

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 March 31, 1998

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 March 31, 1998.

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 March 31,		For the nine months ended March 31,	
	1998	1997	1998	1997
Net sales	\$58,951	\$55,336	\$182,510	\$165,581
Cost of goods sold	26,702	33,440	84,774	84,763
	32,249	21,896	97,736	80,818
Selling expense	20,264	20,114	60,647	61,038
General and administrative expenses	1,918	1,853	5,993	5,501
	22,182	21,967	66,640	66,539
Income from operations	10,067	(71)	31,096	14,279
Other income:				
Dividend income	637	633	1,959	1,978
Interest income	2,066	1,685	5,879	4,823
Other, net	597	550	1,116	951
	3,300	2,868	8,954	7,752
Income before taxes	13,367	2,797	40,050	22,031
Income taxes	5,347	1,202	16,020	8,943

Net income	\$ 8,020	\$ 1,595	\$ 24,030	\$ 13,088
Net income per share	\$4.16	\$.83	\$12.47	\$6.79

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

FARMER BROS. CO.  
CONSOLIDATED BALANCE SHEETS  
(Unaudited)

	March 31, 1998	June 30, 1997
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 11,040	\$ 34,174
Short term investments	112,814	77,791
Accounts and notes receivable, net	19,184	18,401
Inventories	36,962	35,176
Income tax receivable	97	2,216
Deferred income taxes	1,804	1,804
Prepaid expenses and other	1,433	784
Total current assets	183,334	170,346
Property, plant and equipment, net	30,803	32,526
Notes receivable	2,977	2,977
Long term investments, net	59,774	51,341
Other assets	19,006	18,035
Deferred taxes	1,376	1,624
Total assets	\$297,270	\$276,849
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 4,830	\$ 7,510
Accrued payroll expenses	4,739	4,247
Other	5,552	4,623
Total current liabilities	15,121	16,380
Accrued postretirement benefits	15,416	14,347
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	263,278	242,907
Investment valuation allowance	961	721
Total shareholders' equity	266,733	246,122
Total liabilities and shareholders' equity	\$297,270	\$276,849

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

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

	For the nine months ended March 31,	
	1998	1997
Cash flows from operating activities:		
Net Income	\$ 24,030	\$ 13,088
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	3,634	3,370
Other	(87)	(80)
Net (gain) on investments	(751)	(521)
Change in assets and liabilities:		
Accounts and notes receivable	796	(935)
Inventories	(1,786)	1,709
Income tax receivable	2,119	1,000
Prepaid expenses and other assets	(1,661)	(3,573)
Accounts payable	(2,679)	7,590
Accrued payroll expenses and other liabilities	1,421	(188)
Other long term liabilities	1,069	743
Total adjustments	2,075	9,115
Net cash provided by operating activities	\$ 26,105	\$ 22,203

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

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

	For the nine months ended March 31,	
	1998	1997
Net cash provided by operating activities:	\$ 26,105	\$ 22,203
Cash flows from investing activities:		
Purchases of property, plant and equipment	(1,935)	(3,299)
Proceeds from sales of property, plant and equipment	150	134
Purchases of investments	(329,455)	(303,503)
Proceeds from sales of investments	287,240	320,028
Notes issued	(1,608)	-
Notes repaid	29	30
Net cash (used in)provided by investing activities	(45,579)	13,390
Cash flows from financing activities:		
Dividends paid	(3,660)	(3,467)
Net cash used in financing activities	(3,660)	(3,467)
Net increase (decrease) in cash and cash equivalents	(23,134)	32,126
Cash and cash equivalents at beginning of period	34,174	28,165
Cash and cash equivalents at end of quarter	\$ 11,040	\$ 60,291
Supplemental disclosure of cash flow information:		
Income tax payments	\$ 13,042	\$ 12,507

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 March 31, 1998 and June 30, 1997, respectively.

(In thousands) Unrealized	Unrealized	Gross Loss	Gross Fair Gain	Value
March 31, 1998	Cost			
Current Assets				
Commercial Paper	\$ 76,180		490	\$ 76,670
U.S. Government Obligations	36,187	(44)	1	36,144
	\$112,367	(44)	491	\$112,814
Non-Current Assets				
U.S. Government Obligations	\$ 14,445	(123)	1	\$ 14,323
Other debt	1,695	(51)	-	1,644
Preferred stocks	36,624	(66)	3,618	40,176
Liquid asset fund and other	3,541	-	90	3,631
	\$ 56,305	(240)	3,709	\$ 59,774

(In thousands) Unrealized	Unrealized	Gross Loss	Gross Fair Gain	Value
June 30, 1997	Cost			
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	
	03/31/98	06/30/97
Within 1 year	\$112,814	\$ 77,791
After 1 year through 5 years	15,967	10,284
	\$128,781	\$ 88,075

Gross realized gain from available for sale securities were \$751,000 and \$521,000 at March 31, 1998 and 1997, respectively.

## C. Inventories (In thousands)

	Processed	Unprocessed	Total
March 31, 1998			
Coffee	\$ 3,926	\$ 9,114	\$13,040
Allied products	11,012	5,650	16,662
Coffee brewing equipment	2,378	4,882	7,260
	\$17,316	\$19,646	\$36,962
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

Green coffee continues its volatile price fluctuations. During the third quarter of fiscal 1997 the cost of green coffee increased by more than 60%. During the same quarter of fiscal 1998, the cost of green coffee declined about 11%. Higher roast coffee prices and improved profit margins in the most recent quarter, and indeed for fiscal 1998, should be considered together with price action of fiscal 1997. When green coffee costs rise, Registrant is often unable to maintain profit margins even with higher sales prices of roast coffee. A declining market for green coffee allows return of margins to more normal levels. There is no assurance, however that current margins can be maintained. Competitive forces tend to make price competition a reality and the frost season in coffee growing areas in Brazil begins near the end of May and continues through July, introducing additional volatility into green coffee prices.

Net sales for the third quarter of fiscal 1998 increased 6.5% to \$58,951,000 from \$55,336,000 in the same quarter in the prior fiscal year. Net sales for the first nine months of fiscal 1998 increased 10.2% to \$182,510,000 from \$165,581,000 in the same period of fiscal 1997. Gross profit in the third quarter increased 47.3% to \$32,249,000 or 54.7% of sales, compared to \$21,896,000 or 39.6% of sales in fiscal 1997. Operating expenses increased 1% to \$22,182,000 in the third quarter as compared to \$21,967,000 in the same period of the prior fiscal year. Income after taxes for the three months ended March 31, 1998, reached \$8,020,000, or

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

\$4.16 per share, as compared to \$1,595,000 or \$0.83 per share in the same quarter of fiscal 1997. Nine month income for fiscal 1998 reached \$24,030,000 or \$12.47 per share as compared to \$13,088,000 or \$6.79 per share in the same period of the prior year.

Quarterly Summary of Results  
(in thousands of dollars)

	03/31/97	06/30/97	09/30/97	12/31/97	03/31/98
Net sales	55,336	59,221	59,497	64,062	58,951
Gross profit	21,896	26,974	29,326	36,161	32,249
Operating income	(71)	2,510	7,652	13,377	10,067
Net income	1,595	3,602	6,228	9,782	8,020

(as a percentage of sales)

	03/31/97	06/30/97	09/30/97	12/31/97	03/31/98
Net sales	100.00	100.00	100.00	100.00	100.00
Gross profit	39.57	45.55	49.29	56.45	54.70
Operating income	(.13)	4.24	12.86	20.88	17.08
Net income	2.88	6.08	10.47	10.05	13.60

(in dollars)

	03/31/97	06/30/97	09/30/97	12/31/97	03/31/98
EPS	.83	1.86	3.23	5.08	4.16

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.

(11) Statement re computation of per share earnings. not applicable.



PART II OTHER INFORMATION, (CONTINUED)

- |  |                          |
|--|--------------------------|
| (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  | 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: May 14, 1998

FARMER BROS. CO.  
(Registrant)

John E. Simmons

John E. Simmons  
Treasurer and  
Chief Financial Officer

5  
1000

3-MOS  
JUN-30-1998  
MAR-31-1998  
11040  
112814  
19184  
555  
36962  
183334  
30803  
55728  
297270  
15121  
0  
0  
0  
1926  
264807  
297270  
58951  
58951  
26702  
22182  
0  
0  
0  
13367  
5347  
8020  
0  
0  
0  
8020  
4.16  
4.16