

FARMER BROTHERS CO
Form 10-Q
February 11, 2008

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

x

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR
15(d) OF**

THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended December 31, 2007

OR

o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF**

THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from **to**

Commission file number: 0-1375

FARMER BROS. CO.

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(exact name of registrant as specified in its charter)

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Delaware
(State of Incorporation)

95-0725980
(I.R.S. Employer Identification No.)

20333 South Normandie Avenue
Torrance, California
(address of principal executive offices)

90502
(Zip Code)

Registrant's telephone number, including area code: (310) 787-5200

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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 x NO o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act.

Large accelerated file o

Accelerated filer x

Non-accelerated filer o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

YES o NO x

On February 1, 2008 the registrant had 16,075,080 shares outstanding of its common stock, par value \$1.00 per share, which is the registrant's only class of common stock.

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

FARMER BROS. CO.

CONSOLIDATED BALANCE SHEETS

(Dollars in thousands, except share and per share data)

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	December 31, 2007 (Unaudited)	June 30, 2007
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 9,870	\$ 12,586
Short term investments	139,177	158,050
Accounts and notes receivable, net	20,711	17,651
Inventories	53,551	44,996
Deferred income taxes	2,462	2,462
Prepaid expenses	5,260	3,617
Total current assets	\$ 231,031	\$ 239,362
Property, plant and equipment, net	55,394	52,667
Goodwill and other intangible assets	15,420	16,959
Pension and other non-current assets	15,009	13,024
Deferred income taxes	20,612	15,597
Total assets	\$ 337,466	\$ 337,609
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	\$ 9,730	\$ 8,702
Accrued payroll expenses	11,276	7,480
Other	6,013	10,914
Total current liabilities	27,019	27,096
Accrued postretirement benefits	46,120	44,297
Total liabilities	73,139	71,393
Commitments and contingencies		
Stockholders equity:		
Common stock, \$1.00 par value, authorized 25,000,000 shares; 16,075,080 issued and outstanding	\$ 16,075	\$ 16,075
Additional paid-in capital	30,595	30,823
Retained earnings	267,890	272,406
Unearned ESOP shares	(41,385)	(44,240)
Less accumulated comprehensive loss	(8,848)	(8,848)
Total stockholders equity	\$ 264,327	\$ 266,216
Total liabilities and stockholders equity	\$ 337,466	\$ 337,609

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

FARMER BROS. CO.

CONSOLIDATED STATEMENTS OF OPERATIONS

(Dollars in thousands, except share and per share data)

(Unaudited)

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	Three months ended December 31,		Six months ended December 31,	
	2007	2006	2007	2006
Net sales	\$ 71,359	\$ 55,476	\$ 132,302	\$ 103,740
Cost of goods sold	32,062	22,995	59,158	43,176
Gross profit	\$ 39,297	\$ 32,481	\$ 73,144	\$ 60,564
Selling expense	30,606	26,131	59,081	50,795
General and administrative expenses	7,902	5,210	15,802	11,366
Operating expenses	\$ 38,508	\$ 31,341	\$ 74,883	\$ 62,161
Income (loss) from operations	\$ 789	\$ 1,140	\$ (1,739)	\$ (1,597)
Other (expense) income				
Dividend income	1,050	986	2,077	1,942
Interest income	965	1,457	2,224	2,917
Other, net (expense) income	(5,168)	387	(8,062)	1,691
Total other (expense) income	\$ (3,153)	\$ 2,830	\$ (3,761)	\$ 6,550
(Loss) income before taxes	(2,364)	3,970	(5,500)	4,953
Income tax (benefit) expense	(2,137)	1,017	(4,320)	987
Net (loss) income	\$ (227)	\$ 2,953	\$ (1,180)	\$ 3,966
Net (loss) income per common share	\$ (0.02)	\$ 0.21	\$ (0.08)	\$ 0.28
Weighted average shares outstanding	14,255,374	14,075,523	14,226,424	14,048,023

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

FARMER BROS. CO.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Dollars in thousands)

(Unaudited)

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	Six months ended December 31,	
	2007	2006
Cash flows from operating activities:		
Net (loss) income	\$ (1,180)	\$ 3,966
Adjustments to reconcile net (loss) income to net cash provided by operating activities:		
Depreciation and amortization	5,293	4,606
Gain on sales of assets	(98)	(94)
ESOP compensation expense	2,628	2,319
Net loss (gain) on investments	8,146	(1,337)
Change in operating assets and liabilities:		
Short term investments	10,727	(360)
Accounts and notes receivable	(3,060)	(1,708)
Inventories	(8,554)	(1,426)
Income tax receivable	(5,440)	0
Goodwill and intangibles	(351)	0
Prepaid expenses and other assets	(3,319)	(657)
Accounts payable	1,025	988
Accrued payroll expenses and other liabilities	(1,107)	1,241
Accrued postretirement benefits	1,823	1,769
Total adjustments	\$ 7,713	\$ 5,341
Net cash provided by operating activities	\$ 6,533	\$ 9,307
Cash flows from investing activities:		
Purchases of property, plant and equipment	(6,166)	(6,097)
Proceeds from sales of property, plant and equipment	133	98
Net cash used in investing activities	\$ (6,033)	\$ (5,999)
Cash flows from financing activities:		
Dividends paid	(3,216)	(3,076)
Net cash used in financing activities	\$ (3,216)	\$ (3,076)
Net (decrease) increase in cash and cash equivalents	\$ (2,716)	\$ 232
Cash and cash equivalents at beginning of period	12,586	5,333
Cash and cash equivalents at end of period	\$ 9,870	\$ 5,565

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

Notes to Consolidated Financial Statements

Note 1. Unaudited Financial Statements

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Basis of Presentation

The accompanying unaudited consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Rule 10-01 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 (GAAP) for complete consolidated financial statements. In the opinion of management, all adjustments (consisting only of normal recurring accruals, unless otherwise indicated) considered necessary for a fair presentation of the interim financial data have been included. Operating results for the three and six month periods ended December 31, 2007 are not necessarily indicative of the results that may be expected for the fiscal year ending June 30, 2008.

The accompanying unaudited consolidated financial statements should be read in conjunction with the consolidated financial statements and footnotes thereto included in the Farmer Bros. Co. annual report on Form 10-K for the fiscal year ended June 30, 2007.

Use of Estimates

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The preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results may differ from those estimates.

CBI Acquisition

In connection with the Company's acquisition of CBI during fiscal 2007, the purchase price allocation is preliminary because the Company is awaiting additional information to finalize estimated liability and asset values. The allocation will be completed prior to the end of fiscal 2008.

Note 2. Investments and Derivative Instruments

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The Company purchases various derivative instruments as investments or to create economic hedges of its interest rate risk and commodity price risk. At December 31, 2007 and June 30, 2007, derivative instruments are not designated as accounting hedges as defined by Statement of Financial Accounting Standards No. 133, *Accounting for Derivative Instruments and Hedging Activities*. The fair value of derivative instruments is based upon broker quotes. The Company records unrealized gains and losses on trading securities and changes in the market value of certain coffee contracts meeting the definition of derivatives in Other, net (expense) income.

Investments, consisting of marketable debt and equity securities and money market instruments, are held for trading purposes and are stated at fair value. Investments are as follows:

	December 31, 2007		June 30, 2007
	(In thousands)		
Trading securities at fair value			
U.S. Treasury Obligations	\$ 77,068	\$	91,840
Preferred Stock	61,665		65,165
Futures, options and other derivatives	444		1,045
	\$ 139,177	\$	158,050

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Gains and losses, both realized and unrealized, are included in Other, net (expense) income. Net realized and unrealized gains and losses are as follows:

	December 31, 2007	December 31, 2006
	(In thousands)	
Net realized (losses)	\$ (2,537)	\$ (2,210)
Net unrealized (losses) gains	(5,525)	3,901
	\$ (8,062)	\$ 1,691

Note 3. Inventories

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December 31, 2007	Processed	Unprocessed	Total
		(In thousands)	
Coffee	\$ 6,800	\$ 19,240	\$ 26,040
Allied products	13,869	5,417	19,286
Coffee brewing equipment	2,052	6,173	8,225
	\$ 22,721	\$ 30,830	\$ 53,551
June 30, 2007	Processed	Unprocessed	Total
Coffee	\$ 6,916	\$ 12,103	\$ 19,019
Allied products	14,501	3,299	17,800
Coffee brewing equipment	2,120	6,057	8,177
	\$ 23,537	\$ 21,459	\$ 44,996

Inventories are valued at the lower of cost or market. Costs of coffee and allied products are determined on the last in, first out (LIFO) basis. Costs of coffee and allied products at CBI are determined on an average cost basis. Costs of coffee brewing equipment manufactured are accounted for on the first in, first out (FIFO) basis. An actual valuation of inventory under the LIFO method is made only at the end of each fiscal 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 fiscal year-end inventory levels and costs. Because these estimates are subject to many forces beyond management's control, interim results are subject to the final fiscal year-end LIFO inventory valuation.

Note 4. Employee Benefit Plans

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The Company provides pension plans for most full time employees. Generally the plans provide benefits based on years of service and/or a combination of years of service and earnings. Retirees are also eligible for medical and life insurance benefits.

Company Pension Plans

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The Company has a contributory defined benefit plan for all employees not covered under a collective bargaining agreement (Farmer Bros. Co. Plan) and non-contributory defined benefit pension plan (Brewmatic Co. Plan) for certain hourly employees covered under a collective bargaining agreement. The net periodic benefit costs for the defined benefit plans were as follows:

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Components of net periodic benefit cost

Three months ended

Six months