

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, 1995

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, 1995.

PAGE 1 OF 9

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,	
	1995	1994	1995	1994
Net sales	\$58,571	\$62,598	\$113,609	\$116,780
Cost of goods sold	27,706	32,513	55,217	60,787
	30,865	30,085	58,392	55,993
Selling expense	20,798	19,199	40,018	37,621
General and administrative expenses	2,060	2,863	3,953	5,835
	22,858	22,062	43,971	43,456
Income from operations	8,007	8,023	14,421	12,537
Other income (expense):				
Dividend income	648	646	1,273	1,199
Interest income	1,722	990	2,930	1,948
Other	190	(381)	344	(134)
	2,560	1,255	4,547	3,013
Income before taxes and cumulative effect of accounting change	10,567	9,278	18,968	15,550
Provision for income taxes	3,994	3,572	7,603	6,087
Net income per share	\$ 6,573	\$ 5,706	\$ 11,365	\$ 9,463
Income per share:				
Net income per share	\$3.41	\$2.96	\$5.90	\$4.91

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

FARMER BROS. CO.
CONSOLIDATED BALANCE SHEETS
(Unaudited)

	December 31, 1995	June 30, 1995
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 20,120	8,321
Short term investments	81,746	80,530
Accounts and notes receivable, net	19,027	18,481
Inventories	35,384	36,761
Income tax receivable		1,265
Deferred income taxes	3,577	3,577
Prepaid expenses and other	991	871
Total current assets	160,845	149,806
Property, plant and equipment, net	34,410	33,213
Notes receivable	1,880	1,880
Long term investments, net	43,747	43,337
Other assets	16,277	15,887
Deferred taxes	217	217
Total assets	\$257,376	\$244,340
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 10,460	\$ 9,408
Accrued payroll expenses	5,202	4,711
Other	5,046	4,605
Total current liabilities	20,708	18,724
Accrued postretirement benefits	12,846	11,505
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	220,962	211,619
Investment valuation allowance	366	(2)
Total shareholders' equity	223,822	214,111
Total liabilities and shareholders' equity	\$257,376	\$244,340

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,	
	1995	1994
Cash flows from operating activities:		
Net Income	\$11,365	\$ 9,463
Adjustments to reconcile net income to net cash provided by operating activities:		
Cumulative effect of accounting change		
Depreciation	2,177	2,631
Deferred income taxes	213	
Other	(131)	(141)
Net (gain) loss on investments	(16)	461
Change in assets and liabilities:		
Accounts and notes receivable	(609)	(4,429)
Inventories	1,377	(1,423)
Income tax receivable	1,266	5,357
Prepaid expenses and other assets	(520)	(1,144)
Accounts payable	1,053	1,339
Accrued payroll expenses and other liabilities	931	778
Other long term liabilities	882	780
Total adjustments	6,623	4,209
Net cash provided by operating activities	\$17,988	\$13,672

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,

	1995	1994
Net cash provided by operating activities:	\$17,988	\$13,672
Cash flows from investing activities:		
Purchases of property, plant and equipment	(3,439)	(4,199)
Proceeds from sales of property, plant and equipment	206	173
Purchases of investments	(101,540)	(78,153)
Proceeds from sales of investments	100,545	69,599
Notes issued		(20)
Notes repaid	62	72
Net cash (used in) provided by investing activities	(4,166)	(12,528)
Cash flows from financing activities:		
Dividends paid	(2,023)	(1,926)
Net cash used in financing activities	(2,023)	(1,926)
Net (decrease) in cash and cash equivalents	11,799	(782)
Cash and cash equivalents at beginning of year	8,321	8,681
Cash and cash equivalents at end of quarter	\$20,120	\$ 7,899
Supplemental disclosure of cash flow information:		
Income tax payments	\$ 5,601	\$ 2,627

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

	December 31, 1995		June 30, 1995	
	Cost	Fair Value	Cost	Fair Value
	(In thousands)			
Current Assets				
U.S. Government				
Obligations	\$76,606	\$76,712	\$80,608	\$80,530
Corp. Debt Securities	5,034	5,034	-	-
	\$81,640	\$81,746	\$80,608	\$80,530
Non-Current Assets				
U.S. Government				
Obligations	\$ 3,692	\$ 3,878	\$ 8,617	\$ 8,610
Corp. Debt Securities	5,075	5,077	1,599	1,569
Preferred stocks	31,862	34,040	30,456	31,896
Liquid asset fund and other	1,224	752	1,262	1,262
	\$41,853	\$43,747	\$41,934	\$43,337

The Company hedges interest rate risk in its portfolio of preferred stock. Deferred losses associated with the hedge are \$1,862,000 and \$1,329,000 at September 30 and June 30, 1995, respectively.

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

	Fair Value	
	12/31/95	06/30/95
	(In thousands)	
Within 1 year	\$81,746	\$80,530
After 1 year through 5 years	7,454	8,610
After 5 years through 10 years	1,501	1,569
After 10 years	-	-
	\$90,701	\$90,709

C. Inventories

	Processed	Unprocessed	Total
	(In thousands)		
December 31, 1995			
Coffee	\$ 3,884	\$ 9,935	\$13,819
Allied products	9,723	4,972	14,695
Coffee brewing equipment	1,508	5,361	6,869
	\$15,115	\$20,268	\$35,383
June 30, 1995			
Coffee	\$ 3,093	\$10,809	\$13,902
Allied products	11,308	4,096	15,404
Coffee brewing equipment	2,120	5,335	7,455
	\$16,521	\$20,240	\$36,761

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

Registrant's operations during the second quarter have returned to more normal operating margins. During the past two years the green coffee market exhibited a volatility that has not been seen for more than a decade. Prices of green coffee tripled, then fell off. During the most recent quarter green coffee costs fell below \$1.00 per pound for the first time in more than two years, from intermediate prices of about \$1.25 per pound. Now in February the cost of green coffee has again reached \$1.25 per pound. As green coffee costs have come down, the Company has effected price decreases on roast coffee. The Company continues to find lethargic demand. Registrant's customers (hotels and restaurants) continue to feel the pinch of reduced spending. Consumers have reduced the number of times they eat out and business travel and entertainment has been reduced (as the result of corporate belt tightening, reduced tax deductions and high tech communications).

Net sales for the second quarter of fiscal 1996 decreased 6% to \$58,571,000 as compared to \$62,598,000 in the same quarter of the prior year. Net sales for the first half of fiscal 1996 decreased 2.7% to \$113,609,000 from \$116,780,000 in the same period of fiscal 1995. Gross profit in the second quarter was \$30,865,000, or 53% of sales, as compared to \$27,527,000, or 50% of sales, in the first quarter of fiscal 1996 and \$30,085,000, or 48% of sales, in the same quarter of fiscal 1995. Operating expenses reached \$22,858,000 in the second quarter of fiscal 1996, as compared to \$21,114,000 in the first quarter of fiscal 1996 and \$22,062,000 in the second quarter of fiscal 1995.

Income after taxes for the three months ended December 31, 1995, reached \$6,573,000, or \$3.41 per share, as compared to \$4,791,000, or \$2.49 per share, in the first quarter of fiscal 1996, and \$5,706,000 or \$2.96 per share in the second quarter of fiscal 1995.

Net income for the first half of fiscal 1996 reached \$11,365,000, or \$5.90 per share, as compared to \$9,463,000, or \$4.91 per share, in the first six months of fiscal 1995.

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

Quarterly Summary of Results
(in thousands of dollars)

	12/31/94	03/31/95	06/30/95	09/30/95	12/31/95
Net sales	62,598	59,514	58,368	55,038	58,571
Gross profit	30,085	26,818	30,088	27,527	30,865
Operating income	8,023	4,448	8,250	6,413	8,007
Net income	5,706	3,220	6,834	4,791	6,573

(as a percentage of sales)

	12/31/94	03/31/95	06/30/95	09/30/94	12/31/95
Net sales	100.00	100.00	100.00	100.00	100.00
Gross profit	48.06	45.06	51.55	50.01	52.69
Operating income	12.82	7.47	14.13	11.65	13.67
Net income	9.12	5.41	11.71	8.70	11.22

(in dollars)

	12/31/93	03/31/94	06/30/94	09/30/94	12/31/95
EPS	2.96	1.67	3.55	2.49	3.41

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 November 27, 1995. 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 1,075,052 shares for the election of directors, 3,693 shares against and 3,720 shares abstaining.

The proposal to appoint Coopers & Lybrand L.L.P. as the independent accountants for the Company for the year ended June 30, 1996 was approved with 1,531,031 shares in favor of the resolution, 153 shares against and 396 shares abstaining.

PART II OTHER INFORMATION, (CONTINUED)

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 13, 1996

FARMER BROS. CO.
(Registrant)

John E. Simmons

John E. Simmons
Treasurer and
Chief Financial Officer

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