

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, 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 March 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 March 31,		For the nine months ended March 31,	
	1997	1996	1997	1996
Net sales	\$55,336	\$56,774	\$165,581	\$170,383
Cost of goods sold	33,440	25,889	84,763	81,106
	21,896	30,885	80,818	89,277
Selling expense	20,114	20,972	61,038	60,990
General and administrative expenses	1,853	1,974	5,501	5,927
	21,967	22,946	66,539	66,917
Income from operations	(71)	7,939	14,279	22,360
Other income (expense):				
Dividend income	633	619	1,978	1,892
Interest income	1,685	1,656	4,823	4,586
Other	550	463	951	807
	2,868	2,738	7,752	7,285
Income before taxes	2,797	10,677	22,031	29,645
Income taxes	1,202	4,286	8,943	11,889

Net income	\$ 1,595	\$ 6,391	\$ 13,088	\$ 17,756
Net income per share	\$.83	\$3.32	\$6.79	\$9.22

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

FARMER BROS. CO.
CONSOLIDATED BALANCE SHEETS
(Unaudited)

	March 31, 1997	June 30, 1996
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 60,291	\$ 28,165
Short term investments	48,187	74,937
Accounts and notes receivable, net	19,727	18,822
Inventories	39,109	40,818
Income tax receivable	-	1,000
Deferred income taxes	2,616	2,616
Prepaid expenses and other	3,524	701
Total current assets	173,454	167,059
Property, plant and equipment, net	33,425	33,343
Notes receivable	1,841	1,841
Long term investments, net	51,634	40,058
Other assets	17,864	17,320
Deferred taxes	930	1,269
Total assets	\$279,148	\$260,890
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 12,225	\$ 4,635
Accrued payroll expenses	4,597	4,153
Other	4,910	5,542
Total current liabilities	21,732	14,330
Accrued postretirement benefits	13,636	12,892
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	240,461	230,840
Investment valuation allowance	825	334
Total shareholders' equity	243,780	233,668
Total liabilities and shareholders' equity	\$279,148	\$260,890

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,	
	1997	1996
Cash flows from operating activities:		
Net Income	\$ 13,088	\$ 17,756
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	3,370	3,518
Deferred income taxes	-	(472)
Other	(80)	(164)
Net (gain) loss on investments	(521)	(351)
Change in assets and liabilities:		
Accounts and notes receivable	(935)	(1,331)
Inventories	1,709	2,478
Income tax receivable	1,000	1,265
Prepaid expenses and other assets	(3,573)	(1,041)
Accounts payable	7,590	(873)
Accrued payroll expenses and other liabilities	(188)	2,525
Other long term liabilities	743	1,323
Total adjustments	9,115	6,877
Net cash provided by operating activities	\$ 22,203	\$ 24,633

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,	
	1997	1996
Net cash provided by operating activities:	\$ 22,203	\$ 24,633
Cash flows from investing activities:		
Purchases of property, plant and equipment	(3,299)	(4,499)
Proceeds from sales of property, plant and equipment	134	246
Purchases of investments	(303,503)	(165,351)
Proceeds from sales of investments	320,028	151,689
Notes repaid	30	78
Net cash (used in)provided by investing activities	13,390	(17,837)
Cash flows from financing activities:		
Dividends paid	(3,467)	(3,082)
Net cash used in financing activities	(3,467)	(3,082)
Net increase in cash and cash equivalents	32,126	3,714
Cash and cash equivalents at beginning of period	28,165	8,321
Cash and cash equivalents at end of quarter	\$ 60,291	\$ 12,035
Supplemental disclosure of cash flow information:		
Income tax payments	\$ 12,507	\$ 10,013

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

	March 31 1997		June 30, 1996	
	Cost	Fair Value	Cost	Fair Value
(In thousands)				
Current Assets				
Commercial Paper	\$26,765	\$26,853	\$34,609	\$34,775
U.S. Government Obligations	21,431	21,334	40,129	40,162
	\$48,196	\$48,187	\$74,738	\$74,937
Non-Current Assets				
U.S. Government Obligations	\$11,490	\$11,332	\$ 2,096	\$ 2,043
Commercial Paper	-	-	1,400	1,350
Preferred stocks	34,303	36,226	34,475	35,114
Liquid asset fund and other	3,690	4,076	1,551	1,551
	\$49,483	\$51,634	\$39,522	\$40,058

The gross unrealized gains and (losses) on securities classified as available for sale were \$2,484,000 and \$(342,000), respectively, at March 31, 1997 and \$1,263,000 and \$(528,000), respectively, at June 30, 1996. Gross realized gain from available for sale securities were \$521,000 and \$351,000 at March 31, 1997 and 1996, respectively.

The Company hedges interest rate risk in its portfolio of preferred stock. Deferred losses associated with the hedge are \$352,000 and \$162,000 at March 31 and June 30, 1996, respectively.

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

Maturities (In thousands)	Fair Value	
	03/31/97	06/30/96
Within 1 year	\$ 48,187	\$ 74,937
After 1 year through 5 years	11,332	2,043
After 5 years through 10 years	-	1,350
After 10 years	-	-
	\$ 59,519	\$ 78,330

C. Inventories (In thousands)	Processed	Unprocessed	Total
March 31, 1997			
Coffee	\$ 5,503	\$12,134	\$17,637
Allied products	8,619	5,004	13,623
Coffee brewing equipment	2,290	5,559	7,849
	\$16,412	\$22,697	\$39,109
June 30, 1996			
Coffee	\$ 5,302	\$12,259	\$17,561
Allied products	10,846	4,847	15,693
Coffee brewing equipment	2,475	5,089	7,564
	\$18,623	\$22,195	\$40,818

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

The cost of Registrant's primary raw material, green coffee, has increased by more than 60% during the third quarter of fiscal 1997. Since the end of 1996, coffee prices as represented by futures traded on the Coffee, Sugar and Cocoa Exchange have more than doubled. Concerns about green coffee stockpiles, labor problems in producing countries and the possibility of weather related crop reductions have spurred prices to current levels. The frost season in coffee growing areas of Brazil begins near the end of May and continues through July. This introduces additional volatility into green coffee prices.

As Registrant raises roast coffee prices to reflect higher green coffee costs, roast coffee sales volume is likely to decrease. It has been reported by the National Coffee Association that in 1995, after the Brazilian coffee crop was damaged by cold weather, high coffee prices reduced consumption by 14%. The market for green coffee is very unpredictable, and Registrant cautions against predicting the future based upon past results.

Net sales for the third quarter of fiscal 1997 decreased 3% to \$55,336,000 from \$56,774,000 in the same quarter of the prior fiscal year. Net sales for the first nine months of fiscal 1997 decreased 3% to \$165,581,000 from \$170,383,000 in the same period of fiscal 1996. Gross profit in the third quarter decreased 29% to \$21,896,000, or 40% of sales, as compared to \$30,885,000, or 54% of sales, in the same quarter of the prior fiscal year. Gross profit for the nine months ending March 31, 1997 decreased 9% to \$80,818,000 from \$89,277,000 in the same period of fiscal 1996. Operating expenses decreased 4% to \$21,967,000 in the third quarter of fiscal 1997 as compared to \$22,946,000 in the third quarter of fiscal 1996.

Net income for the three months ended March 31, 1996, reached \$1,595,000, or \$0.83 per share, as compared to \$6,834,000, or \$3.55 per share in the second quarter of fiscal 1997 and \$6,391,000 or \$3.32 per share in the same quarter of fiscal 1996. Net income for the first nine months of fiscal 1997 reached \$13,088,000, or \$6.79 per share, as compared to \$17,756,000, or \$9.22 per share, in the first nine months of fiscal 1996.

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

Quarterly Summary of Results
(in thousands of dollars)

	03/31/96	06/30/96	09/30/96	12/31/96	03/31/97
Net sales	56,774	53,692	52,785	57,460	55,336
Gross profit	30,885	29,534	27,416	31,506	21,896
Operating income	7,939	6,839	5,717	8,633	(71)
Net income	6,391	5,608	4,659	6,834	1,595

(as a percentage of sales)

	03/31/96	06/30/96	09/30/96	12/31/96	03/31/97
Net sales	100.00	100.00	100.00	100.00	100.00
Gross profit	54.40	55.00	51.94	54.83	39.57
Operating income	13.98	12.74	10.83	15.02	(.13)
Net income	11.26	10.44	8.82	11.89	2.88

(in dollars)

	03/31/96	06/30/96	09/30/96	12/31/96	03/31/97
EPS	3.32	2.91	2.42	3.55	.83

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)

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|--|--------------------------|
| (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: May 14, 1997

FARMER BROS. CO.
(Registrant)

John E. Simmons

John E. Simmons
Treasurer and
Chief Financial Officer

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FARMER BROS CO
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