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, 2022

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 or Other Jurisdiction of Incorporation of Organization)	(I.R.S. Employer Identification No.)

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

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

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

Title of Each Class	Trading Symbol(s)	Name of Each Exchange on Which Registered
Common Stock, par value $1.00 per share	**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 February 3, 2023, the registrant had 19,953,781 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.
CONSOLIDATED BALANCE SHEETS (UNAUDITED)
(In thousands, except share and per share data)

	December 31, 2022	June 30, 2022
ASSETS		
Current assets:		
Cash and cash equivalents	$ 17,624	$ 9,819
Restricted cash	2,316	175
Accounts receivable, net of allowance for credit losses of $190 and $195, respectively	50,313	46,935
Inventories	83,537	99,618
Short-term derivative assets	1,836	3,022
Prepaid expenses	4,480	4,491
Assets held for sale	110	1,032
Total current assets	160,216	165,092
Property, plant and equipment, net	133,726	138,150
Intangible assets, net	14,678	15,863
Right-of-use operating lease assets	27,341	27,957
Other assets	3,033	3,009
Total assets	$ 338,994	$ 350,071
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	62,616	52,877
Accrued payroll expenses	8,925	14,761
Right-of-use operating lease liabilities - current	7,974	7,721
Term loan - current	3,133	3,800
Short term derivative liability	5,352	2,349
Other current liabilities	5,626	6,095
Total current liabilities	93,626	87,603
Long-term borrowings under revolving credit facility	67,000	63,000
Term loan - noncurrent	42,131	40,123
Accrued pension liabilities	28,513	28,540
Accrued postretirement benefits	807	787
Accrued workers' compensation liabilities	2,704	3,169
Right-of-use operating lease liabilities - noncurrent	19,938	20,762
Other long-term liabilities	1,337	1,339
Total liabilities	$ 256,056	$ 245,323
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; no shares outstanding as of December 31, 2022 and 14,700 shares issued and outstanding as of June 30, 2022; liquidation preference of $17,346 as of June 30, 2022	—	15
Common stock, $1.00 par value, 50,000,000 shares authorized; 19,681,943 and 18,464,966 shares issued and outstanding as of December 31, 2022 and June 30, 2022, respectively	19,683	18,466
Additional paid-in capital	74,094	71,997
Retained earnings	31,719	52,701
Accumulated other comprehensive loss	(42,558)	(38,431)
Total stockholders' equity	$ 82,938	$ 104,748
Total liabilities and stockholders' equity	$ 338,994	$ 350,071

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

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

	Three Months Ended December 31,		Six Months Ended December 31,	
	2022	2021	2022	2021
Net sales	$ 132,692	$ 118,445	$ 254,073	$ 226,807
Cost of goods sold	102,303	83,451	197,086	160,359
Gross profit	30,389	34,994	56,987	66,448
Selling expenses	27,220	28,019	54,811	54,028
General and administrative expenses	9,832	11,394	20,319	23,201
Net loss (gains) from sales of assets	55	153	(7,127)	(4,429)
Operating expenses	37,107	39,566	68,003	72,800
Loss from operations	(6,718)	(4,572)	(11,016)	(6,352)
Other (expense) income:				
Interest expense	(3,580)	(2,489)	(8,221)	(5,515)
Other, net	(3,270)	1,767	(1,662)	4,211
Total other expense	(6,850)	(722)	(9,883)	(1,304)
Loss before taxes	(13,568)	(5,294)	(20,899)	(7,656)
Income tax expense	40	126	83	188
Net loss	$ (13,608)	$ (5,420)	$ (20,982)	$ (7,844)
Less: Cumulative preferred dividends, undeclared and unpaid	—	148	—	295
Net loss available to common stockholders	$ (13,608)	$ (5,568)	$ (20,982)	$ (8,139)
Net loss available to common stockholders per common share—basic	$ (0.73)	$ (0.31)	$ (1.09)	$ (0.45)
Net loss available to common stockholders per common share—diluted	$ (0.73)	$ (0.31)	$ (1.09)	$ (0.45)
Weighted average common shares outstanding—basic	18,723,957	18,106,151	19,243,707	18,034,658
Weighted average common shares outstanding—diluted	18,723,957	18,106,151	19,243,707	18,034,658

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

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

	Three Months Ended December 31,		Six Months Ended December 31,	
	2022	2021	2022	2021
Net loss	$ (13,608)	$ (5,420)	$ (20,982)	$ (7,844)
Other comprehensive (loss) income:				
Unrealized (losses) gains on derivatives designated as cash flow hedges	(2,284)	5,132	(2,812)	10,991
Gains on derivatives designated as cash flow hedges reclassified to cost of goods sold	(600)	(3,712)	(1,881)	(5,632)
Losses on derivative instruments undesignated as cash flow hedges reclassified to interest expense, net of tax	279	308	566	622
Total comprehensive loss, net of tax	$ (16,213)	$ (3,692)	$ (25,109)	$ (1,863)

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

FARMER BROS. CO.
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, 2022	**14,700**	**$ 15**	**18,464,966**	**$ 18,466**	**$ 71,997**	**$ 52,701**	**$ (38,431)**	**$ 104,748**
Net loss	—	—	—	—	—	(7,374)	—	(7,374)
Cash flow hedges, net of taxes	—	—	—	—	—	—	(1,521)	(1,521)
401(k) compensation expense, including reclassifications	—	—	257,052	257	940	—	—	1,197
Share-based compensation	—	—	—	—	1,165	—	—	1,165
Issuance of common stock and stock option exercises	—	—	158,744	159	(159)	—	—	—
Conversion and cancellation of preferred shares	(14,700)	(15)	399,208	399	(1,750)	—	—	(1,366)
Balance at September 30, 2022	**—**	**—**	**19,279,970**	**19,281**	**72,193**	**45,327**	**(39,952)**	**96,849**
Net loss	—	—	—	—	—	(13,608)	—	(13,608)
Cash flow hedges, net of taxes	—	—	—	—	—	—	(2,606)	(2,606)
401(k) compensation expense, including reclassifications	—	—	264,712	265	1,059	—	—	1,324
Share-based compensation	—	—	—	—	979	—	—	979
Issuance of common stock and stock option exercises	—	—	137,261	137	(137)	—	—	—
Balance at December 31, 2022	**—**	**$ —**	**19,681,943**	**$ 19,683**	**$ 74,094**	**$ 31,719**	**$ (42,558)**	**$ 82,938**

FARMER BROS. CO.
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, 2021	**14,700**	**$ 15**	**17,852,793**	**$ 17,853**	**$ 66,109**	**$ 66,311**	**$ (45,329)**	**$ 104,959**
Net loss	—	—	—	—	—	(2,424)	—	(2,424)
Cash flow hedges, net of taxes	—	—	—	—	—	—	4,253	4,253
ESOP and 401(k) compensation expense, including reclassifications	—	—	51,597	52	619	—	—	671
Share-based compensation	—	—	—	—	721	—	—	721
Issuance of common stock and stock option exercises	—	—	94,407	94	(94)	—	—	—
Conversion and cancellation of preferred shares	—	—	—	—	—	(147)	—	(147)
Balance at September 30, 2021	**14,700**	**15**	**17,998,797**	**17,999**	**67,355**	**63,740**	**(41,076)**	**108,033**
Net loss	—	—	—	—	—	(5,420)	—	(5,420)
Cash flow hedges, net of taxes	—	—	—	—	—	—	1,728	1,728
ESOP and 401(k) compensation expense, including reclassifications	—	—	82,437	84	664	—	—	748
Share-based compensation	—	—	—	—	858	—	—	858
Issuance of common stock and stock option exercises	—	—	129,292	129	(618)	—	—	(489)
Conversion and cancellation of preferred shares	—	—	—	—	—	(148)	—	(148)
Balance at December 31, 2021	**14,700**	**$ 15**	**18,210,526**	**$ 18,212**	**$ 68,259**	**$ 58,172**	**$ (39,348)**	**$ 105,310**

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

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

	Six Months Ended December 31,	
	2022	2021
Cash flows from operating activities:		
Net loss	$ (20,982)	$ (7,844)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation and amortization	11,316	12,328
Gain on settlement related to Boyd's acquisition	(1,917)	—
Net gains from sales of assets	(7,127)	(4,429)
Net loss (gains) on derivatives instruments	2,074	(7,952)
401(k), ESOP and share-based compensation expense	4,665	2,507
Provision for credit losses	211	301
Change in operating assets and liabilities:		
Accounts receivable	(3,589)	(8,458)
Inventories	16,081	(11,634)
Derivative (liabilities) assets, net	(1,668)	8,201
Other assets	(219)	2,273
Accounts payable	9,877	8,237
Accrued expenses and other	(5,159)	(2,125)
Net cash provided by (used in) operating activities	3,563	(8,595)
Cash flows from investing activities:		
Purchases of property, plant and equipment	(7,714)	(5,887)
Proceeds from sales of property, plant and equipment	9,933	8,175
Net cash provided by investing activities	2,219	2,288
Cash flows from financing activities:		
Proceeds from Credit Facilities	54,000	4,000
Repayments on Credit Facilities	(49,383)	(4,000)
Payments of finance lease obligations	(96)	(23)
Payment of financing costs	(357)	(309)
Net cash provided by (used in) financing activities	4,164	(332)
Net increase (decrease) in cash and cash equivalents and restricted cash	9,946	(6,639)
Cash and cash equivalents and restricted cash at beginning of period	9,994	10,438
Cash and cash equivalents and restricted cash at end of period	$ 19,940	$ 3,799
Supplemental disclosure of non-cash investing and financing activities:		
Right-of-use assets obtained in exchange for new operating lease liabilities	$ 2,965	$ 4,892
Non-cash issuance of ESOP and 401(K) common stock	522	134
Non cash additions to property, plant and equipment	138	406
Cumulative preferred dividends, undeclared and unpaid	—	295

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

FARMER BROS. CO.

NOTES TO UNAUDITED 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 leading coffee roaster, wholesaler, equipment servicer and distributor of coffee, tea, and other allied products manufactured under our owned brands, as well as under private labels on behalf of certain customers.

Basis of Presentation

The accompanying unaudited consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States (“GAAP”) for complete consolidated financial statements. In the opinion of management, all adjustments considered necessary for a fair presentation of the interim financial data have been included. Operating results for the six months ended December 31, 2022 are not necessarily indicative of the results that may be expected for the fiscal year ending June 30, 2023.

The accompanying unaudited consolidated financial statements should be read in conjunction with the consolidated financial statements and related notes included in the Company’s Annual Report on Form 10-K for the fiscal year ended June 30, 2022, filed with the Securities and Exchange Commission (the “SEC”) on September 2, 2022, and the Form 10-K/A filed on October 27, 2022 (the “2022 Form 10-K”).

Principles of Consolidation

The 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 and, the parent company of Coffee Bean International, Inc., an Oregon corporation, China Mist Brands, Inc., a Delaware corporation, and Boyd Assets Co., a Delaware corporation. All intercompany 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 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 2022 Form 10-K.

During the six months ended December 31, 2022, there were no significant updates made to the Company’s significant accounting policies.

Cash Equivalents

At December 31, 2022, we had $17.6 million of unrestricted cash and cash equivalents and $2.3 million in restricted cash on deposit in broker accounts to satisfy margin requirements associated with certain coffee-related derivative instruments resulting from a decline in the “C” market price of green coffee during the three months ended December 31, 2022. Further changes in commodity prices and the number of coffee-related derivative instruments held could have a significant impact on cash deposit requirements under our broker and counterparty agreements and may adversely affect our liquidity. At June 30, 2022, 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.

Concentration of Credit Risk

At December 31, 2022 and June 30, 2022, the financial instruments which potentially expose the Company to concentration of credit risk consist of cash in financial institutions (in excess of federally insured limits), derivative instruments and trade receivables.

The Company does not have any credit-risk related contingent features that would require it to post additional collateral in support of its net derivative asset positions.

Approximately 36% and 35% of the Company's accounts receivable balance was with five customers at December 31, 2022 and June 30, 2022, respectively. The Company estimates its maximum credit risk for accounts receivable at the amount recorded on the balance sheet. The accounts receivables are generally short-term and all estimated credit losses have been appropriately considered in establishing the allowance for credit losses.

Recent Accounting Pronouncements

The Company considers the applicability and impact of all Accounting Standards Updates ("ASUs") issued by the Financial Accounting Standards Board (the "FASB"). ASUs not listed below were assessed and either determined to be not applicable or expected to have minimal impact on its consolidated financial statements.

The following table provides a brief description of the recent ASUs applicable to the Company:

Standard	Description	Effective Date	Effect on the Financial Statements or Other Significant Matters
In March 2020, the FASB issued ASU No. 2020-04, "Facilitation of the Effect of Reference Rate Reform on Financial Reporting" ("ASU 2020-04")	The London Interbank Offered Rate (LIBOR) is being discontinued between December 2021 and June 2023. The Company has not entered into any new contracts after December 31, 2021. With the overnight, 1-month, 3-month, 6-month and 12-month USD LIBOR rates being published through June 30, 2023, we will continue to leverage these for the existing contracts. ASU 2020-04 provides temporary optional expedients and exceptions for applying U.S. GAAP to contracts, hedging relationships, and other transactions affected by the transition from LIBOR to alternative reference rate.	Issuance date of March 12, 2020 through December 31, 2024.	The Company does not anticipate any material impacts on its consolidated financial statements.

Note 3. Leases

The Company has entered into leases for building facilities, vehicles and other equipment. The Company's leases have remaining contractual terms through January 31, 2030, some of which have options to extend the lease for up to 10 years. For purposes of calculating operating lease liabilities, lease terms are deemed not to include options to extend the lease renewal until it is reasonably certain that the Company will exercise that option. The Company's lease agreements do not contain any material residual value guarantees or material restrictive covenants.

The components of lease expense are as follows:

	Three Months Ended December 31,		Six Months Ended December 31,	
(In thousands)	2022	2021	2022	2021
Operating lease expense	$ 1,986	$ 1,888	$ 3,946	$ 3,670
Finance lease expense:				
Amortization of finance lease assets	41	41	82	82
Interest on finance lease liabilities	9	11	18	23
Total lease expense	**$ 2,036**	**$ 1,940**	**$ 4,046**	**$ 3,775**

Maturities of lease liabilities are as follows:

	December 31, 2022	
(In thousands)	Operating Leases	Finance Leases
2023	$ 4,001	$ 96
2024	7,829	193
2025	6,650	193
2026	5,567	96
2027	4,127	—
Thereafter	4,008	—
Total lease payments	32,182	578
Less: interest	(4,270)	(54)
Total lease obligations	**$ 27,912**	**$ 524**

Lease term and discount rate:

	December 31, 2022	June 30, 2022
Weighted-average remaining lease terms (in years):		
Operating lease	6.3	6.3
Finance lease	3.0	3.5
Weighted-average discount rate:		
Operating lease	6.00 %	5.69 %
Finance lease	6.50 %	6.50 %

Other Information:

	Six Months Ended December 31,	
(In thousands)	**2022**	**2021**
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from operating leases	$ 3,882	$ 3,351
Operating cash flows from finance leases	18	73
Financing cash flows from finance leases	96	23

Note 4. Derivative Instruments

Derivative Instruments Held

Coffee-Related Derivative Instruments

The Company is exposed to commodity price risk associated with its price to be fixed green coffee purchase contracts, which are described further in Note 2, "*Summary of Significant Accounting Policies*," in the Notes to the Consolidated Financial Statements in the 2022 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, 2022 and June 30, 2022:

(In thousands)	December 31, 2022	June 30, 2022
Derivative instruments designated as cash flow hedges:		
Long coffee pounds	3,638	4,200
Derivative instruments not designated as cash flow hedges:		
Long coffee pounds	8,377	516
Short coffee pounds	(4,688)	—
Total	7,327	4,716

Coffee-related derivative instruments designated as cash flow hedges outstanding as of December 31, 2022 will expire within 12 months. At December 31, 2022 and June 30, 2022 approximately 50% and 89%, 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. ("ISDA") Master Agreement 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 was 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 received 1-month LIBOR, subject to a 0% floor, and made payments based on a fixed rate of 2.1975%.

The Company had designated the Rate Swap derivative instrument as a cash flow hedge; however, during the three months ended September 30, 2020, the Company de-designated the Rate Swap derivative instrument. As a result, the balance in accumulated other comprehensive income, or "AOCI" was frozen at the time of de-designation. The Company recognized $0.3 million and $0.6 million, out of AOCI and into interest expense for the three and six months ended

December 31, 2022. The remaining balance of $0.8 million frozen in AOCI will be amortized over the life of the Rate Swap through October 11, 2023.

In connection with the revolver credit facility agreement entered into by the Company in April 2021 (see Note 11 for details), the Company also executed a new ISDA agreement (the "Amended Rate Swap") to transfer its interest swap to Wells Fargo Bank, N.A. ("Wells Fargo"). Under the terms of the Amended Rate Swap, the Company receives 1-month LIBOR, subject to a 0% floor, and makes payments based on a fixed rate of 2.4725%, an increase of 0.275% from its original Rate Swap fixed rate of 2.1975%. The Amended Rate Swap utilizes the same notional amount of $65.0 million and maturity date of October 11, 2023 as the original interest rate swap.

The Company did not designate the Amended Rate Swap as a cash flow hedge. The Company's obligations under the Amended Rate Swap are secured by the collateral which secures the loans under the new Revolver Credit Facility (see Note 11 for details) on a pari passu and pro rata basis with the principal of such loans.

Effect of Derivative Instruments on the Financial Statements

Balance Sheets

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

	Derivative Instruments Designated as Cash Flow Hedges		Derivative Instruments Not Designated as Accounting Hedges	
(In thousands)	**December 31, 2022**	**June 30, 2022**	**December 31, 2022**	**June 30, 2022**
Financial Statement Location:				
Short-term derivative assets:				
Coffee-related derivative instruments (1)	$ 271	$ 2,144	$ 295	$ 555
Interest rate swap derivative instruments (1)	—	—	1,270	323
Long-term derivative assets:				
Coffee-related derivative instruments (2)	—	37	—	140
Interest rate swap derivative instruments (2)	—	—	—	166
Short-term derivative liabilities:				
Coffee-related derivative instruments (3)	885	3	4,467	2,346

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

	Three Months Ended December 31,		Six Months Ended December 31,		
(In thousands)	**2022**	**2021**	**2022**	**2021**	**Financial Statement Classification**
Net (gains) losses recognized from AOCI to earnings - Interest rate swap	(6)	(4)	386	(4)	Interest Expense
Net losses reclassified from AOCI to earnings for de-designated Interest rate swap	(273)	(304)	(952)	(618)	Interest Expense
Net (losses) gains recognized in AOCI - Coffee-related	(2,284)	5,132	(2,812)	10,991	AOCI
Net gains recognized in earnings - Coffee - related	600	3,712	1,881	5,632	Cost of goods sold

For the three and six months ended December 31, 2022 and 2021, there were no gains or losses recognized in earnings as a result of excluding amounts from the assessment of hedge effectiveness.

Net (gains) losses on derivative instruments in the Company's consolidated statements of cash flows also include net (gains) losses 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, 2022 and 2021. Gains and losses on coffee-related derivative instruments not designated as accounting hedges are included in "Other, net" in the Company's consolidated statements of operations and in Net (gains) losses on derivative instruments in the Company's consolidated statements of cash flows.

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

(In thousands)	Three Months Ended December 31, 2022	Three Months Ended December 31, 2021	Six Months Ended December 31, 2022	Six Months Ended December 31, 2021
Net (losses) gains on coffee-related derivative instruments (1)	$ (4,167)	$ 872	$ (3,605)	$ 2,422
Non-operating pension and other postretirement benefits	727	895	1,455	1,789
Other gains, net	170	—	488	—
Other, net	$ (3,270)	$ 1,767	$ (1,662)	$ 4,211

(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, 2022 and 2021.

Statement of Comprehensive Income (Loss)

The following table provides the balances and changes in accumulated other comprehensive income (loss) related to derivative instruments for the indicated periods:

(In thousands)	Three Months Ended December 31, 2022	Three Months Ended December 31, 2021	Six Months Ended December 31, 2022	Six Months Ended December 31, 2021
Accumulated other comprehensive income beginning balance	$ (170)	$ (8,429)	$ (1,692)	$ (4,176)
Net (gains) losses recognized from AOCI to earnings - Interest rate swap	(6)	(4)	386	(4)
Net losses reclassified from AOCI to earnings for partial unwind of interest swap - Interest rate swap	(273)	(304)	(952)	(618)
Net losses (gains) recognized in AOCI - Coffee-related	2,284	(5,132)	2,812	(10,991)
Net gains recognized in earnings - Coffee-related	600	3,712	1,881	5,632
Accumulated other comprehensive income ending balance	$ 2,435	$ (10,157)	$ 2,435	$ (10,157)

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, 2022	Derivative Assets	$ 1,836	$ (566)	$ —	$ 1,270
	Derivative Liabilities	5,352	(566)	—	4,786
June 30, 2022	Derivative Assets	3,365	(2,349)	—	1,016
	Derivative Liabilities	2,349	(2,349)	—	—

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, 2022, $1.5 million of net losses 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, 2022.

The Company had designated the Rate Swap derivative instrument as a cash flow hedge; however, during the three months ended September 30, 2020, the Company de-designated the Rate Swap derivative instrument. The frozen AOCI is 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, 2022, $0.8 million of net losses on the Rate Swap de-designated as a cash flow hedge are expected to be reclassified into interest expense within the next twelve months.

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, 2022				
Derivative instruments designated as cash flow hedges:				
Coffee-related derivative assets (1)	$ 271	$ —	$ 271	$ —
Coffee-related derivative liabilities (1)	885	—	885	—
Derivative instruments not designated as accounting hedges:				
Coffee-related derivative assets (1)	295	—	295	—
Coffee-related derivative liabilities (1)	4,467	—	4,467	—
Interest rate swap derivative asset (2)	1,270	—	1,270	—

	Total	Level 1	Level 2	Level 3
June 30, 2022				
Derivative instruments designated as cash flow hedges:				
Coffee-related derivative assets (1)	$ 2,181	$ —	$ 2,181	$ —
Coffee-related derivative liabilities (1)	3	—	3	—
Derivative instruments not designated as accounting hedges:				
Coffee-related derivative assets (1)	695	—	695	—
Coffee-related derivative liabilities (1)	2,346	—	2,346	—
Interest rate swap derivative asset (2)	489	—	489	—

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(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, 2022	June 30, 2022
Trade receivables	$ 49,132	$ 44,219
Other receivables (1)	1,371	2,911
Allowance for credit losses	(190)	(195)
Accounts receivable, net	$ 50,313	$ 46,935

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

There was no material change in the allowance for credit losses during the six months ended December 31, 2022.

Note 7. Inventories

(In thousands)	December 31, 2022	June 30, 2022
Coffee		
Processed	$ 21,934	$ 32,486
Unprocessed	34,273	39,326
Total	$ 56,207	$ 71,812
Tea and culinary products		
Processed	22,969	24,034
Unprocessed	58	58
Total	$ 23,027	$ 24,092
Coffee brewing equipment parts	4,303	3,714
Total inventories	$ 83,537	$ 99,618

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

Note 8. Property, Plant and Equipment

(In thousands)	December 31, 2022	June 30, 2022
Buildings and facilities	$ 93,038	$ 92,948
Machinery, vehicles and equipment	218,841	219,095
Capitalized software	12,170	25,467
Office furniture and equipment	12,049	14,347
	$ 336,098	$ 351,857
Accumulated depreciation	(213,425)	(224,760)
Land	11,053	11,053
Property, plant and equipment, net	$ 133,726	$ 138,150

Coffee Brewing Equipment ("CBE") and Service

Capitalized CBE included in machinery and equipment above are:

(In thousands)	December 31, 2022	June 30, 2022
Coffee Brewing Equipment	$ 93,934	$ 93,549
Accumulated depreciation	(68,520)	(68,938)
Coffee Brewing Equipment, net	$ 25,414	$ 24,611

Depreciation expense related to capitalized CBE and other CBE related expenses 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)	2022	2021	2022	2021
Depreciation expense in COGS	$ 1,810	$ 1,905	$ 3,618	$ 3,869
CBE Costs excl. depreciation exp	7,215	5,702	14,419	11,750

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. Intangible Assets

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

		December 31, 2022			June 30, 2022		
(In thousands)	Weighted Average Amortization Period as of December 31, 2022	Gross Carrying Amount	Accumulated Amortization	Net	Gross Carrying Amount	Accumulated Amortization	Net
Amortized intangible assets:							
Customer relationships	4.2	$ 33,003	$ (22,992)	$ 10,011	$ 33,003	$ (21,893)	$ 11,110
Recipes	0.8	930	(819)	111	930	(752)	178
Trade name/brand name	0.9	510	(476)	34	510	(457)	53
Total amortized intangible assets		$ 34,443	$ (24,287)	$ 10,156	$ 34,443	$ (23,102)	$ 11,341
Unamortized intangible assets:							
Trademarks, trade names and brand name with indefinite lives		$ 4,522	$ —	$ 4,522	$ 4,522	$ —	$ 4,522
Total unamortized intangible assets		$ 4,522	$ —	$ 4,522	$ 4,522	$ —	$ 4,522
Total intangible assets		$ 38,965	$ (24,287)	$ 14,678	$ 38,965	$ (23,102)	$ 15,863

Aggregate amortization expense for the three months ended December 31, 2022 and 2021 was $0.6 million in each period. Aggregate amortization expense for the six months ended December 31, 2022 and 2021 was $1.2 million in each period.

Note 10. Employee Benefit Plans

Single Employer Pension Plans

As of December 31, 2022, the Company has two defined benefit pension plans for certain employees, the "Farmer Bros. Plan" and the “Hourly Employees' Plan”. The Company froze benefit accruals and participation in these plans effective June 30, 2011 and October 1, 2016, respectively. After the plan freezes, participants do not accrue any benefits under the plan, and new hires are not eligible to participate in the plan.

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

	Three Months Ended December 31,		Six Months Ended December 31,	
(In thousands)	2022	2021	2022	2021
Interest cost	$ 1,156	$ 848	$ 2,312	$ 1,696
Expected return on plan assets	(1,009)	(1,237)	(2,018)	(2,474)
Amortization of net loss (1)	281	339	563	678
Net periodic benefit (credit) cost	$ 428	$ (50)	$ 857	$ (100)

(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, 2022	June 30, 2022
Discount rate	4.50%	2.60%
Expected long-term return on plan assets	6.50%	6.25%

Multiemployer Pension Plans

The Company participates in one multiemployer defined benefit pension plan that is union sponsored and collectively bargained for the benefit of certain employees subject to collective bargaining agreements, called the Western Conference of Teamsters Pension Plan ("WCTPP"). The Company makes contributions to this plan generally based on the number of hours worked by the participants in accordance with the provisions of negotiated labor contracts. The company also contributes to two defined contribution pension plans (All Other Plans) that are union sponsored and collectively bargained for the benefit of certain employees subject to collective bargaining agreements.

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

	Three Months Ended December 31,		Six Months Ended December 31,	
(In thousands)	2022	2021	2022	2021
Contributions to WCTPP	$ 378	$ 226	$ 665	$ 471
Contributions to All Other Plans	8	10	16	17

Multiemployer Plans Other Than Pension Plans

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

401(k) Plan

Farmer Bros. Co. 401(k) Plan (the “401(k) Plan”) is available to all eligible employees. The 401(k) Plan match portion is available to all eligible employees who have worked more than 1,000 hours during a calendar year and were employed at the end of the calendar year. Participants in the 401(k) Plan may choose to contribute a percentage of their annual pay subject to the maximum contribution allowed by the Internal Revenue Service. The Company's matching contribution is discretionary, based on approval by the Company's Board of Directors.

Beginning in July 2021, the Company re-instated a 401(k) Plan matching program (the “401(k) Match”) for non-union employees, by matching 50% of any non-union employee's annual contribution to the 401(k) Plan, up to 6% of such employee's eligible income, which is substantially similar to the program prior to its suspension in March 2020.

Beginning in January 2022, the Company amended the 401(k) Match, whereby the Company on a quarterly basis, will contribute, instead of cash, shares of the Company's common stock, par value $1.00 per share (the "Common Stock") with a value equal to 50% of any non-union employee's annual contribution to the 401(k) Plan, up to 6% of such employee's eligible income. The terms of the match are substantially the same as the safe-harbor non-elective contribution. The Company recorded matching contributions of $0.6 million and $1.1 million in operating expenses in the three and six months ended December 31, 2022, respectively and $0.5 million and $1.1 million in operating expenses in the three and six months ended December 31, 2021, respectively.

Additionally, the Company makes an annual safe harbor non-elective contribution of Common Stock equal to 4% of each eligible participant's annual plan compensation. During the three months ended December 31, 2022 and 2021, the Company contributed a total of 264,712 and 82,437 of shares Common Stock with a value of $0.6 million and $0.7 million, respectively, to eligible participants' annual plan compensation. During the six months ended December 31, 2022 and 2021, the Company contributed a total of 521,764 and 134,034 of shares Common Stock with a value of $1.2 million and $1.3 million, respectively, to eligible participants' annual plan compensation.

Effective January 1, 2023, the Company eliminated the 4% non-elective contribution and changed the Company match to 100% of the first 3% each eligible employee contributes plus 50% on the next 2% they contribute.

Effective January 1, 2022, the Company amended the 401(k) Plan to, among other things, increase the number of shares of Common Stock available for issuance under the 401(k) Plan by 2,000,000 additional shares of Common Stock and permit participants in the 401(k) Plan to invest a portion of their 401(k) Plan accounts into Common Stock.

Effective January 1, 2022, the Company merged the Company's Employee Stock Ownership Plan ("ESOP") into the 401(k) Plan and transferred all of the assets and shares in the ESOP to the 401(k) Plan.

Postretirement Benefits

Retiree Medical Plan and Death Benefit

On March 23, 2020, the Company announced a plan to amend and terminate the postretirement medical benefit plan that covers qualified non-union retirees and certain qualified union retirees ("Retiree Medical Plan") effective January 1, 2021. As a result, the re-measurement generated a prior service credit. This credit, along with actuarial gains, were amortized over the remaining months of the plan through January 1, 2021. The Retiree Medical Plan is now terminated.

The Company provides a postretirement death benefit (the "Death Benefit" Plan) to certain employees and retirees, subject, in the case of current employees, to continued employment with the Company until retirement and certain other conditions related to the manner of employment termination and manner of death. In June 2021, the Company amended the Death Benefit Plan effective immediately, which triggered re-measurement of the plan. In conjunction with the amendment, the Company created a new Executive Death Benefit Plan (the "Executive Death Benefit Plan") for a small group of participants in the Death Benefit Plan. Under the Executive Death Benefit Plan, the participants receive the same benefits they would have received under the Death Benefit Plan.

The following table shows the components of net periodic postretirement benefit cost for the Retiree Medical Plan and Death Benefit Plan for the three and six months ended December 31, 2022 and 2021.

	Three Months Ended December 31,		Six Months Ended December 31,	
(In thousands)	**2022**	**2021**	**2022**	**2021**
Components of Net Periodic Postretirement Benefit Cost:				
Service cost	$ —	$ —	$ —	$ —
Interest cost	10	7	19	13
Amortization of net gain	—	3	—	6
Net periodic postretirement benefit cost	$ 10	$ 10	$ 19	$ 19

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

	Fiscal year	
	2023	**2022**
Retiree Medical Plan discount rate	N/A	N/A
Death Benefit Plan discount rate	4.77%	2.72%

Note 11. Debt Obligations

The following table summarizes the Company's debt obligations:

				December 31, 2022		June 30, 2022	
(In thousands)	**Debt Origination Date**	**Maturity**	**Principal Borrowing Amount**	**Carrying Value**	**Weighted Average Interest Rate (1)**	**Carrying Value**	**Weighted Average Interest Rate**
Revolver	Various	4/26/2027	N/A	$ 67,000	5.05 %	$ 63,000	2.75 %
Term Loan	8/31/2022	4/26/2027	$47,000	46,217		45,600	
				113,217		108,600	
Unamortized deferred debt financing costs				(953)		(1,677)	
Total				$ 112,264		$ 106,923	

(1) The weighted average interest rate excludes the fixed rate on the de-designated Amended Rate Swap

Revolver Facility

On April 26, 2021, the Company entered into a senior secured facility which included a Revolver Credit Facility Agreement (the "Revolver Credit Facility"). The Revolver Credit Facility had a commitment of up to $80.0 million and a maturity date of April 25, 2025. On August 8, 2022, the Company and certain of its subsidiaries entered into the Increase Joinder and Amendment No. 2 to Credit Agreement (the "2nd Amendment"), with Wells Fargo, as administrative agent for each member of the lender group and as a lender. The 2nd Amendment amends certain terms and conditions of the Revolver Credit Facility by, among other things: (i) increasing the maximum revolver amount by $10.0 million to an aggregate maximum revolver commitment amount of $90.0 million; and (ii) replacing the London Interbank Offered Rate (LIBOR) interest rate benchmark (which had an applicable margin of 2.25% for LIBOR rate loans) with the secured overnight financing rate (SOFR) interest rate benchmark (which has an applicable margin of 1.75% for SOFR rate loans).

Availability under the Revolver Credit Facility is calculated as the lesser of (a) $90.0 million or (b) the amount equal to the sum of (i) 85% of eligible accounts receivable (less a dilution reserve), plus (ii) the lesser of: (a) 80% of eligible raw material inventory, eligible in-transit inventory and eligible finished goods inventory (collectively, "Eligible Inventory"), and (b) 85% of the net orderly liquidation value of eligible inventory, minus (c) applicable reserve.

The Revolver Credit Facility contains customary affirmative and negative covenants and restrictions typical for a financing of this type. Non-compliance with one or more of the covenants and restrictions could result in the full or partial principal balance of the Revolver Credit Facility becoming immediately due and payable and termination of the commitments.

Prior Term Loan Facility

On April 26, 2021, the Company borrowed $47.5 million of term loans from various financial institutions as part of a Credit Agreement, dated as of April 26, 2021 (the "Prior Term Loan Facility"). The following is a summary description of the Prior Term Loan Facility:

1. total commitment of $47.5 million in the form of a term loan;
2. maturity date of April 25, 2025 and scheduled payback required on the principal prior to the maturity date;
3. fully collateralized by all existing and future capital stock of the borrowers (other than the Company) and all of the borrowers' personal and real property;
4. interest under the Term Loan is either LIBOR + 6.5% per annum, or (b) base rate + 5.50% per annum, with a 3% floor on base rate; and
5. commencing on the fiscal quarter ending on March 31, 2022, quarterly minimum EBITDA and fixed charge coverage ratio requirements specified therein.

Principal payments on the Prior Term Loan Facility were due quarterly in the amount of $0.95 million.

New Term Loan Facility

On August 31, 2022, the Company entered into Amendment No. 3 to Credit Agreement (the "3rd Amendment"), with the lenders party thereto, and Wells Fargo Bank, as administrative agent for each member of the lender group and as a lender. The 3rd Amendment amends certain terms and conditions of the Revolver Credit Facility by, among other things: (i) adding a new $47.0 million term loan (the "Term Loan"); (ii) extending the maturity date of the Company's obligations under the Revolver Credit Facility from April 25, 2025 to April 26, 2027; provided, that if the maturity date of the Revolver Commitments is extended on or prior to April 1, 2027 to a date that is after April 26, 2027, then the maturity of the Term

Loan Facility shall be August 31, 2037; (iii) releasing liens securing the obligations under the Revolver Facility Credit on various real properties owned by the Company; (iv) commencing on or around June 30, 2023, obligating the Company to maintain a Fixed Charge Coverage Ratio, calculated for each 12-month period ending on the last day of each fiscal month, of at least 1:00 to 1:00; and (v) lowering the Letter of Credit Fee payable with respect to letters of credit issued under the Credit Agreement from 2.25% to 1.75% of the average amount of the Letter of Credit Usage during the immediately preceding month.

The proceeds of the Term Loan Facility were used to repay the outstanding term loans under the Term Credit Facility Agreement. With the repayment of the Company's outstanding loans and other obligations under the Term Credit Facility Agreement, the Company is no longer subject to the minimum EBITDA covenants contained therein. As part of the refinancing transaction, the Company expensed $1.5 million in unamortized deferred financing costs, discount and payoff premium for the six months ended December 31, 2022, which are included in interest expense on the consolidated statement of operations.

Covenant Compliance

The Term Loan Facility contains customary affirmative and negative covenants and restrictions typical for a financing of this type that, among other things, require the Company to satisfy certain financial covenants and restrict the Company's and its subsidiaries' ability to incur additional debt, pay dividends and make distributions, make certain investments and acquisitions, repurchase its stock and prepay certain indebtedness, create liens, enter into agreements with affiliates, modify the nature of its business, transfer and sell material assets and merge or consolidate. As of December 31, 2022, the Company was in compliance with all of the financial covenants under the Revolver Credit Facility and the Term Loan Facility (collectively, the "Credit Facilities"). Non-compliance with one or more of the covenants and restrictions could result in the full or partial principal balance of the Term Loan Facility Agreement and the Revolver Credit Facility becoming immediately due and payable and termination of the commitments which could impact our liquidity. Accordingly, an event of default could have a material and adverse impact on us. If we are unable to cure, obtain a waiver from the lenders, or refinance the Credit Facilities, we anticipate not being able to meet the current contractual covenant beginning June 30, 2023. We consider it probable that management's plans, including the options described above, will be able to alleviate the potential noncompliance with the debt covenant prior to June 30, 2023.

Interest Rate Swap

In connection with the Revolver Credit Facility and Prior Term Loan Facility, the Company executed the Amended Rate Swap. Under the terms of the Amended Rate Swap, the Company receives 1-month LIBOR, subject to a 0% floor, and makes payments based on a fixed rate of 2.4725%, an increase of 0.275% from its original interest rate swap fixed rate of 2.1975%. The Amended Rate Swap utilizes the same notional amount of $65.0 million and maturity date of October 11, 2023 as the original interest rate swap.

Beginning with the quarter ended December 31, 2022, the Company is required to make monthly principal payments on the Term Loan debt obligation in the amount of $261 thousand. At December 31, 2022, the Company had outstanding borrowings on the Revolver Credit Facility of $67.0 million and had utilized $4.1 million of the letters of credit sublimit. At December 31, 2022, we had $14.3 million available on our Revolver Credit Facility.

Note 12. Share-based Compensation

Farmer Bros. Co. Amended and Restated 2017 Long-Term Incentive Plan (the "2017 Plan")

As of December 31, 2022, there were 1,455,761 shares available under the 2017 Plan including shares that were forfeited under the prior plans for future issuance.

On December 15, 2021, the Company's stockholders approved an amendment (the "Plan Amendment") to the 2017 Plan, which (i) increased the number of shares of Common Stock available for grant under the Plan by 1,500,000 additional shares of Common Stock and (ii) allows the Company to utilize awards to attract and incentivize non-employee consultants.

Farmer Bros. Co. 2020 Inducement Incentive Award Plan (the "2020 Inducement Plan")

As of December 31, 2022, there were 60,475 shares available under the 2020 Inducement Plan.

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

One-third of the total number of shares subject to each stock option vest ratably on each of the first three anniversaries of the grant date, contingent on continued employment, and subject to accelerated vesting in certain circumstances. There were no NQOs granted during the six months ended December 31, 2022.

The following table summarizes NQO activity for six months ended December 31, 2022:

Outstanding NQOs:	Number of NQOs	Weighted Average Exercise Price ($)	Weighted Average Remaining Life (Years)	Aggregate Intrinsic Value ($ in thousands)
Outstanding at June 30, 2022	450,687	12.39	4.34	$ —
Granted	—	—	—	—
Exercised	—	—	—	—
Cancelled/Forfeited	(11,807)	15.94	—	—
Expired	(27,973)	19.77	—	—
Outstanding at December 31, 2022	410,907	11.79	3.83	$ —
Exercisable at December 31, 2022	366,929	12.30	3.78	$ —

The aggregate intrinsic values outstanding at the end of period in the table above represent the total pretax intrinsic values, based on the closing price of Common Stock of $4.61 and $4.69 at December 31, 2022 and June 30, 2022, respectively, 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. NQOs outstanding that are expected to vest are net of estimated forfeitures.

There were no options exercised during six months ended December 31, 2022 and 2021.

At December 31, 2022 and June 30, 2022, respectively, there was $32.7 thousand and $0.2 million of unrecognized NQO compensation cost. The unrecognized NQO compensation cost at December 31, 2022 is expected to be recognized over the weighted average period of four months. Total compensation expense for NQOs was $23.5 thousand and $0.2 million for the three months ended December 31, 2022 and 2021, respectively. Total compensation expense for NQOs was $0.1 million and $0.3 million for the six months ended December 31, 2022 and 2021, 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, 2022:

Outstanding PNQs:	Number of PNQs	Weighted Average Exercise Price ($)	Weighted Average Remaining Life (Years)	Aggregate Intrinsic Value ($ in thousands)
Outstanding at June 30, 2022	2,212	30.91	0.83	$ —
Granted	—	—	—	—
Exercised	—	—	—	—
Cancelled/Forfeited	—	—	—	—
Expired	(1,221)	29.48	—	—
Outstanding at December 31, 2022	991	32.84	0.86	$ —
Exercisable at December 31, 2022	991	32.84	0.86	$ —

The aggregate intrinsic values outstanding at the end of each fiscal period in the table above represent the total pretax intrinsic values, based on the Company's closing stock price of $4.61 and $4.69 at December 31, 2022 and June 30, 2022, respectively, 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.

There were no options exercised during six months ended December 31, 2022 and 2021.

At December 31, 2022 and June 30, 2022, there was no unrecognized PNQ compensation cost. There was no compensation expense related to PNQs in the three and six months ended December 31, 2022 and 2021.

Restricted Stock

The following table summarizes restricted stock activity for the six months ended December 31, 2022:

Outstanding and Nonvested Restricted Stock Awards:	Shares Awarded	Weighted Average Grant Date Fair Value ($)
Outstanding and nonvested at June 30, 2022	816,811	6.67
Granted	486,196	6.15
Vested/Released	(312,925)	6.64
Cancelled/Forfeited	(80,395)	6.15
Outstanding and nonvested at December 31, 2022	909,687	6.56

The weighted average grant date fair value of RSUs granted during the quarters ended December 31, 2022 and 2021 were $6.15 and $8.22, respectively. The total grant-date fair value of restricted stock granted during the six months ended December 31, 2022 was $3.2 million. The total fair value of awards vested during the six months ended December 31, 2022 and 2021 were $1.6 million and $2.2 million, respectively.

At December 31, 2022 and June 30, 2022, there was $5.0 million and $3.9 million, respectively, of unrecognized compensation cost related to restricted stock. The unrecognized compensation cost related to restricted stock at December 31, 2022 is expected to be recognized over the weighted average period of 2.2 years. Total compensation expense for restricted stock was $0.7 million and $0.6 million, respectively, in the three months ended December 31, 2022 and 2021. Total compensation expense for restricted stock was $1.4 million and $1.0 million, respectively, in the six months ended December 31, 2022 and 2021.

Performance-Based Restricted Stock Units ("PBRSUs")

The following table summarizes PBRSU activity for the six months ended December 31, 2022:

Outstanding and Nonvested PBRSUs:	PBRSUs Awarded (1)	Weighted Average Grant Date Fair Value ($)
Outstanding and nonvested at June 30, 2022	456,993	6.16
Granted (1)	214,842	6.40
Vested/Released	—	—
Cancelled/Forfeited	(19,540)	15.35
Outstanding and nonvested at December 31, 2022	652,295	5.96

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(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 weighted average grant date fair value of PBRSUs granted during the quarters ended December 31, 2022 and 2021 were $6.40 and $8.91, respectively. The total grant-date fair value of PBRSUs granted during the six months ended December 31, 2022 was $1.4 million. The total fair value of awards vested during the six months ended December 31, 2021 were $3.2 thousand.

At December 31, 2022 and June 30, 2022, there was $2.6 million and $1.7 million, respectively, of unrecognized PBRSU compensation cost. The unrecognized PBRSU compensation cost at December 31, 2022 is expected to be recognized over the weighted average period of 2.1 years. Total compensation expense for PBRSUs was $0.2 million and $183.6 thousand, respectively, for the three months ended December 31, 2022 and 2021. Total compensation expense for PBRSUs was $0.4 million and $0.3 million, respectively, for the six months ended December 31, 2022 and 2021.

Cash-Settled Restricted Stock Units ("CSRSUs")

CSRSUs vest in equal installments over a three-year period from the grant date, and are cash-settled upon vesting based on the closing share price of Common Stock on the vesting date.

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

The following table summarizes CSRSU activity for the six months ended December 31, 2022:

Outstanding and Nonvested CSRSUs:	CSRSUs Awarded	Weighted Average Grant Date Fair Value ($)
Outstanding and nonvested at June 30, 2022	145,645	6.36
Granted	178,099	6.40
Vested/Released	(42,670)	6.24
Cancelled/Forfeited	(55,351)	6.10
Outstanding and nonvested at December 31, 2022	225,723	6.47

The weighted average grant date fair value of CSRSUs granted during the quarters ended December 31, 2022 and 2021 were $6.40 and $8.91, respectively. The total grant-date fair value of CSRSUs granted during the six months ended December 31, 2022 was $1.1 million. The total fair value of awards vested during the six months ended December 31, 2022 and 2021 was $0.2 million and $0.4 million, respectively.

At December 31, 2022 and June 30, 2022, there was $1.0 million and $0.6 million, respectively, of unrecognized compensation cost related to CSRSU. The unrecognized compensation cost related to CSRSU at December 31, 2022 is expected to be recognized over the weighted average period of 2.5 years. Total compensation expense for CSRSUs was $0.1 million and $0.1 million, respectively for the three months ended December 31, 2022 and 2021. Total compensation expense for CSRSUs was $0.1 million and $0.1 million, respectively for the six months ended December 31, 2022 and 2021.

Note 13. Other Current Liabilities

Other current liabilities consist of the following:

(In thousands)	December 31, 2022	June 30, 2022
Accrued workers' compensation liabilities	$ 851	$ 947
Finance lease liabilities	193	193
Other (1)	4,582	4,955
Other current liabilities	$ 5,626	$ 6,095

(1) Includes accrued property taxes, sales and use taxes and insurance liabilities.

Note 14. Other Long-Term Liabilities

Other long-term liabilities include the following:

(In thousands)	December 31, 2022	June 30, 2022
Deferred compensation (1)	$ 255	$ 195
Finance lease liabilities	347	409
Deferred income taxes and other liabilities	735	735
Other long-term liabilities	$ 1,337	$ 1,339

(1) Includes payroll taxes and cash-settled restricted stock units liabilities.

Note 15. Income Taxes

The income tax expense 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,	
	2022	2021	2022	2021
Income tax expense	$ 40	$ 126	$ 83	$ 188
Effective tax rate	(0.3)%	(2.4)%	(0.4)%	(2.5)%

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.

Tax expense in the three months ended December 31, 2022 was $40 thousand compared to $0.1 million in the three months ended December 31, 2021, which primarily relates to state income tax expense in certain jurisdictions. Tax expense in the six months ended December 31, 2022 was $83 thousand compared to $0.2 million in the six months ended December 31, 2021, which primarily relates to state income tax expense in certain jurisdictions.

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, 2022, the Company is no longer subject to income tax audits by taxing authorities for any years prior to 2019. 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 consolidated financial statements.

Note 16. Net Loss Per Common Share

Basic net loss per common share is calculated by dividing net loss attributable to the Company by the weighted average number of common shares outstanding during the periods presented. Diluted net loss per common share is calculated by dividing diluted net 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 the Company's Series A Convertible Participating Cumulative Perpetual Preferred Stock, par value $1.00 per share ("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 have been anti-dilutive.

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

(In thousands, except share and per share amounts)	Three Months Ended December 31, 2022	Three Months Ended December 31, 2021	Six Months Ended December 31, 2022	Six Months Ended December 31, 2021
Undistributed net loss available to common stockholders	$ (13,608)	$ (5,334)	$ (20,982)	$ (7,830)
Undistributed net loss available to nonvested restricted stockholders and holders of convertible preferred stock	—	(234)	—	(309)
Net loss available to common stockholders - basic	$ (13,608)	$ (5,568)	$ (20,982)	$ (8,139)
Weighted average common shares outstanding - basic	18,723,957	18,106,151	19,243,707	18,034,658
Effect of dilutive securities:				
Shares issuable under stock options	—	—	—	—
Weighted average common shares outstanding - diluted	18,723,957	18,106,151	19,243,707	18,034,658
Net loss available to common stockholders per common share—basic	$ (0.73)	$ (0.31)	$ (1.09)	$ (0.45)
Net loss available to common stockholders per common share—diluted	$ (0.73)	$ (0.31)	$ (1.09)	$ (0.45)

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

	Three Months Ended December 31, 2022	Three Months Ended December 31, 2021	Six Months Ended December 31, 2022	Six Months Ended December 31, 2021
Shares issuable under stock options	410,907	481,429	410,907	487,088
Shares issuable under convertible preferred stock	—	444,849	—	444,849
Shares issuable under PBRSUs	501,141	498,210	469,297	437,211

Note 17. 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. There are no preferred shares issued and outstanding as of December 31, 2022.

Effective August 25, 2022, 12,964 shares of Series A Preferred Stock were converted into 399,208 shares of common stock at a conversion price of $38.32, in accordance with the terms of the Company's Designation of Series A Preferred Stock. The terms of the Series A Preferred Stock are disclosed in Note 20 to the Consolidated Financial Statements included in the 2022 Form 10-K.

The shares of Series A Preferred Stock were originally issued to Boyd Coffee Company (now known as BCC Newco, Inc.) ("BCC"), on October 2, 2017, pursuant to that certain Asset Purchase Agreement, dated as of August 18, 2017 (the "Purchase Agreement"), by and among the Company, Boyd Assets Co., a Delaware corporation and wholly owned subsidiary of the Company, BCC and each of the parties set forth on Exhibit A thereto. 1,736 shares of Series A Preferred Stock originally issued to BCC in accordance with the terms of the Purchase Agreement were previously reacquired and cancelled by the Company as part of a settlement with BCC on July 26, 2022. The shares of Series A Preferred Stock converted represented all of the issued and outstanding shares of Series A Preferred Stock. The Company withheld 914 shares of Series A Preferred Stock pending satisfaction of certain indemnification claims ("Holdback Shares") against the Seller.

As a result of the settlement entered into with BCC, the Company recorded a $1.9 million gain on settlement with the sellers, in general and administrative expense on the consolidated statement of operations, which included the cancellation of preferred shares and settlement of acquisition related contingent liabilities,

Note 18. Revenue Recognition

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

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

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

	Three Months Ended December 31,				Six Months Ended December 31,			
	2022		2021		2022		2021	
(In thousands)	**$**	**% of total**	**$**	**% of total**	**$**	**% of total**	**$**	**% of total**
Net Sales by Product Category:								
Coffee (Roasted)	$ 82,725	62.3 %	$ 75,506	63.8 %	$ 161,019	63.4 %	$ 146,104	64.4 %
Tea & Other Beverages (1)	26,686	20.2 %	22,891	19.3 %	47,632	18.7 %	41,928	18.5 %
Culinary	16,372	12.3 %	13,913	11.7 %	31,269	12.3 %	26,988	11.9 %
Spices	5,709	4.3 %	5,059	4.3 %	11,733	4.6 %	10,258	4.5 %
Net sales by product category	131,492	99.1 %	117,369	99.1 %	251,653	99.0 %	225,278	99.3 %
Delivery Surcharge	1,200	0.9 %	1,076	0.9 %	2,420	1.0 %	1,529	0.7 %
Net sales	**$ 132,692**	**100.0 %**	**$ 118,445**	**100.0 %**	**$ 254,073**	**100.0 %**	**$ 226,807**	**100.0 %**

(1) Includes all beverages other than roasted coffee, including frozen liquid coffee, and iced and hot tea, including cappuccino, cocoa, granitas, and concentrated and ready-to drink cold brew and iced coffee.

The Company does not have any material contract assets and liabilities as of December 31, 2022. Receivables from contracts with customers are included in "Accounts receivable, net" on the Company's consolidated balance sheets. At December 31, 2022 and June 30, 2022, "Accounts receivable, net" included, $49.1 million and $44.2 million, respectively, in receivables from contracts with customers.

Note 19. Commitments and Contingencies

For a detailed discussion about the Company's commitments and contingencies, see Note 18, "Commitments and Contingencies" in the Notes to Consolidated Financial Statements in the 2022 Form 10-K. During the six months ended December 31, 2022, other than the following, or as otherwise disclosed herein, there were no material changes in the Company's commitments and contingencies.

Purchase Commitments

As of December 31, 2022, the Company had committed to purchase green coffee inventory totaling $76.2 million under fixed-price contracts, and $14.6 million in inventory and 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 and civil penalties in the amount of the statutory maximum of $2,500 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.

A series of procedural and legislative developments occurred in the ensuing years, and at hearings in August 2020, the Court denied CERT's motion for summary judgment and granted the JDG's motion for summary judgment. Notice of Judgment in favor of defendants was entered on October 6, 2020. CERT has appealed.

The Company believe that the likelihood that the Company will ultimately incur a loss in connection with this litigation is less than reasonably possible.

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

Note 20. Sales of Assets

Sale of Branch Property

During the six months ended December 31, 2022, the Company completed the sale of the following branch properties:

(In thousands) Name of Branch Property	Date Sold	Sales Price	Net Proceeds	Gain on Sale
Portland, Oregon	9/23/2022	$ 1,990	$ 1,880	$ 1,770
San Diego, California	9/19/2022	7,574	7,169	6,425
Fresno, California	10/7/2022	760	716	648

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

This Quarterly Report on Form 10-Q and other documents we file with the Securities and Exchange Commission (“SEC”) contain forward-looking statements that are based on current expectations, estimates, forecasts and projections about us, our future performance, our financial condition, our products, our business strategy, our beliefs and our management’s assumptions. In addition, we, or others on our behalf, may make forward-looking statements in press releases or written statements, or in our communications and discussions with investors and analysts in the normal course of business through meetings, webcasts, phone calls and conference calls. These forward-looking statements can be identified by the use of words like “anticipates,” “estimates,” “projects,” “expects,” “plans,” “believes,” “intends,” “will,” “could,” “may,” “assumes” and other words of similar meaning. These statements are based on management’s beliefs, assumptions, estimates and observations of future events based on information available to our management at the time the statements are made and include any statements that do not relate to any historical or current fact. These statements are not guarantees of future performance and they involve certain risks, uncertainties and assumptions that are difficult to predict. Actual outcomes and results may differ materially from what is expressed, implied or forecast by our forward-looking statements due in part to the risks, uncertainties and assumptions set forth in Part I, Item 1A of our Annual Report on Form 10-K for the fiscal year ended June 30, 2022 filed with the SEC on September 2, 2022 (the “2022 Form 10-K”), as well as those discussed elsewhere in this Quarterly Report on Form 10-Q and other factors described from time to time in our filings with the SEC.

Factors that could cause actual results to differ materially from those in forward-looking statements include, but are not limited to, severe weather, levels of consumer confidence in national and local economic business conditions, the impact of labor shortages, the increase of costs due to inflation, an economic downturn caused by any pandemic, epidemic or other disease outbreak, comparable or similar to COVID-19, the success of our turnaround strategy, the impact of capital improvement projects, the adequacy and availability of capital resources to fund our existing and planned business operations and our capital expenditure requirements, the relative effectiveness of compensation-based employee incentives in causing improvements in our performance, the capacity to meet the demands of our large national account customers, the extent of execution of plans for the growth of our business and achievement of financial metrics related to those plans, our success in retaining and/or attracting qualified employees, our success in adapting 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, including any effects from inflation, 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 Quarterly Report on Form 10-Q and other factors described from time to time in our filings with the SEC.

Given these risks and uncertainties, you should not rely on forward-looking statements as a prediction of actual results. Any or all of the forward-looking statements contained in this Quarterly Report on Form 10-Q and any other public statement made by us, including by our management, may turn out to be incorrect. We are including this cautionary note to make applicable and take advantage of the safe harbor provisions of the Private Securities Litigation Reform Act of 1995 for forward-looking statements. We expressly disclaim any obligation to update or revise any forward-looking statements, whether as a result of new information, future events, changes in assumptions or otherwise, except as required under federal securities laws and the rules and regulations of the SEC.

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)	
	2022	2021	Change	% Change	2022	2021	Change	% Change
Income Statement Data:								
Net sales	$ 132,692	$ 118,445	$14,247	12.0%	$ 254,073	$ 226,807	$27,266	12.0%
Gross margin	22.9 %	29.5 %	(6.6)%	NM	22.4 %	29.3 %	(6.9)%	NM
Operating expenses as a % of sales	28.0 %	33.4 %	5.4%	NM	26.8 %	32.1 %	5.3%	NM
Loss from operations	$ (6,718)	$ (4,572)	$(2,146)	(46.9)%	$ (11,016)	$ (6,352)	$(4,664)	(73.4)%
Net loss	$ (13,608)	$ (5,420)	$(8,188)	(151.1)%	$ (20,982)	$ (7,844)	$(13,138)	(167.5)%
Operating Data:								
Coffee pounds sold	17,513	19,793	(2,280)	(11.5)%	34,900	39,669	(4,769)	(12.0)%
EBITDA (1)	$ (5,489)	$ 2,389	$(7,878)	(329.8)%	$ (3,693)	$ 8,478	$(12,171)	(143.6)%
EBITDA Margin (1)	(4.1)%	2.0 %	(6.1)%	NM	(1.5)%	3.7 %	(5.2)%	NM
Adjusted EBITDA (1)	$ (3,074)	$ 4,499	$(7,573)	(168.3)%	$ (7,947)	$ 7,988	$(15,935)	(199.5)%
Adjusted EBITDA Margin (1)	(2.3)%	3.8 %	(6.1)%	NM	(3.1)%	3.5 %	(6.6)%	NM
Percentage of Total Net Sales By Product Category								
Coffee (Roasted)	62.3 %	63.8 %	(1.5)%	(2.4)%	63.4 %	64.4 %	(1.0)%	(1.6)%
Tea & Other Beverages (2)	20.2 %	19.3 %	0.9%	4.7%	18.7 %	18.5 %	0.2%	1.1%
Culinary	12.3 %	11.7 %	0.6%	5.1%	12.3 %	11.9 %	0.4%	3.4%
Spices	4.3 %	4.3 %	—%	—%	4.6 %	4.5 %	0.1%	2.2%
Net sales by product category	99.1 %	99.1 %	—%	NM	99.0 %	99.3 %	(0.4)%	NM
Delivery Surcharge	0.9 %	0.9 %	—%	NM	1.0 %	0.7 %	0.3%	NM
Net sales	100.0 %	100.0 %	—%	—%	100.0 %	100.0 %	—%	—%
Other data:								
Capital expenditures related to maintenance	$ 4,657	$ 2,666	$ (1,991)	(74.7)%	$ 7,505	$ 4,908	$ (2,597)	(52.9)%
Total capital expenditures	4,725	3,335	(1,390)	(41.7)%	7,714	5,887	(1,827)	(31.0)%
Depreciation and amortization expense	5,664	6,049	385	6.4 %	11,316	12,328	1,012	8.2%

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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.

Results of Operations

The following table sets forth information regarding our consolidated results of operations for the three and six months ended December 31, 2022 and 2021 (in thousands, except percentages):

	Three Months Ended December 31,		Favorable (Unfavorable)		Six Months Ended December 31,		Favorable (Unfavorable)	
	2022	2021	Change	% Change	2022	2021	Change	% Change
Net sales	$ 132,692	$ 118,445	$14,247	12.0%	$ 254,073	$ 226,807	$27,266	12.0%
Cost of goods sold	102,303	83,451	(18,852)	(22.6)%	197,086	160,359	(36,727)	(22.9)%
Gross profit	30,389	34,994	(4,605)	(13.2)%	56,987	66,448	(9,461)	(14.2)%
Selling expenses	27,220	28,019	799	2.9%	54,811	54,028	(783)	(1.4)%
General and administrative expenses	9,832	11,394	1,562	13.7%	20,319	23,201	2,882	12.4%
Net loss (gains) from sales of assets	55	153	98	NM	(7,127)	(4,429)	2,698	60.9%
Operating expenses	37,107	39,566	2,459	6.2%	68,003	72,800	4,797	6.6%
Loss from operations	(6,718)	(4,572)	(2,146)	(46.9)%	(11,016)	(6,352)	(4,664)	(73.4)%
Other (expense) income:								
Interest expense	(3,580)	(2,489)	(1,091)	(43.8)%	(8,221)	(5,515)	(2,706)	(49.1)%
Other, net	(3,270)	1,767	(5,037)	NM	(1,662)	4,211	5,873	NM
Total other expense	(6,850)	(722)	(6,128)	NM	(9,883)	(1,304)	(8,579)	NM
Loss before taxes	(13,568)	(5,294)	(8,274)	(156.3)%	(20,899)	(7,656)	(13,243)	(173.0)%
Income tax expense	40	126	86	NM	83	188	105	NM
Net loss	$ (13,608)	$ (5,420)	(8,188)	(151.1)%	$ (20,982)	$ (7,844)	(13,138)	(167.5)%
Less: Cumulative preferred dividends, undeclared and unpaid	—	148	148	100.0%	—	295	295	100.0%
Net loss available to common stockholders	$ (13,608)	$ (5,568)	(8,040)	(144.4)%	$ (20,982)	$ (8,139)	(12,843)	(157.8)%

NM - Not Meaningful

Three and Six Months Ended December 31, 2022 Compared to Three and Six Months Ended December 31, 2021

Net Sales

Net sales in the three months ended December 31, 2022 increased $14.2 million, or 12.0%, to $132.7 million from $118.4 million in the three months ended December 31, 2021. Net sales in the six months ended December 31, 2022 increased $27.3 million, or 12.0%, to $254.1 million from $226.8 million in the six months ended December 31, 2021. The increase in net sales for the three and six months ended December 31, 2022 was primarily due to higher pricing compared to prior periods, partially offset by a decline in sales volume primarily with the direct ship sales channel.

The following table presents the effect of changes in unit sales, and unit pricing and product mix in the three and six months ended December 31, 2022 compared to the same period in the prior fiscal year (in millions):

	Three Months Ended December 31, 2022 vs. 2021	Six Months Ended December 31, 2022 vs. 2021
Effect of change in unit sales	$ (15.5)	$ (31.0)
Effect of pricing and product mix changes	29.7	58.3
Total increase in net sales	$ 14.2	$ 27.3

Unit sales decreased 10.4% and average unit price increased by 25.0% in the three months ended December 31, 2022 as compared to the same period in the prior fiscal year, resulting in an increase in our net sales of 12.0%. Unit sales decreased 10.9% and average unit price increased by 25.8% in the six months ended December 31, 2022 as compared to the same period in the prior fiscal year, resulting in an increase in our net sales of 12.0%. Average unit price increased during the three and six months ended December 31, 2022 due to a higher mix of product sold via our DSD network versus Direct ship, as Direct ship has a lower average unit price. There were no new product category introductions which had a material impact on our net sales in the six months ended December 31, 2022 or 2021.

Gross Profit

Gross profit decreased to $30.4 million for the three months ended December 31, 2022, compared to $35.0 million for the three months ended December 31, 2021. Gross margin decreased to 22.9% for the three months ended December 31, 2022 from 29.5% for the three months ended December 31, 2021. The decrease in gross profit was primarily due to higher product costs and an increase in underlying commodities pricing compared to the same period in the prior fiscal year.

Gross profit decreased to $57.0 million for the six months ended December 31, 2022, compared to $66.4 million for the six months ended December 31, 2021. Gross margin decreased to 22.4% for the six months ended December 31, 2022 from 29.3% for the six months ended December 31, 2021. The decrease in gross profit was primarily due to higher product costs and an increase in underlying commodities pricing compared to the same period in the prior fiscal year.

Operating Expenses

In the three months ended December 31, 2022, operating expenses decreased $2.5 million to $37.1 million, or 28.0% of net sales, from $39.6 million, or 33.4% of net sales in the prior year period. This decrease was due to a $1.6 million decrease in general and administrative expenses, and a $0.8 million decrease in selling expenses. The decrease in general and administrative expenses during the three months ended December 31, 2022 was primarily due to a decrease in incentive compensation expense.

In the six months ended December 31, 2022, operating expenses decreased $4.8 million to $68.0 million, or 26.8% of net sales, from $72.8 million, or 32.1% of net sales in the prior year period. This decrease was due to $2.9 million decrease in general and administrative expenses and a $2.7 million increase in net gains from the sale of branch properties and other assets during the six months ended December 31, 2022, offset by a $0.8 million increase in selling expenses. The increase in selling expenses during the six months ended December 31, 2022 was primarily due to an increase in payroll related costs. The decrease in general and administrative expenses during the six months ended December 31, 2022 was primarily due to a decrease in incentive compensation expense and $1.9 million gain on settlement related to the acquisition of Boyd Coffee Company, which included the cancellation of shares of Series A Preferred Stock and settlement of liabilities, partially offset by an increase in contract services.

Total Other Expense

Total other expense for the three months ended December 31, 2022 increased $6.1 million to $6.9 million compared to $0.7 million of expense in the three months ended December 31, 2021. Total other expense for the six months ended December 31, 2022 increased $8.6 million to $9.9 million compared to $1.3 million of expense in the six months ended December 31, 2021.

Interest expense in the three months ended December 31, 2022 increased $1.1 million to $3.6 million from $2.5 million in the prior year period. Interest expense in the six months ended December 31, 2022 increased $2.7 million to $8.2 million from $5.5 million in the prior year period. The increase is primarily related to the write off of $1.5 million in deferred financing costs, discount and payoff premium incurred as a result of the refinancing transaction on August 31, 2022, an increase in debt obligations, and an increase in interest rates compared to the prior year period.

Other, net in the three months ended December 31, 2022 decreased by $5.0 million to Other Expense of $3.3 million compared to Other Income of $1.8 million in the prior year period. Other, net in the six months ended December 31, 2022 decreased by $5.9 million to Other Expense of $1.7 million compared to Other Income of $4.2 million in the prior year period. The change was primarily a result of mark-to-market net losses on coffee-related derivative instruments not designated as accounting hedges in the current period compared to net mark-to-market gains in the prior year period. The mark-to-market losses are primarily due to a decrease in the coffee-related commodity market.

Income Taxes

In the three months ended December 31, 2022 and December 31, 2021, we recorded income tax expense of $40.0 thousand and $0.1 million, respectively. In the six months ended December 31, 2022 and December 31, 2021, we recorded income tax expense of $83.0 thousand and $0.2 million, respectively. See Note 15, *Income Taxes*, of the Notes to Unaudited Consolidated Financial Statements included in Part I, Item 1 of this Quarterly Report on Form 10-Q.

Non-GAAP Financial Measures

In addition to net loss 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 excluding the impact of:

- income tax expense;
- 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 excluding the impact of:

- income tax expense;
- interest expense;
- depreciation and amortization expense;
- 401(k), ESOP and share-based compensation expense;
- gain on settlement with Boyd's sellers;
- net loss (gains) from sales of assets; and
- severance costs.

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

For purposes of calculating EBITDA and EBITDA Margin and Adjusted EBITDA and Adjusted EBITDA Margin, we have not adjusted for the impact of interest expense on our pension and postretirement benefit plans.

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 loss to EBITDA (unaudited):

	Three Months Ended December 31,		Six Months Ended December 31,	
(In thousands)	**2022**	**2021**	**2022**	**2021**
Net loss, as reported	$ (13,608)	$ (5,420)	$ (20,982)	$ (7,844)
Income tax expense	40	126	83	188
Interest expense (1)	2,415	1,634	5,890	3,806
Depreciation and amortization expense	5,664	6,049	11,316	12,328
EBITDA	$ (5,489)	$ 2,389	$ (3,693)	$ 8,478
EBITDA Margin	(4.1)%	2.0 %	(1.5)%	3.7 %

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

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

	Three Months Ended December 31,		Six Months Ended December 31,	
(In thousands)	**2022**	**2021**	**2022**	**2021**
Net loss, as reported	$ (13,608)	$ (5,420)	$ (20,982)	$ (7,844)
Income tax expense	40	126	83	188
Interest expense (1)	2,415	1,634	5,890	3,806
Depreciation and amortization expense	5,664	6,049	11,316	12,328
401(k), ESOP and share-based compensation expense	2,302	1,605	4,499	2,997
Gain on settlement with Boyd's sellers (2)	—	—	(1,918)	—
Net loss (gains) from sale of assets	55	153	(7,127)	(4,429)
Severance costs	58	352	292	942
Adjusted EBITDA	$ (3,074)	$ 4,499	$ (7,947)	$ 7,988
Adjusted EBITDA Margin	(2.3)%	3.8 %	(3.1)%	3.5 %

(1) Excludes interest expense related to pension plans and postretirement benefit plans.
(2) Result of the settlement related to the acquisition of Boyd Coffee Company which included the cancellation of shares of Series A Preferred Stock and settlement of liabilities.

Our Business

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

We serve a wide variety of customers, from small independent restaurants and foodservice operators to large institutional buyers like restaurants, department and convenience store retailers, hotels, casinos, healthcare facilities, and gourmet coffee houses, as well as grocery chains with private brand and consumer-branded coffee and tea products, and foodservice distributors. Through our sustainability, stewardship, environmental efforts, and leadership we are not only committed to serving the finest products available, considering the cost needs of the customer, but also 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.®, Fair Trade Certified™® and other sustainably-produced offerings; frozen liquid coffee; flavored and unflavored iced and hot teas; including organic and Rainforest Alliance Certified™; culinary products including premium spices, pancake and biscuit mixes, gravy and sauce mixes, soup bases, dressings, syrups and sauces, and coffee-related products such as coffee filters, cups, sugar and creamers; and other beverages including cappuccino, cocoa, granitas, and other blender-based beverages 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 and Portland, Oregon. We distribute our products from our Northlake, Texas and Portland, Oregon production facilities, as well as separate distribution centers in Portland, Oregon; Northlake, Illinois; Moonachie, New Jersey; and Rialto, California. Our products reach our customers primarily through our nationwide DSD network of 241 delivery routes and 102 branch warehouses as of December 31, 2022, or direct-shipped via common carriers or third-party distributors. DSD sales are primarily 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 through our DSD network, and we rely on 3PL service providers for our long-haul distribution.

The COVID-19 pandemic has significantly impacted our financial position, results of operations, cash flows and liquidity as the spread of the pandemic and resulting governmental actions have decreased the demand for our products. An economic downturn caused by any pandemic, epidemic or other disease outbreak, comparable or similar to COVID-19, may also cause substantial changes in consumer behavior and demand for our products, adversely affecting results of operations and our financial position, some of which we may not be able to predict with certainty.

For other impacts of the COVID-19 pandemic, please see "Item 1A. Risk Factors" in our 2022 Form 10-K, which is accessible on the SEC's website at www.sec.gov.

Liquidity, Capital Resources and Financial Condition

The following table summarizes our debt obligations:

(In thousands)	Debt Origination Date	Maturity	Principal Borrowing Amount	December 31, 2022 Carrying Value	December 31, 2022 Weighted Average Interest Rate (1)	June 30, 2022 Carrying Value	June 30, 2022 Weighted Average Interest Rate
Revolver	Various	4/26/2027	N/A	$ 67,000	5.05 %	$ 63,000	2.75 %
Term Loan	8/31/2022	4/26/2027	$47,000	46,217		45,600	
Total				$ 113,217		$ 108,600	

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(1) The weighted average interest rate excludes the fixed rate on the de-designated Amended Rate Swap

On April 26, 2021, the Company entered into the Revolver Credit Facility, which was amended on August 8, 2022 and August 31, 2022, and entered into the Prior Term Loan Facility, which was paid in full as part of a refinancing transaction, as described in more detail in Note 11, *Debt Obligations*, of the Notes to Consolidated Financial Statements included in this Quarterly Report on Form 10-Q.

The Credit Facilities have a commitment of up to $90.0 million and a maturity date of April 26, 2027. Availability under the revolver is calculated as the lesser of (a) $90.0 million and (b) the amount derived from pursuant to a borrowing base composed of the sum of (i) 85% of eligible accounts receivable (less a dilution reserve), plus (ii) the lesser of: (a) 80% of eligible raw material inventory, eligible in-transit inventory and eligible finished goods inventory (collectively, “Eligible Inventory”), and (b) 85% of the net orderly liquidation value of Eligible Inventory, minus (c) applicable reserve. The Term Loan has a principal amount of $47.0 million and a maturity date of April 26, 2027.

The Credit Facilities contain customary affirmative and negative covenants and restrictions typical for a financing of this type. Non-compliance with one or more of the covenants and restrictions could result in the full or partial principal balance of the Credit Facilities becoming immediately due and payable and termination of the commitments. As of and through December 31, 2022, we were in compliance with all of the covenants under the Credit Facilities.

Failure to comply with these covenants would result in a default which could accelerate the repayment obligations and impact our liquidity. Accordingly, an event of default could have a material and adverse impact on us. If we are unable to cure, obtain a waiver from the lenders, or refinance the Credit Facilities, we anticipate not being able to meet the current contractual covenant beginning June 30, 2023. We consider it probable that management’s plans, including the options described above, will be able to alleviate the potential noncompliance with the debt covenant prior to June 30, 2023.

The amended Credit Facilities provide us with increased flexibility to proactively manage our liquidity, working capital, and preserving financial liquidity to mitigate the impact of the uncertain business environment resulting from increased costs due to inflation, fluctuations in the coffee commodity markets, and continue to execute on key strategic initiatives.

At December 31, 2022, the Company had outstanding borrowings on the Revolver Credit Facility of $67.0 million and had utilized $4.1 million of the letters of credit sublimit.

Liquidity

We generally finance our operations through cash flows from operations and borrowings under our Credit Facilities described above. In light of our financial position, operating performance and current economic conditions, including the state of the global capital markets, there can be no assurance as to whether or when we will be able to raise capital by issuing securities. We believe that the Credit Facilities, 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. We expect to fund our long-term liquidity needs, including contractual obligations, anticipated capital expenditures, principal payments on our Term Loan Credit Facility, as well as working capital requirements, from our operating cash flows and our Revolver Credit Facility to the extent available.

At December 31, 2022, we had $17.6 million of unrestricted cash and cash equivalents and $2.3 million in restricted cash on deposit in broker accounts to satisfy margin requirements associated with certain coffee-related derivative instruments resulting from a decline in the “C” market price of green coffee during the three months ended December 31, 2022. Further changes in commodity prices and the number of coffee-related derivative instruments held could have a significant impact on cash deposit requirements under our broker and counterparty agreements and may adversely affect our liquidity. At December 31, 2022, we had $14.3 million available on our Revolver Credit Facility.

Cash Flows

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

	Six Months Ended December 31,	
	2022	**2021**
Consolidated Statements of cash flows data (in thousands)		
Net cash provided by (used in) operating activities	$ 3,563	$ (8,595)
Net cash provided by investing activities	2,219	2,288
Net cash provided by (used in) financing activities	4,164	(332)
Net increase (decrease) in cash and cash equivalents and restricted cash	$ 9,946	$ (6,639)

Operating Activities

Net cash provided by operating activities during the six months ended December 31, 2022 was $3.6 million as compared to net cash used in operating activities of $8.6 million in the six months ended December 31, 2021, an increase in cash provided by operations of $12.2 million. The increase primarily reflects a decrease in working capital driven by a decrease in inventory, partially offset by lower cash earnings.

Investing Activities

Net cash provided by investing activities during the six months ended December 31, 2022 was $2.2 million as compared to $2.3 million in the six months ended December 31, 2021. The net change in investing activities was primarily due to an increase of $1.8 million related to proceeds from the sale of property, plant and equipment partially offset by an increase of $1.8 million in fixed asset purchases during the six months ended December 31, 2022.

Financing Activities

Net cash provided by financing activities during the six months ended December 31, 2022 was $4.2 million as compared to net cash used in financing activities of $0.3 million in the six months ended December 31, 2021. The change of $4.5 million was primarily due to net borrowing proceeds of $4.6 million under the Credit Facilities during the six months ended December 31, 2022.

Capital Expenditures

For the six months ended December 31, 2022 and 2021, our capital expenditures paid were $7.7 million and $5.9 million, respectively. In fiscal 2023, we anticipate paying between $14.0 million to $16.0 million in capital expenditures. We expect to finance these expenditures through cash flows from operations and borrowings under our Credit Facilities.

Depreciation and amortization expenses were $11.3 million and $12.3 million in the six months ended December 31, 2022 and 2021, respectively. We anticipate our depreciation and amortization expense will be approximately $5.9 million to $6.0 million per quarter in the remainder of fiscal 2023 based on our existing fixed asset commitments and the useful lives of our intangible assets.

Purchase Commitments

As of December 31, 2022, the Company had committed to purchase green coffee inventory totaling $76.2 million under fixed-price contracts, and $14.6 million in inventory and other purchases under non-cancelable purchase orders.

Contractual Obligations

As of December 31, 2022, the Company had operating and finance lease payment commitments totaling $28.4 million. Under our Term Loan Facility, the Company is required to make monthly principal repayments of $0.3 million, beginning in the quarter ending December 31, 2022.

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 Consolidated Financial Statements included in Part I, Item 1 of our 2022 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 2022 Form 10-K.

Recent Accounting Pronouncements

See Note 2, *Summary of Significant Accounting Policies*, of the Notes to Consolidated Financial Statements included in Part I, Item 1 of our 2022 Form 10-K.

Off-Balance Sheet Arrangements

As of December 31, 2022, the Company did not have any off-balance sheet arrangements.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Interest Rate Risk

At December 31, 2022, we had outstanding borrowings on our Revolver Credit Facility of $67.0 million and had utilized $4.1 million of the letters of credit sublimit, as well as $46.2 million of debt outstanding under our Term Loan Facility. The weighted average interest rate on our Revolver Credit Facility was 5.05% with a SOFR applicable margin of 1.75%.

In addition to the Credit Facilities above, the Company executed an ISDA agreement with Wells Fargo ("Amended Rate Swap"). Under the terms of the Amended Rate Swap, the Company receives 1-month LIBOR, subject to a 0% floor, and makes payments based on a fixed rate of 2.4725%, The Amended Rate Swap utilizes the same notional amount of $65.0 million and maturity date of October 11, 2023 as the original interest rate swap. See Note 4, *Derivative Instruments,* of the Notes to Consolidated Financial Statements included in the fiscal 2022 Annual Report on Form 10-K for further discussions of our derivative instruments.

The following table demonstrates the impact of interest rate changes on our annual interest expense on outstanding borrowings subject to interest rate variability under these Credit Facilities based on the weighted average interest rate on the outstanding borrowings as of December 31, 2022:

(In thousands)	Principal	Interest Rate	Annual Interest Expense
–150 basis points	$48,200	4.78 %	$2,304
–100 basis points	$48,200	5.28 %	$2,545
Unchanged	$48,200	6.28 %	$3,027
+100 basis points	$48,200	7.28 %	$3,509
+150 basis points	$48,200	7.78 %	$3,750

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 Consolidated Financial Statements for further discussions of our derivative instruments.

The following table summarizes the potential impact as of December 31, 2022 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)	$ 694	$ (694)	$ 670	$ (670)

(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, 2022. 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, 2022, our management, with the participation of our Chief Executive Officer (principal executive officer) and Chief Financial Officer (principal financial 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, 2022 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 19, *Commitments and Contingencies*, of the Notes to Unaudited 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 2022 Form 10-K. During the six months ended December 31, 2022, there have been no material changes to the risk factors disclosed in our 2022 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	Second Amended and Restated Certificate of Incorporation of Farmer Bros. Co. (filed as Exhibit 3.1 to the Company's Current Report on Form 8-K filed with the SEC on January 12, 2023 and incorporated herein by reference).
3.2	Amended and Restated Bylaws (filed as Exhibit 3.1 to the Company's Current Report on Form 8-K filed with the SEC on February 2, 2023 and incorporated herein by reference).
10.1	Cooperation Agreement, dated October 30, 2022, by and among the Company, the entities and persons listed on Exhibit A thereto, and the entities and persons listed on Exhibit B thereto (filed as Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the SEC on October 31, 2022 and incorporated herein by reference).
31.1*	Principal Executive Officer Certification Pursuant to Securities Exchange Act Rules 13a-14 and 15d-14 as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2*	Principal Financial 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 Officer Certification Pursuant to 18 U.S.C. Section 1350 as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS*	Inline XBRL Instance Document
101.SCH*	Inline XBRL Taxonomy Extension Schema Document.
101.CAL*	Inline XBRL Taxonomy Extension Calculation Linkbase Document.
101.DEF*	Inline XBRL Taxonomy Extension Definition Linkbase Document.
101.LAB*	Inline XBRL Taxonomy Extension Label Linkbase Document.
101.PRE*	Inline XBRL Taxonomy Extension Presentation Linkbase Document.
104	The cover page from the Company's Quarterly Report on Form 10-Q for the quarter ended December 31, 2022, formatted in Inline XBRL (included in Exhibit 101).

* 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 8, 2023

By: /s/ Scott R. Drake

Scott R. Drake
Chief Financial Officer
(principal financial officer)
February 8, 2023

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 8, 2023

/S/ DEVERL MASERANG

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

EXHIBIT 31.2

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

I, Scott R. Drake, certify that:

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

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

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

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

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

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

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

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

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

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

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

Date: February 8, 2023

/s/ SCOTT R. DRAKE

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

EXHIBIT 32.1

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

In connection with the Quarterly Report of Farmer Bros. Co. (the “Company”) on Form 10-Q for the quarterly period ended December 31, 2022, 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 8, 2023

/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, 2022 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Scott R. Drake, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

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

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

Dated: February 8, 2023

/S/ SCOTT R. DRAKE

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

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