

UNITED STATES
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 the quarterly period from July 1, 2002 to September 30, 2002.

Commission File Number: 0-1375

FARMER BROS. CO.
(Exact name of registrant as specified in its charter)

California
(State of Incorporation)
Number)

95-0725980
(IRS Employer Identification
Number)

20333 S. Normandie Avenue, Torrance, California
(Address of principal executive offices)

90502
(Zip Code)

(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,
2002.

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,	
	2002	2001
Net sales	\$50,389	\$49,400
Cost of goods sold	18,857	16,831
	31,532	32,569

Selling expense	20,744	20,359
General and administrative expenses	3,434	2,924
	24,178	23,283
Income from operations	7,354	9,286
Other income:		
Dividend income	857	811
Interest income	1,287	2,489
Other, net	(379)	140
	1,765	3,440
Income before taxes	9,119	12,726
Income taxes	3,511	4,963
Net income	\$ 5,608	\$ 7,763
Net income per share	\$3.03	\$4.21
Weighted average shares outstanding	1,851,197	1,844,961
Dividends declared per share	\$0.90	\$0.85

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

FARMER BROS. CO.
CONSOLIDATED BALANCE SHEETS
(Unaudited)

	September 30, 2002	June 30, 2002
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 7,750	\$ 7,047
Short term investments	288,005	285,540
Accounts and notes receivable, net	16,099	14,004
Inventories	36,801	37,361
Income tax receivable	-	2,553
Deferred income taxes	1,188	1,188
Prepaid expenses	1,813	741
Total current assets	351,656	348,434
Property, plant and equipment, net	38,329	38,572
Notes receivable	224	224
Other assets	27,805	27,622
Deferred income taxes	2,672	2,672
Total assets	\$420,686	\$417,524
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 3,994	\$ 4,827
Accrued payroll expenses	5,047	6,407
Other	5,911	5,025
Total current liabilities	14,952	16,259
Accrued postretirement benefits	23,186	22,726
Other long term liabilities	5,486	5,486
	43,624	44,471
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	17,888	17,627
Retained earnings	369,666	365,725
Unearned ESOP shares	(12,418)	(12,225)
Total shareholders' equity	377,062	373,053
Total liabilities and shareholders' equity	\$420,686	\$417,524

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,	
	2002	2001
Cash flows from operating activities:		
Net income	\$ 5,608	\$ 7,763
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	1,376	1,372
Loss on sales of assets	(75)	(33)
ESOP Compensation expense	799	581
Net (gain) or loss on investments	(509)	120
Change in assets and liabilities:		
Short term investments	(1,956)	33,745
Accounts and notes receivable	(2,111)	851
Inventories	560	(523)
Income tax receivable	2,553	2,042
Prepaid expenses and other assets	(1,255)	(208)
Accounts payable	(833)	(3,199)
Accrued payroll and expenses and other liabilities	(474)	1,244
Accrued postretirement benefits	460	487
Total adjustments	(1,465)	36,479
Net cash provided by operating activities	\$ 4,143	\$ 44,242

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,	
	2002	2001
Net cash provided by operating activities:	\$ 4,143	\$ 44,242

Cash flows from investing activities:		
Purchases of property, plant and equipment	(1,151)	(995)
Proceeds from sales of property, plant and equipment	93	78
Notes repaid	16	21
Net cash used in investing activities	(1,042)	(896)
Cash flows from financing activities:		
Dividends paid	(1,667)	(1,572)
ESOP contributions	(731)	—
Net cash used in financing activities	(2,398)	(1,572)
Net increase in cash and cash equivalents	703	41,774
Cash and cash equivalents at beginning of period	7,047	19,362
Cash and cash equivalents at end of period	\$ 7,750	\$ 61,136
Supplemental disclosure of cash flow information:		
Income tax payments	\$ 20	\$ 40

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 accounting principles generally accepted in the United States 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, 2002 are not necessarily indicative of the results that may be expected for the year ended June 30, 2003.

The balance sheet at June 30, 2002 has been derived from the audited financial statements at that date but does not include all of the information and footnotes required by accounting principles generally accepted in the United States 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, 2002.

Note 2. Investments

Investments are as follows (in thousands):

	September 30, 2002	June 30, 2002
Trading securities at fair value		
Corporate debt	\$ -	\$ 18,863
U.S. Treasury obligations	213,947	184,756
U.S. Agency obligations	20,056	26,983
Preferred stock	47,910	48,873
Other fixed income	5,150	5,181
Futures, options and other derivative investments	942	884
	\$288,005	\$285,540

Note 3. Inventories
(In thousands)

September 30, 2002

	Processed	Unprocessed	Total
Coffee	\$ 3,192	\$10,752	\$13,944
Allied products	12,056	4,926	16,982
Coffee brewing equipment	2,235	3,340	5,875
	\$17,483	\$19,318	\$36,801

June 30, 2002

	Processed	Unprocessed	Total
Coffee	\$ 3,438	\$10,393	\$13,831
Allied products	12,482	5,116	17,598
Coffee brewing equipment	2,528	3,404	5,932
	\$18,448	\$18,913	\$37,361

Interim LIFO Calculations

An actual valuation of inventory under the LIFO method can be made only at the end of each year based on the inventory levels and costs at that time. Accordingly, interim LIFO calculations must necessarily be based on management's estimates of expected year-end inventory levels and costs. Because these are subject to many forces beyond management's control, interim results are subject to the final year-end LIFO inventory valuation.

Note 4. Recently Issued Accounting Standards

In October 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," which supercedes SFAS 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of." SFAS No. 144 addresses financial accounting and reporting for the impairment of long-lived assets and for long-lived assets to be disposed of and is effective for fiscal years beginning after December 15, 2001. SFAS retains certain fundamental provisions of SFAS No. 121 including recognition and measurement of the impairment of long-lived assets to be held and used and measurement of long-lived assets to be disposed of by sale. The adoption of this standard, effective July 1, 2002, had no material effect on the Company.

In June 2002, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 146 ("SFAS 146"), "Accounting for Exit or Disposal Activities". SFAS 146 addresses significant issues regarding the recognition, measurement, and reporting of costs that are associated with exit and disposal activities, including restructuring activities that are currently accounted for under Emerging Issues Task Force ("EITF") Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)." The scope of SFAS 146 also includes costs related to terminating a contract that is not a capital lease and termination benefits that employees who are involuntarily terminated receive under the terms of a one-time benefit arrangement that is not an ongoing benefit arrangement or an individual deferred-compensation contract. SFAS 146 will be effective for exit or disposal activities that are initiated after December 31, 2002 but early application is encouraged. The provisions of EITF Issue No. 94-3 shall continue to apply for an exit activity initiated under an exit plan that met the criteria of EITF Issue No. 94-3 prior to the adoption of SFAS 146. Adopting the provisions of SFAS 146 will change, on a prospective basis, the timing of when restructuring charges are recorded from a commitment date approach to when the liability is incurred.

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

Liquidity and Financial Condition

There have been no material changes in the Company's liquidity or financial condition since the year ended June 30, 2002.

(in thousands)	September 30, 2002	June 30, 2002
Current assets	\$351,656	\$348,434
Current liabilities	14,952	\$ 16,259
Working capital	\$336,704	\$332,175
Total assets	\$420,686	\$417,524

All present and future liquidity needs are expected to be met by internal sources. The Company tries not to rely on banks or other third parties for its working capital and other liquidity needs. Our operations are often affected by the green coffee market. At present the cost of green coffee has increased more than 40% over costs at the end of fiscal 2002. The market is volatile and green coffee prices could continue to climb requiring a substantial additional investment in inventory by the Company merely to maintain its existing level of business operations.

In 2000 the board of directors authorized an initial loan to the ESOP of up to \$50,000,000 for the purchase of Company stock. As of October 15, 2002 the Company has loaned \$29,795,000 for the purchase of approximately 140,000 shares of stock. The Company has plans to purchase improved properties for certain of its branch warehouse locations, and where buildings are not available, has purchased land and developed the property itself. At the present time the Company is in escrow on a parcel of land in Chico, California.

Results of Operations

Most operating trends discussed in the Form 10-K for fiscal 2002 have continued into the first quarter of fiscal 2003. Green coffee costs during the first quarter of fiscal 2003 have increased 17% since the June 30, 2002 year end. Rumors of drought in Brazil have fueled a speculative increase in green coffee costs, pushing current green coffee prices to levels more than 40% higher than those at June 30, 2002.

Net sales for the first quarter of fiscal 2003 increased 2% to \$50,389,000 as compared to \$49,400,000 in the same quarter of fiscal 2002 but declined slightly as compared to \$50,404,000 in the quarter ended June 30, 2002. The apparent increase in sales in the current quarter reflects both a reduced sales level in the same quarter of the 2002 fiscal year, resulting from the September 11 disaster, and an increase in allied products sales in fiscal 2003. Gross profit decreased 3% to \$31,532,000 as compared to \$32,569,000 in the same quarter of fiscal 2001 and decreased 6% as compared to \$33,401,000 in the quarter ended June 30, 2002, due to the increased cost of green coffee in the current quarter.

Operating expenses in the first quarter of fiscal 2003, consisting of selling and general and administrative expenses, increased 4% to \$24,178,000 as compared to \$23,283,000 in the same quarter of fiscal 2002. The increase is primarily attributed to increases in employee related expenses.

Other income in the first quarter of fiscal 2003 decreased 49% to \$1,765,000 from \$3,440,000 in the first quarter of fiscal 2002. Interest earned decreased 48% to \$1,287,000 as compared to \$2,489,000 in the quarters ended September 30, 2002 and 2001, respectively, as the result of lower interest rates during fiscal 2003.

As the result of the above mentioned factors, net income for the first quarter of fiscal 2003 decreased 28% to \$5,608,000, or \$3.03 per share, as compared to \$7,763,000 or \$4.21 per share for the first quarter of fiscal 2002.

Quarterly Summary of Results (in thousands of dollars):

	9/30/01	12/30/01	3/31/02	6/30/02	9/30/02
Net sales	\$49,400	\$54,755	\$51,298	\$50,404	\$50,389
Gross profit	32,569	37,337	34,786	33,401	31,532
Income from operations	9,286	11,891	9,843	7,190	7,354
Net income	7,763	9,733	6,406	6,667	5,608
Net income per common share	\$4.21	\$5.27	\$3.47	\$3.60	\$3.03

Forward Looking Statements

Certain statements contained in this Quarterly Report on Form 10-Q regarding The risks, circumstances and financial trends that may affect our future operating results, financial position and cash flows may be forward-looking statements within the meaning of federal securities laws. These statements are based on management's current expectations, assumptions, estimates and observations about our business and are subject to risks and uncertainties. As a result, actual results could materially differ from the forward looking statements contained herein. These forward looking statements can be identified by the use of words like "expects," "plans," "believes," "intends," "will," "assumes" and other words of similar meanings. These and other similar words can be identified by the fact that they do not relate solely to historical or current facts. While we believe our assumptions are reasonable, we caution that it is impossible to predict the impact of such factors which could cause actual results to differ materially from predicted results. We intend these forward-looking statements to speak only at the time of this report and do not undertake to update or revise these projections as more information becomes available. For these statements, we claim the protection of the safe harbor for forward-looking statements provided by the Private Securities Litigation Reform Act of 1995.

Item 3. Quantitative and Qualitative Disclosure About Market Risk.

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, 2002 over 39% 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 145 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 (\$2,441,000).

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, 2002. 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, 2002 Futures & Options	Total Portfolio	Change in Market Value of Total Portfolio
- -150 basis points ("b.p.")	\$51,955	\$2	\$51,957	\$3,376
- -100 b.p.	51,062	25	51,087	2,506
Unchanged	47,911	671	48,581	0
+100 b.p.	44,000	3,703	47,703	(878)
+150 b.p.	42,027	5,832	47,859	(722)

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, 2002. 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, 2002.

Commodity Risk Disclosure
(In thousands)

Coffee Cost Change	Coffee Inventory	Market Value of September 30, 2002 Futures & Options	Totals	Change in Market Value Derivatives	Inventory
-10%	\$12,550	\$514	\$13,064	\$734	(\$1,395)
unchanged	13,945	(220)	13,725	-	-
10%	15,340	(954)	14,386	(734)	1,395

At September 30, 2002 the derivatives consisted mainly of commodity futures with maturities shorter than four months.

Item 4 Controls & Procedures

Based on our most recent evaluation in September, 2002, we have found (a) no significant deficiencies in the design or operation of internal controls which could adversely affect our ability to record, process, summarize and report financial data; and (b) no fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls. No significant changes in the Company's internal controls or in other factors that could significantly affect these controls have occurred subsequent to the September, 2002, evaluation.

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. none.
- (b) Reports on Form 8-K.
No reports on Form 8-K were filed during the quarter
Ended September 30, 2002.

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.

Farmer Bros. Co.

Date: November 12, 2002 /s/ John E. Simmons
John E. Simmons
Treasurer and Chief Financial Officer

CERTIFICATIONS

I, John E. Simmons, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Farmer Bros. Co.;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this

quarterly report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: November 12, 2002

/s/ John E. Simmons

John E. Simmons

Chief Financial Officer

I, Roy F. Farmer, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Farmer Bros. Co.;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal

controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: November 12, 2002

/s/ Roy F. Farmer
Roy F. Farmer
Chairman and CEO