

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 September 30, 2001
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: 1,926,414 as of September 30, 2001.

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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 September 30,	
	2001	2000
Net sales	\$49,400	\$52,015
Cost of goods sold	16,831	19,712
	32,569	32,303
Selling expense	20,359	19,981
General and administrative expenses	2,924	2,864
	23,283	22,845
Income from operations	9,286	9,458
Other income:		
Dividend income	811	758
Interest income	2,489	2,991
Other, net	140	(129)
	3,440	3,620

Income before taxes	12,726	13,078
Income taxes	4,963	5,167
Income before cumulative effect of accounting change	7,763	7,911
Cumulative effect of accounting change, net of income taxes	-	(310)
Net income	\$7,763	\$7,601
Income per common share:		
Before cumulative effect of accounting change	\$4.21	\$4.30
Cumulative effect of accounting change		(\$0.17)
Net income per share	\$4.21	\$4.13
*		
Weighted average shares outstanding	1,844,961	1,842,301
Dividends declared per share	\$0.85	\$0.80

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

FARMER BROS. CO.
CONSOLIDATED BALANCE SHEETS
(Unaudited)

	September 30, 2001	June 30, 2001
ASSETS		
Current assets:		
Cash and cash equivalents	\$61,136	\$19,362
Short term investments	209,953	243,818
Accounts and notes receivable, net	14,454	15,326
Inventories	36,303	35,780
Income tax receivable	949	2,991
Deferred income taxes	1,092	1,092
Prepaid expenses	287	510
Total current assets	324,174	318,879
Property, plant and equipment, net	38,672	39,094
Notes receivable	2,727	2,727
Other assets	26,863	26,432
Deferred income taxes	3,263	3,263
Total assets	\$395,699	\$390,395
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$1,954	\$5,153
Accrued payroll expenses	5,270	6,421
Other	8,476	6,081
Total current liabilities	15,700	17,655
Accrued postretirement benefits	21,287	20,800
Other long term liabilities	4,892	4,892
	26,179	25,692
Commitments and contingencies	-	-
Shareholders' equity:		
Common stock, \$1.00 par value, authorized 3,000,000 shares; 1,926,414 shares issued and outstanding	1,926	1,926
Additional paid-in capital	16,806	16,629
Retained earnings	347,625	341,434
Unearned ESOP shares	(12,537)	(12,941)
Total shareholders' equity	353,820	347,048
Total liabilities and shareholders' equity	\$395,699	\$390,395

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

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

	For the three months ended September 30,	
	2001	2000
Cash flows from operating activities:		
Net income	\$7,763	\$7,601
Adjustments to reconcile net income to net cash provided by operating activities:		
Cumulative effect of accounting changes		310
Depreciation	1,372	1,345
Deferred income taxes		1,763
Loss on sales of assets	(33)	(24)
ESOP Compensation expense	581	268
Net loss on investments	120	
Net unrealized loss on investments reclassified as trading		2,336
Change in assets and liabilities:		
Short term investments	33,745	(15,759)
Accounts and notes receivable	851	1,312
Inventories	(523)	639
Income tax receivable	2,042	-
Prepaid expenses and other assets	(208)	351
Accounts payable	(3,199)	336
Accrued payroll and expenses and other liabilities	1,244	3,505
Accrued postretirement benefits	487	318
Total adjustments	36,479	4,440
Net cash provided by operating activities	\$44,242	\$3,161

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

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

	For the three months ended September 30,	
	2001	2000
Net cash provided by operating activities:	\$44,242	\$3,161
Cash flows from investing activities:		
Purchases of property, plant and equipment	(995)	(2,184)
Proceeds from sales of property, plant		

and equipment	78	34
Notes repaid	21	24
Net cash used in investing activities	(896)	(2,126)
Cash flows from financing activities:		
Dividends paid	(1,572)	(1,476)
ESOP contributions	-	(225)
Net cash used in financing activities	(1,572)	(1,701)
Net increase (decrease) in cash and cash equivalents	41,774	(666)
Cash and cash equivalents at beginning of period	19,362	15,504
Cash and cash equivalents at end of period	\$61,136	\$14,838
Supplemental disclosure of cash flow information:		
Income tax payments	\$40	\$53

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

Notes to Consolidated Financial Statements (Unaudited)

Note 1. Unaudited Financial Statements

The accompanying unaudited financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three month period ended September 30, 2001 are not necessarily indicative of the results that may be expected for the year ended June 30, 2002.

The balance sheet at June 30, 2001 has been derived from the audited financial statements at that date but does not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements.

For further information, refer to the consolidated financial statements and footnotes thereto included in the Farmer Bros Co. annual report on Form 10-K for the year ended June 30, 2001.

Note 2. Investments

The following is a summary of trading investments (in thousands):

September 30, 2001	Cost	Net Gain or Loss	Fair Value
Trading Securities			
Corporate debt	\$ 81,546	\$ 61	\$ 81,607
U.S. Treasury obligations	33,379	472	33,851
U.S. Agency obligations	42,556	270	42,826
Preferred stock	46,918	917	47,835
Other fixed income	3,014	5	3,019
Futures, options and other derivative investments	1,390	(575)	815

\$208,803 \$1,150 \$209,953

June 30, 2001	Cost	Net Gain or Loss	Fair Value
Trading Securities			
Corporate debt	\$ 85,035	\$ 80	\$ 85,115
U.S. Treasury obligations	71,030	188	71,218
U.S. Agency obligations	31,852	106	31,958
Preferred stock	46,256	(2)	46,254
Other fixed income	8,014	(3)	8,011
Futures, options and other derivative investments	1,262	-	1,262
	\$243,449	\$369	\$243,818

Note 3. Inventories
(In thousands)

September 30, 2001	Processed	Unprocessed	Total
Coffee	\$3,509	\$ 9,284	\$12,793
Allied products	12,879	5,262	18,141
Coffee brewing equipment	1,894	3,475	5,369
	\$18,282	\$18,021	\$36,303

June 30, 2001	Processed	Unprocessed	Total
Coffee	\$ 4,120	\$ 8,752	\$12,872
Allied products	13,847	3,980	17,827
Coffee brewing equipment	2,201	2,880	5,081
	\$20,168	\$15,612	\$35,780

Note 4. Comprehensive Income
(In thousands)

	For the three months ended September 30,	
	2001	2000
Net income	\$7,763	\$ 7,601
Unrealized investment gains, net	-	2,646
Total comprehensive income	\$7,763	\$10,247

As a result of the Company's adoption of SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities", as amended by Statements 137 and 138, the Company transferred all of its investments classified as "available for sale" at June 30, 2000 into the "trading" category on July 1, 2000, and accordingly has no unrealized investment gains or losses subsequent to adoption.

Management's Discussion and Analysis of Financial Condition and Results of Operations

Operating trends discussed in the Form 10-K for fiscal 2001 have continued into the first quarter of fiscal 2002. Sales continue to show the effect of the economic slow down as consumers seem to be limiting their spending in restaurants. Green coffee costs during the first quarter of fiscal 2002 have decreased 7% since the June 30, 2001 year end and are 44% lower than green coffee costs during the first quarter of fiscal 2001. The resulting gross profit comparison is favorable, with gross profit on coffee products increasing to 66% of sales in the first quarter of fiscal 2002 as compared to 62% of sales in the same quarter of the prior fiscal year.

Net sales for the first quarter of fiscal 2002 decreased 5% to \$49,400,000 as compared to \$52,015,000 in the same quarter of fiscal 2001 and 3% as compared to \$50,807,000 in the quarter ended June 30, 2001. Gross profit increased 1% to \$32,569,000 as compared to \$32,303,000 in the same quarter of fiscal 2001 and decreased 4% as compared to \$34,053,000 in the quarter ended June 30, 2001.

Operating expenses in the first quarter of fiscal 2002, consisting of selling and general and administrative expenses, increased 2% to \$23,283,000 as compared to \$22,845,000 in the same quarter of fiscal 2001. The increase is primarily attributed to increases in employee benefit expenses, including the ESOP, medical expenses and insurance costs.

Other income in the first quarter of fiscal 2002 decreased 5% to \$3,440,000

from \$3,620,000 in the first quarter of fiscal 2001. The decrease in other income in the most recent quarter is primarily the result of the decrease in investment returns on securities in the quarter.

Upon adoption of SFAS 133, on July 1, 2000, the Company transferred all of its investments classified as "available for sale" at June 30, 2000 into the "trading" category. Accordingly, the Company recognized the accumulated unrealized loss of \$3,894,000 in the consolidated statement of net income for the period ended September 30, 2000 as other income. A declining interest rate market in the first quarter of fiscal 2001 resulted in realized and unrealized gains on securities of approximately \$100,000 and \$3,500,000, respectively, in that quarter as compared to realized losses and unrealized gains on securities of approximately \$(850,000) and \$780,000, respectively, in the quarter ended September 30, 2001. Interest earned decreased to \$2,489,000 as compared to \$2,991,000 in the quarters ended September 30, 2001 and 2000, respectively.

Net income before the cumulative effect of accounting change decreased 2% to \$7,763,000, or \$4.21 per share, as compared to \$7,911,000 or \$4.30 per share in fiscal 2001.

In June 1998, the Financial Accounting Standards Board (FASB) issued Statement No. 133, "Accounting for Derivative Instruments and Hedging Activities", as amended by SFAS No. 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities-An Amendment of FASB Statement 133." The adoption of Statement Nos. 133 and 138 on July 1, 2001 resulted in a cumulative effect of an accounting change of \$515,000 (\$310,000 net of taxes) being recognized in the Statement of Net Income.

Net income increased 2% to \$7,763,000, or \$4.21 or share, as compared to \$7,601,000 or \$4.13 per share in fiscal 2001.

Quarterly Summary of Results (in thousands of dollars):

	9/30/00	12/30/00	3/31/01	6/30/01	9/30/01
Net sales	\$52,015	\$57,795	\$54,814	\$50,807	\$49,400
Gross profit	32,303	38,631	36,413	34,053	32,569
Income from operations	9,458	14,764	11,882	6,011	9,286
Income before cumulative effect adjustment	7,911	11,807	9,793	6,977	7,763
Net income	7,601	11,807	9,793	6,977	7,763
Income per share before cumulative effect adjustment	\$4.30	\$6.40	\$5.32	\$3.77	\$4.21
Net income per share	\$4.13	\$6.40	\$5.32	\$3.77	\$4.21

Market Risk Disclosures Financial Markets

We are exposed to market value risk arising from changes in interest rates on our securities portfolio. Our portfolio of investment grade money market instruments includes discount commercial paper, medium term notes, federal agency issues and treasury securities. As of September 30, 2001 over 50% of these funds were invested in instruments with maturities shorter than 90 days. This portfolio's interest rate risk is not hedged and its average maturity is approximately 160 days. A 100 basis point increase in the general level of interest rates would result in a change in the market value of the portfolio of approximately (\$2,160,000).

Our portfolio of preferred securities includes investments in derivatives that provide a natural economic hedge of interest rate risk. We review the interest rate sensitivity of these securities and (a) enter into "short positions" in futures contracts on U.S. Treasury securities or (b) hold put options on such futures contracts in order to reduce the impact of certain interest rate changes on such preferred stocks. Specifically, we attempt to manage the risk arising from changes in the general level of interest rates. We do 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 preferred stock holdings, futures and options positions, and market yield and price relationships at September 30, 2001. 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 of Preferred Stock	September 30, 2001 Futures & Options	Total Portfolio	Change in Market Value of Total Portfolio
- -200 basis points ("b.p.")	\$54,813	\$0	\$54,813	\$6,106
- -100 b.p.	51,817	8	51,825	3,118
Unchanged	47,835	873	48,707	0
+100 b.p.	43,870	4,650	48,519	(188)
+200 b.p.	40,115	8,181	48,295	(412)

The number and type of future and option contracts entered into depends on, among other items, the specific maturity and issuer redemption provisions for each preferred stock held, the slope of the Treasury yield curve, the expected volatility of Treasury yields, and the costs of using futures and/or options.

Commodity Price Changes

We are exposed to commodity price risk arising from changes in the market price of green coffee. We price our inventory on the LIFO basis. In the normal course of business, we enter into commodity purchase agreements with suppliers and we purchase green coffee contracts.

The following table demonstrates the impact of changes in the price of green coffee on inventory and green coffee contracts at September 30, 2001. It assumes an immediate change in the price of green coffee, and the valuations of coffee index futures and put options and relevant commodity purchase agreements at September 30, 2001.

Commodity Risk Disclosure
(In thousands)

Coffee Cost Change	Coffee Inventory	Market Value of September 30, 2001 Futures & Options	Totals	Change in Market Value Derivatives	Inventory
- -10%	\$11,514	\$ 12	\$11,526	\$ 69	\$(1,279)
unchanged	12,793	(57)	12,736	-	-
+10%	14,072	(126)	13,946	(69)	1,279

At September 30, 2001 the derivatives consisted mainly of commodity futures with maturities shorter than three months.

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 right of security holders, including indentures. not applicable.

(11) Statement re computation of per share earning. 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.

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: November 9, 2001

Farmer Bros. Co.
(Registrant)

/s/ John E. Simmons
John E. Simmons
Treasurer and
Chief Financial Officer