

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

[X] QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF  
THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2003

Commission file number: 0-1375

FARMER BROS. CO.

California  
State of Incorporation

95-0725980  
IRS Employer Identification Number

20333 S. Normandie Avenue, Torrance, California 90502  
Registrant's address

(310) 787-5200  
Registrant's telephone number

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [X]

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act). YES [X] NO [ ]

Number of shares of Common Stock, \$1.00 par value, outstanding as of August 1, 2003: 1,926,414 and the aggregate market value of the common shares held by non-affiliates of the Registrant was approximately \$638 million.

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements (Dollars in thousands, except per share data)

FARMER BROS. CO.  
CONSOLIDATED STATEMENTS OF INCOME  
(Unaudited)

	For the three months ended September 30,	
	2003	2002
Net sales	\$45,665	\$50,389
Cost of goods sold	16,033	18,857
Gross profit	29,632	31,532
Selling expense	22,317	20,744
General and administrative expense	6,258	3,434
Operating expenses	28,575	24,178
Income from operations	1,057	7,354
Other income:		
Dividend income	802	857
Interest income	651	1,287
Other, net	1,572	-379

	3,025	1,765
Income before taxes	4,082	9,119
Income taxes	1,571	3,511
Net income	\$2,511	\$5,608
Net income per share	\$1.41	\$3.03
Weighted average shares outstanding	1,782,928	1,851,197
Dividends declared per share	\$0.95	\$0.90

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

FARMER BROS. CO.  
CONSOLIDATED BALANCE SHEETS  
(Unaudited)

	September 30 2003	June 30, 2003
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$31,054	\$18,986
Restricted cash	\$975	\$975
Short term investments	267,320	274,444
Accounts and notes receivable, net	12,777	13,756
Inventories	34,605	34,702
Income tax receivable	1,338	2,878
Prepaid expenses	634	876
Total current assets	348,703	346,617
Property, plant and equipment, net	41,872	41,753
Notes receivable	193	193
Other assets	25,767	26,390
Deferred income taxes	1,462	1,462
Total assets	\$417,997	\$416,415
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$4,287	\$3,321
Accrued payroll expenses	5,751	7,362
Deferred income taxes	976	976
Other	4,651	5,000
Total current liabilities	15,665	16,659
Accrued postretirement benefits	25,177	25,041
Other long term liabilities	5,981	5,570
Total Liabilities	46,823	47,270
Commitments and contingencies	-	-
Shareholders' equity:		
Common stock, \$1.00 par value, authorized 3,000,000 shares; issued and outstanding 1,926,414	1,926	1,926
Additional paid-in capital	19,149	18,798
Retained earnings	383,643	382,831
Unearned ESOP shares	-32,498	-33,364
Less accumulated comprehensive loss	-1,046	-1,046
Total shareholders' equity	371,174	369,145
Total liabilities and shareholders' equity	\$417,997	\$416,415

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

FARMER BROS. CO.  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
(Unaudited)

	For the three months ended September 30,	
	2003	2002
Cash flows from operating activities:		
Net income	\$2,511	\$5,608
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Depreciation	1,745	1,376
(Gain) on sales of assets	-30	-75
ESOP compensation expense	1,217	799
Net (gain) on investments	-1,508	-509
Change in assets and liabilities:		
Short term investments	8,632	-1,956
Accounts and notes receivable	969	-2,111
Inventories	97	560
Income tax receivable	1,540	2,553
Prepaid expenses and other assets	865	-1,255
Accounts payable	966	-833
Accrued payroll and expenses and other	-1,960	-474
Accrued postretirement benefits	136	460
Other long term liabilities	411	-
Total adjustments	13,080	-1,465
Net cash provided by operating	\$15,591	\$4,143

	For the three months ended September 30,	
	2003	2002
Net cash provided by operating activities	\$15,591	\$4,143
Cash flows from investing activities:		
Purchases of property, plant and equipment	-1,864	-1,151
Proceeds from sales of property, plant and equipment	30	93
Notes repaid	10	16
Net cash used in investing activities	-1,824	-1,042
Cash flows from financing activities:		
Dividends paid	-1,699	-1,667
ESOP contributions		-731
Net cash used in financing activities	-1,699	-2,398
Net (decrease) increase in cash and cash	12,068	703
Cash and cash equivalents at beginning of	19,961	7,047
Cash and cash equivalents at end of year	\$32,029	\$7,750
Supplemental disclosure of cash flow information:		
Income tax payments	32	20

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

Notes to Consolidated Financial Statements (Unaudited)

Note 1. Unaudited Financial Statements

The accompanying unaudited financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q 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 for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three month period ended September 30, 2003 are not necessarily indicative of the results that may be expected for the year ended June 30, 2004.

The balance sheet at June 30, 2003 has been derived from the audited financial

statements at that date but does not include all of the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements.

For further information, refer to the consolidated financial statements and footnotes thereto included in the Farmer Bros Co. annual report on Form 10-K for the year ended June 30, 2003.

## Note 2. Investments

Investments are as follows (in thousands):

	September 30, 2003	June 30, 2003
Trading securities at fair value		
U.S. Treasury obligations	\$210,930	\$220,057
Preferred stock	55,967	53,897
Futures, options and other derivative investments	423	490
	\$267,320	\$274,444

## Note 3. Inventories (In thousands)

September 30, 2003

	Processed	Unprocessed	Total
Coffee	\$ 3,919	\$ 9,157	\$13,076
Allied products	11,440	4,323	15,763
Coffee brewing equipment	2,180	3,586	5,766
	\$17,539	\$17,066	\$34,605

June 30, 2003

	Processed	Unprocessed	Total
Coffee	\$ 3,853	\$ 9,155	\$13,008
Allied products	11,776	4,213	15,989
Coffee brewing equipment	2,372	3,333	5,705
	\$18,001	\$16,701	\$34,702

## Interim LIFO Calculations

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

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

### Liquidity and Financial Condition

There have been no material changes in the Company's liquidity or financial condition since the year ended June 30, 2003.

(in thousands)	September 30, 2003	June 30, 2003
Current assets	\$348,703	\$348,617
Current liabilities	15,665	\$ 16,659
Working capital	\$333,038	\$331,958
Total assets	\$417,997	\$416,415

All present and future liquidity needs are expected to be met by internal sources. The Company tries not to rely on banks or other third parties for its working capital and other liquidity needs. There have been no changes in the needs or commitments described in the Company's Annual Report on Form 10-K/A.

### Results of Operations

All operating trends discussed in the Form 10-K/A for fiscal 2003 have continued into the first quarter of fiscal 2003. These trends resulted in a 4%

decrease of net sales for the first quarter of fiscal 2004 to \$45,655,000 as compared to \$47,784,000 in the fiscal quarter ended June 30, 2003, and 9% as compared to \$50,389,000 in the same quarter of fiscal 2003. In addition, the company had decreased coffee brewing equipment sales of \$2,694,000 in the current fiscal quarter as compared to the same period of fiscal 2003.

Gross profit decreased 6% to \$29,632,000 as compared to \$31,532,000 in the same quarter of fiscal 2003 due to the increased cost of green coffee in the current quarter. The average cost of green coffee during the first quarter of fiscal 2004 has increased 1% since the June 30, 2003 year end, but is 23% higher than the average cost of green coffee for the fiscal quarter ended September 30, 2002.

Operating expenses in the first quarter of fiscal 2004, consisting of selling and general and administrative expenses, increased 18% to \$28,575,000 as compared to \$24,178,000 in the same quarter of fiscal 2003. The increase is primarily attributed to increases in employee related expenses and costs associated with our multi year program to update our information systems. Payroll expense increased 2%, but employee medical and retirement benefits, including the ESOP and the cost of post retirement medical expenses, increased 10% or \$1,724,000. Computer consulting and training increased \$1,968,000 for the current quarter, as compared to \$19,000 in the same quarter of fiscal 2003.

Other income in the first quarter of fiscal 2004 increased 71% to \$3,025,000 from \$1,765,000 in the first quarter of fiscal 2003. Interest earned decreased 49% to \$651,000 as compared to \$1,287,000 in the quarter ended September 30, 2002 as the result of trends discussed in the Form 10-K/A for fiscal 2003.

As the result of the above mentioned factors, net income for the first quarter of fiscal 2004 decreased 55% to \$2,511,000 or \$1.41 per share, as compared to \$5,608,000, or \$3.03 per share, for the first quarter of fiscal 2003.

#### Quarterly Summary of Results (in thousands of dollars):

	9/30/02	12/31/02	3/31/03	6/30/03	9/30/03
Net sales	\$50,389	\$54,118	\$49,267	\$47,784	\$45,665
Gross profit	\$31,532	\$35,154	\$32,038	\$32,172	\$29,632
Income from operations	\$7,354	\$8,319	\$4,985	\$3,230	\$1,057
Net income	\$5,608	\$5,899	\$6,339	\$5,783	\$2,511
Net income per common share	\$3.03	\$3.24	\$3.52	\$3.23	\$1.41

#### Forward Looking Statements

Certain statements contained in this Quarterly Report on Form 10-Q regarding The risks, circumstances and financial trends that may affect our future operating results, financial position and cash flows may be forward-looking statements within the meaning of federal securities laws. These statements are based on management's current expectations, assumptions, estimates and observations about our business and are subject to risks and uncertainties. As a result, actual results could materially differ from the forward looking statements contained herein. These forward looking statements can be identified by the use of words like "expects," "plans," "believes," "intends," "will," "assumes" and other words of similar meanings. These and other similar words can be identified by the fact that they do not relate solely to historical or current facts. While we believe our assumptions are reasonable, we caution that it is impossible to predict the impact of such factors which could cause actual results to differ materially from predicted results. We intend these forward-looking statements to speak only at the time of this report and do not undertake to update or revise these projections as more information becomes available. For these statements, we claim the protection of the safe harbor for forward-looking statements provided by the Private Securities Litigation Reform Act of 1995.

#### Item 3. Quantitative and Qualitative Disclosure About Market Risk.

##### Financial Markets

We are exposed to market value risk arising from changes in interest rates on our securities portfolio. Our portfolio of investment grade money market instruments includes discount commercial paper, medium term notes, federal agency issues and treasury securities. As of September 30, 2003 over 62% of these funds were invested in instruments with maturities shorter than 90 days. This portfolio's interest rate risk is not hedged and its average maturity is approximately 73 days. A 100 basis point increase in the general level of interest rates would result in a change in the market value of the portfolio of approximately \$2,120,000.

Our portfolio of preferred securities includes investments in derivatives that provide a natural economic hedge of interest rate risk. We review the interest rate sensitivity of these securities and (a) enter into "short

positions" in futures contracts on U.S. Treasury securities or (b) hold put options on such futures contracts in order to reduce the impact of certain interest rate changes on such preferred stocks. Specifically, we attempt to manage the risk arising from changes in the general level of interest rates. We do not transact in futures contracts or put options for speculative purposes.

The following table demonstrates the impact of varying interest rate changes based on the preferred stock holdings, futures and options positions, and market yield and price relationships at September 30, 2003. This table is predicated on an instantaneous change in the general level of interest rates and assumes predictable relationships between the prices of preferred securities holdings, the yields on U.S. Treasury securities and related futures and options.

Interest Rate Changes  
(In thousands)

	Market Value at Preferred Stock	September 30, 2003 Futures & Options	September 30, 2003 Total Portfolio	Change in Market Value of Total Portfolio
- -150 basis points ("b.p.")	\$61,585	\$0	\$61,585	\$5,308
- -100 b.p.	60,135	5	60,140	3,863
Unchanged	55,967	324	56,277	0
+100 b.p.	50,891	3,221	54,112	(2,165)
+150 b.p.	48,431	5,297	53,728	(2,549)

The number and type of future and option contracts entered into depends on, among other items, the specific maturity and issuer redemption provisions for each preferred stock held, the slope of the Treasury yield curve, the expected volatility of Treasury yields, and the costs of using futures and/or options.

Commodity Price Changes

We are exposed to commodity price risk arising from changes in the market price of green coffee. We price our inventory on the LIFO basis. In the normal course of business, we enter into commodity purchase agreements with suppliers and we purchase green coffee contracts.

The following table demonstrates the impact of changes in the price of green coffee on inventory and green coffee contracts at September 30, 2003. It assumes an immediate change in the price of green coffee, and the valuations of coffee index futures and put options and relevant commodity purchase agreements at September 30, 2003.

Commodity Risk Disclosure

(In thousands)

Coffee Cost Change	Market Value of Coffee Inventory	Futures & Options	Totals	Change in Market Value Derivatives	Inventory
-10%	\$12,000	\$373	\$13,373	\$373	(\$1,076)
unchanged	13,076	(99)	12,977	-	-
10%	14,000	(472)	13,528	(373)	924

At September 30, 2003 the derivatives consisted mainly of commodity futures with maturities shorter than four months.

Item 4 Controls & Procedures

As of September 30, 2003, with the participation of the Chief Executive Officer and Chief Financial officer, we evaluated the effectiveness of our disclosure controls and procedures and concluded that they were effective as of that date. No changes occurred during the quarter ended September 30, 2003 that materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting, except that during that quarter we implemented part of our multi-year program to update our information systems which program includes enhancements to such internal controls.

PART II OTHER INFORMATION

- |   |                 |
|---|-----------------|
| Item 1. Legal proceedings.  | not applicable. |
| Item 2. Changes in securities   | none.           |
| Item 3. Defaults upon senior securities.  | none.           |
| Item 4. Submission of matters to a vote of security holders.                      | none.           |
| Item 5. Other information   | none.           |
| Item 6. Exhibits and reports on Form 8-K.   |                 |
| (a) Exhibits.   | none.           |
| (b) Reports on Form 8-K.  |                 |
| No reports on Form 8-K were filed during the quarter<br>Ended September 30, 2003. |                 |

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

FARMER BROS. CO.

/s/ Roy E. Farmer

Roy E. Farmer, President and Chief Executive Officer and Director  
(principal executive officer)

Date: November 13, 2003

/s/ John E. Simmons

John E. Simmons, Treasurer and Chief Financial Officer  
(principal financial and accounting officer)

Date: November 13, 2003

Exhibit 31.1

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

I, Roy E. Farmer, President and Chief Executive Officer of Farmer Bros. Co.  
("Registrant"), certifies that:

1. I have reviewed this Quarterly Report on Form 10-Q of Registrant;
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 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) 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) 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; and
  - (c) 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: November 13, 2003

/s/ Roy E. Farmer

Roy E. Farmer  
President and Chief Executive Officer  
(principal executive officer)

Exhibit 31.2

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

I, John E. Simmons, Treasurer and Chief Financial Officer of Farmer Bros. Co.  
("Registrant"), certifies that:

1. I have reviewed this Quarterly Report on Form 10-Q of Registrant;
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 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) 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) 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; and
  - (c) 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: November 13, 2003

/s/ John E. Simmons

John E. Simmons  
Treasurer and Chief Financial Officer  
(principal financial and accounting officer)

Exhibit 32.1

CERTIFICATION of Chief Executive Officer  
Pursuant to Section 906 of The Sarbanes-Oxley Act of 2002

In connection with the annual report of Farmer Bros. Co. (the "Company") on Form 10-Q for the fiscal quarter ended September 30, 2003, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Roy E. Farmer, 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 represents, in all material respects, the financial condition and results of operation of the Company.

Dated: November 13, 2003

/s/ Roy E. Farmer  
Roy E. Farmer  
President & Chief Executive Officer  
(principal executive officer)

Exhibit 32.2

CERTIFICATION of Chief Financial Officer  
Pursuant to Section 906 of The Sarbanes-Oxley Act of 2002

In connection with the annual report of Farmer Bros. Co. (the "Company") on Form 10-Q for the fiscal quarter ended September 30, 2003, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, John E. Simmons, Treasurer and 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:

3. the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
4. the information contained in the Report fairly represents, in all material respects, the financial condition and results of operation of the Company.

Dated: November 13, 2003

/s/ John E. Simmons  
John E. Simmons  
Treasurer and Chief Financial Officer  
(principal financial and accounting officer)