job title(s); any Shares held in the Company or its Subsidiaries and affiliates; and Award details, to implement, manage and administer the Plan and Awards (the "Data"). The Company and its Subsidiaries and affiliates may transfer the Data amongst themselves as necessary to implement, administer and manage a Participant's participation in the Plan, and the Company and its Subsidiaries and affiliates may transfer the Data to third parties assisting the Company with Plan implementation, administration and management. These recipients may be located in the Participant's country, or elsewhere, and the Participant's country may have different data privacy laws and protections than the recipients' country. By accepting an Award, each Participant authorizes such recipients to receive, possess, use, retain and transfer the Data, in electronic or other form, to implement, administer and manage the Participant's participation in the Plan, including any required Data transfer to a broker or other third party with whom the Company or the Participant may elect to deposit any Shares. The Data related to a Participant will be held only as long as necessary to implement, administer, and manage the Participant's participation in the Plan. A Participant may, at any time, view the Data that the Company holds regarding such Participant, request additional information about the storage and processing of the Data regarding such Participant, recommend any necessary corrections to the Data regarding the Participant or refuse or withdraw the consents in this Section 11.9 in writing, without cost, by contacting the local human resources representative. The Company may cancel Participant's ability to participate in the Plan and, in the Company's sole discretion, the Participant may forfeit any outstanding Awards if the Participant refuses or withdraws the consents in this Section 11.9. For more information on the consequences of refusing or withdrawing consent, Participants may contact their local human resources representative.

tion x.Severability. If any portion of the Plan or any action taken under it is held illegal or invalid for any reason, the illegality or invalidity will not affect the remaining parts of the Plan, and the Plan will be construed and enforced as if the illegal or invalid provisions had been excluded, and the illegal or invalid action will be null and void

ion xi.Governing Documents. If any contradiction occurs between the Plan and any Award Agreement or other written agreement between a Participant and the Company (or any Subsidiary), the Plan will govern, unless such Award Agreement or other written agreement was approved by the Administrator and expressly provides that a specific provision of the Plan will not apply.

on xii.Governing Law. The Plan and all Awards will be governed by and interpreted in accordance with the laws of the State of Delaware, disregarding the choice-of-law principles of the State of Delaware and any other state requiring the application of a jurisdiction's laws other than the State of Delaware.

n xiii.Clawback Provisions. All Awards (including the gross amount of any proceeds, gains or other economic benefit the Participant actually or constructively receives upon receipt or exercise of any Award or the receipt or resale of any Shares underlying the Award) will be subject to recoupment by the Company to the extent required to comply with Applicable Laws or any policy of the Company providing for the reimbursement of incentive compensation.

on xiv.Titles and Headings. The titles and headings in the Plan are for convenience of reference only and, if any conflict, the Plan's text, rather than such titles or headings, will control.

on xv.Conformity to Applicable Laws. Participant acknowledges that the Plan is intended to conform to the extent necessary with Applicable Laws. Notwithstanding anything herein to the contrary, the Plan and all Awards will be administered only in a manner intended to conform with Applicable Laws. To the extent Applicable Laws permit, the Plan and all Award Agreements will be deemed amended as necessary to conform to Applicable Laws.

on xvi.Relationship to Other Benefits. No payment under the Plan will be taken into account in determining any benefits under any pension, retirement, savings, profit sharing, group insurance, welfare or other benefit plan of the Company or any Subsidiary, except as expressly provided in writing in such other plan or an agreement thereunder.

n xvii.Broker-Assisted Sales. In the event of a broker-assisted sale of Shares in connection with the payment of amounts owed by a Participant under or with respect to the Plan or Awards, including amounts to be paid under the final sentence of Section 10.5: (a) any Shares to be sold through the broker-assisted sale will be sold on the day the payment first becomes due, or as soon thereafter as practicable; (b) such Shares may be sold as part of a block trade with other Participants in the Plan in which all participants receive an average price; (c) the applicable Participant will be responsible for all broker's fees and other costs of sale, and by accepting an Award, each Participant agrees to indemnify and hold the Company harmless from any losses, costs, damages, or expenses relating to any such sale; (d) to the extent the Company or its designee receives proceeds of such sale that exceed the amount owed, the Company will pay such excess in cash to the applicable Participant as soon as reasonably practicable; (e) the Company and its designees are under no obligation to arrange for such sale at any particular price; and (f) in the event the proceeds of such sale are insufficient to satisfy the Participant's applicable obligation, the Participant may be required to pay immediately upon demand to the Company or its designee an amount in cash sufficient to satisfy any remaining portion of the Participant's obligation.

I hereby certify that the foregoing Plan was duly adopted by the Board of Directors of Farmer Bros. Co. on April 18, 2017.

I hereby certify that the foregoing Plan was approved by the stockholders of Farmer Bros. Co. on [ ], 2020. Executed on this [ ].

Corporate Secretary

EXHIBIT 31.1

Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Deverl Maserang certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Farmer Bros. Co.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation;

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 4, 2021

/S/ DEVERL MASERANG

Deverl Maserang
President and Chief Executive Officer
(principal executive officer)

EXHIBIT 31.2

Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Scott R. Drake, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Farmer Bros. Co.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation;

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 4, 2021

/s/ SCOTT R. DRAKE

Scott R. Drake
Chief Financial Officer
(principal financial officer)

EXHIBIT 32.1

Certification of Chief Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

In connection with the Quarterly Report of Farmer Bros. Co. (the "Company") on Form 10-Q for the quarterly period ended December 31, 2020, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Deverl Maserang, President and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: February 4, 2021

/s/ DEVERL MASERANG

Deverl Maserang
President and Chief Executive Officer
(principal executive officer)

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

EXHIBIT 32.2

Certification of Principal Financial and Accounting Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

In connection with the Quarterly Report of Farmer Bros. Co. (the "Company") on Form 10-Q for the quarterly period ended December 31, 2020 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Scott R. Drake, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operation of the Company.

Dated: February 4, 2021

/S/ SCOTT R. DRAKE

Scott R. Drake
Chief Financial Officer
(principal financial officer)

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.