EQUITY RESEARCH

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Farmer Brothers Company, Inc.

Nasdaq NMS: FARM
Market Capitalization: $600 Million
Close, May 22, 2003: $311.50

CORPORATE HQ	Torrance, California	WEBSITE	*www.farmerbroscousa.com*
EMPLOYEES	1,113	INSIDER OWNERSHIP	53%
SECTOR	Consumer, Non-Cyclical	52-WEEK HIGH/LOW	$301/$370
INDUSTRY	Food Processing	DIVIDEND PER SHARE	$3.60
FISCAL YEAR ENDS	June 30	DIVIDEND YIELD	1.13%
COMMON SHARES OUTSTANDING	1.93 Million Shares	PUBLIC FLOAT	0.90 Million Shares
AVERAGE DAILY VOLUME	955 Shares	SHARES SHORT (April 8, 2003)	3,000 Shares
DAYS TO COVER SHORT POSITION	1	INSTITUTIONAL OWNERSHIP	32%

Management Effectiveness

Return On Equity (TTM)	6.60%
Return On Assets (TTM)	5.91%
Return On Investment (TTM)	6.14%

Profitability

Gross Margin (TTM)	65.41%
Operating Margin (TTM)	15.86%
Net Profit Margin (TTM)	12.01%

Valuation

Price/Earnings (TTM)	23.28X
Price/Sales (TTM)	2.80X
Price/Cash Flow (TTM)	18.13X
Price/Cash Per Share (MRQ)	2.02X
Price/Book (MRQ)	1.63X

Per Share Data

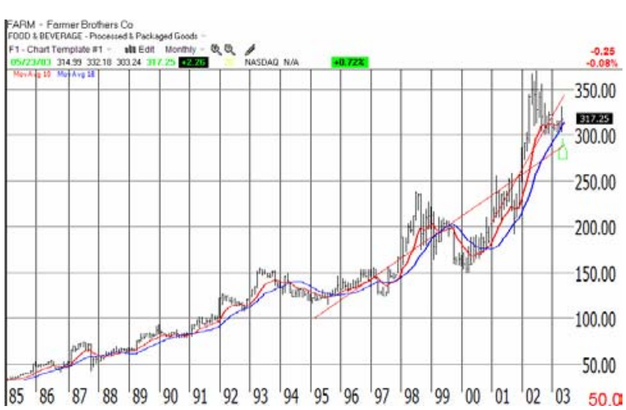
Earnings Per Share (TTM)	$13.38
Sales Per Share (TTM)	$111.45
Cash Flow Per Share (TTM)	$18.13
Cash Per Share (MRQ)	$148.81
Book Value Per Share (MRQ)	$190.95

Financial Strength

Current Ratio (MRQ)	19.60X
Long-Term Debt/Equity (MRQ)	0.00X
Total Debt/Equity (MRQ)	0.00X

Investment Rationale

- Farmer Brothers Company, Inc. ("FARM", "the Company") is a leading manufacturer and distributor in the U.S (primarily the Western U.S.) of a product line that includes coffee and related products, teas, cocoa, spices, soup and beverage bases to institutional customers.
- Margins are comparatively high, with 65% gross margins and almost 16% operating margins.
- Regulatory trends are pushing medium and smaller-sized public companies toward "going private" because of the increased legal, accounting and liability costs to comply with new corporate governance mandates (e.g. Sarbanes-Oxley).
- Dissident shareholders are demanding fuller disclosure of the Company's large investment portfolio (70% of total assets), claiming the Company is subject to the Investment Company Act of 1940.
- Management is stockpiling cash and marginally increasing dividends even as operations suffer declining revenues and income — while the food processing industry as a whole has grown. This has further tried the patience of dissident shareholders who believe the cash can be better utilized in strengthening core operations — or repurchasing shares in the open market.
- The large cash position camouflages outstanding returns on investment, equity and assets from core operations and impedes the stock market's value recognition.
- In response to higher costs and liability; dissident shareholders; and reasonable criticism about operational performance; a logical solution would be to "take the Company private." This would unburden the Farmer family of the seemingly unwanted costs and liabilities of running a public company.
- At our target price of $430 per share, the Company could buy out all outside shareholders for approximately $387 million, just 1.34 times the amount of cash, cash equivalents, and short-term investments in the investment portfolio.



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SnapShot

The Business

Farmer Brothers Co., Inc. ("Farmer Brothers"; "FARM"; "the Company") was incorporated in California in 1923. It has grown to manufacture and distribute a product line that includes roasted coffee, coffee related products (i.e. coffee filters, stir sticks and creamers), teas, cocoa, spices, soup and beverage bases to restaurants and other institutional establishments including restaurants, hotels, hospitals, convenience stores and fast food outlets.

High Gross Margins

Farmer Brothers is allowed to charge premium prices (as reflected in the approximately 65% gross margins) by focusing on the institutional, large customer market that appreciates professional, value-added services.

Lower Account Risks

FARM's products are distributed by branch warehouses located throughout the western United States. The major market area served consists of California, Oregon and Washington. Coffee and other beverage-related products are sold directly from delivery trucks. While this model increases basic operating costs, the sales representative maintains a personal level of service with the customer, increasing his understanding of the customer's needs.

Sales interaction with its customers has beneficial effects other than higher sales. Interaction allows the Company to maintain a lower bad debt allowance because the sales representative is able to better manage account receivables and account risk.

Operating Efficiencies

The Company's most significant facilities are its roasting plant, administrative offices, and warehouses located in Torrance, California. This is the primary manufacturing facility, as well the primary distribution hub. In addition, FARM "stages" product in more than 100 branch warehouses, which vary in size from 2,500 to 12,000 square feet.

While the customers are served by delivery trucks that operate from the smaller warehouses, Farmer Brothers' "long haul" trucking fleet (based at the Torrance warehouses) helps the Company maintain cost efficient inventories at each hub warehouse.

Coffee represents approximately 54% of gross sales for FARM. No other product represents more than 10% of sales. We are unable to ascertain the actual number of Farmer Brothers' customers from disclosure documents, but management maintains that the loss of any or more of its larger customers would have no material adverse impact on operations.

High Growth Margins

+

Account Diversification

+

Operating Efficiencies

=

Strong Competitive Advantage

Competitive Factors

New Beverages

While personalized service and close customer interaction often allow for premium product pricing, FARM is not without competitive concerns. In recent years, competition for the consumer's beverage dollar has been intense. Numerous new soft drinks and water beverages now compete with coffee in a more discerning, health conscious society.

Price Sensitive Service

For smaller customers, the commoditized manufacture of quality coffee-making appliances and advanced, "stay fresh" product packaging techniques allow for the development and implementation of alternative coffee distribution and serving models. These enable the small business owner to pursue do-it-yourself coffee buying and brewing. In such a model, the smaller restaurant owner is more price sensitive, and the do-it-yourself model is usually a more profitable approach.

The Demise Of Office Coffee

We recall that Farmer Brothers served many small and medium sized offices in Southern California in the 1970's, but we sense that structural changes occurring in the coffee market have negatively impacted those sales. Today, it is common for office-based businesses to invest in a retail quality coffee maker, then buy more favorably priced coffee products through a regional distributor, or even a retail outlet such as Wal-Mart, Sam's Club or the local supermarket.

Moreover, with the broad proliferation of Starbucks, Seattle's Best, Diedrich, and other premium retail coffee, cappuccino and espresso brewers, many office managers do not provide in-house coffee, but encourage employees to "go down the street" or "down to the first floor" on their breaks.

Sales and Income Declining

Competition, a softer economic environment and even terrorist-related fears may have had an impact in recent years. Nonetheless, it is important to note that Farmer Brothers' Net Sales have steadily declined, from $240.1 million in 1998, to $221.6 million in 1999, to $218.7 million in 2000, to $215.4 million in 2001, to $205. 9 million in 2002 (fiscal year ends June 30).

Something, or more likely some combination of factors (economy, greater price sensitivity, more beverage alternatives, more specialty coffee retailers, etc.) is stifling the Company's "full service" marketing efforts. The **nine months'** financial results reported on May 15 (for operations through March 31, 2003) show the trend is continuing: $153.8 million in 2003 sales vs. $155.4 million in 2002.

Just as significant, net income is also declining:

DECLINING NET INCOME

1998	$33.4 million
1999	$28.7 million
2000	$37.6 million
2001	$36.2 million
2002	$30.6 million

For the nine months's ending March 31, 2003, net income declined 25% compared to the same period in FY2002, to $17.8 million from $23.9 million.

But Dividends Rising

Facilitated by high gross margins (and, arguably, serving the interests of the Company's 53% insider-controlled ownership), FARM has maintained a steady stream of increasing dividends between 1998 to present.

DIVIDENDS PER SHARE

1998	$2.55
1999	$2.80
2000	$3.00
2001	$3.20
2002	$3.40

Based on the indicated quarterly dividend of 90 cents, payable in August, the annual indicated rate has been raised again, now $3.60 per share, a 5.9% increase over the FY2003 rate.

Investment Appeal: The Story

Farmer Brothers offers a marginally increasing dividend — but the overall business is shrinking. This does not, on the surface, seem like an appropriate management tactic. Moreover, a story featuring declining sales and income does not ordinarily incite institutional investment interest.

The appeal to us comes from other, special factors — prompted by the current investment climate, as well as by a unique combination of FARM characteristics.

Closely Held, Thinly Traded

The Company's senior executives are Roy F. Farmer, 86, Chairman, and Roy E. Farmer 50, President and recently named Chief Executive Officer (replacing his father as CEO).

The common stock of FARM is approximately 53% controlled by insiders, most of which is controlled by the senior Mr. Farmer. Some of this control is through family-related trusts, which Mr. Farmer also serves as trustee (but is not the chief beneficiary).

Stockpiling Cash

At March 31, 2003, the Company had $288 million in cash, cash equivalents, and short term investments (mostly Treasury Bills and Notes with maturities less than 180 days). This equates to approximately $149 per share in cash and short-term investments which, in this case, we regard as cash equivalents because of their make-up (less than 180 days to maturity).

FARM's current market capitalization is $612 million. With no debt, we calculate Enterprise Value (we use the formula EV = Market Equity (common and preferred) *plus* Total Debt *minus* Cash & Equivalents) to be approximately $324 million, or roughly $168 per share. At its recent $317 per share market price, the stock was trading at roughly 1.89 times Sales.

With Enterprise Value at almost two times declining Sales and Income, there is nothing remarkably attractive about this as a growth story. The appeal comes from a "war chest" of cash, no debt, and high gross margins.

All other discussion aside, the cash can be used to effect strategic acquisitions that better position existing operations or diversify revenue and income from non-coffee related businesses. Alternatively, management could reduce the number of shares trading in the open market, through a stock repurchase plan — or take the Company private.

The New Public Company World

Given the changing investment climate for publicly-held companies in the United States, we think it is more likely that management will use its war chest to take the Company private.

Toward this end, a *Los Angeles Times* article dated April 30, 2003, tells of Farmer Brothers' on-going discussions with 9.6% institutional stakeholder Franklin Mutual Advisors. Specifically, they discussed the prospects for management to buy out outside shareholders and take the company private.

In a late April 2003 13D filing, Franklin stated that it would only sell its shares to the Company if all shareholders were made the same offer. As to price, Franklin indicated that the "low $400 range" would be acceptable. This filing was in fact Franklin Mutual's letter response to an inquiry made by Farmer Bros. several months ago.

These "going private" discussions result from criticisms levied at Farmer Bros. management by Franklin Mutual and other institutional shareholders over the Company's reluctance to disclose what the shareholders consider to be key financial and corporate information.

The most logical solution is to take the Company private.

Among other things, the outside shareholders maintain that because such a high proportion of Company assets are held in investments that are not critical to FARM's core coffee business, then it should be subject to the Investment Company Act that mandates fuller disclosure than management is providing.

The Case For Going Private

The critics have a point. At the end of the March 31, 2003 fiscal quarter, FARM's cash, cash equivalents and short-term investments accounted for 70% of the Company's total assets. While the coffee business is in decline, the cash stockpile and investment portfolio continues to grow.

As if shareholder pressure is not enough, the recent Sarbanes-Oxley legislation and new listing requirements by the New York Stock Exchange and Nasdaq significantly increase the accounting and legal expenses associated with life as a public company. With the exposure of Enron, Global Crossing, Tyco and other high profile, corporate governance failures, the new legislation and listing requirements are aimed at holding the management of public companies to a higher standard of public trust and fidelity.

The Investor Responsibility Research Center, a Washington, D.C. based think tank, suggested in a May 16, 2003 white paper that mid-size companies anticipate legal and accounting expenses will more than double as they comply with Sarbanes-Oxley, the NYSE, and Nasdaq's new oversight.

Moreover, liability insurance fees for the directors and officers of publicly-traded companies have increased 94.2%, on average, according to a published survey by law firm Foley & Lardner. This study looks at 328 pubic companies' proxy statements, as well as written surveys from 32 companies' corporate executives.

On April 30, 2003, Farmer Bros. elected two independent directors to the Board of Directors, meaning that the majority of the Board is now independent. It is too soon to tell whether this event is mere window dressing to blunt outside shareholders' criticisms, or a sincere effort to comply with the new mandates of corporate governance.

Positive corporate governance steps notwithstanding, taking FARM private makes the greatest sense if the Farmer family is to keep control of the Company. First, Franklin Mutual Advisers and other shareholders (institutions own approximately 24%) are not stepping back from their demands for fuller investment disclosure and compliance with the Investment Company Act.

Second, the dramatic rise in legal and accounting expenses related to existence as a public company is overcome by returning to private ownership.

Third, the rise in officers and directors liability insurance — and increased demands for accountability — is not only expensive, but also makes the life of the publicly-traded company executive more challenging. With critical (and at worst hostile) shareholders monitoring every move in a new and litigious regulatory environment, the days may be numbered for a closely-held public company that is reticent in its disclosures.

Outside Bid Unlikely

Given the close family ownership of Farmers, including a business model apparently in decline, we are skeptical of the success of any third party takeover overture, except at a very high premium.

However, we understand why an outside party would be interested given a dominant market position, high gross margins, and large cash stockpile — and the almost hidden financial performance of the coffee operations (see *Valuation*).

Essentially, the outside acquirer (just like the Farmer family taking the Company private) would be using the Company's own money to effect much of the potential transaction. In addition, by acquiring a business with such a dominant market position and high gross margins, they may be acquiring under-exploited assets. The operating challenge would be to find ways to unlock an even more robust (and long-term more valuable) business.

Valuation

Our calculated acquisition price from a third party acquirer (that would also take out the Farmer family) would need to be in excess of $500 per share.

However, we think the Farmer family and employees could take the Company private with an offer to outside shareholders in the range of $430 to $470 per share, or in the area of 2.25 times Book Value.

Reducing Shareholders Equity by the same $250 million implies FY2002 ROE of 24%!

Shaking The Cash Tree

But what if we looked at a purchase valuation not just to get rid of dissident outside shareholders, but to actually buy the coffee business? What would we be willing to pay?

In our Comparables section in this report, we show that because of FARM's high cash stockpile, its Current Ratio is 20:1. This is more than 10 times the standard benchmark ratio for corporate performance of 2:1 — and it happens to be about the "average" of other food processing companies in our comparison.

Further down in our Comparables tables we see that FARM's return on equity (ROE) and return on assets (ROA) are sub-par when compared to the rest of the companies in the list. It is generally underperforming on all but two in the list, and less than 50% of the performance of the top three selected companies: Hershey Foods (NYSE: HSY), Starbucks (Nasdaq: SBUX), and Green Mountain Coffee (Nasdaq: GMCR).

Green Obsession

Once an investor recognizes that Cash, Cash Equivalents, and Short-Term Investments (the factors that make the Current Ratio so high) are also components of both Equity and Assets in the balance sheet, he realizes that FARM's obsession with cash and liquidity is camouflaging superior performance in the coffee operations — even in the face of declining sales and earnings!

Hypothetically, if (in FY2002) we took $250 million in cash off of the balance sheet we would be left with a premium Current Ratio of about 6:1. Including a remaining $38 million in Cash, $93 million in adjusted Current Assets divided by Current Liabilities of $16 million produces a 6:1 standard.

Then, if we reduce Equity by the same $250 million, suddenly ROE is catapulted to roughly 24% for FY2002!

What kind of valuation do we give a coffee business with a strong competitive position in its marketplace, a 24% ROE, and enjoys 65% gross margins? And one in which the only reason this performance is discounted by the market is because its reported financial performance is impeded by a hoard of cash?

Berkshire Hathaway recently announced the acquisition of the

McLane Company division of Wal-Mart for $1.45 billion, or for less than 10% of McLane's $22 billion in sales in the last fiscal year. It's not a fair comparison of value with Farmer Bros., however, because McLane (the nation's largest distributor of candy, cigarettes and sundries to convenience stores) reportedly earned only a razor thin 2% operating margin — compared with FARM's approximately 16%.

An interesting aspect to the Berkshire Hathaway acquisition, however, is the transaction's "statement" that there is interest in the food processing and distribution space. Certainly if a value investor like Berkshire is interested in a slim operating profit business like McLane, then Berkshire or another potential buyer would also value a more profitable player in the same or similar space.

It must be noted that direct competitors of McLane, such as Fleming Companies or U.S. Foodservice, are either floundering or under investigation by regulators. Fleming, currently hoping to emerge from Chapter 11 bankruptcy reorganization, had an estimated $7 billion in sales last year. If it fails to emerge from bankruptcy, shares of the market served could be up for grabs by McLane and other large competitors, as well as niche market players like Farmers.

In the final analysis, placing a valuation on FARM depends on what is done with the cash reserve. If it is used to take the Company private, then we project a $430 to $470 per share price tag.

If the cash stockpile is deployed by a third party to help take out even the Farmer family, then we speculate that a $550 per share offer may be required.

If there is a special dividend distribution to focus the Company's profitability on the core business and improve ROE and ROA comparisons, then a revision in policy to distribute a higher proportion of profits to dividends in the future, it becomes a "yield" story — so we judge it vs. then prevailing interest yielding alternatives.

If the cash is used to take the Company in new strategic directions, through acquisitions or new marketing strategies, for example, then it has the potential to again become a "growth" story.

Our bet is that in order to preserve "the family business" and rid itself of an onerous and costly regulatory environment, management opts to take Farmer Brothers private with the aid of a preferred stock offering to bolster cash reserves — then look at strategic options to revitalize the business beyond what might occur with an overall economic rebound.

Comparables

What's Wrong With This Picture?

Are They Overdoing Liquidity? A 2:1 Current Assets to Current Liabilities (Current Ratio) is generally regarded as an acceptable business practice for companies in most industries. While most shown here are "in the ballpark" of that financial soundness standard, Farmer Brothers Co. appears to be over-protecting cash. In a period of low interest rates, where interest-bearing yields are paltry, shareholders have a right to question whether their cash assets are being put to their best use.

Ticker	Name	Price Current	Employees	Market Cap ($ Millions)	Qtrly Assets, Total ($ Millions)	Qtrly Current Ratio
FARM	Farmer Brothers Co.	$ 320.61	1,113	$ 617	$ 413	**20.31**
PEET	Peet's Coffee & Tea, Inc.	$ 16.98	324	$ 210	$ 95	3.21
DLM	Del Monte Foods Company	$ 9.10	2,800	$ 1,905	$ 3,577	2.69
SJM	J.M. Smucker Co.	$ 38.08	2,300	$ 1,895	$ 1,575	2.66
HSY	Hershey Foods Corporation	$ 71.05	13,700	$ 9,321	$ 3,313	2.07
SBUX	Starbucks Corporation	$ 24.49	62,000	$ 9,564	$ 2,421	1.84
IMC	International Multifoods	$ 20.25	2,377	$ 389	$ 766	1.47
GMCR	Green Mountain Coffee	$ 17.25	474	$ 118	$ 56	1.42
SYY	Sysco Corporation	$ 31.21	46,800	$ 20,275	$ 6,656	1.28
DDRX	Diedrich Coffee, Inc.	$ 3.41	415	$ 18	$ 29	1.21
PFGC	Performance Food Group	$ 36.20	10,200	$ 1,644	$ 1,646	1.15

Spiteful Valuation? In spite of paltry ROE and ROI performance, FARM's Price To Sales multiple is the highest in this comparative listing of related or similar companies. This is explained in part because the market recognizes that the cost of high corporate liquidity is an impairment of returns on equity, investment, and assets. In fact, if you were to take out a significant portion of the cash (say $250 million) from shareholders equity, not only do you reduce the Current Ratio to a strong balance (6:1 in our $250 million hypothetical), but you also improve ROE (to 24%) and adjust upward Price to Book (to 5:1).

Ticker	Name	TTM Return On Avg. Equity	TTM Return On Investment	TTM Sales $ ($ Millions)	TTM Price To Sales Per Share	Qtrly Price To Book	TTM Price To Cash Flow P/S
SYY	Sysco Corporation	**33.87%**	**19.21%**	$ 25,479.03	0.81	**9.18**	**20.32**
HSY	Hershey Foods Corporation	**31.81%**	**14.73%**	$ 4,084.97	2.38	**7.66**	16.46
GMCR	Green Mountain Coffee	22.47%	**15.21%**	$ 107.51	1.15	4.01	11.74
SBUX	Starbucks Corporation	14.08%	**13.82%**	$ 3,658.09	2.68	**5.06**	**20.27**
IMC	International Multifoods	11.70%	**3.80%**	$ 939.28	0.42	1.65	9.30
DLM	Del Monte Foods Company	11.56%	7.24%	$ 1,893.46	1.04	2.04	12.47
PFGC	Performance Food Group	10.57%	6.61%	$ 4,710.58	0.40	2.24	15.88
SJM	J.M. Smucker Co.	10.44%	7.90%	$ 1,158.86	1.37	1.70	14.00
PEET	Peet's Coffee & Tea, Inc.	7.87%	7.73%	$ 107.01	1.99	2.51	**19.79**
FARM	Farmer Brothers Co.	**6.62%**	6.15%	$ 204.18	**2.88**	1.69	**19.45**
DDRX	Diedrich Coffee, Inc.	**6.50%**	5.67%	$ 58.39	0.31	0.95	5.18

More Comparables

What's Wrong With This Picture?

Even though a good portion of the food processing, distribution and special retail coffee industries are showing good growth, Farmer Bros. seems mired in lackluster sales and earnings performance. Maybe instead of hording cash management should have been expanding its core coffee operations or strengthening its competitive position…...

Ticker	Name	5 Yr. Sales Growth Rate	5 Yr. EPS Growth Rate	3 Yr. EPS Growth Rate	TTM EPS Excl. Xord. Items	P/E Excluding Xord Items	3 Yr. Income Growth Rate
PEET	Peet's Coffee & Tea, Inc.	15.46%	**44.80%**	NA	$ 0.43	**39.30**	NA
DLM	Del Monte Foods Company	NA	NA	NA	$ 0.92	**9.87**	NA
DDRX	Diedrich Coffee, Inc.	**22.04%**	NA	NA	$ 0.22	15.22	NA
GMCR	Green Mountain Coffee	18.55%	**29.93%**	**37.38%**	$ 0.82	20.99	**38.50%**
PFGC	Performance Food Group	**27.24%**	22.24%	**28.07%**	$ 1.53	23.72	**51.15%**
SBUX	Starbucks Corporation	**27.52%**	**26.65%**	**26.07%**	$ 0.61	**40.02**	**28.36%**
SYY	Sysco Corporation	10.07%	18.88%	**23.32%**	$ 1.12	27.97	**23.34%**
FARM	Farmer Brothers Co.	**-1.75%**	13.80%	2.93%	$ 13.38	23.96	1.93%
IMC	International Multifoods	**-16.04%**	1.49%	2.76%	$ 1.43	14.17	3.90%
SJM	J.M. Smucker Co.	5.57%	3.20%	**-1.28%**	$ 1.80	21.19	**-6.52%**
HSY	Hershey Foods Corporation	**-0.86%**	5.65%	**-3.46%**	$ 3.03	23.44	**-4.29%**

So, it is easy to see where FARM gets its cash...With such a persistent earnings stream, would it be more constructive to leverage the balance sheet and either reduce shares outstanding or expand operations?

Ticker	Name	Qrtly LT Debt To Tot. Equity	Qrtly Tot. Debt To Tot. Equity	TTM Operating Margin	5 Yr. Avg. Operating Margin	TTM Net Profit Margin
FARM	Farmer Brothers Co.	**0%**	**0%**	13.64%	18.83%	**12.01%**
HSY	Hershey Foods Corporation	70%	72%	**17.48%**	15.58%	10.14%
DLM	Del Monte Foods Company	**182%**	**186%**	13.03%	NA	8.32%
SJM	J.M. Smucker Co.	12%	12%	11.78%	8.33%	6.88%
SBUX	Starbucks Corporation	**0%**	**0%**	10.49%	9.54%	6.70%
GMCR	Green Mountain Coffee	43%	54%	10.61%	7.67%	5.82%
PEET	Peet's Coffee & Tea, Inc.	**0%**	**1%**	7.38%	**2.21%**	5.09%
IMC	International Multifoods	**139%**	**146%**	7.80%	**4.78%**	**2.95%**
SYY	Sysco Corporation	58%	63%	**4.71%**	**3.97%**	**2.91%**
DDRX	Diedrich Coffee, Inc.	12%	19%	**2.80%**	**-11.75%**	**1.98%**
PFGC	Performance Food Group	48%	48%	**2.86%**	**2.16%**	**1.53%**

And Finally More Comparables

What's Wrong With This Picture?

While Farmer Bros. has among the lowest CapEx expenditures and among the highest gross, operating and net margins, of the three dividend-paying companies in our list it "boasts" the slowest growing dividend and the lowest payout ratio. Again, if you are not going to USE the cash, why KEEP the cash? Shareholders can do better than money market interest in alternative investments….

Ticker	Name	Insider Ownership Percent	Institutional Ownership	5 Yr. CapX Growth	Indicated Annual Dividend	Dividend Yield	3 Yr. Dividend Growth Rate	TTM Payout Ratio
DLM	Del Monte Foods Company	13.00%	**58.78%**	NA	$ -	NA	NA	0.00%
PFGC	Performance Food Group	3.33%	**95.00%**	**44.81%**	$ -	NA	NA	0.00%
SBUX	Starbucks Corporation	2.47%	**67.38%**	16.58%	$ -	NA	NA	0.00%
GMCR	Green Mountain Coffee	41.62%	45.10%	15.91%	$ -	NA	NA	0.00%
SYY	Sysco Corporation	0.84%	**71.74%**	14.58%	$ 0.44	1.41%	**18.98%**	**35.27%**
IMC	International Multifoods	1.54%	**75.92%**	12.10%	$ -	NA	NA	0.00%
PEET	Peet's Coffee & Tea, Inc.	20.58%	**74.20%**	10.06%	$ -	NA	NA	0.00%
SJM	J.M. Smucker Co.	6.97%	42.86%	8.30%	$ 0.92	2.42%	NA	**40.20%**
FARM	Farmer Brothers Co.	53.27%	31.78%	2.74%	$ 3.60	1.12%	6.69%	26.53%
HSY	Hershey Foods Corporation	23.55%	42.44%	**-6.48%**	$ 1.31	1.84%	8.01%	**42.09%**
DDRX	Diedrich Coffee, Inc.	43.81%	7.83%	**-11.37%**	$ -	NA	NA	0.00%

Farmer Brothers Co., Inc.

REVENUE & INCOME PRO FORMA
(all numbers in millions)

	30-Jun 1998A	30-Jun 1999A	30-Jun 2000A	30-Jun 2001A	30-Jun 2002A	31-Mar 2002A	30-Sep 2002A	31-Dec 2002A	31-Mar 2003A	*30-Jun 2003E*	*FY 2003E*	TTM
Net Sales	$ 240.10	$ 221.60	$ 218.70	$ 215.40	$ 205.90	$ 51.30	$ 50.39	$ 54.12	$ 49.27	*$ 50.00*	*$ 203.77*	$ 205.07
Other Revenues	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	*$ -*	*$ -*	$ -
Cost of Revenues	$ 108.00	$ 89.80	$ 77.00	$ 74.00	$ 67.80	$ 16.51	$ 18.86	$ 18.96	$ 17.23	*$ 17.50*	*$ 72.55*	$ 71.56
Gross Profit	$ 132.10	$ 131.80	$ 141.70	$ 141.40	$ 138.10	$ 34.79	$ 31.53	$ 35.15	$ 32.04	$ 32.50	*$ 131.22*	$ 133.51
Selling, General & Administrative	$ 91.20	$ 95.00	$ 92.80	$ 99.30	$ 99.90	$ 24.94	$ 24.18	$ 26.84	$ 27.05	*$ 27.05*	*$ 105.12*	$ 103.01
Research & Development	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	*$ -*	*$ -*	$ -
Depreciation/Amortization	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	*$ -*	*$ -*	$ -
Interest Expense (Income), Operating	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	*$ -*	*$ -*	$ -
Unusual Operating Expense (Income)	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	*$ -*	*$ -*	$ -
Total Operating Expense	$ 91.20	$ 95.00	$ 92.80	$ 99.30	$ 99.90	$ 24.94	$ 24.18	$ 26.84	$ 27.05	$ 27.05	*$ 105.12*	$ 103.01
Operating Income	$ 40.90	$ 36.80	$ 48.90	$ 42.10	$ 38.20	$ 9.84	$ 7.35	$ 8.32	$ 4.99	$ 5.45	*$ 26.11*	$ 30.50
Interest & Investment Income, Non Operating	$ 10.60	$ 11.30	$ 12.80	$ 15.30	$ 10.50	$ 2.34	$ 2.14	$ 1.85	$ 1.65	*$ 1.60*	*$ 7.24*	$ 7.98
Gain (Loss) On Sale Of Assets	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	*$ -*	*$ -*	$ -
Other Net Income/Expense	$ 1.20	$ 0.50	$ (0.60)	$ 2.10	$ 0.70	$ (1.68)	$ (0.38)	$ (0.57)	$ 3.68	*$ -*	*$ 2.73*	$ 1.04
Net Income Before Income Taxes	$ 52.70	$ 48.60	$ 61.10	$ 59.50	$ 49.40	$ 10.50	$ 9.12	$ 9.59	$ 10.31	$ 7.05	*$ 36.07*	$ 39.52
Provision For Income Taxes	$ 19.40	$ 19.70	$ 23.60	$ 23.00	$ 18.80	$ 4.10	$ 3.51	$ 3.69	$ 3.97	*$ 2.71*	*$ 13.89*	$ 15.27
Net Income After Taxes	$ 33.30	$ 28.90	$ 37.50	$ 36.50	$ 30.60	$ 6.41	$ 5.61	$ 5.90	$ 6.34	*$ 4.34*	*$ 22.18*	$ 24.25
Minority Interest	$ -	$ -	$ -	$ -	$ -	$ -	$ -		$ -	*$ -*	*$ -*	$ -
Equity In Affiliates	$ -	$ -	$ -	$ -	$ -	$ -	$ -		$ -	*$ -*	*$ -*	$ -
Net Income Before Extraordinary Items	$ 33.30	$ 28.90	$ 37.50	$ 36.50	$ 30.60	$ 6.41	$ 5.61	$ 5.90	$ 6.34	*$ 4.34*	*$ 22.18*	$ 24.25
Accounting Change	$ -	$ -	$ -	$ (0.30)	$ -	$ -	$ -	$ -	$ -	*$ -*	*$ -*	$ -
Discontinued Operations	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	*$ -*	*$ -*	$ -
Other Extraordinary Item	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	*$ -*	*$ -*	$ -
Net Income	$ 33.30	$ 28.90	$ 37.50	$ 36.20	$ 30.60	$ 6.41	$ 5.61	$ 5.90	$ 6.34	*$ 4.34*	*$ 22.18*	$ 24.25
Preferred Dividends	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	*$ -*	*$ -*	$ -
Basic Weighted Avg. Shares (millions)	1.93	1.90	1.86	1.84	1.85	1.85	1.85	1.82	1.80	*1.80*	*$ 1.82*	$ 1.83
Basic EPS Excluding Extra. Items	$ 17.25	$ 15.21	$ 20.16	$ 19.84	$ 16.54	$ 3.47	$ 3.03	$ 3.24	$ 3.52	*$ 2.41*	*$ 12.20*	$ 13.26
Basic EPS Including Extra. Items	$ 17.25	$ 15.21	$ 20.16	$ 19.67	$ 16.54	$ 3.47	$ 3.03	$ 3.24	$ 3.52	*$ 2.41*	*$ 12.20*	$ 13.26
Dilution Adjustment	0	0	0	0	0	0	0	0	0	*0*	*0*	0
Diluted Weighted Avg. Shares	1.93	1.90	1.86	1.84	1.85	1.85	1.85	1.82	1.80	*1.80*	*$ 1.82*	$ 1.83
Diluted EPS Excluding Extra. Items	$ 17.25	$ 15.21	$ 20.16	$ 19.84	$ 16.54	$ 3.47	$ 3.03	$ 3.24	$ 3.52	*$ 2.41*	*$ 12.20*	$ 13.26
Diluted EPS Including Extra. Items	$ 17.25	$ 15.21	$ 20.16	$ 19.67	$ 16.54	$ 3.47	$ 3.03	$ 3.24	$ 3.52	*$ 2.41*	*$ 12.20*	$ 13.26
Dividends Per Share	$ 2.55	$ 2.80	$ 3.00	$ 3.20	$ 3.40	$ 0.85	$ 0.90	$ 0.90	$ 0.90	*$ 0.90*	*$ 3.60*	$ 3.55

Farmer Brothers Co., Inc.

REVENUE & INCOME PRO FORMA ANALYSIS

	30-Jun 1998A	30-Jun 1999A	30-Jun 2000A	30-Jun 2001A	30-Jun 2002A	31-Mar 2002A	30-Sep 2002A	31-Dec 2002A	31-Mar 2003A	30-Jun 2003E	FY 2003E	TTM
Gross Margin	55.02%	59.48%	64.79%	65.65%	67.07%	67.81%	62.58%	64.96%	65.03%	65.00%	64.40%	65.10%
Operating Margin	17.03%	16.61%	22.36%	19.55%	18.55%	19.19%	14.59%	15.37%	10.12%	10.90%	12.81%	14.87%
Net Margin	13.87%	13.04%	17.15%	16.81%	14.86%	12.49%	11.13%	10.90%	12.87%	8.67%	10.89%	11.83%
EBITDA (millions)	$ 52.70	$ 48.60	$ 61.10	$ 59.50	$ 49.40	$ 10.50	$ 9.12	$ 9.59	$ 10.31	$ 7.05	$ 36.07	$ 39.52
SG&A as % of Sales	37.98%	42.87%	42.43%	46.10%	48.52%	48.62%	47.98%	49.59%	54.91%	54.10%	51.58%	50.23%
R & D as % of Sales	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Interest & Investment Income as % of Sales	4.41%	5.10%	5.85%	7.10%	5.10%	4.57%	4.25%	3.41%	3.34%	3.20%	3.55%	3.89%
Effective Tax Rate	36.81%	40.53%	38.63%	38.66%	38.06%	39.00%	38.50%	38.50%	38.50%	38.50%	38.50%	38.63%
% Change In Sales		-7.71%	-1.31%	-1.51%	-4.41%		-1.77%	7.40%	-8.96%	1.49%	-1.03%	
% Change In Gross Profit		-0.23%	7.51%	-0.21%	-2.33%		-9.35%	11.49%	-8.86%	1.44%	-4.98%	
% Change In Gross Margin %		8.10%	8.94%	1.32%	2.17%		-7.72%	3.80%	0.11%	-0.05%	-3.99%	
% Change In SG&A		4.17%	-2.32%	7.00%	0.60%		-3.07%	10.99%	0.81%	-0.01%	5.22%	
% Change In R & D		N/A	N/A	N/A	N/A		N/A	N/A	N/A	N/A	N/A	
% Change In Operating Income		-10.02%	32.88%	-13.91%	-9.26%		-25.29%	13.12%	-40.08%	9.33%	-31.65%	
% Change In Net Income		-13.21%	29.76%	-3.47%	-15.47% `		-12.46%	5.19%	7.46%	-31.60%	-27.51%	
% Change In EBITDA		-7.78%	25.72%	-2.62%	-16.97%		-13.17%	5.19%	7.45%	-31.60%	-26.99%	
% Change In Dividends Per Share		9.80%	7.14%	6.67%	6.25%		5.88%	0.00%	0.00%	0.00%	5.88%	

Note 1: Without guidance from the Company, we assume that the net sales figure will continue to slip, year over year. We have seen little indication of a sales rebound in recent 10Q documents. Our quarterly estimate or Q4-2003 is for "flat"sales performance, sequentially. We think this is rational since the trailing twelve months' calculation (TTM) is about flat with FY2002.

Note 2: It is interesting to observe that while gross profit margin increased from 55% in FY1998, to 67% in FY2002, there has been a decline in net sales and earnings. It is possible that there is a cause-effect relationship between these two sets of numbers, suggesting that the Company's product pricing policy may not be reflecting the competitive nature of the industry.

Note 3: We are troubled by an unexplained discrepancy in the cash flow statements for Q1-2002, Q3-2002, and Q4-2002 with regard to gross dividends paid on common shares. For example, for Q3-2002, multiplying the number of shares outstanding (1.82) times the 90 cents per share declared dividend, suggest the gross dividend paid was about $1.63 million. However, the cash flow statement (not provided in this report) in the 10Q states that $3.29 million was distributed for the quarter. There are similar discrepancies in Q1-2002 and Q4-2002. We have been unable to speak with management to ascertain the reason for these discrepancies, and could not find any notes in the notes to financial statements within the disclosure documents..