

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, 1999  
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: 1,870,754 as of September 30, 1999.

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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 September 30,	
	1999	1998
Net sales	\$53,068	\$54,035
Cost of goods sold	20,298	22,920
	32,770	31,115
Selling expense	19,930	19,914
General and administrative expenses	1,991	1,880
	21,921	21,794
Income from operations	10,849	9,321
Other income:		
Dividend income	615	605
Interest income	2,270	2,239
Other, net	(254)	400
	2,631	3,244
Income before taxes	13,480	12,565
Income taxes	5,392	5,026

Net income	\$ 8,088	\$ 7,539
Earnings per common share	\$4.32	\$3.91
Weighted average shares outstanding	1,870,754	1,926,414
Dividends declared per share	\$0.75	\$0.70

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

FARMER BROS. CO.  
CONSOLIDATED BALANCE SHEETS  
(Unaudited)

	September 30, 1999	June 30, 1999
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 2,681	\$ 4,403
Short term investments	114,490	122,203
Accounts and notes receivable, net	17,801	18,199
Inventories	34,830	33,675
Income tax receivable	-	249
Deferred income taxes	2,391	2,391
Prepaid expenses	754	429
Total current assets	172,947	181,549
Property, plant and equipment, net	33,842	31,543
Notes receivable	3,884	3,884
Long term investments	96,370	81,760
Other assets	21,905	21,382
Deferred income taxes	4,981	4,718
Total assets	\$333,929	\$324,836
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 2,711	\$ 4,786
Accrued payroll expenses	4,526	5,388
Other	11,057	5,744
Total current liabilities	18,294	15,918
Accrued postretirement benefits	18,123	17,707
Other long term liabilities	3,500	3,500
	21,623	21,207
Commitments and contingencies	-	-
Shareholders' equity:		
Common stock, \$1.00 par value, authorized 3,000,000 shares; issued issued 1,926,414 and outstanding 1,870,754 in 1999	1,871	1,871
Additional paid-in capital	3,164	3,164
Retained earnings	289,874	283,191
Accumulated other comprehensive income	(897)	(515)
Total shareholders' equity	294,012	287,711
Total liabilities and shareholders' equity	\$333,929	\$324,836

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,	
	1999	1998
Cash flows from operating activities:		
Net income	\$ 8,088	\$ 7,539
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	1,423	1,403
Other	(37)	(23)
Net loss (gain) on investments	364	(285)
Changes in assets and liabilities:		
Accounts and notes receivable	359	(51)
Inventories	(1,155)	999
Income tax receivable	249	420
Prepaid expenses and other assets	(866)	(455)
Accounts payable	(2,075)	(997)
Accrued payroll expenses and other liabilities	4,451	4,315
Accrued postretirement benefits	416	408
Total adjustments	3,129	5,734
Net cash provided by operating activities	\$ 11,217	\$ 13,273

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,	
	1999	1998
Net cash provided by operating activities:	\$ 11,217	\$ 13,273
Cash flows from investing activities:		
Purchases of property, plant and equipment	(3,717)	(1,350)
Proceeds from sales of property, plant and equipment	52	28
Purchases of investments	(98,827)	(161,413)
Proceeds from sales of investments	90,920	158,745
Notes issued	-	(54)
Notes repaid	39	63
Net cash used in investing activities	(11,533)	(3,981)
Cash flows from financing activities:		
Dividends paid	(1,406)	(1,348)
Net cash used in financing activities	(1,406)	(1,348)
Net (decrease) increase in cash and cash equivalents	(1,722)	7,944
Cash and cash equivalents at beginning of year	4,403	6,800
Cash and cash equivalents at end of year	\$ 2,681	\$ 14,744
Supplemental disclosure of cash flow information:		
Income tax payments	\$ 62	\$ 54

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 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 presentation of the financial position of the Company and the results of operations and cash flows for the interim periods have been made.

## Note 2. Investments

The Company hedges interest rate risk in its portfolio of preferred stock. Deferred losses associated with the hedge are \$568,000 and \$923,000 at September 30 and June 30, 1999, respectively.

(In thousands) Unrealized September 30, 1999	Unrealized Cost	Gross Loss	Gross Fair Gain	Value
Current Assets				
Commercial Paper	\$ 1,931	-	-	\$ 1,931
U.S. Government Obligations	112,620	(72)	11	112,559
	\$114,551	(73)	11	\$114,490
Non-Current Assets				
U.S. Government Obligations	\$ 49,931	(734)	-	\$ 49,197
Municipal debt	1,695	(25)	-	1,670
Preferred stocks	36,812	(989)	1,587	37,410
Corporate Bonds	5,117	(649)	-	4,468
Liquid asset fund and other	3,598	-	27	3,625
	\$ 97,153	(\$2,397)	1,614	\$ 96,370

(In thousands) Unrealized June 30, 1999	Unrealized Cost	Gross Loss	Gross Fair Gain	Value
Current Assets				
Commercial Paper	\$ 11,895	-	27	\$ 11,922
U.S. Government Obligations	110,368	(126)	39	110,281
	\$122,263	(126)	66	\$122,203
Non-Current Assets				
U.S. Government Obligations	\$ 35,015	(842)	-	\$ 34,173
Municipal debt	1,695	(8)	2,049	1,687
Preferred stocks	37,538	(548)	-	39,039
Corporate bonds	5,075	(461)	-	4,614
Liquid asset fund and other	2,247	-	-	2,247
	\$ 81,570	(1,859)	2,049	\$ 81,760

## Note 2. 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	
	09/30/99	06/30/99
Within 1 year	\$114,490	\$122,203
After 1 year through 5 years	50,867	35,860
	\$165,357	\$158,063

Gross realized gains and losses from available for sale securities were \$234,000 and \$830,000 at September 30, 1999 and 1998, respectively.

## Note 3. Inventories (In thousands)

	Processed	Unprocessed	Total
September 30, 1999			
Coffee	\$ 4,081	\$ 9,127	\$13,208
Allied products	9,515	5,320	14,835
Coffee brewing equipment	1,926	4,861	6,787
	\$15,522	\$19,308	\$34,830
June 30, 1999			
Coffee	\$ 3,619	\$ 9,314	\$ 12,933
Allied products	11,078	3,424	14,502
Coffee brewing equipment	2,258	3,982	6,240
	\$16,955	\$16,720	\$ 33,675

## Note 4. Comprehensive Income

Effective July 1, 1998, the Company adopted Statement of Financial Accounting Standards (SFAS 130) "Reporting Comprehensive Income". SFAS 130 requires disclosure of total non-stockholder changes in equity in interim periods and additional disclosures of the components of non-stockholder changes in equity on an annual basis. Total non-stockholder changes in equity includes all changes in equity during a period except those resulting from investments by and distributions to shareholders.

## For the three months (In thousands)

	ended September 30,	
	1999	1998
Net income	\$ 8,088	\$ 7,539
Unrealized investment gains (losses), net	(382)	(905)
Total comprehensive income	\$ 7,706	\$ 6,634

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

Operating trends discussed in the Form 10-K for fiscal 1999 have continued through the first quarter of fiscal 2000. Roast coffee prices and sales volume have decreased as compared to the same quarter of the prior fiscal year, but profit margins have improved. Green coffee prices recently spiked sharply upward on weather concerns in Brazilian coffee growing regions. It is too soon to know whether such concerns will be realized.

Net sales for the first quarter of fiscal 2000 decreased to \$53,068,000 from \$54,035,000 in the same quarter of fiscal 1999. Gross profit increased 5% during the first quarter of fiscal 1999 to \$32,770,000 or 62% of sales, as compared to \$31,115,000 or 58% of sales, in the same quarter of the prior fiscal year as a result of lower green coffee costs.

Operating expenses, composed of selling and general and administrative expenses, reached \$21,921,000 in the most recent quarter, compared to \$21,794,000 in the same quarter of fiscal 1999. Other income decreased 19% to \$2,631,000 in the first quarter of fiscal 2000 as compared to \$3,244,000 in the same quarter of the prior fiscal year, primarily because of net investment losses in the preferred stock portfolio.

Income before taxes increased 7% to \$13,480,000 or 25% of sales, in the first quarter of the 2000 fiscal year as compared to \$12,565,000 or 23% of sales in the same quarter of fiscal 1999. Net income for the first quarter of fiscal 2000 increased 7% to \$8,088,000 or \$4.32 per common share, from \$7,539,000 or \$3.91 per common share, recorded in the first quarter of fiscal 1999.

### Quarterly Summary of Results (In thousands of dollars)

	09/30/98	12/31/98	03/31/99	06/30/99	09/30/99
Net sales	54,035	58,408	55,207	53,921	53,068
Gross profit	31,115	32,095	35,153	33,374	32,770
Operating income	9,321	10,345	12,144	4,960	10,849
Net income	7,539	7,905	9,159	4,262	8,088

(As a percentage of sales)

	09/30/98	12/31/98	03/31/99	06/30/99	09/30/99
Net sales	100.00	100.00	100.00	100.00	100.00
Gross profit	57.58	54.95	63.67	61.89	61.75
Operating income	17.25	17.71	22.00	9.20	20.44
Net income	13.95	13.53	16.59	7.90	15.24

(In dollars)

	09/30/98	12/31/98	03/31/99	06/30/99	09/30/99
Net income per share	3.91	4.10	4.83	2.29	4.32

### Year 2000 Issues

There have been no material changes from the fiscal year end.



Market Risk Disclosures  
Financial Markets

Securities are recorded at fair value and unrealized gains or losses have been recorded as a separate component of shareholders' equity. The Company maintains two distinct portfolios of securities, both portfolios are classified as available for sale.

The Company's portfolio of investment grade money market instruments includes bankers acceptances, discount commercial paper, federal agency issues and treasury securities. As of September 30, 1999, over 65% of these funds were invested in instruments with maturities shorter than one year. The remaining balance matures during fiscal 2001 and 2002. This portfolio's interest rate risk is unhedged. Its average maturity is approximately 250 days and a 100 basis point move in the Fed Funds Rate is illustrated in the following table.

Interest Rate Changes  
(In thousands)

	Market Value of September 30, 1999 Fixed Income Investments	Change in Market Value of Fixed Income Investments
- 100 b.p.	\$170,511	\$1,673
unchanged	\$168,838	-
+100 b.p.	\$167,165	(\$1,673)

The Company is exposed to market value risk arising from changes in interest rates on its portfolio of preferred securities. The Company reviews the interest rate sensitivity of these securities and (a) enters into "short positions" in futures contracts on U.S. Treasury securities or (b) holds put options on such futures contracts in order to reduce the impact of certain interest rate changes on such preferred stocks. Specifically, the Company attempts to manage the risk arising from changes in the general level of interest rates. The Company does 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, 1999. 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 of September 30, 1999 Preferred Securities	Futures and Options	Total Portfolio	Change in Market Value of Total Portfolio
- 200 basis points ("b.p.")	\$48,400.2	\$ 0.0	\$48,400.2	\$ 4,858.1
- 100 b.p.	45,432.0	36.8	45,468.8	1,926.7
Unchanged	42,005.6	1,536.5	43,542.1	-
+100 b.p.	38,614.2	4,736.4	43,350.6	(191.5)
+200 b.p.	35,498.1	8,034.0	43,532.1	(10.0)

## Market Risk Disclosures, (Continued)

The number and type of futures and options contracts entered into depends on, among other items, the specific maturity and issuer redemption provisions for each preferred security held, the slope of the Treasury yield curve, the expected volatility of Treasury yields, and the costs of using futures and/or options. At September 30, 1999 and 1998 the hedge consisted entirely of put options on the U.S. Treasury Bond futures contract.

### Commodity Price Changes

The Company is exposed to commodity price risk arising from changes in the market price of green coffee. Registrant prices its inventory on the LIFO basis. In the normal course of business, the Company enters into commodity purchase agreements with suppliers, and futures contracts to hedge exposure to inventory price fluctuations. The Company does not transact in futures contracts or put options for speculative purposes.

The following table demonstrates the impact of changes in the price of green coffee on inventory and hedge instruments at September 30, 1999. It assumes an immediate change in the price of green coffee, and the demonstrable relationship between the price of green coffee and the valuations of coffee index futures and put options and relevant commodity purchase agreements at September 30, 1999.

### Commodity Risk Disclosure (In thousands)

Coffee Cost Change	Coffee Inventory	Market Value of September 30, 1999 Futures & Options	Total	Change in Market Value
- - 10%	\$13,208,000	(\$1,000)	\$13,207,000	\$173,000
unchanged	\$13,208,000	(\$174,000)	\$13,034,000	-
+ 10%	\$13,208,000	(\$347,000)	\$12,861,000	(\$123,000)

At September 30, 1999 the hedge consisted mainly of commodity futures with maturities shorter than three months.

## 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.

PART II OTHER INFORMATION (Continued)

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.          |

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 15, 1999

FARMER BROS. CO.  
(Registrant)

John E. Simmons

John E. Simmons  
Treasurer and  
Chief Financial Officer

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