

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For Quarter Ended December 31, 1997

Commission file number 0-1375

FARMER BROS. CO.

California
State of Incorporation

95-0725980
Federal ID Number

20333 S. Normandie Avenue, Torrance, California
Registrant's Address

90502
Zip

(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 ☒ NO ☐

Number of shares of Common Stock outstanding: 1,926,414 as of December 31, 1997.

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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 December 31,		For the six months ended December 31,	
	1997	1996	1997	1996
Net sales	\$64,062	\$57,460	\$123,559	\$110,245
Cost of goods sold	27,901	25,954	58,072	51,323
	36,161	31,506	65,487	58,922
Selling expense	20,628	20,743	40,383	40,924
General and administrative expenses	2,156	2,130	4,075	3,648
	22,784	22,873	44,458	44,572
Income from operations	13,377	8,633	21,029	14,350
Other income:				
Dividend income	664	659	1,322	1,345
Interest income	1,971	1,694	3,813	3,138
Other, net	206	261	519	401
	2,841	2,614	5,654	4,884
Income before taxes	16,218	11,247	26,683	19,234
Income taxes	6,436	4,413	10,673	7,741
Net income	\$ 9,782	\$ 6,834	\$ 16,010	\$ 11,493
Net income per share	\$5.08	\$3.55	\$8.31	\$5.97

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

FARMER BROS. CO.
CONSOLIDATED BALANCE SHEETS
(Unaudited)

	December 31, 1997	June 30, 1997
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 17,183	\$ 34,174
Short term investments	104,447	77,791
Accounts and notes receivable, net	22,024	18,401
Inventories	35,707	35,176
Income tax receivable	97	2,216
Deferred income taxes	1,804	1,804
Prepaid expenses and other	1,520	784
Total current assets	182,782	170,346
Property, plant and equipment, net	30,841	32,526
Notes receivable	2,977	2,977
Long term investments, net	57,394	51,341
Other assets	18,623	18,035
Deferred taxes	1,465	1,624
Total assets	\$294,082	\$276,849
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 7,440	\$ 7,510
Accrued payroll expenses	4,462	4,247
Other	7,347	4,623
Total current liabilities	19,249	16,380
Accrued postretirement benefits	15,065	14,347
Commitments and contingencies	-	-
Shareholders' equity:		
Common stock, \$1.00 par value, authorized 3,000,000 shares; issued and outstanding 1,926,414 shares	1,926	1,926
Additional paid-in capital	568	568
Retained earnings	256,509	242,907
Investment valuation allowance	765	721
Total shareholders' equity	259,768	246,122
Total liabilities and shareholders' equity	\$294,082	\$276,849

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

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

	For the six months ended December 31,	
	1997	1996
Cash flows from operating activities:		
Net Income	\$ 16,010	\$ 11,493
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	2,679	2,858
Other	(35)	(60)
Net loss on investments	(279)	(128)
Change in assets and liabilities:		
Accounts and notes receivable	(2,592)	1,177
Inventories	(531)	1,867
Income tax receivable	2,119	1,000
Prepaid expenses and other assets	(1,346)	(504)
Accounts payable	(69)	4,304
Accrued payroll expenses and other liabilities	2,938	(263)
Other long term liabilities	718	536
Total adjustments	\$ 3,602	\$ 10,787
Net cash provided by operating activities	\$ 19,612	\$ 22,280

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

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

	For the six months ended December 31,	
	1997	1996
Net cash provided by operating activities:	\$ 19,612	\$22,280
Cash flows from investing activities:		
Purchases of property, plant and equipment	(1,026)	(2,527)
Proceeds from sales of property, plant and equipment	88	92
Purchases of investments	(187,662)	(195,863)
Proceeds from sales of investments	155,436	194,900
Notes issued	(1,052)	-
Notes repaid	21	20
Net cash (used in) investing activities	(34,195)	(3,378)
Cash flows from financing activities:		
Dividends paid	(2,408)	(2,312)
Net cash used in financing activities	(2,408)	(2,312)
Net (decrease) increase in cash and cash equivalents	(16,991)	16,590
Cash and cash equivalents at beginning of year	34,174	28,165
Cash and cash equivalents at end of quarter	\$17,183	\$44,755
Supplemental disclosure of cash flow information:		
Income tax payments	\$ 5,830	\$ 8,196

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

A. Unaudited Financial Statements

The accompanying unaudited financial statements have been prepared in accordance with the instructions to Form 10-Q and do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. It is Management's opinion that all adjustments of a normal recurring nature necessary for a fair statement of the results of operations for the interim periods have been made.

B. Investments

The Company hedges interest rate risk in its portfolio of preferred stock. Deferred losses associated with the hedge are \$2,639,000 and \$1,081,000 at December 31, 1997 and June 30, 1997, respectively.

(In thousands)				
	Cost	Gross Unrealized Loss	Gross Unrealized Gain	Fair Value
December 31, 1997				
Current Assets				
Commercial Paper	\$ 34,802	-	261	\$ 35,063
U.S. Government				
Obligations	69,548	(178)	14	69,384
	\$104,350	(178)	275	\$104,447
Non-Current Assets				
U.S. Government				
Obligations	\$ 13,139	(172)	-	\$ 12,967
Other debt	1,695	(43)	-	1,652
Preferred stocks	35,537	(29)	4,181	39,689
Liquid asset fund				
and other	3,373	(316)	29	3,086
	\$ 53,744	(560)	4,210	\$ 57,394

(In thousands)				
	Cost	Gross Unrealized Loss	Gross Unrealized Gain	Fair Value
June 30, 1997				
Current Assets				
Commercial Paper	\$ 14,814	-	129	\$ 14,943
U.S. Government				
Obligations	63,059	(211)	-	62,848
	\$ 77,873	(211)	129	\$ 77,791
Non-Current Assets				
U.S. Government				
Obligations	\$ 10,453	(169)	-	\$ 10,284
Preferred stocks	36,816	(22)	2,574	39,368
Liquid asset fund				
and other	1,689	-	-	1,689
	\$ 48,958	(191)	2,574	\$ 51,341

B. Investments, CONTINUED

The contractual maturities of debt securities classified as current and non-current available for sale are as follows:

(In thousands)	Fair Value	
Maturities	12/31/97	06/30/97
Within 1 year	\$104,447	\$ 77,791
After 1 year through 5 years	14,619	10,284
	\$119,066	\$ 88,075

Gross realized gain from available for sale securities were \$279,000 and \$128,000 at December 31, 1997 and 1996, respectively.

C. Inventories

(In thousands)	Processed	Unprocessed	Total
December 31, 1997			
Coffee	\$ 3,979	\$ 8,984	\$12,963
Allied products	10,100	5,361	15,461
Coffee brewing equipment	2,404	4,879	7,283
	\$16,483	\$19,224	\$35,707
June 30, 1997			
Coffee	\$ 3,564	\$10,024	\$13,588
Allied products	10,551	3,794	14,345
Coffee brewing equipment	2,310	4,933	7,243
	\$16,425	\$18,751	\$35,176

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

Higher green coffee costs and the resulting higher sales prices of roast coffee continue to effect Registrant's operating results. Improved gross profit in the most recent quarter signals a return to more normal profit margins during fiscal 1998. The Company makes every effort to provide competitive product pricing, and even with stable operating expenses it is not known whether such operating margins can be maintained.

Net sales for the second quarter of fiscal 1998 increased 11% to \$64,062,000 from \$57,460,000 in the same quarter of the prior fiscal year. Net sales for the first half of fiscal 1998 increased 12% to \$123,559,000 from \$110,245,000 in the first half of fiscal 1997. Gross profit in the second quarter increased 15% to \$36,161,000 or 56% of sales, as compared to \$31,506,000, or 55% of sales, in the same quarter of fiscal 1997. Gross profit for the first half of fiscal 1998 increased 11% to \$65,487,000 from \$58,922,000 during the same period of the prior fiscal year. Operating expenses decreased 1% to \$22,784,000 in the second quarter of fiscal 1998 as compared to \$22,873,000 in the second quarter of fiscal 1997. Operating expenses for the first half of fiscal 1998 decreased to \$44,458,000 from \$44,572,000 during the same period of fiscal 1997.

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

Income after taxes for the three months ended December 31, 1997, reached \$9,782,000, or \$5.08 per share, as compared to \$6,228,000, or \$3.23 per share, in the first quarter of fiscal 1998 and \$6,834,000, or \$3.55 per share, in the same quarter of fiscal 1997. Net income for the first half of fiscal 1998 reached \$16,010,000, or \$8.31 per share, as compared to \$11,493,000, or \$5.97 per share, in the first six months of fiscal 1997.

Quarterly Summary of Results
(In thousands)

	12/31/96	03/31/97	06/30/97	09/30/97	12/31/97
Net sales	57,460	55,336	59,221	59,497	64,062
Gross profit	31,506	21,896	29,974	29,326	36,161
Operating income	8,633	(71)	2,510	7,652	13,377
Net income	6,834	1,595	3,602	6,228	9,782

(As a percentage of sales)

	12/31/96	03/31/97	06/30/97	09/30/97	12/31/97
Net sales	100.00	100.00	100.00	100.00	100.00
Gross profit	54.83	39.57	45.55	49.29	56.45
Operating income	15.02	(.13)	4.24	12.86	20.88
Net income	11.89	2.88	6.08	10.47	10.05

(In dollars)

	12/31/96	03/31/97	06/30/97	09/30/97	12/31/97
EPS	3.55	.83	1.86	3.23	5.08

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.

The Annual Meeting of Shareholders of Farmer Bros. Co. was held on December 2, 1997. Holders of the Company's common stock were entitled to one vote per share of common stock held.

Six directors were elected at the meeting, each to serve for the coming year and until any successors are elected and qualify. The following persons were elected as directors: Roy F. Farmer, Roy E. Farmer, Catherine E. Crowe, Lewis A. Coffman, Guenter W. Berger and John M. Anglin. There were 1,677,818 shares for election and 11,000 shares against.

PART II OTHER INFORMATION, (CONTINUED)

The proposal to appoint Ernst & Young LLP as the independent accountants for the Company for the year ended June 30, 1998 was approved with 1,688,379 shares in favor of the resolution, 211 shares against and 228 shares abstaining.

Item 5. Other information. none.

Item 6. Exhibits and reports on Form 8-K.

(a) Exhibits.

- | | |
|---|--------------------------|
| (2) Plan of acquisition, reorganization, arrangement, liquidation or succession | not applicable. |
| (4) Instruments defining the rights of security holders, including indentures. | not applicable. |
| (11) Statement re computation of per share earnings. | not applicable. |
| (15) Letter re unaudited interim financial information. | not applicable. |
| (18) Letter re change in accounting principles. | not applicable. |
| (19) Report furnished to security holders | not applicable. |
| (22) Published report regarding matters submitted to vote of security holders. | not applicable. |
| (23) Consents of experts and counsel. | not applicable. |
| (24) Power of attorney. | not applicable. |
| (27) Financial Data Schedule | See attached Form EX-27. |
| (99) Additional exhibits. | not applicable. |

(b) Reports on Form 8-K none.

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.

Date: February 11, 1998

FARMER BROS. CO.
(Registrant)

John E. Simmons
John E. Simmons
Treasurer and
Chief Financial Officer

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