

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 September 30, 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 September 30, 1997.

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, | |
|-----------------------------------|---|----------|
| | 1997 | 1996 |
| Net sales | \$59,497 | \$52,785 |
| Cost of goods sold | 30,171 | 25,369 |
| | 29,326 | 27,416 |
| Selling expense | 19,755 | 20,181 |
| General and administrative | 1,919 | 1,518 |
| expenses | 21,674 | 21,699 |
| Income from operations | 7,652 | 5,717 |
| Other income: | | |
| Dividend income | 658 | 686 |
| Interest income | 1,842 | 1,444 |
| Other | 313 | 140 |
| | 2,813 | 2,270 |
| Income before taxes | 10,465 | 7,987 |
| Income taxes | 4,237 | 3,328 |
| Net income | \$ 6,228 | \$ 4,659 |
| Net income per share | \$3.23 | \$2.42 |
| Cash dividends declared per share | \$.60 | \$.60 |

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

FARMER BROS. CO.
CONSOLIDATED BALANCE SHEETS
(Unaudited)

| | September 30, 1997 | June 30, 1997 |
|--|-----------------------|------------------|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 23,615 | \$ 34,174 |
| Short term investments | 95,444 | 77,791 |
| Accounts and notes receivable, net | 18,465 | 18,401 |
| Inventories | 34,844 | 35,176 |
| Income tax receivable | 97 | 2,216 |
| Deferred income taxes | 1,804 | 1,804 |
| Prepaid expenses and other | 930 | 784 |
| Total current assets | 175,199 | 170,346 |
| Property, plant and equipment, net | 31,479 | 32,526 |
| Notes receivable | 2,977 | 2,977 |
| Long term investments, net | 56,756 | 51,341 |
| Other assets | 18,261 | 18,035 |
| Deferred taxes | 1,453 | 1,624 |
| Total assets | \$286,125 | \$276,849 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Accounts payable | \$ 9,118 | \$ 7,510 |
| Accrued payroll expenses | 4,396 | 4,247 |
| Other | 6,557 | 4,623 |
| Total current liabilities | 20,071 | 16,380 |
| Accrued postretirement benefits | 14,703 | 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 | 247,980 | 242,907 |
| Investment valuation allowance | 877 | 721 |
| Total shareholders' equity | 251,351 | 246,122 |
| Total liabilities and shareholders' equity | \$286,125 | \$276,849 |

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, | |
|---|---|-----------|
| | 1997 | 1996 |
| Cash flows from operating activities: | | |
| Net Income | \$ 6,228 | \$ 4,659 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation | 1,347 | 1,430 |
| Deferred income taxes | (24) | (15) |
| Net (gain) on investments | (167) | (20) |
| Changes in assets and liabilities: | | |
| Accounts and notes receivable | (74) | 1,685 |
| Inventories | 332 | 1,629 |
| Income tax receivable | 2,119 | 971 |
| Prepaid expenses and other assets | (382) | (453) |
| Accounts payable | 1,609 | 1,984 |
| Accrued payroll expenses and other liabilities | 2,083 | 2,743 |
| Other long term liabilities | 356 | 286 |
| Total adjustments | 7,199 | 10,240 |
| Net cash provided by operating activities | \$ 13,427 | \$ 14,899 |

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

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

| | For the three months ended September 30, | |
|--|---|-----------|
| | 1997 | 1996 |
| Net cash provided by operating activities: | \$ 13,427 | \$ 14,899 |
| Cash flows from investing activities: | | |
| Purchases of property, plant and equipment | (339) | (1,308) |
| Proceeds from sales of property, plant and equipment | 72 | 35 |
| Purchases of investments | (83,646) | (72,417) |
| Proceeds from sales of investments | 61,073 | 79,155 |
| Notes repaid | 10 | 9 |
| Net cash (used in) provided by investing activities | (22,830) | 5,474 |
| Cash flows from financing activities: | | |
| Dividends paid | (1,156) | (1,156) |
| Net cash used in financing activities | (1,156) | (1,156) |
| Net (decrease) increase in cash and cash equivalents | (10,559) | 19,217 |
| Cash and cash equivalents at beginning of period | 34,174 | 28,165 |
| Cash and cash equivalents at end of quarter | \$ 23,615 | \$ 47,382 |
| Supplemental disclosure of cash flow information: | | |
| Income tax payments | \$ 29 | \$ 579 |

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 \$1,883,000 and \$1,081,000 at September 30 and June 30, 1997, respectively.

(In thousands)

| | Cost | Gross Unrealized Loss | Gross Unrealized Gain | Fair Value |
|--------------------------------|----------|-----------------------------|-----------------------------|---------------|
| September 30, 1997 | | | | |
| Current Assets | | | | |
| Commercial Paper | \$32,636 | - | 136 | \$32,772 |
| U.S. Government Obligations | 62,782 | (116) | 6 | \$62,672 |
| | \$95,418 | (116) | 142 | \$95,444 |
| Non-Current Assets | | | | |
| U.S. Government Obligations | \$13,130 | (87) | 21 | \$13,064 |
| Other debt | 1,695 | (17) | - | 1,678 |
| Preferred stocks | 36,381 | (22) | 3,496 | 39,855 |
| Liquid asset fund and other | 2,471 | (326) | 14 | 2,159 |
| | \$53,677 | (452) | \$3,531 | \$56,756 |

(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:

| Maturities (In thousands) | Fair Value | |
|------------------------------|------------|-----------|
| | 09/30/97 | 06/30/97 |
| Within 1 year | \$ 95,444 | \$ 77,791 |
| After 1 year through 5 years | 14,742 | 10,284 |
| | \$110,186 | \$ 88,075 |

Gross realized gain from available for sale securities were \$255,000 and \$405,000 at September 30, 1997 and 1996, respectively.

C. Inventories (In thousands)

| | Processed | Unprocessed | Total |
|--------------------------|-----------|-------------|----------|
| September 30, 1997 | | | |
| Coffee | \$ 3,704 | \$ 9,223 | \$12,927 |
| Allied products | 9,815 | 4,769 | 14,584 |
| Coffee brewing equipment | 2,185 | 5,148 | 7,333 |
| | \$15,704 | \$19,140 | \$34,844 |
| 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

Registrant's financial condition is substantially the same as at its most recent fiscal year end. The volatile market for green coffee always has an effect on operating results. The higher cost of green coffee has resulted in higher roast coffee prices, lower gross profit margins and lower sales volume.

Net sales for the first quarter of fiscal 1998 increased 13% to \$59,497,000 from \$52,785,000 in the same quarter of fiscal 1997. Gross profit increased 5% during the first quarter of fiscal 1998 to \$29,326,000 or 49% of sales, as compared to \$27,416,000 or 52% of sales, in the same quarter of the prior fiscal year.

Operating expenses, composed of selling and general and administrative expenses, reached \$21,674,000 in the most recent quarter, compared to \$21,699,000 in the same quarter of fiscal 1997. Other income increased 24% to \$2,813,000 in the first quarter of fiscal 1997 as compared to \$2,270,000 in the same quarter of the prior fiscal year, primarily the result of higher interest income.

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

Income before taxes increased 31% to \$10,465,000 or 18% of sales, in the first quarter of the 1998 fiscal year as compared to \$7,987,000 or 14% of sales in the same quarter of fiscal 1997. Net income for the first quarter of fiscal 1998 increased 34% to \$6,228,000 or \$3.23 per share, from \$4,659,000 or \$2.42 per share, recorded in the first quarter of fiscal 1997.

Quarterly Summary of Results
(In thousands of dollars)

| | 09/30/96 | 12/31/96 | 03/31/97 | 06/30/97 | 09/30/97 |
|------------------|----------|----------|----------|----------|----------|
| Net sales | 52,785 | 57,460 | 55,336 | 59,221 | 59,497 |
| Gross profit | 27,416 | 31,506 | 21,896 | 26,974 | 29,326 |
| Operating income | 5,717 | 8,633 | (71) | 2,510 | 7,652 |
| Net income | 4,659 | 6,834 | 1,595 | 3,602 | 6,228 |

(As a percentage of sales)

| | 09/30/96 | 12/31/96 | 03/31/97 | 06/30/97 | 09/30/97 |
|------------------|----------|----------|----------|----------|----------|
| Net sales | 100.00 | 100.00 | 100.00 | 100.00 | 100.00 |
| Gross profit | 51.94 | 54.83 | 39.57 | 45.55 | 49.29 |
| Operating income | 10.83 | 15.02 | (.13) | 4.24 | 12.86 |
| Net income | 8.82 | 11.89 | 2.88 | 6.08 | 10.47 |

(In dollars)

| | 09/30/96 | 12/31/96 | 03/31/97 | 06/30/97 | 09/30/97 |
|-----|----------|----------|----------|----------|----------|
| EPS | 2.42 | 3.55 | .83 | 1.86 | 3.23 |

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.

(2) Plan of acquisition, reorganization, arrangement, liquidation or succession not applicable.

(4) Instruments defining the rights of security holders, including indentures. not applicable.

PART II OTHER INFORMATION, (CONTINUED)

- | | |
|--|--------------------------|
| (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
Registrant filed a report reporting a change in accountant. April 14, 1997.

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: November 13, 1997

FARMER BROS. CO.
(Registrant)

John E. Simmons

John E. Simmons
Treasurer and
Chief Financial Officer

5
0000034563
FARMER BROS. CO.
1000

3-MOS
JUN-30-1998
SEP-30-1997
23615
95444
18465
555
34844
175199
31479
54592
286125
20071
0
0
0
1926
249425
286125
59497
59497
30171
21674
0
0
0
10465
4237
6228
0
0
0
6228
3.23
3.23