

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, 1999

Commission file number 0-1375

FARMER BROS. CO.

California	95-0725980
State of Incorporation	Federal ID Number
20333 S. Normandie Avenue, Torrance, California	90502
Registrant's Address	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: 1,854,793 as of March 31, 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 March 31,		For the nine months ended March 31,	
	1999	1998	1999	1998
Net sales	\$55,207	\$58,951	\$167,650	\$182,510
Cost of goods sold	20,054	26,702	69,287	84,774
	35,153	32,249	98,363	97,736
Selling expense	20,817	20,264	60,567	60,647
General and administrative expenses	2,192	1,918	5,986	5,993
	23,009	22,182	66,553	66,640
Income from operations	12,144	10,067	31,810	31,096
Other income:				
Dividend income	605	637	1,792	1,959
Interest income	2,153	2,066	6,682	5,879
Other, net	363	597	721	1,116
	3,121	3,300	9,195	8,954
Income before taxes	15,265	13,367	41,005	40,050
Income taxes	6,106	5,347	16,402	16,020

Net income	\$ 9,159	\$ 8,020	\$ 24,603	\$ 24,030
Net income per common share	\$4.83	\$4.16	\$12.84	\$12.47
Weighted average shares outstanding	1,897,444	1,926,414	1,916,757	1,926,414

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

FARMER BROS. CO.  
CONSOLIDATED BALANCE SHEETS  
(Unaudited)

	March 31, 1999	June 30, 1998
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 19,405	\$ 6,800
Short term investments	109,529	128,004
Accounts and notes receivable, net	20,083	18,006
Inventories	33,847	38,067
Income tax receivable	196	649
Deferred income taxes	2,776	2,776
Prepaid expenses and other	1,530	526
Total current assets	187,366	194,828
Property, plant and equipment, net	30,486	30,551
Notes receivable	3,988	3,988
Long term investments, net	71,720	55,801
Other assets	21,025	19,527
Deferred taxes	3,231	2,317
Total assets	\$317,816	\$307,012
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 6,750	\$ 5,605
Accrued payroll expenses	4,621	4,876
Other	6,830	5,678
Total current liabilities	18,201	16,159
Accrued postretirement benefits	17,263	15,941
Shareholders' equity:		
Common stock, \$1.00 par value, authorized 3,000,000 shares; issued 1,926,414 and outstanding 1,854,793 shares 1999 and 1,926,414 in 1998	1,855	1,926
Additional paid-in capital	547	568
Retained earnings	280,228	271,395
Accumulated other comprehensive (loss) income	(278)	1,023
Total shareholders' equity	282,352	274,912
Total liabilities and shareholders' equity	\$317,816	\$307,012

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,	
	1999	1998
Cash flows from operating activities:		
Net income	\$ 24,603	\$ 24,030
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	3,988	3,634
Other	(89)	(87)
Net loss on investments	(398)	(751)
Change in assets and liabilities:		
Accounts and notes receivable	(2,142)	796
Inventories	4,221	(1,786)
Income tax receivable	453	2,119
Prepaid expenses and other assets	(2,564)	(1,661)
Accounts payable	1,144	(2,679)
Accrued payroll expenses and other liabilities	898	1,421
Other long term liabilities	1,322	1,069
Total adjustments	6,833	2,075
Net cash provided by operating activities	\$ 31,436	\$ 26,105

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,	
	1999	1998
Net cash provided by operating activities:	\$ 31,436	\$ 26,105
Cash flows from investing activities:		
Purchases of property, plant and equipment	(3,889)	(1,935)
Proceeds from sales of property, plant and equipment	118	150
Purchases of investments	(486,817)	(329,455)
Proceeds from sales of investments	487,556	287,240
Notes issued	(54)	(1,608)
Notes repaid	117	29
Net cash used in investing activities	(2,969)	(45,579)
Cash flows from financing activities:		
Dividends paid	(4,045)	(3,660)
Purchase of common stock	(11,817)	-
Net cash used in financing activities	15,862	(3,660)
Net increase (decrease) in cash and cash equivalents	12,605	(23,134)
Cash and cash equivalents at beginning of period	6,800	34,174
Cash and cash equivalents at end of quarter	\$ 19,405	\$ 11,040
Supplemental disclosure of cash flow information:		
Income tax payments	\$ 14,991	\$ 13,042

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 \$2,039,000 and \$1,081,000 at March 31, 1999 and June 30, 1998, respectively.

(In thousands)				
	Cost	Gross Unrealized Loss	Gross Unrealized Gain	Fair Value
March 31, 1999				
Current Assets				
Commercial Paper	\$ 34,567	(1)	-	\$ 34,566
U.S. Government Obligations	74,974	(23)	12	74,963
	\$109,541	(24)	12	\$109,529
Non-Current Assets				
U.S. Government Obligations	\$ 25,000	(367)	-	24,633
Municipal debt	1,695	(27)	-	1,668
Preferred stocks	35,537	(321)	2,565	37,781
Corporate bonds	5,075	(254)	10	4,831
Liquid asset fund and other	2,491	-	316	2,807
	\$ 69,798	(969)	2,891	\$ 71,720

(In thousands)				
	Cost	Gross Unrealized Loss	Gross Unrealized Gain	Fair Value
June 30, 1998				
Current Assets				
Commercial Paper	\$ 95,838	-	594	\$ 96,432
U.S. Government Obligations	31,608	(36)	-	31,572
	\$127,446	(36)	594	\$128,004
Non-Current Assets				
U.S. Government Obligations	\$ 9,725	(151)	-	\$ 9,574
Municipal debt	1,695	(11)	-	1,684
Preferred stocks	36,504	(52)	3,978	40,430
Corporate bonds	1,878	-	46	1,924
Liquid asset fund and other	2,189	-	-	2,189
	\$ 51,991	(214)	4,024	\$ 55,801

## 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	
	03/31/99	06/30/98
Within 1 year	\$109,529	\$128,004
After 1 year through 5 years	26,301	11,258
After 5 years through 10 years	-	-
After 10 years	4,831	1,924
	\$140,661	\$141,186

Gross realized gains from available for sale securities were \$1,881,000 and \$1,788,000 at March 31, 1999 and 1998, respectively.

## C. Inventories

(In thousands)	Processed	Unprocessed	Total
March 31, 1999			
Coffee	\$ 3,950	\$ 9,952	\$13,902
Allied products	9,430	4,124	13,554
Coffee brewing equipment	2,130	4,261	6,391
	\$15,510	18,337	\$33,847
June 30, 1998			
Coffee	\$ 4,119	\$10,406	\$14,525
Allied products	12,025	5,079	17,104
Coffee brewing equipment	2,191	4,247	6,438
	\$18,335	\$19,732	\$38,067

## D. 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.

(In thousands)	For the three months ended March 31,		For the nine months ended March 31,	
	1999	1998	1999	1998
Net income	\$9,159	\$8,020	\$24,603	\$24,030
Unrealized investment gains (losses), net	340	196	(1,301)	241
Total comprehensive income	\$9,499	\$8,216	\$23,302	\$24,271

## E. Common Stock

On February 23, 1999, a subsidiary of the Company purchased 71,621 shares of the Company's common stock. Upon consolidation, the shares are not considered issued and outstanding, and have been excluded in the weighted average shares outstanding calculation since the date of purchase.

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

Green coffee price fluctuations continue to have a pronounced effect on Registrant's operating results. The cost of green coffee declined during the third quarter, with a corresponding decrease in the selling price of roast coffee. It is not possible to predict the direction or duration of price fluctuations. Lower green coffee costs generally result in lower roast coffee prices, but unlike some industries, the price change is not immediate, nor is the elasticity of price changes the same in both up and down markets. Registrant cautions against using past history to predict future results; this is especially so as the Brazilian frost season (June September) approaches.

Net sales for the third quarter of fiscal 1999 decreased 6.4% to \$55,207,000 from \$58,951,000 in the same quarter in the prior fiscal year. Net sales for the first nine months of fiscal 1999 decreased 8.1% to \$167,650,000 from \$182,510,000 in the same period of fiscal 1998. Gross profit in the third quarter increased 9.0% to \$35,153,000 or 63.7% of

sales, compared to \$32,249,000 or 54.7% of sales in fiscal 1998. Operating expenses increased 3.7% to \$23,009,000 in the third quarter as compared to \$22,182,000 in the same period of the prior fiscal year. Income after taxes for the three months ended March 31, 1999, reached \$9,159,000, or \$4.83 per share, as compared to \$8,020,000 or \$4.16 per share in the same quarter of fiscal 1998. Nine month income for fiscal 1999 increased 2.4% to \$24,603,000 or \$12.84 per share as compared to \$24,030,000 or \$12.47 per share in the same period of the prior year.

#### Quarterly Summary of Results

(In thousands)

	03/31/98	06/30/98	09/30/98	12/31/98	03/31/99
Net sales	58,951	57,582	54,035	58,408	55,207
Gross profit	32,249	34,388	31,115	32,095	35,153
Operating income	10,067	9,859	9,321	10,345	12,144
Net income	8,020	9,370	7,539	7,905	9,159

(As a percentage of sales)

	03/31/98	06/30/98	09/30/98	12/31/98	03/31/99
Net sales	100.00	100.00	100.00	100.00	100.00
Gross profit	54.70	59.72	57.58	54.95	63.67
Operating income	17.08	17.12	17.25	17.71	22.00
Net income	13.60	16.27	13.95	13.53	16.59

(In dollars)

	03/31/98	06/30/98	09/30/98	12/31/98	03/31/99
EPS	4.16	4.86	3.91	4.10	4.83



## Year 2000 Issues

There have been no material changes from the fiscal year end. Conversion costs remain immaterial. System conversions are proceeding as anticipated. The effected systems are expected to be operational by year end. Evaluation of conditions continues, but no unanticipated problems have yet arise.

## Item 3. Quantitative and Qualitative Disclosures about Market Risk

### 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 March 31, 1999, over 80% of these funds were invested in instruments with maturities shorter than one year. The remaining balance matures in fiscal 2002. This portfolio's interest rate risk is unhedged. Its average maturity is approximately 120 days and a 100 basis point move in the Fed Funds Rate would not have a material effect on Registrant's results of operations.

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 holdings of preferred stock and securities, futures and options positions, and market yield and price relationships at March 31, 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 at March 31, 1999			Change in Market
	Preferred Securities	Futures and Options	Total Portfolio	Value of Total Portfolio
- -200 basis points ("b.p.")	\$48,367.0	\$0.0	\$48,367.0	\$4,503.2
- -100 b.p.	45,658.2	30.7	45,688.9	1,825.1
Unchanged	42,612.6	1,489.5	44,102.1	0.0
+100 b.p.	38,973.2	4,707.5	43,680.6	(183.2)
+200 b.p.	35,738.7	7,881.8	43,620.6	(243.3)

Item 3. Quantitative and Qualitative Disclosures about Market Risk  
(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 March 31, 1999 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 March 31, 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 March 31, 1999, and does not take into account fluctuations of inventory levels and futures and options activity.

Commodity Risk Disclosure  
(In thousands)

		March 31, 1999		
Coffee Cost	Coffee	Market Value of		Change in
Change	Inventory	Futures		Market
		& Options	Total	Value
- - 10%	\$13,902,000	\$ 44,000	\$13,946,000	\$127,000
unchanged	13,902,000	(83,000)	13,819,000	-
+ 10%	13,902,000	(210,000)	13,692,000	(\$127,000)

At March 31, 1999 the hedge consisted of commodity futures and commodity purchase agreements.

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.          |

(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, 1999

FARMER BROS. CO.  
(Registrant)

John E. Simmons

John E. Simmons  
Treasurer and  
Chief Financial Officer

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