

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, 1998

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 December 31, 1998.

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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,	
	1998	1997	1998	1997
Net sales	\$58,408	\$64,062	\$112,443	\$123,559
Cost of goods sold	26,313	27,901	49,233	58,072
	32,095	36,161	63,210	65,487
Selling expense	19,836	20,628	39,750	40,383
General and administrative expenses	1,914	2,156	3,794	4,075
	21,750	22,784	43,544	44,458
Income from operations	10,345	13,377	19,666	21,029
Other income (expense):				
Dividend income	582	664	1,187	1,322
Interest income	2,290	1,971	4,529	3,813
Other, net	(42)	206	358	519
	2,830	2,841	6,074	5,654
Income before taxes	13,175	16,218	25,740	26,683
Income taxes	5,270	6,436	10,296	10,673
Net income	\$ 7,905	\$ 9,782	\$ 15,444	\$ 16,010
Net income per common share	\$4.10	\$5.08	\$8.02	\$8.31
Weighted average shares outstanding	1,926,414		1,926,414	

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

FARMER BROS. CO.
CONSOLIDATED BALANCE SHEETS
(Unaudited)

	December 31, 1998	June 30, 1998
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 8,823	\$ 6,800
Short term investments	149,116	128,004
Accounts and notes receivable, net	20,320	18,006
Inventories	35,619	38,067
Income tax receivable	196	649
Deferred income taxes	2,776	2,776
Prepaid expenses and other	580	526
Total current assets	217,430	194,828
Property, plant and equipment, net	30,344	30,551
Notes receivable	3,988	3,988
Long term investments, net	45,401	55,801
Other assets	20,385	19,527
Deferred taxes	3,354	2,317
Total assets	\$320,902	\$307,012
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 9,318	\$ 5,605
Accrued payroll expenses	3,631	4,876
Other	5,107	5,678
Total current liabilities	18,056	16,159
Accrued postretirement benefits	16,828	15,941
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	284,142	271,395
Accumulated other comprehensive income (loss)	(618)	1,023
Total shareholders' equity	286,018	274,912
Total liabilities and shareholders' equity	\$320,902	\$307,012

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,	
	1998	1997
Cash flows from operating activities:		
Net Income	\$ 15,444	\$ 16,010
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	2,770	2,679
Other	(55)	(35)
Net loss on investments	(158)	(279)
Change in assets and liabilities:		
Accounts and notes receivable	(2,349)	(2,592)
Inventories	2,448	(531)
Income tax receivable	453	2,119
Prepaid expenses and other assets	(952)	(1,346)
Accounts payable	3,712	(69)
Accrued payroll expenses and other liabilities	(1,816)	2,938
Other long term liabilities	887	718
Total adjustments	\$ 4,940	\$ 3,602
Net cash provided by operating activities	\$ 20,384	\$ 19,612

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,	
	1998	1997
Net cash provided by operating activities:	\$ 20,384	\$ 19,612
Cash flows from investing activities:		
Purchases of property, plant and equipment	(2,528)	(1,026)
Proceeds from sales of property, plant and equipment	62	88
Purchases of investments	(325,859)	(187,662)
Proceeds from sales of investments	312,627	155,436
Notes issued	(54)	(1,052)
Notes repaid	88	21
Net cash used in investing activities	(15,664)	(34,195)
Cash flows from financing activities:		
Dividends paid	(2,697)	(2,408)
Net cash used in financing activities	(2,697)	(2,408)
Net increase (decrease) in cash and cash equivalents	2,023	(16,991)
Cash and cash equivalents at beginning of year	6,800	34,174
Cash and cash equivalents at end of quarter	\$8,823	\$17,183
Supplemental disclosure of cash flow information:		
Income tax payments	\$ 10,504	\$ 5,830

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 \$2,639,000 and \$1,081,000 at December 31, 1998 and June 30, 1998, respectively.

(In thousands)				
	Cost	Gross Unrealized Loss	Gross Unrealized Gain	Fair Value
December 31, 1998				
Current Assets				
Commercial Paper	\$ 61,926	(9)	-	\$ 61,917
U.S. Government				
Obligations	87,214	(32)	17	87,199
	\$149,140	(41)	17	\$149,116
Non-Current Assets				
Municipal debt	1,695	(11)	-	1,684
Preferred stocks	36,713	(524)	2,917	39,106
Liquid asset fund				
and other	4,821	(273)	63	4,611
	\$ 43,229	(808)	2,980	\$ 45,401

(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
Liquid asset fund				
and other	4,067	-	46	4,113
	\$ 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:

(In thousands)	Fair Value	
Maturities	12/31/98	06/30/98
Within 1 year	\$149,116	\$128,004
After 1 year through 5 years	1,684	11,258
	\$150,800	\$139,262

Gross realized gains from available for sale securities were \$979,000 and \$535,000 at December 31, 1998 and 1997, respectively.

C. Inventories

(In thousands)	Processed	Unprocessed	Total
December 31, 1998			
Coffee	\$ 3,672	\$10,281	\$13,953
Allied products	11,480	3,927	15,407
Coffee brewing equipment	1,998	4,261	6,259
	\$17,150	\$18,469	\$35,619
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 December 31,		For the six months ended December 31,	
	1998	1997	1998	1997
Net income	\$7,905	\$9,782	\$15,444	\$16,010
Unrealized investment gains (losses), net	(736)	(112)	(1,641)	(45)
Total comprehensive income	\$7,169	\$9,670	\$13,803	\$16,055

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

Fluctuating green coffee costs continue to effect Registrant's operating results. Competitive roast coffee prices have pressured profit margins, even with lower green coffee costs. The Company makes every effort to provide competitive product pricing, and it is not known whether such operating margins can be maintained.

Net sales for the second quarter of fiscal 1999 decreased 9% to \$58,408,000 from \$64,062,000 in the same quarter of the prior fiscal year. Net sales for the first half of fiscal 1999 decreased 9% to \$112,443,000 from \$123,559,000 in the first half of fiscal 1998. Gross profit in the second quarter decreased 11% to \$32,095,000 or 55% of sales, as compared to \$36,161,000, or 56% of sales, in the same quarter of fiscal 1998. Gross profit for the first half of fiscal 1999 decreased 3% to \$63,210,000 from \$65,487,000 during the same period of the prior fiscal year. Operating expenses decreased 5% to \$21,750,000 in the second quarter of fiscal 1999 as compared to \$22,784,000 in the second quarter of fiscal 1998. Operating expenses for the first half of fiscal 1999 decreased 2% to \$43,544,000 from \$44,458,000 during the same period of fiscal 1998.

Income after taxes for the three months ended December 31, 1998, reached \$7,905,000, or \$4.10 per share, as compared to \$7,539,000, or \$3.91 per share, in the first quarter of fiscal 1999 and \$9,782,000, or \$5.08 per share, in the same quarter of fiscal 1998. Net income for the first half of fiscal 1999 reached \$15,444,000, or \$8.02 per share, as compared to

\$16,010,000, or \$8.31 per share, in the first six months of fiscal 1998.

Quarterly Summary of Results
(In thousands)

	12/31/97	03/31/98	06/30/98	09/30/98	12/31/98
Net sales	64,062	58,951	57,582	54,035	58,408
Gross profit	36,161	32,249	34,388	31,115	32,095
Operating income	13,377	10,067	9,859	9,321	10,345
Net income	9,782	8,020	9,370	7,539	7,905

(As a percentage of sales)

	12/31/97	03/31/98	06/30/98	09/30/98	12/31/98
Net sales	100.00	100.00	100.00	100.00	100.00
Gross profit	56.45	54.70	59.72	57.58	54.95
Operating income	20.88	17.08	17.12	17.25	17.71
Net income	10.05	13.60	16.27	13.95	13.53

(In dollars)

	12/31/97	03/31/98	06/30/98	09/30/98	12/31/98
EPS	5.08	4.16	4.86	3.91	4.10

Year 2000 Issues

There have been no material changes from the fiscal year end.

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 December 31, 1998, over 93% of these funds were invested in instruments with maturities shorter than one year. The remaining balance matures during fiscal 2000. This portfolio's interest rate risk is unhedged. Its average maturity is approximately 60 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 preferred stock holdings, futures and options positions, and market yield and price relationships at December 31, 1998. 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 Securities	Futures and Options	Total Portfolio	Change in Market Value of Total Portfolio
- -200 basis points ("b.p.")	\$16,576.7	\$(1,480.9)	\$15,095.8	\$2,437.2
- -100 b.p.	44,414.3	(667.4)	43,746.9	1,088.3
Unchanged	41,775.6	883.0	42,658.6	0.0
+100 b.p.	38,678.5	3,727.9	42,406.4	(252.2)
+200 b.p.	35,591.6	6,536.2	42,127.8	(530.8)

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 December 31, 1998 and 1997 the hedge consisted entirely of put options on the U.S. Treasury Bond futures contract.

Item 3 Quantitative and Qualitative Disclosures about Market Risk
(CONTINUED)

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 December 31, 1998. 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 December 31, 1998, and does not take into account fluctuations of inventory levels and futures and options activity.

Commodity Risk Disclosure
(In thousands)

Coffee Cost Change	Coffee Inventory	December 31, 1998 Market Value of Futures & Options		Change in Market Value
		Total		
- - 10%	\$13,953,000	\$ 977,000	\$14,930,000	\$1,423,000
unchanged	13,953,000	(446,000)	13,507,000	-
+ 10%	13,953,000	(1,869,000)	12,084,000	(1,423,000)

At December 31, 1998 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.

The Annual Meeting of Shareholders of Farmer Bros. Co. was held on November 30, 1998. 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 1,750,960 shares for election and 10,150 shares against.

PART II OTHER INFORMATION, (CONTINUED)

The proposal to appoint Ernst & Young LLP as the independent accountants for the Company for the year ended June 30, 1999 was approved with 1,759,302 shares in favor of the resolution, 401 shares against and 1,415 shares abstaining.

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 12, 1999

FARMER BROS. CO.
(Registrant)

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

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