

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, 1996

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, 1996.

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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 December 31,		For the six months ended December 31,	
	1996	1995	1996	1995
Net sales	\$57,460	\$58,571	\$110,245	\$113,609
Cost of goods sold	25,954	27,706	51,323	55,217
	31,506	30,865	58,922	58,392
Selling expense	20,743	20,798	40,924	40,018
General and administrative expenses	2,130	2,060	3,648	3,953
	22,873	22,858	44,572	43,971
Income from operations	8,633	8,007	14,350	14,421
Other income (expense):				
Dividend income	659	648	1,345	1,273
Interest income	1,694	1,722	3,138	2,930
Other	261	190	401	344
	2,614	2,560	4,884	4,547
Income before taxes	11,247	10,567	19,234	18,968
Income taxes	4,413	3,994	7,741	7,603
Net income	\$ 6,834	\$ 6,573	\$ 11,493	\$ 11,365
Net income per share	\$3.55	\$3.41	\$5.97	\$5.90

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

FARMER BROS. CO.  
CONSOLIDATED BALANCE SHEETS  
(Unaudited)

	December 31, 1996	June 30, 1996
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 44,755	\$ 28,165
Short term investments	75,564	74,937
Accounts and notes receivable, net	17,626	18,822
Inventories	38,950	40,818
Income tax receivable	-	1,000
Deferred income taxes	2,616	2,616
Prepaid expenses and other	710	701
Total current assets	\$180,221	\$167,059
Property, plant and equipment, net	33,134	33,343
Notes receivable	1,841	1,841
Long term investments, net	40,707	40,058
Other assets	17,662	17,320
Deferred taxes	1,147	1,269
Total assets	\$274,712	\$260,890
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 8,939	\$ 4,635
Accrued payroll expenses	4,144	4,153
Other	5,288	5,542
Total current liabilities	18,371	14,330
Accrued postretirement benefits	13,428	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	240,022	230,840
Investment valuation allowance	397	334
Total shareholders' equity	242,913	233,668
Total liabilities and shareholders' equity	\$274,712	\$260,890

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,	
	1996	1995
Cash flows from operating activities:		
Net Income	\$ 11,493	\$ 11,365
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	2,858	2,177
Deferred income taxes	-	213
Other	(60)	(131)
Net (gain) loss on investments	(128)	(16)
Change in assets and liabilities:		
Accounts and notes receivable	1,177	(609)
Inventories	1,867	1,377
Income tax receivable	1,000	1,266
Prepaid expenses and other assets	(504)	(520)
Accounts payable	4,304	1,053
Accrued payroll expenses and other liabilities	(263)	931
Other long term liabilities	536	882
Total adjustments	\$ 10,787	\$ 6,623
Net cash provided by operating activities	\$ 22,280	\$ 17,988

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,

	1996	1995
Net cash provided by operating activities:	\$22,280	\$17,988
Cash flows from investing activities:		
Purchases of property, plant and equipment	(2,527)	(3,439)
Proceeds from sales of property, plant and equipment	92	206
Purchases of investments	(195,863)	(101,540)
Proceeds from sales of investments	194,900	100,545
Notes repaid	20	62
Net cash (used in) provided by investing activities	(3,378)	(4,166)
Cash flows from financing activities:		
Dividends paid	(2,312)	(2,023)
Net cash used in financing activities	(2,312)	(2,023)
Net (decrease) in cash and cash equivalents	16,590	11,799
Cash and cash equivalents at beginning of year	28,165	8,321
Cash and cash equivalents at end of quarter	\$44,755	\$20,120
Supplemental disclosure of cash flow information:		
Income tax payments	\$ 8,196	\$ 5,601

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, 1996		June 30, 1996	
(In thousands)	Cost	Fair Value	Cost	Fair Value
Current Assets				
Commercial Paper	\$44,344	\$44,220	\$34,609	\$34,775
U.S. Government Obligations	31,410	31,344	40,129	40,162
	\$75,754	\$75,564	\$74,738	\$74,937
Non-Current Assets				
U.S. Government Obligations	\$ 2,090	\$ 2,052	\$ 2,096	\$ 2,043
Corporate Debt	-	-	1,400	1,350
Preferred stocks	34,015	36,181	34,475	35,114
Liquid asset fund and other	2,287	2,475	1,551	1,551
	\$38,392	\$40,708	\$39,522	\$40,058

The gross unrealized gains and (losses) on securities classified as available for sale were \$2,380,000 and (\$442,000), respectively, at December 31, 1996, and \$1,263,000 and (\$528,000), respectively, at June 30, 1996. Gross realized gains from available for sale securities were \$128,000 and \$16,000 at December 31, 1996 and 1995, respectively.

The Company hedges interest rate risk in its portfolio of preferred stock. Deferred losses associated with the hedge are \$1,179,000 and \$162,000 at December 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	
	12/31/96	06/30/96
Within 1 year	\$75,564	\$74,937
After 1 year through 5 years	2,052	2,043
After 5 years through 10 years	-	1,350
After 10 years	-	-
	\$77,616	\$78,330

## C. Inventories

(In thousands)	Processed	Unprocessed	Total
December 31, 1996			
Coffee	\$ 5,571	\$12,269	\$17,840
Allied products	9,125	4,759	13,884
Coffee brewing equipment	2,257	4,969	7,226
	\$16,953	\$21,997	\$38,950
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

Registrant's second quarter operations are consistent with prior year results. During the past three years the green coffee market has been especially volatile. During the most recent quarter, coffee prices were comparatively stable. During January, 1997, the green coffee market entered a bullish phase similar to that seen during the Brazilian frosts of 1994. Green coffee prices have recently increased 50% and reached prices in excess of \$1.80 per pound after closing out the calendar year a little below \$1.20 per pound. As Registrant's coffee inventory is replaced with higher priced coffee, higher roast coffee prices and a corresponding decrease in sales volume is likely to result.

Net sales for the second quarter of fiscal 1997 decreased 2% to \$57,460,000 from \$58,571,000 in the same quarter of the prior fiscal year. Net sales for the first half of fiscal 1997 decreased 3% to \$110,245,000 from \$113,609,000 in the first half of fiscal 1996. Gross profit in the second quarter increased 2% to \$31,506,000 or 55% of sales, as compared to \$30,865,000, or 53% of sales, in the same quarter of fiscal 1996. Operating expenses reached \$22,873,000 in the second quarter of fiscal 1997 as compared to \$22,858,000 in the second quarter of fiscal 1996 and \$21,699,000 in the first quarter of fiscal 1997.

Income after taxes for the three months ended December 31, 1995, reached \$6,834,000, or \$3.55 per share, as compared to \$4,659,000, or \$2.42 per share, in the first quarter of fiscal 1997 and \$6,573,000, or \$3.41 per share, in the same quarter of fiscal 1996. Net income for the first half of fiscal 1997 reached \$11,493,000, or \$5.97 per share, as compared to \$11,365,000, or \$5.90 per share, in the first six months of fiscal 1996.

Quarterly Summary of Results  
(in thousands of dollars)

	12/31/95	03/31/96	06/30/96	09/30/96	12/31/96
Net sales	58,571	56,774	53,692	52,785	57,460
Gross profit	30,865	30,885	29,534	27,416	31,506
Operating income	8,007	7,939	6,839	5,717	8,633
Net income	6,573	6,391	5,608	4,659	6,834

(as a percentage of sales)

	12/31/95	03/31/96	06/30/96	09/30/96	12/31/96
Net sales	100.00	100.00	100.00	100.00	100.00
Gross profit	52.69	54.40	55.00	51.94	54.83
Operating income	13.67	13.98	12.74	10.83	15.02
Net income	11.22	11.26	10.44	8.82	11.89

(in dollars)

	12/31/95	03/31/96	06/30/96	09/30/96	12/31/96
EPS	3.41	3.32	2.91	2.42	3.55

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 December 2, 1996. 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 1,417,281 shares for election and 9,244 shares against.

The proposal to appoint Coopers & Lybrand L.L.P. as the independent accountants for the Company for the year ended June 30, 1997 was approved with 1,426,359 shares in favor of the resolution, 16 shares against and 150 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, 1997

FARMER BROS. CO.  
(Registrant)

John E. Simmons

John E. Simmons  
Treasurer and  
Chief Financial Officer

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