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, 2019

OR

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

For the transition period from to

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

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

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

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

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

Title of Each Class	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 31, 2020, the registrant had 17,231,473 shares outstanding of its common stock, par value $1.00 per share, which is the registrant’s only class of common stock.

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Item 1. Financial Statements

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

	December 31, 2019	June 30, 2019
ASSETS		
Current assets:		
Cash and cash equivalents	$ 9,130	$ 6,983
Accounts receivable, net	60,404	55,155
Inventories	85,134	87,910
Income tax receivable	1,631	1,191
Short-term derivative assets	9,051	1,865
Prepaid expenses	5,820	6,804
Total current assets	171,170	159,908
Property, plant and equipment, net	171,983	189,458
Goodwill	36,224	36,224
Intangible assets, net	27,673	28,878
Other assets	9,520	9,468
Long-term derivatives assets	443	674
Right-of-use operating lease assets	19,696	—
Total assets	$ 436,709	$ 424,610
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	59,828	72,771
Accrued payroll expenses	16,021	14,518
Operating leases liabilities - current	5,571	—
Short-term derivative liabilities	368	1,474
Other current liabilities	7,982	7,309
Total current liabilities	89,770	96,072
Long-term borrowings under revolving credit facility	70,000	92,000
Accrued pension liabilities	45,717	47,216
Accrued postretirement benefits	22,597	23,024
Accrued workers' compensation liabilities	5,000	4,747
Operating lease liabilities - noncurrent	14,318	—
Other long-term liabilities	3,147	4,057
Total liabilities	$ 250,549	$ 267,116
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, 2019 and June 30, 2019; liquidation preference of $15,899 and $15,624 as of December 31, 2019 and June 30, 2019, respectively	15	15
Common stock, $1.00 par value, 25,000,000 shares authorized; 17,177,448 and 17,042,132 shares issued and outstanding as of December 31, 2019 and June 30, 2019, respectively	17,180	17,042
Additional paid-in capital	59,663	57,912
Retained earnings	158,310	146,177
Accumulated other comprehensive loss	(49,008)	(63,652)
Total stockholders' equity	$ 186,160	$ 157,494
Total liabilities and stockholders' equity	$ 436,709	$ 424,610

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,	
	2019	2018	2019	2018
Net sales	$ 152,498	$ 159,773	$ 291,098	$ 307,213
Cost of goods sold	108,513	106,529	206,472	205,734
Gross profit	43,985	53,244	84,626	101,479
Selling expenses	34,906	39,591	68,520	76,901
General and administrative expenses	11,266	12,140	24,006	20,757
Restructuring and other transition expenses	—	207	—	4,674
Net (gains) losses from sales of assets	(11,057)	804	(23,662)	723
Operating expenses	35,115	52,742	68,864	103,055
Income (loss) from operations	8,870	502	15,762	(1,576)
Other (expense) income:				
Interest expense	(2,859)	(3,332)	(5,407)	(6,184)
Pension settlement charge	—	(10,948)	—	(10,948)
Other, net	1,662	953	1,865	1,610
Total other expense	(1,197)	(13,327)	(3,542)	(15,522)
Income (loss) before taxes	7,673	(12,825)	12,220	(17,098)
Income tax benefit	(81)	(2,725)	(188)	(4,012)
Net income (loss)	7,754	(10,100)	12,408	(13,086)
Less: Cumulative preferred dividends, undeclared and unpaid	138	134	275	266
Net earnings (loss) available to common stockholders	$ 7,616	$ (10,234)	$ 12,133	$ (13,352)
Net earnings (loss) available to common stockholders per common share—basic	$ 0.44	$ (0.60)	$ 0.71	$ (0.79)
Net earnings (loss) available to common stockholders per common share—diluted	$ 0.43	$ (0.60)	$ 0.69	$ (0.79)
Weighted average common shares outstanding—basic	17,159,108	16,985,157	17,127,153	16,971,995
Weighted average common shares outstanding—diluted	17,583,335	16,985,157	17,550,144	16,971,995

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

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

	Three Months Ended December 31,		Six Months Ended December 31,	
	2019	2018	2019	2018
Net income (loss)	$ 7,754	$ (10,100)	$ 12,408	$ (13,086)
Other comprehensive (loss) income, net of tax:				
Unrealized gains (losses) on derivative instruments designated as cash flow hedges, net of tax	11,284	748	7,395	(5,349)
Losses on derivative instruments designated as cash flow hedges reclassified to cost of goods sold and interest expense, net of tax	4,661	1,650	7,249	3,110
Change in funded status of retiree benefit obligations, net of tax	—	(5,651)	—	(5,651)
Pension settlement charge, net of tax	—	8,147	—	8,147
Total comprehensive income (loss), net of tax	$ 23,699	$ (5,206)	$ 27,052	$ (12,829)

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, 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 losses on cash flow hedges, net of taxes	—	—	—	—	—	—	15,945	15,945
ESOP compensation expense, including reclassifications	—	—	55,623	56	525	—	—	581
Issuance of common stock and stock option exercises	—	—	—	—	319	—	—	319
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 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	Unearned ESOP Shares	Accumulated Other Comprehensive Income (Loss)	Total
Balance at June 30, 2018	**14,700**	**$ 15**	**16,951,659**	**$ 16,952**	**$ 55,965**	**$ 220,307**	**$ (2,145)**	**$ (62,039)**	**$ 229,055**
Net loss	—	—	—	—	—	(2,986)	—	—	(2,986)
Net reclassification of unrealized losses on cash flow hedges, net of taxes	—	—	—	—	—	—	—	(4,637)	(4,637)
ESOP compensation expense, including reclassifications	—	—	—	—	529	—	—	—	529
Share-based compensation	—	—	—	—	433	—	—	—	433
Issuance of common stock and stock option exercises	—	—	26,042	26	300	—	—	—	326
Cumulative preferred dividends, undeclared and unpaid	—	—	—	—	—	(132)	—	—	(132)
Balance at September 30, 2018	**14,700**	**15**	**16,977,701**	**16,978**	**57,227**	**217,189**	**(2,145)**	**(66,676)**	**222,588**
Net loss	—	—	—	—	—	(10,100)	—	—	(10,100)
Net reclassification of unrealized gains on cash flow hedges, net of taxes	—	—	—	—	—	—	—	2,398	2,398
Pension settlement charge, net of taxes	—	—	—	—	—	—	—	8,147	8,147
Change in the funded status of retiree benefit obligations, net of taxes	—	—	—	—	—	—	—	(5,651)	(5,651)
ESOP compensation expense, including reclassifications	—	—	—	—	(1,740)	—	2,145	—	405
Share-based compensation	—	—	16,266	16	474	—	—	—	490
Issuance of common stock and stock option exercises	—	—	8,562	9	173	—	—	—	182
Cumulative preferred dividends, undeclared and unpaid	—	—	—	—	—	(134)	—	—	(134)
Balance at December 31, 2018	**14,700**	**$ 15**	**17,002,529**	**$ 17,003**	**$ 56,134**	**$ 206,955**	**$ —**	**$ (61,782)**	**$ 218,325**

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,	
	2019	2018
Cash flows from operating activities:		
Net income (loss)	$ 12,408	$ (13,086)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	15,211	15,630
Restructuring and other transition expenses, net of payments	—	2,457
Deferred income taxes	—	(3,265)
Pension settlement charge	—	10,948
Net (gains) losses from sales of assets	(23,662)	723
Net losses on derivative instruments	4,075	6,205
Other adjustments	1,794	3,494
Change in operating assets and liabilities:		
Accounts receivable	(5,285)	(21,299)
Inventories	1,804	(11,326)
Derivative assets (liabilities), net	1,965	(9,234)
Other assets	361	1,194
Accounts payable	(10,608)	21,534
Accrued expenses and other liabilities	(258)	(9,621)
Net cash used in operating activities	$ (2,195)	$ (5,646)
Cash flows from investing activities:		
Purchases of property, plant and equipment	(9,007)	(23,120)
Proceeds from sales of property, plant and equipment	35,247	105
Net cash provided (used) in investing activities	$ 26,240	$ (23,015)
Cash flows from financing activities:		
Proceeds from revolving credit facility	$ 38,000	$ 40,642
Repayments on revolving credit facility	(60,000)	(429)
Payments of finance lease obligations	(27)	(137)
Payment of financing costs	—	(1,027)
Proceeds from stock option exercises	129	507
Net cash (used) provided by financing activities	$ (21,898)	$ 39,556
Net increase in cash and cash equivalents	$ 2,147	$ 10,895
Cash and cash equivalents at beginning of period	6,983	2,438
Cash and cash equivalents at end of period	$ 9,130	$ 13,333

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,	
	2019	**2018**
Supplemental disclosure of non-cash investing and financing activities:		
Net change in derivative assets and liabilities included in other comprehensive loss, net of tax	$ 14,644	$ (2,239)
Non-cash additions to property, plant and equipment	$ 284	$ 2,928
Non-cash portion of earnout receivable recognized—spice assets sale	$ —	$ 390
Non-cash portion of earnout payable recognized—West Coast Coffee acquisition	$ —	$ 840
Non-cash issuance of 401-K common stock	$ 109	$ —
Cumulative preferred dividends, undeclared and unpaid	$ 275	$ 266

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

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, 2019 are not necessarily indicative of the results that may be expected for the fiscal year ending June 30, 2020. Events occurring subsequent to December 31, 2019 have been evaluated for potential recognition or disclosure in the unaudited condensed consolidated financial statements for the three and six months ended December 31, 2019.

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, 2019, filed with the Securities and Exchange Commission (the "SEC") on September 11, 2019 (the "2019 Form 10-K").

Principles of Consolidation

The condensed consolidated financial statements include the accounts of the Company and its direct and indirect wholly owned subsidiaries FBC Finance Company, a California corporation, Coffee Bean Holding Co., Inc., a Delaware corporation, the parent company of Coffee Bean International, Inc., an Oregon corporation ("CBI"), CBI, China Mist Brands, Inc., a Delaware corporation, 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 2019 Form 10-K.

During the three and six months ended December 31, 2019, other than as set forth below and the adoption of Financial Accounting Standards Board Accounting ("FASB") Standards Update ("ASU") ASU No. 2016-02, "Leases (Topic 842)" ("ASU 2016-02"), there were no significant updates made to the Company's significant accounting policies.

Concentration of Credit Risk

At December 31, 2019 and June 30, 2019, 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 liability positions. At December 31, 2019 and June 30, 2019, 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 34% and 28% of the Company's trade accounts receivable balance was with five customers at December 31, 2019 and June 30, 2019, 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 probable bad debt losses have been appropriately considered in establishing the allowance for doubtful accounts.

Adoption of ASC 842 - Leases

Effective July 1, 2019, the Company adopted the FASB Topic 842 ("ASC 842"), *Leases*. The Company adopted ASC 842 under the modified retrospective approach using the practical expedient; therefore, the presentation of prior year periods has not been adjusted. No cumulative effect of initially adopting ASC 842 as an adjustment to the opening balance of components of equity as of July 1, 2019 was necessary. The adoption of ASC 842 resulted in the recording of Operating lease right-of-use assets and Operating lease liabilities of $16.3 million, as of July 1, 2019. The adoption of ASC 842 had no impact on retained earnings. See Note 3 for detail discussions on the adoption of ASC 842.

Right-of-use lease assets represent the Company's right to use an underlying asset for the lease term and lease liabilities represent the Company's obligation to make lease payments arising from the lease. Operating lease right-of-use assets and liabilities are recognized at commencement date based on the present value of lease payments over the lease term. As most of the Company's leases do not provide an implicit rate, the Company uses its incremental borrowing rate based on the information available at commencement date in determining the present value of lease payments. The Company uses the implicit rate when readily determinable. Lease terms may include options to extend or terminate the lease when it is reasonably certain that the company will exercise that option. Lease expense is primarily recognized on a straight-line basis over the lease term. The Company has lease agreements with lease and non-lease components, which are combined for certain assets classes.

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 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.	Effective for the Company beginning July 1, 2020. The Company is currently evaluating the impact ASU 2018-15 will have on its consolidated financial statements.
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 February 2018, the FASB issued ASU No. 2018-02, "Income Statement—Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income" ("ASU 2018-02").	ASU 2018-02 provides entities an option to reclassify certain stranded tax effects resulting from the tax reform from accumulated other comprehensive income to retained earnings.	The guidance in ASU 2018-02 is effective for annual periods beginning after December 15, 2018, and interim periods within those fiscal years, and should be applied either in the period of adoption or retrospectively.	The Company did not elect the option to reclassify certain stranded tax effects resulting from the tax reform from accumulated other comprehensive income to retained earnings.
In January 2017, the FASB issued ASU No. 2017-04, "Intangibles—Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment" ("ASU 2017-04").	The amendments in ASU 2017-04 address concerns regarding the cost and complexity of the two-step goodwill impairment test, and remove the second step of the test. An entity will apply a one-step quantitative test and record the amount of goodwill impairment as the excess of a reporting unit's carrying amount over its fair value, not to exceed the total amount of goodwill allocated to the reporting unit. ASU 2017-04 does not amend the optional qualitative assessment of goodwill impairment.	Annual and interim goodwill impairment tests in fiscal years beginning after December 15, 2019.	Effective for the Company beginning July 1, 2020. Adoption of ASU 2017-04 is not expected to have a material effect on the results of operations, financial position or cash flows of the Company.
In 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.	Effective for the Company beginning July 1, 2020. The Company is currently evaluating the impact of adoption on its financial statements and related disclosures, but does not anticipate a material impact to the consolidated financial statements.
In February 2016, the FASB issued ASU 2016-02, Leases. Since that date, the FASB has issued additional ASUs clarifying certain aspects of ASU 2016-02.	ASU 2016-02 requires a lessee to recognize in the statement of financial position a liability to make lease payments and a right-of-use asset representing its right to use the underlying asset for the lease term for both finance and operating leases. Subsequent guidance issued after February 2016 did not change the core principle of ASU 2016-02.	Annual periods beginning after December 15, 2018, and interim periods within those annual periods. Early application is permitted.	The Company adopted the new guidance effective July 1, 2019, using the modified retrospective transition method, which did not require the Company to adjust comparative periods. See Note 3 for the applicable disclosure of ASU 2016-02 adoption. .

Note 3. Leases

The Company makes a determination if an arrangement constitutes a lease at inception, and categorizes the lease as either an operating or finance lease. Operating leases are included in right-of-use operating lease assets and operating lease liabilities in the Company's Condensed Consolidated Balance Sheets. Finance leases are included in property, plant and equipment, net and other long-term liabilities in the Condensed Consolidated Balance Sheets. Leases with an initial term of 12 months or less are not recorded on the Condensed Consolidated Balance Sheets.

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 20 years. For purposes of calculating operating lease liabilities, lease terms are deemed not to include options to extend the lease termination 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.

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

(In thousands)	Classification	December 31, 2019
Operating lease assets	Right-of-use operating lease assets	$ 19,696
Finance lease assets	Property, plant and equipment, net	34
Total lease assets		**$ 19,730**
Operating lease liabilities - current	Operating lease liabilities - current	$ 5,571
Operating lease liabilities - noncurrent	Operating lease liabilities - noncurrent	14,318
Finance lease liabilities	Other long-term liabilities	35
Total lease liabilities		**$ 19,924**

The components of lease expense are as follows:

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

	December 31, 2019	
(In thousands)	**Operating Leases**	**Finance Leases**
Maturities of lease liabilities are as follows:		
2020	$ 2,826	$ 27
2021	5,102	9
2022	3,631	—
2023	2,995	—
2024	2,699	—
Thereafter	5,375	—
Total lease payments	22,628	36
Less: interest	(2,739)	(1)
Total lease obligations	**$ 19,889**	**$ 35**

Lease term and discount rate:

	December 31, 2019
Weighted-average remaining lease terms (in years):	
Operating lease	8.8
Finance lease	0.7
Weighted-average discount rate:	
Operating lease	4.50%
Finance lease	4.50%

Other Information:

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

Disclosures related to periods prior to adoption of ASU 2016-02

Rent expense paid for the fiscal year ended June 30, 2019 was $6.4 million.

The minimum annual payments under operating and capital leases as of June 30, 2019 are as follows:

(In thousands)	**Operating Lease Obligations**	**Capital Lease Obligations**
Year Ended June 30,		
2020	$ 4,434	$ 36
2021	3,238	1
2022	2,472	—
2023	2,131	—
2024	2,025	—
Thereafter	4,389	—
Total minimum lease payments	**$ 18,689**	37
Less: imputed interest (0.82% to 10.66%)		(2)
Present value of future minimum lease payments		35
Less: current portion		(34)
Long-term capital lease obligations		**$ 1**

Note 4. Derivative Instruments

Derivative Instruments Held

Coffee-Related Derivative Instruments

The Company is exposed to commodity price risk associated with its price to fixed green coffee purchase contracts, which are described further in Note 2 to the consolidated financial statements in the 2019 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, 2019 and June 30, 2019:

(In thousands)	December 31, 2019	June 30, 2019
Derivative instruments designated as cash flow hedges:		
Long coffee pounds	40,725	42,113
Derivative instruments not designated as cash flow hedges:		
Long coffee pounds	1,238	6,070
Total	41,963	48,183

Coffee-related derivative instruments designated as cash flow hedges outstanding as of December 31, 2019 will expire within 17 months. At December 31, 2019 and June 30, 2019 approximately 97% and 87%, 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 has designated the Rate Swap derivative instruments as a cash flow hedge.

Effect of Derivative Instruments on the Financial Statements

Balance Sheets

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

	Derivative Instruments Designated as Cash Flow Hedges		Derivative Instruments Not Designated as Accounting Hedges	
	December 31, 2019	June 30, 2019	December 31, 2019	June 30, 2019
(In thousands)				
Financial Statement Location:				
Short-term derivative assets:				
Coffee-related derivative instruments(1)	$ 8,718	$ 1,254	$ 333	$ 611
Long-term derivative assets:				
Coffee-related derivative instruments (2)	$ 443	$ 671	$ —	$ 3
Short-term derivative liabilities:				
Coffee-related derivative instruments (3)	$ 1	$ 1,114	$ 7	$ 114
Interest rate swap derivative instruments (3)	$ 360	$ 246	$ —	$ —
Long-term derivative liabilities:				
Coffee-related derivative instruments (4)	$ —	$ 13	$ —	$ —
Interest rate swap derivative instruments (4)	$ 1,069	$ 1,599	$ —	$ —

(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 "Short-term liabilities" on the Company's condensed consolidated balance sheets.
(4) 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)	2019	2018	2019	2018	Financial Statement Classification
Net gains (losses) recognized in AOCI - Interest rate swap	$ 448	$ —	$ (48)	$ —	AOCI
Net losses recognized from AOCI to earnings - Interest rate swap	$ (52)	$ —	$ (32)	$ —	Interest Expense
Net losses reclassified from AOCI to earnings for partial unwind of our interest swap - Interest rate swap (1)	$ (407)	$ —	$ (407)	$ —	Interest Expense
Net gains (losses) recognized in AOCI - Coffee-related	$ 12,130	$ 1,005	$ 7,431	$ (7,188)	AOCI
Net losses recognized in earnings - Coffee - related	$ (3,451)	$ (2,217)	$ (6,922)	$ (4,179)	Cost of goods sold

(1) 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 million to $65 million.

For the three and six months ended December 31, 2019 and 2018, 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, 2019 and 2018. Gains and losses on derivative instruments not designated as accounting hedges are included in "Other, net" in the Company's condensed consolidated statements of operations and in “Net losses (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)	**2019**	**2018**	**2019**	**2018**
Net losses on coffee-related derivative instruments(1)	$ 419	$ (920)	$ (624)	$ (2,025)
Non-operating pension and other postretirement benefit plans cost (2)	1,248	1,763	2,496	3,526
Other (losses) gains, net	(5)	110	(7)	109
Other, net	$ 1,662	$ 953	$ 1,865	$ 1,610

(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, 2019 and 2018.
(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, 2019	Derivative Assets	$ 9,494	$ (8)	$ —	$ 9,486
	Derivative Liabilities	$ (1,437)	$ (8)	$ —	$ (1,445)
June 30, 2019	Derivative Assets	$ 2,539	$ (698)	$ —	$ 1,841
	Derivative Liabilities	$ 3,086	$ (698)	$ —	$ 2,388

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, 2019, $5.2 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, 2019.

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, 2019, $0.4 million of net losses on interest rate swap derivative instruments 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)	Total	Level 1	Level 2	Level 3
December 31, 2019				
Derivative instruments designated as cash flow hedges:				
Coffee-related derivative assets (1)	$ 9,161	$ —	$ 9,161	$ —
Coffee-related derivative liabilities (1)	$ 1	$ —	$ 1	$ —
Interest rate swap derivative liabilities (2)	$ 1,429	$ —	$ 1,429	$ —
Derivative instruments not designated as accounting hedges:				
Coffee-related derivative assets(1)	$ 333	$ —	$ 333	$ —
Coffee-related derivative liabilities(1)	$ 7	$ —	$ 7	$ —

(In thousands)	Total	Level 1	Level 2	Level 3
June 30, 2019				
Derivative instruments designated as cash flow hedges:				
Coffee-related derivative assets (1)	$ 1,925	$ —	$ 1,925	$ —
Coffee-related derivative liabilities (1)	$ 1,127	$ —	$ 1,127	$ —
Interest rate swap derivative liabilities (2)	$ 1,845	$ —	$ 1,845	$ —
Derivative instruments not designated as accounting hedges:				
Coffee-related derivative assets (1)	$ 614	$ —	$ 614	$ —
Coffee-related derivative liabilities (1)	$ 114	$ —	$ 114	$ —

(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, 2019	June 30, 2019
Trade receivables	$ 57,652	$ 53,593
Other receivables(1)	3,293	2,886
Allowance for doubtful accounts	(541)	(1,324)
Accounts receivable, net	$ 60,404	$ 55,155

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

The $0.8 million decrease in the allowance for doubtful accounts during the six months ended December 31, 2019 was due to improvement of the Company’s accounts receivable aging balance.

Note 7. Inventories

(In thousands)	December 31, 2019	June 30, 2019
Coffee		
Processed	$ 27,492	$ 25,769
Unprocessed	30,337	33,259
Total	$ 57,829	$ 59,028
Tea and culinary products		
Processed	$ 19,385	$ 21,767
Unprocessed	94	74
Total	$ 19,479	$ 21,841
Coffee brewing equipment parts	$ 7,826	$ 7,041
Total inventories	$ 85,134	$ 87,910

In addition to product cost, inventory costs include expenditures such as direct labor and certain supply, freight, warehousing, overhead variances, purchase price variance (“PPVs”) 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, 2019	June 30, 2019
Buildings and facilities (1)	$ 100,316	$ 107,915
Machinery and equipment (1)	243,397	249,477
Capitalized software	28,770	27,666
Office furniture and equipment	13,858	14,035
	$ 386,341	$ 399,093
Accumulated depreciation	(227,671)	(225,826)
Land	13,313	16,191
Property, plant and equipment, net	$ 171,983	$ 189,458

(1) Decrease as of December 31, 2019 is due to the sale of assets. See Note 21 for details.

Coffee Brewing Equipment (“CBE”) and Service

Capitalized CBE included in machinery and equipment above are:

(In thousands)	December 31, 2019	June 30, 2019
Coffee Brewing Equipment	$ 103,520	$ 106,593
Accumulated depreciation	(69,581)	$ (70,202)
Coffee Brewing Equipment, net	$ 33,939	$ 36,391

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)	2019	2018	2019	2018
Depreciation expense	$ 2,327	$ 2,201	$ 4,666	$ 4,396
Other CBE expenses	$ 8,446	$ 8,410	$ 16,171	$ 16,916

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

There were no changes to the carrying value of goodwill in the six months ended December 31, 2019. The carrying value of goodwill at December 31, 2019 and June 30, 2019 was $36.2 million.

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

		December 31, 2019			June 30, 2019		
(In thousands)	Weighted Average Amortization Period as of December 31, 2019	Gross Carrying Amount	Accumulated Amortization	Net	Gross Carrying Amount	Accumulated Amortization	Net
Amortized intangible assets:							
Customer relationships	7.3	$ 33,003	$ (16,391)	$ 16,612	$ 33,003	$ (15,291)	$ 17,712
Non-compete agreements	2.2	220	(142)	78	220	(122)	98
Recipes	3.8	930	(420)	510	930	(354)	576
Trade name/brand name	4.5	510	(365)	145	510	(346)	164
Total amortized intangible assets		$ 34,663	$ (17,318)	$ 17,345	$ 34,663	$ (16,113)	$ 18,550
Unamortized intangible assets:							
Trademarks, trade names and brand name with indefinite lives		$ 10,328	$ —	$ 10,328	$ 10,328	$ —	$ 10,328
Total unamortized intangible assets		$ 10,328	$ —	$ 10,328	$ 10,328	$ —	$ 10,328
Total intangible assets		$ 44,991	$ (17,318)	$ 27,673	$ 44,991	$ (16,113)	$ 28,878

Aggregate amortization expense for the three months ended December 31, 2019 and 2018 was $0.6 million and $0.7 million, respectively. Aggregate amortization expense for the six months ended December 31, 2019 and 2018 was $1.2 million and $1.3 million, respectively.

The Company tests goodwill and intangible assets for impairment annually, as of January 31, or when events or changes in circumstances would indicate that the carrying amounts of the assets may not be recoverable. The Company is currently undergoing its annual testing. Events and circumstances have occurred, including those during the current fiscal year, such as declining operating results, that may have a negative impact on the fair value of these assets.

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,	
	2019	2018	2019	2018
(In thousands)				
Service cost	$ —	$ —	$ —	$ —
Interest cost	1,059	1,426	2,118	2,852
Expected return on plan assets	(1,102)	(1,485)	(2,203)	(2,970)
Amortization of net loss(1)	370	370	740	740
Pension settlement charge	—	10,948	—	10,948
Net periodic benefit cost	$ 327	$ 11,259	$ 655	$ 11,570

(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, 2019	June 30, 2019
Discount rate	3.45%	4.05%
Expected long-term return on plan assets	6.75%	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,	
	2019	2018	2019	2018
(In thousands)				
Contributions	$ 452	$ 283	$ 880	$ 778

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

(In thousands)	December 31, 2019	June 30, 2019
WCT Pension Trust (1)	$ 344	$ 1,487
Local 807 Pension Fund (2)	$ 182	$ 182

(1) Initial liability amount of $3.4 million, including interest, commencing in September 10, 2018, payable in 17 monthly installments of $190,507 followed by a final monthly installment of $153,822 in February 2020.
(2) Lump sum cash settlement payment of $3.0 million plus two remaining installment payments of $91,000 due on or before October 1, 2034 and on or before January 1, 2035. As of December 31, 2019, the Company has paid the Local 807 Pension Fund $3.0 million and has accrued $0.2 million within “Accrued pension liabilities” on the Company’s condensed consolidated balance sheet.

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 June 30, 2022.

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 $0.4 million in operating expenses in the three months ended December 31, 2019 and 2018. The Company recorded matching contributions of $1.3 million and $0.9 million in operating expenses in the six months ended December 31, 2019 and 2018.

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 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

The following table shows the components of net periodic postretirement benefit cost for the Retiree Medical Plan and Death Benefit for the three and six months ended December 31, 2019 and 2018. Net periodic postretirement benefit cost was based on employee census information and asset information as of June 30, 2019.

	Three Months Ended December 31,		Six Months Ended December 31,	
	2019	2018	2019	2018
(In thousands)				
Components of Net Periodic Postretirement Benefit Cost (Credit):				
Service cost	$ 147	$ 133	$ 294	$ 266
Interest cost	214	222	428	444
Amortization of net gain	(125)	(209)	(250)	(418)
Amortization of prior service credit	(392)	(439)	(784)	(878)
Net periodic postretirement benefit credit	$ (156)	$ (293)	$ (312)	$ (586)

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

	Fiscal	
	2020	2019
Retiree Medical Plan discount rate	3.62%	4.25%
Death Benefit discount rate	3.64%	4.25%

Note 11. Debt Obligations

The following table summarizes the Company's debt obligations:

				December 31, 2019		June 30, 2019	
(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	$ 70,000	4.05%	$ 92,000	3.98%

On November 6, 2018, the Company entered into a new $150.0 million senior secured revolving credit facility (the "Revolving Facility") with Bank of America, N.A, Citibank, N.A., JPMorgan Chase Bank, N.A., PNC Bank, National Association, Regions Bank, and SunTrust Bank, with a sublimit on letters of credit and swingline loans of $15.0 million each. The Revolving Facility includes an accordion feature whereby the Company may increase the revolving commitments or enter into one or more tranches of incremental term loans, up to an additional $75.0 million in aggregate of increased commitments and incremental term loans, subject to certain conditions. The commitment fee is based on a leverage grid and ranges from 0.20% to 0.40%. Borrowings under the New Revolving Facility bear interest based on a leverage grid with a range of PRIME + 0.25% to PRIME + 0.875% or Adjusted LIBO Rate + 1.25% to Adjusted LIBO Rate + 1.875%. Effective March 27, 2019, the Company entered into a rate swap agreement and in December 2019 amended the agreement. The impact of the amendment was $0.4 million of realized loss due to the partial unwinding of interest rate swap resulting from the amendment of the notional amount from $80.0 million to $65.0 million. See Note 4 for details.

Under the Revolving Facility, the Company is subject to a variety of affirmative and negative covenants of types customary in a senior secured lending facility, including financial covenants relating to leverage and interest expense coverage. The Company is allowed to pay dividends, provided, among other things, a total net leverage ratio is met, and no default exists or has occurred and is continuing as of the date of any such payment and after giving effect thereto.

At December 31, 2019, the Company was in compliance with all of the covenants under the Revolving Facility.

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, 2019	June 30, 2019
Allocated shares	1,393,530	1,393,530
Committed to be released shares	—	—
Unallocated shares	—	—
Total ESOP shares	1,393,530	1,393,530
(In thousands)		
Fair value of ESOP shares	$ 20,987	$ 22,812

Note 13. Share-based Compensation

Farmer Bros. Co. 2017 Long-Term Incentive Plan

As of December 31, 2019, there were 565,112 shares available under the 2017 Plan including shares that were forfeited under the Prior Plans for future issuance.

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, 2019:

	Six Months Ended December 31, 2019
Weighted average fair value of NQOs	$ 4.65
Risk-free interest rate	1.7%
Dividend yield	—%
Average expected term	4.6 years
Expected stock price volatility	35.4%

The following table summarizes NQO activity for the six months ended December 31, 2019:

Outstanding NQOs:	Number of NQOs	Weighted Average Exercise Price ($)	Weighted Average Remaining Life (Years)	Aggregate Intrinsic Value ($ in thousands)
Outstanding at June 30, 2019	198,049	27.35	5.25	40
Granted	431,344	14.48	—	—
Exercised	(10,360)	12.48	—	28
Forfeited	(104,288)	27.28	—	—
Expired	(27,970)	31.66	—	—
Outstanding at December 31, 2019	486,775	16.03	6.54	432
Exercisable at December 31, 2019	30,074	28.96	3.76	—

The weighted-average grant-date fair value of options granted during the six months ended December 31, 2019 was $4.65. 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 $15.06 at December 31, 2019 and $16.37 at June 28, 2019, 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 the six months ended December 31, 2019 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 Company received $0.1 million and $0.3 million in proceeds from exercises of vested NQOs during the six months ended December 31, 2019 and 2018, respectively.

At December 31, 2019 and June 30, 2019, respectively, there were $2.1 million and $1.1 million of unrecognized NQO compensation cost. The unrecognized NQO compensation cost at December 31, 2019 is expected to be recognized over the weighted average period of 2.7 years. Total compensation expense for NQOs was $178.1 thousand and $185.0 thousand for the three months ended December 31, 2019 and 2018, respectively. Total compensation expense for NQOs was $277.2 thousand and $283.0 thousand for the six months ended December 31, 2019 and 2018, 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, 2019:

Outstanding PNQs:	Number of PNQs	Weighted Average Exercise Price ($)	Weighted Average Remaining Life (Years)	Aggregate Intrinsic Value ($ in thousands)
Outstanding at June 30, 2019	229,961	26.21	1.23	—
Granted	—	—	—	—
Exercised	—	—	—	—
Forfeited	(6,212)	32.85	—	—
Expired	(202,753)	25.67	—	—
Outstanding at December 31, 2019	20,996	29.39	1.92	—
Exercisable at December 31, 2019	12,730	27.95	1.78	—

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 $15.06 at December 31, 2019 and $16.37 at June 28, 2019, 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, 2019 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 the six months ended December 31, 2019. The Company received $0.1 million in proceeds from exercises of vested PNQs during the six months ended December 31, 2018.

At December 31, 2019 and June 30, 2019, there were zero and $39.7 thousand, respectively, of unrecognized PNQ compensation cost. Total compensation expense related to PNQs in the three months ended December 31, 2019 and 2018 were $4.6 thousand and $146.4 thousand, respectively. Total compensation expense related to PNQs in the six months ended December 31, 2019 and 2018 were $18.3 thousand and $324.5 thousand, respectively.

Restricted Stock

The following table summarizes restricted stock activity for the six months ended December 31, 2019:

Outstanding and Nonvested Restricted Stock Awards:	Shares Awarded	Weighted Average Grant Date Fair Value ($)
Outstanding and nonvested at June 30, 2019	32,056	21.10
Granted	48,654	15.05
Vested/Released	(18,298)	23.98
Cancelled/Forfeited	(1,704)	31.70
Outstanding and nonvested at December 31, 2019	60,708	15.66

The total grant-date fair value of restricted stock granted during the six months ended December 31, 2019 was $0.7 million.

At December 31, 2019 and June 30, 2019, there were $0.7 million and $0.4 million, respectively, of unrecognized compensation cost related to restricted stock. The unrecognized compensation cost related to restricted stock at December 31, 2019 is expected to be recognized over the weighted average period of 0.8 years. Total compensation expense for restricted stock were $0.2 million and $0.1 million, respectively, in the three months ended December 31, 2019 and 2018. Total compensation expense for restricted stock in the six months ended December 31, 2019 and 2018 were $0.4 million and $0.2 million, respectively.

Performance-Based Restricted Stock Units ("PBRSUs")

The following table summarizes PBRSU activity for the six months ended December 31, 2019:

Outstanding and Nonvested PBRSUs:	PBRSUs Awarded(1)	Weighted Average Grant Date Fair Value ($)
Outstanding and nonvested at June 30, 2019	51,237	27.69
Granted(1)	76,256	14.42
Vested/Released	—	—
Cancelled/Forfeited	(36,049)	27.92
Outstanding and nonvested at December 31, 2019	91,444	16.54

(1) The target number of PBRSUs is presented in the table. Under the terms of the awards, the recipient may earn between 0% and 200% 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, 2019 was $1.1 million.

At December 31, 2019 and June 30, 2019, there were $1.1 million and $0.3 million, respectively, of unrecognized PBRSU compensation cost. The unrecognized PBRSU compensation cost at December 31, 2019 is expected to be recognized over the weighted average period of 2.6 years. Total compensation expense for PBRSUs were $77.2 thousand and $117.0 thousand, respectively, for the three months ended December 31, 2019 and 2018. Total compensation expense for PBRSUs were $0.1 million and $0.2 million, respectively, for the six months ended December 31, 2019 and 2018.

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, 2019, the Company had recognized accrued liabilities of $16.9 thousand.

At December 31, 2019, there was $0.4 million of unrecognized PCA compensation cost. The unrecognized PCA compensation cost at December 31, 2019 is expected to be recognized over the weighted average period of 2.9 years. 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, 2019	June 30, 2019
Accrued postretirement benefits	$ 1,068	$ 1,068
Accrued workers' compensation liabilities	1,681	1,495
Cumulative preferred dividends, undeclared and unpaid (4)	1,198	305
Earnout payable (1)	—	1,000
Working capital dispute payable(2)	354	354
Other (3)	3,681	3,087
Other current liabilities	$ 7,982	$ 7,309

(1) Represents estimated fair value of earnout payable in connection with the Company's acquisition of substantially all of the assets of West Coast Coffee completed on February 7, 2017.
(2) Represents accrued expenses related to working capital disputes in connection with the Company's acquisition of Boyd Coffee on October 2, 2017.
(3) Includes accrued property taxes, sales and use taxes and insurance liabilities.
(4) Per the agreement, all the cumulative preferred dividends, undeclared and unpaid are now payable. Therefore, the previously accrued long-term portion has been reclassified to current liabilities.

Note 15. Other Long-Term Liabilities

Other long-term liabilities include the following:

(In thousands)	December 31, 2019	June 30, 2019
Finance lease liabilities	$ 35	$ 32
Derivative liabilities—noncurrent	1,068	1,612
Performance Cash Awards Liability	17	—
Cumulative preferred dividends, undeclared and unpaid—noncurrent	—	618
Deferred income taxes and other liabilities(1)	2,027	1,795
Other long-term liabilities	$ 3,147	$ 4,057

(1) 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,	
	2019	2018	2019	2018
Income tax benefit	$ (81)	$ (2,725)	$ (188)	$ (4,012)
Effective tax rate	(1.1)%	21.0%	(1.5)%	23.3%

The lower effective tax rate is primarily due to the previously recorded valuation allowance and change in the Company's estimated deferred tax liability. 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, 2019 and June 30, 2019, the Company is no longer subject to income tax audits by taxing authorities for any years prior to 2016. 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 per common share:

	Three Months Ended December 31,		Six Months Ended December 31,	
(In thousands, except share and per share amounts)	2019	2018	2019	2018
Undistributed net earnings (loss) available to common stockholders	$ 7,595	$ (10,225)	$ 12,104	$ (13,341)
Undistributed net earnings (loss) available to nonvested restricted stockholders and holders of convertible preferred stock	21	(9)	29	(11)
Net earnings (loss) available to common stockholders—basic	$ 7,616	$ (10,234)	$ 12,133	$ (13,352)
Weighted average common shares outstanding—basic	17,159,108	16,985,157	17,127,153	16,971,995
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	17,583,335	16,985,157	17,550,144	16,971,995
Net earnings (loss) per common share available to common stockholders—basic	$ 0.44	$ (0.60)	$ 0.71	$ (0.79)
Net earnings (loss) per common share available to common stockholders—diluted	$ 0.43	$ (0.60)	$ 0.69	$ (0.79)

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,		Six Months Ended December 31,	
	2019	2018	2019	2018
Shares issuable under stock options	190,117	201,543	121,113	165,013
Shares issuable under convertible preferred stock	—	400,691	—	400,691
Shares issuable under PBRSUs	16,195	64,991	8,097	52,890

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, 2019, 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	$ 1,082	$ 15,899	$ 1,199	$ 15,899

Note 19. Revenue Recognition

The Company's primary source 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 primarily through two methods, 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 or facility. 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,			
	2019		2018	
(In thousands)	$	% of total	$	% of total
Net Sales by Product Category:				
Coffee (Roasted)	$ 96,177	63.1%	$ 99,286	62.1%
Coffee (Frozen Liquid)	8,556	5.6%	9,318	5.8%
Tea (Iced & Hot)	7,563	5.0%	8,651	5.4%
Culinary	15,158	10.0%	16,795	10.5%
Spice	6,126	4.0%	6,002	3.8%
Other beverages(1)	17,299	11.3%	18,915	11.8%
Other revenues(2)	946	0.6%	—	—%
Net sales by product category	151,825	99.6%	158,967	99%
Fuel surcharge	673	0.4%	806	0.6%
Net sales	$ 152,498	100.0%	$ 159,773	100%

(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.

	Six Months Ended December 31,			
	2019		2018	
(In thousands)	$	% of total	$	% of total
Net Sales by Product Category:				
Coffee (Roasted)	$ 183,547	63.1%	$ 194,640	63.4%
Coffee (Frozen Liquid)	16,484	5.7%	17,874	5.8%
Tea (Iced & Hot)	15,268	5.2%	17,555	5.7%
Culinary	29,361	10.1%	32,789	10.7%
Spice	12,332	4.2%	12,160	4.0%
Other beverages(1)	30,032	10.3%	30,541	9.9%
Other revenues(2)	2,701	0.9%	—	—%
Net sales by product category	289,725	99.5%	305,559	99.5%
Fuel surcharge	1,373	0.5%	1,654	0.5%
Net sales	$ 291,098	100.0%	$ 307,213	100.0%

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(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, 2019. Receivables from contracts with customers are included in "Accounts receivable, net" on the Company's condensed consolidated balance sheets. At December 31, 2019 and June 30, 2019, "Accounts receivable, net" included, $57.7 million and $53.6 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 2019 Form 10-K. During the six months ended December 31, 2019, 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, 2019, the Company had committed to purchase green coffee inventory totaling $60.7 million under fixed-price contracts, $6.2 million in other inventory under non-cancelable purchase orders and $5.4 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. Further, the Court of Appeals scheduled a hearing on February 14, 2020 for additional discovery issues in the CERT vs OEHHA case. The JDG’s reply in support of its motion for summary judgment is currently due to the Court on March 16, 2020.

Subsequent to the hearing on January 21, 2020, Plaintiff issued broad discovery 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. Objections to discovery requests are due March 2, 2020.

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

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

Note 21. Sales of Assets

Sale of Office Coffee Assets

In order to focus on its core product offerings, in July 2019, the Company completed the sale of certain assets associated with its office coffee customers for $9.3 million in cash paid at the time of closing plus an earnout of up to an additional $2.3 million if revenue expectations are achieved during test periods scheduled to occur at various branches at various times and concluding by early third quarter of fiscal year 2020. The Company recognized an initial net gain on the asset sales of $7.2 million during the six months ended December 31, 2019. The sale of office coffee assets did not represent a strategic shift for the Company and did not have a material impact on the Company's results of operations because the Company has signed a supply agreement to provide certain coffee products to the assets purchaser.

Sale of Branch Properties

During the six months ended December 31, 2019, the Company completed the sale of five branch properties and entered into two operating lease agreements with the purchasers of two of the branch properties as detailed in the following table:

(In thousands) Name of Branch Property	Date Sold	Sales Price	Net Proceed	Gain (loss)	Long-Term Leaseback	Lease Term	Monthly Base Rent
Seattle, Washington	8/28/2019	$ 7,900	$ 7,300	$ 6,800	No	N/A	N/A
Indianapolis, Indiana	11/19/2019	$ 250	$ 186	$ (173)	No	N/A	N/A
Hayward, California(1)	12/23/2019	$ 7,050	$ 6,569	$ 2,016	Yes	5 years	$ 28
Denver, Colorado(1)	12/31/2019	$ 2,300	$ 2,075	$ 1,989	Yes	7 years	$ 17
Casper, Wyoming	12/31/2019	$ 385	$ 355	$ 304	No	N/A	N/A

(1) Has an option to renew the lease for additional five years.

Sale leaseback of Houston Facility

In November 2019, the Company completed the sale of its Houston, Texas manufacturing facility and warehouse (the “Property”) for an aggregate purchase price, exclusive of closing costs, of $10.0 million. Cash proceeds from the sale of the Property were $9.0 million. The Company recognized a net gain on the Property sale of $7.3 million during the six months ended December 31, 2019. The Property did not meet the accounting guidance criteria to be classified as discontinued operations.

Following the close of the sale of the Property, the Company and the purchaser of the Property entered into a three-year leaseback agreement with respect to the Property for a base rent of $50,000 per month. The Company may terminate the leaseback no earlier than the first day of the eighteenth full calendar month of the term providing at least nine months’ notice. The purchaser of the Property does not have any material relationship with the Company or its subsidiaries.

Note 22. Subsequent Events

The Company evaluated all events or transactions that occurred after December 31, 2019 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, 2019 filed with the Securities and Exchange Commission (the "SEC") on September 11, 2019 (the "2019 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, 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, 2019 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. In fiscal 2017, we completed the relocation of our corporate headquarters from Torrance, California to 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 chains, 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 insist on their sustainable cultivation, manufacture and distribution whenever possible.

Our product categories consist of a robust line of roast and ground coffee, including organic, Direct Trade, 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; Houston, Texas; Portland, Oregon; and Hillsboro, Oregon. Distribution takes place out of the Northlake facility, Texas, the Portland and Hillsboro facilities, as well as separate distribution centers in Northlake, Illinois; and Moonachie, New Jersey. Our products reach our customers primarily in the following ways: through our nationwide DSD network of 365 delivery routes and 101 branch warehouses as of December 31, 2019, 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.

Summary Overview of Three Months Ended December 31, 2019 Results of Operations

During the three months ended December 31, 2019, we experienced sales declines in our DSD sales channel while our direct ship sales channel were comparable to the prior year period.

Similar to what we experienced in fiscal 2019, our DSD network continued to be negatively impacted by higher customer attrition, partially offset by sales to new customers. In addition, our DSD sales network was impacted by the sale of our office coffee business in July 2019. While our direct ship channel sales grew in terms of coffee pounds, unfavorable customer mix shift and the impact of coffee prices for our cost plus customers caused revenues to be comparable to the prior period.

During the three months ended December 31, 2019, gross margins declined by 4.5% to 28.8% from 33.3% mostly due to unfavorable customer mix shift and higher write-down of slow moving inventories. These declines were partially offset by lower freight costs, the impact of coffee prices and the start of our key initiative to rebalance production across our plant network.

Operating expenses declined by $17.6 million over the prior year quarter driven mostly by gains realized from several key near-term strategic priorities. During the three months ended December 31, 2019, we completed the sale of our Houston, Texas manufacturing facility and warehouse and four branch properties for an aggregate sale price of $20.0 million. Net cash proceeds from these assets sales were $18.3 million. We recognized a net gain on these asset sales of $11.4 million during three months ended December 31, 2019. The proceeds from the sales gave us increased liquidity and flexibility. Operating expenses also benefited from several cost saving initiatives implemented during the current fiscal year. These savings were slightly offset by proxy contest expenses and one-time executive severance costs associated with a corporate reorganization during the period.

Our capital expenditures for the six months ended December 31, 2019 were $9.0 million, representing lower maintenance capital spend of $7.5 million, a 61.0% reduction compared to the prior year period. These spending reductions were driven by several key initiatives put in place, including a focus on improving our coffee brewing equipment ("CBE") program to drive cost savings.

As of December 31, 2019, the outstanding debt on our revolver was $70.0 million, a decline of $15.0 million since September 30, 2019 and $22.0 million since June 30, 2019. Additionally, our cash increased to $9.1 million as of December 31, 2019, compared to $7.0 million as of June 30, 2019. These improvements in our liquidity provide additional financial and operational flexibility.

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)	
	2019	2018	Change	% Change	2019	2018	Change	% Change
Income Statement Data:								
Net sales	$ 152,498	$ 159,773	$ (7,275)	(4.6)%	$ 291,098	$ 307,213	$ (16,115)	(5.2)%
Gross margin	28.8%	33.3 %	(4.5)%	NM	29.1%	33.0%	(3.9)%	NM
Operating expenses as a % of sales	23.0%	33.0 %	10.0 %	NM	23.7%	33.5%	9.8 %	NM
Income (loss) from operations	$ 8,870	$ 502	$ 8,368	NM	$ 15,762	$ (1,576)	$ 17,338	NM
Net income (loss)	$ 7,754	$ (10,100)	$ 17,854	NM	$ 12,408	$ (13,086)	$ 25,494	194.8 %
Net earnings (loss) available to common stockholders per common share—basic	$ 0.44	$ (0.60)	$ 1.04	NM	$ 0.71	$ (0.79)	$ 1.50	NM
Net earnings (loss) available to common stockholders per common share—diluted	$ 0.43	$ (0.60)	$ 1.03	NM	$ 0.69	$ (0.79)	$ 1.48	NM
Operating Data:								
Coffee pounds	29,360	27,398	1,962	7.2 %	55,318	52,845	2,473	4.7 %
EBITDA(1)	$ 16,852	$ (3,188)	$ 20,040	NM	$ 30,292	$ 1,470	$ 28,822	NM
EBITDA Margin(1)	11.1%	(2.0)%	13.1 %	NM	10.4%	0.5%	9.9 %	NM
Adjusted EBITDA(1)	$ 7,448	$ 12,443	$ (4,995)	(40.1)%	$ 11,464	$ 23,410	$ (11,946)	(51.0)%
Adjusted EBITDA Margin(1)	4.9%	7.8 %	(2.9)%	NM	3.9%	7.6%	(3.7)%	NM
Percentage of Total Net Sales By Product Category								
Coffee (Roasted)	63.1%	62.1 %	1.0 %	1.6 %	63.1%	63.4%	(0.3)%	(0.5)%
Coffee (Frozen Liquid)	5.6%	5.8 %	(0.2)%	(3.4)%	5.7%	5.8%	(0.1)%	(1.7)%
Tea (Iced & Hot)	5.0%	5.4 %	(0.4)%	(7.4)%	5.2%	5.7%	(0.5)%	(8.8)%
Culinary	10.0%	10.5 %	(0.5)%	(4.8)%	10.1%	10.7%	(0.6)%	(5.6)%
Spice	4.0%	3.8 %	0.2 %	5.3 %	4.2%	4.0%	0.2 %	5.0 %
Other beverages(2)	11.3%	11.8 %	(0.5)%	(4.2)%	10.3%	9.9%	0.4 %	4.0 %
Other revenues(3)	0.6%	— %	0.6 %	NM	0.9%	—%	0.9 %	NM
Net sales by product category	99.6%	99.4 %	0.2 %	NM	99.5%	99.5%	(0.9)%	NM
Fuel Surcharge	0.4%	0.6 %	(0.2)%	NM	0.5%	0.5%	— %	NM
Total	100.0%	100.0 %	— %	NM	100.0%	100.0%	(0.9)%	— %
Other data:								
Capital expenditures related to maintenance	$ 3,107	$ 7,105	$ (3,998)	(56.3)%	$ 7,459	$ 12,567	$ (5,108)	(40.6)%
Total capital expenditures	$ 3,730	$ 15,333	$ (11,603)	(75.7)%	$ 9,007	$ 23,120	$ (14,113)	(61.0)%
Depreciation and amortization expense	$ 7,594	$ 7,902	$ (308)	(3.9)%	$ 15,211	$ 15,630	$ (419)	(2.7)%

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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, 2019 and 2018 (in thousands, except percentages):

	Three Months Ended December 31,		Favorable (Unfavorable)		Six Months Ended December 31,		Favorable (Unfavorable)	
	2019	2018	Change	% Change	2019	2018	Change	% Change
Net sales	$ 152,498	$ 159,773	$ (7,275)	(4.6)%	$ 291,098	$ 307,213	$ (16,115)	(5.2)%
Cost of goods sold	108,513	106,529	(1,984)	(1.9)%	206,472	205,734	(738)	(.4)%
Gross profit	43,985	53,244	(9,259)	(17.4)%	84,626	101,479	(16,853)	(16.6)%
Selling expenses	34,906	39,591	4,685	11.8 %	68,520	76,901	8,381	10.9 %
General and administrative expenses	11,266	12,140	874	7.2 %	24,006	20,757	(3,249)	(15.7)%
Restructuring and other transition expenses	—	207	207	100.0 %	—	4,674	4,674	100.0 %
Net (gains) losses from sales of assets	(11,057)	804	11,861	NM	(23,662)	723	24,385	NM
Operating expenses	35,115	52,742	17,627	33.4 %	68,864	103,055	34,191	33.2 %
Income (loss) from operations	8,870	502	8,368	NM	15,762	(1,576)	17,338	NM
Other (expense) income:								
Interest expense	(2,859)	(3,332)	473	14.2 %	(5,407)	(6,184)	777	12.6 %
Pension settlement charge	—	(10,948)	10,948	(100.0)%	—	(10,948)	10,948	(100.0)%
Other, net	1,662	953	709	74.4 %	1,865	1,610	255	15.8 %
Total other expense	(1,197)	(13,327)	12,130	91.0 %	(3,542)	(15,522)	11,980	(77.2)%
Income (loss) before taxes	7,673	(12,825)	20,498	159.8 %	12,220	(17,098)	29,318	171.5 %
Income tax benefit	(81)	(2,725)	(2,644)	(97.0)%	(188)	(4,012)	(3,824)	95.3 %
Net income (loss)	$ 7,754	$ (10,100)	17,854	176.8 %	$ 12,408	$ (13,086)	25,494	194.8 %
Less: Cumulative preferred dividends, undeclared and unpaid	138	134	(4)	(3.0)%	275	266	(9)	(3.4)%
Net earnings (loss) available to common stockholders	$ 7,616	$ (10,234)	17,850	174.4 %	$ 12,133	$ (13,352)	25,485	190.9 %

NM - Not Meaningful

Three and Six Months Ended December 31, 2019 Compared to Three and Six Months Ended December 31, 2018

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, 2019 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)	
	2019	2018	Change	% Change	2019	2018	Change	% Change
Units sold								
Coffee (Roasted)	23,488	21,918	1,570	7.2 %	44,254	42,276	1,978	4.7 %
Coffee (Frozen Liquid)	100	110	(10)	(9.1)%	198	235	(37)	(15.7)%
Tea (Iced & Hot)	723	723	—	— %	1,348	1,358	(10)	(0.7)%
Culinary	1,934	2,112	(178)	(8.4)%	3,792	4,200	(408)	(9.7)%
Spice	171	175	(4)	(2.3)%	339	390	(51)	(13.1)%
Other beverages(1)	1,459	1,855	(396)	(21.3)%	2,397	2,908	(511)	(17.6)%
Total	27,875	26,893	982	3.7 %	52,328	51,367	961	1.9 %
Unit Price								
Coffee (Roasted)	$ 4.12	$ 4.53	$ (0.41)	(9.1)%	$ 4.18	$ 4.60	$ (0.42)	(9.1)%
Coffee (Frozen Liquid)	$ 85.65	$ 84.47	$ 1.18	1.4 %	$ 83.21	$ 75.98	$ 7.23	9.5 %
Tea (Iced & Hot)	$ 10.46	$ 11.96	$ (1.50)	(12.5)%	$ 11.33	$ 12.93	$ (1.60)	(12.4)%
Culinary	$ 7.98	$ 7.95	$ 0.03	.4 %	$ 7.95	$ 7.81	$ 0.14	1.8 %
Spice	$ 35.73	$ 34.32	$ 1.41	4.1 %	$ 36.40	$ 31.19	$ 5.21	16.7 %
Other beverages(1)	$ 11.95	$ 10.20	$ 1.75	17.2 %	$ 12.68	$ 10.50	$ 2.18	20.8 %
Average unit price	$ 5.47	$ 5.94	$ (0.47)	(7.9)%	$ 5.56	$ 5.98	$ (0.42)	(7.0)%
Total Net Sales By Product Category(2)								
Coffee (Roasted)	$ 96,692	$ 99,286	$ (2,594)	(2.6)%	$ 185,067	$ 194,640	$ (9,573)	(4.9)%
Coffee (Frozen Liquid)	8,556	9,318	(762)	(8.2)%	16,484	17,874	(1,390)	(7.8)%
Tea (Iced & Hot)	7,563	8,651	(1,088)	(12.6)%	15,268	17,555	(2,287)	(13.0)%
Culinary	15,435	16,795	(1,360)	(8.1)%	30,145	32,789	(2,644)	(8.1)%
Spice	6,126	6,002	124	2.1 %	12,332	12,160	172	1.4 %
Other beverages(1)	17,440	18,915	(1,475)	(7.8)%	30,391	30,541	(150)	(.5)%
Net sales by product category	$ 151,812	$ 158,967	$ (7,155)	(4.5)%	$ 289,687	$ 305,559	$ (15,872)	(5.2)%
Fuel Surcharge	686	806	(120)	(14.9)%	1,411	1,654	(243)	(14.7)%
Total	$ 152,498	$ 159,773	$ (7,275)	(4.6)%	$ 291,098	$ 307,213	$ (16,115)	(5.2)%

(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, 2019 decreased $7.3 million, or 4.6%, to $152.5 million from $159.8 million in the three months ended December 31, 2018. The decline in net sales was primarily due to a decline in volume of green coffee processed and sold through our DSD network, a decrease in net sales from tea and culinary products, and the impact of coffee prices for our cost plus customers. Sales through our DSD network were impacted by the sale of our office coffee business in July of 2019 and net customer attrition. Our direct ship sales were comparable to the prior year period because the increase in direct ship volume was offset by unfavorable customer mix shift and the impact of coffee prices for our cost plus customers. Net sales in the three months ended December 31, 2019 included $2.5 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 $1.0 million in price decreases to customers utilizing such arrangements in the three months ended December 31, 2018.

Net sales in the six months ended December 31, 2019 decreased $16.1 million, or 5.2%, to $291.1 million from $307.2 million in the six months ended December 31, 2018. The decline in net sales was primarily due to a decline in revenues and volume of green coffee processed and sold through our DSD network, a decrease in net sales from tea and culinary products, unfavorable customer mix within our direct sales, non-recurring sales of industrial soup based products associated with the Boyd's acquisition which we stopped selling last year, and the impact of coffee prices for our cost plus customers. Sales through our DSD network were impacted by the sale of our office coffee business in July of 2019, higher customer attrition and lower inventory fill rates associated with downtime at our Houston plant during the earlier part of the current period. Net sales in the six months ended December 31, 2019 included $5.1 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 $3.0 million in price decreases to customers utilizing such arrangements in the six months ended December 31, 2018.

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, 2019 compared to the same periods in the prior fiscal year (in millions):

	Three Months Ended December 31, 2019 vs. 2018	% of Total Mix Change	Six Months Ended December 31, 2019 vs. 2018	% of Total Mix Change
Effect of change in unit sales	$ 5.4	74.0 %	$ 5.3	32.9 %
Effect of pricing and product mix changes	(12.7)	(174.0)%	(21.4)	(132.9)%
Total decrease in net sales	$ (7.3)	(100.0)%	$ (16.1)	(100.0)%

Unit sales increased 3.7% and average unit price decreased by 7.9% in the three months ended December 31, 2019 as compared to the same period in the prior fiscal year, resulting in a decrease in net sales of 4.6%. Unit sales increased 1.9% and average unit price decreased by 7.0% in the six months ended December 31, 2019 as compared to the same period in the prior fiscal year, resulting in a decrease in net sales of 5.2%. Average unit price decreased during three and six months ended December 31, 2019 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, 2019 or 2018, which had a material impact on our net sales.

Gross Profit

Gross profit in the three months ended December 31, 2019 decreased $9.3 million, or 17.4%, to $44.0 million from $53.2 million in the three months ended December 31, 2018. Gross margin decreased to 28.8% in the three months ended December 31, 2019 from 33.3% in the three months ended December 31, 2018. Gross profit in the six months ended December 31, 2019 decreased $16.9 million, or 16.6%, to $84.6 million from $101.5 million in the six months ended December 31, 2018. Gross margin decreased to 29.1% in the six months ended December 31, 2019 from 33.0% in the six ended December 31, 2018.

The decrease in gross profit in the three and six months ended December 31, 2019 was primarily driven by lower net sales of $7.3 million and $16.1 million, respectively, and higher costs of goods sold. Cost of goods sold in the three months ended December 31, 2019 was 71.2% of net sales as compared 66.7% of net sales, in the three months ended December 31, 2018. Cost of goods sold in the six months ended December 31, 2019 was 70.9% of net sales as compared 67.0% of net sales, in the six months ended December 31, 2018. Margins were negatively impacted by unfavorable customer mix and higher write-down of slow moving inventories, partially offset by lower freight costs and the impact of coffee prices during the six months ended December 31, 2019.

Operating Expenses

In the three months ended December 31, 2019, operating expenses decreased $17.6 million, or 33.4%, to $35.1 million, or 23.0% of net sales, from $52.7 million, or 33.0% of net sales, in the three months ended December 31, 2018, primarily due to a $11.9 million increase in net gains from sales of assets, a $4.7 million decrease in selling expenses, $0.9 million decrease in general and administrative expenses and the absence of $0.2 million in restructuring and other transition expenses.

The decrease in selling expenses was primarily due to efficiencies realized from DSD route optimization. The decrease in general and administrative expenses was associated primarily with reductions in third party costs and the absence of Boyd Coffee integration costs, partially offset by higher employee incentive costs, proxy contest expenses and severance costs during the three months ended December 31, 2019. The three months ended December 31, 2018 includes a one–time credit for employees incentives costs.

Net gains from sales of assets in the three months ended December 31, 2019 were primarily associated with the sales of the Houston Property and four office branch properties for $7.3 million and $4.1 million, respectively.

In the six months ended December 31, 2019, operating expenses decreased $34.2 million, or 33.2%, to $68.9 million, or 23.7% of net sales, from $103.1 million, or 33.5% of net sales, in the six months ended December 31, 2018, primarily due to a $24.4 million increase in net gains from sales of assets, a $8.4 million decrease in selling expenses and the absence of $4.7 million in restructuring and other transition expenses, partially offset by a $3.2 million increase in general and administrative expenses.

The decrease in selling expenses was primarily due to headcount reductions, the conclusion of Boyd Coffee integration at the beginning of October 2018 and other efficiencies realized from DSD route optimization. The increase in general and administrative expenses was associated primarily with employee incentive and benefit costs, proxy contest expenses and executive severance costs incurred during the six months ended December 31, 2019. The six months ended December 31, 2018 includes a one–time credit for employees incentives costs.

Net gains from sales of assets in the six months ended December 31, 2019 were primarily associated with the sales of the Houston Property, the office coffee assets and five office branch properties for $7.3 million, $7.2 million and $10.9 million, respectively.

Total Other Expense

Total other expense in the three months ended December 31, 2019 was $1.2 million compared to $13.3 million in the three months ended December 31, 2018. Total other expense in the six months ended December 31, 2019 was $3.5 million compared to $15.5 million in the six months ended December 31, 2018. The change in total other expense in the three and six months ended December 31, 2019 was primarily a result of;

- the absence of pension settlement charge in the current period;
- reduced employee post retirement benefit gains;
- lower interest expense;
- higher net gains on coffee-related derivative instruments in the three months ended December 31, 2019; and
- lower net losses on coffee-related derivative instruments in the six months ended December 31, 2019.

The pension settlement charge incurred in the three and six months ended December 31, 2018 of $10.9 million was due to the termination of the Farmer Bros. Co. Pension Plan for Salaried Employees effective December 1, 2018.

Interest expense in the three months ended December 31, 2019 decreased $0.5 million to $2.9 million from $3.3 million in the prior year period. Interest expense in the six months ended December 31, 2019 decreased $0.8 million to $5.4 million from $6.2 million in the prior year period. The decrease in interest expense in the three and six months ended December 31, 2019 was principally due to lower pension interest expense and lower borrowings on our credit facility, partially offset by a $0.4 million of realized loss from the partial unwinding of our interest rate swap notional amount from $80.0 million to $65.0 million.

Other, net in the three months ended December 31, 2019 increased by $0.7 million to $1.7 million compared to $1.0 million in the prior year period. Other, net in the six months ended December 31, 2019 increased by $0.3 million to $1.9 million compared to $1.6 million in the prior year period. The increase in Other, net was primarily a result of mark-to-market net gains on coffee-related derivative instruments not designated as accounting hedges in the three months ended December 31, 2019 compared same prior year period mark-to-market net losses. In the six months ended December 31, 2019, coffee-related derivative instruments not designated as accounting hedges was impacted by lower mark-to-market net losses compared same prior year period.

Income Taxes

In the three and six months ended December 31, 2019, we recorded income tax benefit of $0.1 million and $0.2 million, respectively, compared to $2.7 million and $4.0 million in the three and six months ended December 31, 2018, respectively. The lower tax benefit is primarily due to the previously recorded valuation allowance and change in our estimated deferred tax liability during the three and six months ended December 31, 2019 as compared to the prior year period. 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;
- (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 related expenses;
- net gains and losses from sales of assets;
- non-cash pension settlement charges; and
- acquisition and integration costs.

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

Restructuring and other transition expenses are expenses that are directly attributable to (i) employee retention and separation benefits, pension withdrawal expense, facility-related costs and other related costs such as travel, legal, consulting and other professional services; and (ii) severance, prorated bonuses for bonus eligible employees, contractual termination payments and outplacement services, and other related costs, including legal, recruiting, consulting, other professional services, and travel.

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 settlement charge resulting from the amendment and termination of the Farmer Bros. Plan effective December 1, 2018 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):

	Three Months Ended December 31,		Six Months Ended December 31,	
(In thousands)	**2019**	**2018**	**2019**	**2018**
Net income (loss), as reported	$ 7,754	$ (10,100)	$ 12,408	$ (13,086)
Income tax expense (benefit)	(81)	(2,725)	(188)	(4,012)
Interest expense (1)	1,585	1,735	2,861	2,938
Depreciation and amortization expense	7,594	7,902	15,211	15,630
EBITDA	$ 16,852	$ (3,188)	$ 30,292	$ 1,470
EBITDA Margin	11.1%	(2.0)%	10.4%	0.5%

(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):

	Three Months Ended December 31,		Six Months Ended December 31,	
(In thousands)	**2019**	**2018**	**2019**	**2018**
Net income (loss), as reported	$ 7,754	$ (10,100)	$ 12,408	$ (13,086)
Income tax expense (benefit)	(81)	(2,725)	(188)	(4,012)
Interest expense(1)	1,585	1,735	2,861	2,938
Depreciation and amortization expense	7,594	7,902	15,211	15,630
ESOP and share-based compensation expense	909	945	1,778	1,857
Restructuring and other transition expenses(2)	—	207	—	4,674
Net losses (gains) from sales of other assets	(11,057)	804	(23,662)	723
Proxy contest-related expenses	259	—	259	—
Acquisition and integration costs	—	2,727	—	3,738
Pension settlement charge	—	10,948	—	10,948
Severance	485	—	2,797	—
Adjusted EBITDA	$ 7,448	$ 12,443	$ 11,464	$ 23,410
Adjusted EBITDA Margin	4.9%	7.8%	3.9%	7.6%

(1) Excludes interest expense related to pension plans and postretirement benefits.
(2) The six months ended December 31, 2018, includes $3.4 million, including interest, assessed by the WC Pension Trust representing the Company’s share of the Western Conference of Teamsters Pension Plan ("WCTPP") unfunded benefits due to the Company’s partial withdrawal from the WCTPP as a result of employment actions taken by the Company in 2016 in connection with the Corporate Relocation Plan.

Liquidity, Capital Resources and Financial Condition

The following table summarizes our debt obligations:

				December 31, 2019		June 30, 2019	
(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	$ 70,000	4.05%	$ 92,000	3.98%

Revolving Credit Facility

On November 6, 2018, we entered into a new $150.0 million senior secured revolving credit facility (the “Revolving Facility”) with Bank of America, N.A, Citibank, N.A., JPMorgan Chase Bank, N.A., PNC Bank, National Association, Regions Bank, and SunTrust Bank, with a sublimit on letters of credit and swingline loans of $15.0 million each. The Revolving Facility includes an accordion feature whereby we may increase the revolving commitments or enter into one or more tranches of incremental term loans, up to an additional $75.0 million in aggregate of increased commitments and incremental term loans, subject to certain conditions. The commitment fee is based on a leverage grid and ranges from 0.20% to 0.40%. Borrowings under the Revolving Facility bear interest based on a leverage grid with a range of PRIME + 0.25% to PRIME + 0.875% or Adjusted LIBO Rate + 1.25% to Adjusted LIBO Rate + 1.875%. 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.

Under the Revolving Facility, we are subject to a variety of affirmative and negative covenants of types customary in a senior secured lending facility, including financial covenants relating to leverage and interest expense coverage. We are allowed to pay dividends, provided, among other things, a total net leverage ratio is met, and no default exists or has occurred and is continuing as of the date of any such payment and after giving effect thereto.

At December 31, 2019, we were in compliance with all of the covenants under the Revolving Facility.

At January 31, 2020, we had outstanding borrowings of $80.0 million and utilized $2.0 million of the letters of credit sublimit under the Revolving Facility. The amount available to borrow is subject to a leverage covenant ratio as defined under the Revolving Facility agreement.

Liquidity

We generally finance our operations through cash flows from operations and borrowings under our revolving credit facility described above. In fiscal 2018, we filed a shelf registration statement with the SEC which allows us to issue unspecified amounts of common stock, preferred stock, depository shares, warrants for the purchase of shares of common stock or preferred stock, purchase contracts for the purchase of equity securities, currencies or commodities, and units consisting of any combination of any of the foregoing securities, in one or more series, from time to time and in one or more offerings up to a total dollar amount of $250.0 million. We believe our 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.

Our Revolving Facility includes financial covenants that are tested each fiscal quarter. The ratio of consolidated total indebtedness (net of unrestricted cash up to $7.5 million) to adjusted EBITDA (as defined in the Revolving Credit Facility) must not exceed 3.5 to 1.0. The ratio of adjusted EBITDA (as defined in the Revolving Credit Facility) to consolidated interest expense must not be less than 3.0 to 1.0. As of December 31, 2019, we were in compliance with both financial covenants.

At December 31, 2019, we had $9.1 million in cash and cash equivalents. At December 31, 2019, none of the cash in our coffee-related derivative margin accounts was restricted.

Cash Flows

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

	Six Months Ended December 31,	
	2019	2018
Condensed Consolidated Statements of cash flows data (in thousands)		
Net cash used in operating activities	$ (2,195)	$ (5,646)
Net cash provided (used) in investing activities	26,240	(23,015)
Net cash (used) provided by financing activities	(21,898)	39,556
Net increase in cash and cash equivalents	$ 2,147	$ 10,895

Operating Activities

Net cash used in operating activities was $2.2 million in the six months ended December 31, 2019 compared to net cash used in operating activities of $5.6 million in the six months ended December 31, 2018. The $3.5 million decrease in cash used was primarily attributable to a lower use of cash for working capital during the current fiscal period. Working capital during the six months ended December 31, 2019 was impacted by, among other items, lower inventory levels and improvement in trade accounts receivable collections, partially offset by decline in outstanding accounts payable balance.

Investing Activities

Net cash provided by investing activities during the six months ended December 31, 2019 was $26.2 million as compared to net cash used of $23.0 million in the six months ended December 31, 2018. The $49.3 million increase in cash provided from investment activities was principally due to the sales of assets during the current period resulting in net cash proceeds of $35.2 million. In addition, cash used for purchases of property, plant and equipment decreased $14.1 million primarily due to prior period including purchase of machinery and equipment for the Northlake, Texas plant expansion, and lower coffee brewing equipment purchases in the current year period.

Financing Activities

Net cash used in financing activities in the six months ended December 31, 2019 was $21.9 million as compared to net cash provided of $39.6 million in the six months ended December 31, 2018, a decrease of $61.5 million. Net cash used in financing activities in the six months ended December 31, 2019 included $22.0 million in net payments under our Revolving Facility compared to $40.2 million in net borrowings in the six months ended December 31, 2018.

Capital Expenditures

For the three and six months ended December 31, 2019 and 2018, our capital expenditures paid were as follows:

	Three Months Ended December 31,		Six Months Ended December 31,	
(In thousands)	**2019**	**2018**	**2019**	**2018**
Maintenance:				
Coffee brewing equipment	$ 1,990	$ 4,805	$ 4,135	$ 8,922
Building and facilities	58	15	133	15
Vehicles, machinery and equipment	349	1,153	1,036	1,723
IT, software, office furniture and equipment	710	1,132	2,155	1,907
Capital expenditures, maintenance	$ 3,107	$ 7,105	$ 7,459	$ 12,567
Expansion Project:				
Machinery and equipment	$ 623	$ 8,228	$ 1,548	$ 10,553
Capital expenditures, Expansion Project	$ 623	$ 8,228	$ 1,548	$ 10,553
Total capital expenditures	$ 3,730	$ 15,333	$ 9,007	$ 23,120

In fiscal year 2020, we anticipate paying between $17.0 million to $20.0 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 $7.6 million and $7.9 million in the three months ended December 31, 2019 and 2018, respectively. Depreciation and amortization expense were $15.2 million and $15.6 million in the six months ended December 31, 2019 and 2018, respectively. We anticipate our depreciation and amortization expense will be approximately $7.3 million to $7.6 million per quarter in the remainder of fiscal year 2020 based on our existing fixed asset commitments and the useful lives of our intangible assets.

Commitments and Contingencies

As of December 31, 2019, we had committed to purchase green coffee inventory totaling $60.7 million under fixed-price contracts, $6.2 million in other inventory under non-cancelable purchase orders and $5.4 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 2019 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 2019 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 2019 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 2019 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, 2019, we were eligible to borrow up to a total of $150.0 million, subject to a leverage covenant ratio as defined under the Revolving Facility agreement and had outstanding borrowings of $70.0 million and utilized $2.0 million of the letters of credit sublimit. As a result of the interest rate swap, only $5.0 million is now 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, 2019 was 4.05%.

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, 2019:

(In thousands)	Principal	Interest Rate	Annual Interest Expense
–150 basis points	$5,000	2.55%	$ 128
–100 basis points	$5,000	3.05%	$ 153
Unchanged	$5,000	4.05%	$ 203
+100 basis points	$5,000	5.05%	$ 253
+150 basis points	$5,000	5.55%	$ 278

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, 2019 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)	$ 161	$ (161)	$ 5,662	$ (5,662)

(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, 2019. 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, 2019, 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, 2019 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, 2019, which is accessible on the SEC's website at www.sec.gov. During the six months ended December 31, 2019, there have been no material changes to the risk factors disclosed in our 2019 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	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).
3.2	Amended and Restated Bylaws, adopted as of October 14, 2018 (filed as Exhibit 3.3 to the Company’s Quarterly Report on Form 10-Q for the quarter ended December 31, 2018, filed with the SEC on February 11, 2019 and incorporated herein by reference).
10.58	Separation and Release Agreement by and between David Robson and Farmer Bros. Co. dated November 1, 2019 (filed as Exhibit 10.1 to the Company’s Current Report on Form 8-K filed with the SEC on November 7, 2019 and incorporated herein by reference).
10.59	Form of Indemnification Agreement for Directors and Officers of the Company, as adopted on December 8, 2017 (with updated schedule of indemnitees attached)(filed as Exhibit 10.2 to the Company’s Current Report on Form 8-K filed with the SEC on November 7, 2019 and incorporated herein by reference).
10.60	Form of Change in Control Severance Agreement for Executive Officers of the Company (with updated schedule of executive officers attached). (filed as Exhibit 10.3 to the Company’s Current Report on Form 8-K filed with the SEC on November 7, 2019 and incorporated herein by reference).
10.61	Purchase and Sale Agreement, by and between Farmer Bros. Co., as Seller and Sage Interest, Inc., as Buyer (filed as Exhibit 10.1 to the Company’s Current Report on Form 8-K filed with the SEC on November 19, 2019 and incorporated herein by reference).
10.62*	Amendment No. 1 dated September 6, 2019 by and among Farmer Bros. Co., the Lenders party thereto and JPMorgan Chase Bank, N.A., as Administrative Agent, to that certain Amended and Restated Credit Agreement dated as of November 6, 2018.
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	The following financial statements from the Company’s Quarterly Report on Form 10-Q for the fiscal period ended December 31, 2019, formatted in eXtensible Business Reporting Language: (i) Condensed Consolidated Balance Sheets, (ii) Condensed Consolidated Statements of Operations, (iii) Condensed Consolidated Statements of Comprehensive Loss, (iv) Condensed Consolidated Statements of Cash Flows, (v) Condensed Consolidated Statements of Stockholders’ Equity and (vi) Notes to Unaudited Condensed Consolidated Financial Statements (furnished herewith).

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* 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 6, 2020**
By:	/s/ Scott Lyon
	Scott Lyon **Corporate Controller** **(interim principal financial and accounting officer)** **February 6, 2020**

EXECUTION COPY

AMENDMENT NO. 1

Dated as of September 6, 2019

to

AMENDED AND RESTATED CREDIT AGREEMENT

Dated as of November 6, 2018

THIS AMENDMENT NO. 1 (this "Amendment") is made as of September 6, 2019 by and among Farmer Bros. Co., a Delaware corporation (the "Borrower"), the financial institutions listed on the signature pages hereof and JPMorgan Chase Bank, N.A., as Administrative Agent (the "Administrative Agent'), under that certain Amended and Restated Credit Agreement dated as of November 6, 2018 by and among the Borrower, the other Loan Parties from time to time party thereto, the Lenders and the Administrative Agent (as further amended, restated, supplemented or otherwise modified from time to time, the "Credit Agreement"). Capitalized terms used herein and not otherwise defined herein shall have the respective meanings given to them in the Credit Agreement.

WHEREAS, the Borrower has requested that the requisite Lenders and the Administrative Agent agree to make certain amendments to the Credit Agreement; and

WHEREAS, the Borrower, the Lenders party hereto and the Administrative Agent have so agreed on the terms and conditions set forth herein;

NOW, THEREFORE, in consideration of the premises set forth above, the terms and conditions contained herein, and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Borrower, the Lenders party hereto and the Administrative Agent hereby agree to enter into this Amendment.

1. Amendment to the Credit Agreement. Effective as of the date of satisfaction of the conditions precedent set forth in Section 2 below, the parties hereto agree that Section 6.06 of the Credit Agreement is hereby amended to add the double-underlined text (indicated in the same manner as the following example: **double-underlined text**) set forth below:

> SECTION 6.06. Sale and Leaseback Transactions. No Loan Party will, nor will it permit any Subsidiary to, enter into any arrangement, directly or indirectly, whereby it shall sell or transfer any property, real or personal, used or useful in its business, whether now owned or hereafter acquired, and thereafter rent or lease such property or other property that it intends to use for substantially the same purpose or purposes as the property sold or transferred (a "Sale and Leaseback Transaction"), except for any such sale of any fixed or capital assets by the Borrower or any Subsidiary that is made for cash consideration in an amount not less than the fair value of such fixed or capital asset and is consummated within 180 days after the Borrower or such Subsidiary acquires or completes the construction of such fixed or capital asset**; provided that, notwithstanding the foregoing, nothing in this Section 6.06 shall prohibit any Disposition otherwise permitted under Section 6.05**.

2. Conditions of Effectiveness. The effectiveness of this Amendment is subject to the satisfaction of the following conditions precedent:

(a) The Administrative Agent shall have received counterparts of this Amendment duly executed by the Borrower, the Required Lenders and the Administrative Agent.

(b) The Administrative Agent shall have received payment of its reasonable and documented out-of-pocket expenses (including reasonable out-of-pocket fees and expenses of counsel for the Administrative Agent) in connection with this Amendment.

3. Representations and Warranties of the Borrower. The Borrower hereby represents and warrants as follows:

(a) This Amendment and the Credit Agreement (as amended hereby) constitute legal, valid and binding obligations of the Borrower, enforceable in accordance with their terms, subject to applicable bankruptcy, insolvency, reorganization, moratorium or other laws affecting creditors' rights generally and subject to general principles of equity, regardless of whether considered in a proceeding in equity or at law.

(b) As of the date hereof and after giving effect to the terms of this Amendment, (i) no Default or Event of Default has occurred and is continuing and (ii) the representations and warranties of the Loan Parties set forth in the Loan Documents are true and correct in all material respects with the same effect as though made on and as of the date hereof (it being understood and agreed that any representation or warranty which by its terms is made as of a specified date is true and correct in all material respects only as of such specified date, and that any representation or warranty which is subject to any materiality qualifier shall be required to be true and correct in all respects).

4. Reference to and Effect on the Credit Agreement.

(a) Upon the effectiveness hereof, each reference to the Credit Agreement in the Credit Agreement or any other Loan Document shall mean and be a reference to the Credit Agreement as amended hereby.

(b) The Credit Agreement and all other documents, instruments and agreements executed and/or delivered in connection therewith shall remain in full force and effect and are hereby ratified and confirmed.

(c) The execution, delivery and effectiveness of this Amendment shall not operate as a waiver of any right, power or remedy of the Administrative Agent or the Lenders, nor constitute a waiver of any provision of the Credit Agreement or any other documents, instruments and agreements executed and/or delivered in connection therewith.

(d) This Amendment is a Loan Document.

5. Governing Law. This Amendment shall be construed in accordance with and governed by the law of the State of New York.

6. Headings. Section headings in this Amendment are included herein for convenience of reference only and shall not constitute a part of this Amendment for any other purpose.

7. Counterparts. This Amendment may be executed by one or more of the parties hereto on any number of separate counterparts, and all of said counterparts taken together shall be deemed to constitute one and the same instrument. Signatures delivered by facsimile or other electronic means shall have the same force and effect as manual signatures delivered in person.

[Signature Pages Follow]

IN WITNESS WHEREOF, this Amendment has been duly executed as of the day and year first above written.

FARMER BROS. CO.,
as the Borrower

By: ______________________
Name: David Robson
Title: Chief Financial Officer

JPMORGAN CHASE BANK, N.A.,
individually as a Lender and as Administrative Agent

By: Stephanie Becker
Name: Stephanie Becker
Title: Authorized Officer

CITIBANK, N.A.,
as a Lender

By: Christine Keating
Name: Christine Keating
Title: Senior Vice President

PNC BANK, NATIONAL ASSOCIATION,
as a Lender

By: Ruining Nguyen
Name: R. Ruining Nguyen
Title: SVP

BANK OF AMERICA, N.A.,
as a Lender

By: ______________________
Name: Eric R. Chandler
Title: Senior Vice President

REGIONS BANK,
as a Lender

By: ______________________
Name: Derek Miller
Title: Director

SUNTRUST BANK,
as a Lender

By: ______________________
Name: Justin Lien
Title: Director

Signature Page to Amendment No. 1 to
Amended and Restated Credit Agreement dated as of November 6, 2018
Farmer Bros. Co.

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 6, 2020

/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 Lyon, 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 6, 2020

/S/ SCOTT LYON

Scott Lyon
Corporate Controller
(interim principal financial and accounting 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, 2019, 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 6, 2020

/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, 2019 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Scott Lyon, Interim Principal Financial and Accounting 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 6, 2020

/s/ SCOTT LYON

Scott Lyon
Corporate Controller
(interim principal financial and accounting 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.