COFFEE HOLDING CO INC
Form 10-Q
September 11, 2013

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

þ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended: July 31, 2013

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: 001-32491

Coffee Holding Co., Inc.
(Exact name of registrant as specified in its charter)

Nevada (State or other jurisdiction of incorporation or organization)	11–2238111 (I.R.S. Employer Identification No.)
3475 Victory Boulevard, Staten Island, New York (Address of principal executive offices)	10314 (Zip Code)

(718) 832-0800
(Registrant’s telephone number including area code)

N/A
(Former name, former address and former fiscal year, if changed from last report)

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 þ No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such period that the registrant was required to submit and post such files). Yes þ No o

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

Large accelerated filer	o	Accelerated filer	o
Non-accelerated filer	o	Smaller reporting company	þ

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes o No þ

Indicate the number of shares outstanding of each of the issuer’s classes of common stock as of the latest practicable date.

6,372,309 shares of common stock, par value $0.001 per share, are outstanding at September 10, 2013.

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ITEM 1. FINANCIAL STATEMENTS

COFFEE HOLDING CO., INC.

CONDENSED CONSOLIDATED BALANCE SHEETS
JULY 31, 2013 AND OCTOBER 31, 2012
(Unaudited)

	July 31, 2013	October 31, 2012
- ASSETS -		
CURRENT ASSETS:		
Cash	$3,483,229	$7,568,583
Accounts receivable, net of allowances of $213,674 for 2013 and 2012	12,255,619	12,633,128
Inventories	9,659,829	11,303,581
Prepaid green coffee	428,231	150,000
Prepaid expenses and other current assets	404,495	704,013
Prepaid and refundable income taxes	1,923,560	62,763
Deferred income tax asset	513,875	702,655
TOTAL CURRENT ASSETS	28,668,838	33,124,723
Machinery and equipment, at cost, net of accumulated depreciation of $2,981,415 and $2,631,468 for 2013 and 2012, respectively	2,030,688	1,791,754
Customer list and relationships, net of accumulated amortization of $24,375 and $18,750 for 2013 and 2012, respectively	125,625	131,250
Trademarks	180,000	180,000
Goodwill	440,000	440,000
Equity method investments	98,755	1,931,931
Deposits and other assets	623,271	648,094
TOTAL ASSETS	$32,167,177	$38,247,752
- LIABILITIES AND STOCKHOLDERS' EQUITY -		
CURRENT LIABILITIES:		
Accounts payable and accrued expenses	$5,055,539	$11,769,107
Line of credit	3,300,000	562,500
Due to broker	1,050,197	1,367,389
Income taxes payable	-	21,122
TOTAL CURRENT LIABILITIES	9,405,736	13,720,118
Deferred income tax liabilities	72,875	32,655
Deferred rent payable	178,703	166,668
Deferred compensation payable	515,485	528,687
TOTAL LIABILITIES	10,172,799	14,448,128
STOCKHOLDERS' EQUITY:		
Coffee Holding Co., Inc. stockholders' equity:		
Preferred stock, par value $.001 per share; 10,000,000 shares authorized; no shares issued and outstanding	-	-
Common stock, par value $.001 per share; 30,000,000 shares authorized, 6,456,316 shares issued; 6,372,309 shares outstanding for 2013 and 2012	6,456	6,456
Additional paid-in capital	15,904,109	15,904,109

Retained earnings	6,024,982	7,979,247
Less: Treasury stock, 84,007 common shares, at cost for 2013 and 2012	(272,133)	(272,133)
Total Coffee Holding Co., Inc. Stockholders' Equity	21,663,414	23,617,679
Non-controlling interest	330,964	181,945
TOTAL EQUITY	21,994,378	23,799,624
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$32,167,177	$38,247,752

See Notes to Condensed Consolidated Financial Statements.

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COFFEE HOLDING CO., INC.

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)

	Nine Months Ended July 31, 2013	2012	Three Months Ended July 31, 2013	2012
NET SALES	$ 100,375,542	$ 138,171,695	$ 32,370,692	$ 44,484,453
COST OF SALES (including $24.7 and $23.4 million of related party costs for the nine months ended July 31, 2013 and 2012, respectively. Including $6.3 and $5.9 million for the three months ended July 31, 2013 and 2012, respectively.)	96,463,019	128,472,249	33,526,657	40,606,840
GROSS PROFIT (LOSS)	3,912,523	9,699,446	(1,155,965)	3,877,613
OPERATING EXPENSES:				
Selling and administrative	5,233,157	5,149,653	1,713,051	1,717,472
Officers' salaries	440,992	429,458	169,954	141,200
TOTALS	5,674,149	5,579,111	1,883,005	1,858,672
(LOSS) INCOME FROM OPERATIONS	(1,761,626)	4,120,335	(3,038,970)	2,018,941
OTHER INCOME (EXPENSE)				
Interest income	30,176	27,909	12,370	9,268
(Loss) income from equity investment	(105,204)	(27,471)	(158)	3,627
Interest expense	(71,320)	(153,294)	(10,542)	(46,762)
TOTALS	(146,348)	(152,856)	1,670	(33,867)
(LOSS) INCOME BEFORE INCOME TAXES AND NON-CONTROLLING INTEREST IN SUBSIDIARIES	(1,907,974)	3,967,479	(3,037,300)	1,985,074
(Benefit) provision for income taxes	(490,108)	1,460,792	(997,618)	729,979
Net (Loss) Income Before Non-Controlling Interest in Subsidiary	(1,417,866)	2,506,687	(2,039,682)	1,255,095
Less: net income attributable to the non-controlling interest	(149,020)	(67,394)	(69,229)	(23,899)
NET (LOSS) INCOME ATTRIBUTABLE TO COFFEE HOLDING CO., INC.	$ (1,566,886)	$ 2,439,293	$ (2,108,911)	$ 1,231,196
Basic earnings per share	$ (.25)	$ .38	$ (.33)	$ .19

Diluted earnings per share	$ (.25)	$ .37	$ (.33)	$ .19
Dividends declared per share	$ .06	$ .09	$ .00	$ .03
Weighted average common shares outstanding:				
Basic	6,372,309	6,372,309	6,372,309	6,372,309
Diluted	6,672,309	6,639,309	6,372,309	6,639,309

See Notes to Condensed Consolidated Financial Statements.

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COFFEE HOLDING CO., INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
NINE MONTHS ENDED JULY 31, 2013 AND 2012
(Unaudited)

	2013	2012
OPERATING ACTIVITIES:		
Net income (loss)	$(1,417,866)	$2,506,687
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Depreciation and amortization	355,570	332,630
Unrealized gain on commodities	(317,192)	(1,701,257)
Loss on equity method investments	105,204	27,471
Deferred rent	12,035	14,811
Deferred income taxes	229,000	628,000
Changes in operating assets and liabilities:		
Accounts receivable	377,509	2,433,607
Inventories	2,147,252	2,277,100
Prepaid expenses and other current assets	299,518	86,813
Prepaid green coffee	(278,231)	187,454
Prepaid and refundable income taxes	(1,860,797)	175,939
Accounts payable and accrued expenses	(5,721,168)	(6,216,243)
Deposits and other assets	11,621	14,619
Income taxes payable	(21,122)	142
Net cash (used in) provided by operating activities	(6,078,667)	767,773
INVESTING ACTIVITIES:		
Purchase of equity method investments	-	(2,100,000)
Proceeds from disposition of equity method investment	232,069	-
Purchases of machinery and equipment	(588,879)	(517,033)
Net cash used in investing activities	(356,810)	(2,617,033)
FINANCING ACTIVITIES:		
Advances under bank line of credit	6,788,920	129,236,460
Principal payments under bank line of credit	(4,051,420)	(129,677,124)
Payment of dividend	(387,377)	(581,067)
Net cash provided by (used in) financing activities	2,350,123	(1,021,731)
NET DECREASE IN CASH	(4,085,354)	(2,870,991)
CASH, BEGINNING OF PERIOD	7,568,583	4,244,335
CASH, END OF PERIOD	$3,483,229	$1,373,344
SUPPLEMENTAL DISCLOSURE OF CASH FLOW DATA:		
Interest paid	$73,261	$168,428
Income taxes paid	$803,490	$570,160

See Notes to Condensed Consolidated Financial Statements.

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COFFEE HOLDING CO., INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
NINE MONTHS ENDED JULY 31, 2013 AND 2012
(Unaudited)

Schedule of noncash investing and financing activities:

Proceeds from disposition of equity method investment:

	2013	2012
Inventory received	$503,500	$-
Settlement of accounts payable	992,402	-
Total noncash proceeds	$1,495,902	$-

See Notes to Condensed Consolidated Financial Statements.

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COFFEE HOLDING CO., INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
JULY 31, 2013 AND 2012
(UNAUDITED)

NOTE 1 - BUSINESS ACTIVITIES:

Coffee Holding Co., Inc. (the “Company”) conducts wholesale coffee operations, including manufacturing, roasting, packaging, marketing and distributing roasted and blended coffees for private labeled accounts and its own brands, and it sells green coffee. The Company’s core product, coffee, can be summarized and divided into three product categories (“product lines”) as follows:

Wholesale Green Coffee: unroasted raw beans imported from around the world and sold to large and small roasters and coffee shop operators;

Private Label Coffee: coffee roasted, blended, packaged and sold under the specifications and names of others, including supermarkets that want to have their own brand name on coffee to compete with national brands; and

Branded Coffee: coffee roasted and blended to the Company’s own specifications and packaged and sold under the Company’s seven proprietary and licensed brand names in different segments of the market.

The Company’s private label and branded coffee sales are primarily to customers that are located throughout the United States with limited sales in Canada and the Far East. Such customers include supermarkets, wholesalers, and individually-owned and multi-unit retailers. The Company’s unprocessed green coffee, which includes over 90 specialty coffee offerings, is sold primarily to specialty gourmet roasters and to coffee shop operators in the United States with limited sales in Australia, Canada, England and China.

The Company’s wholesale green, private label, and branded coffee product categories generate revenues and cost of sales individually but incur selling, general and administrative expenses in the aggregate. There are no individual product managers and discrete financial information is not available for any of the product lines. The Company’s product portfolio is used in one business and it operates and competes in one business activity and economic environment. In addition, the three product lines share customers, manufacturing resources, sales channels, and marketing support. Thus, the Company considers the three product lines to be one single reporting segment.

On April 26, 2012, the Company entered into a stock purchase agreement with Healthwise Gourmet Coffees, LLC (“HGC”) to purchase an additional 10% interest in HGC. HGC is a coffee distributor specializing in a TechnoRoasting process that results in a coffee with lower acidity levels. The Company invested $100,000 for the additional 10% interest. Previously, the Company was awarded a 10% interest in HGC in return for setting up the production process in Colorado as well as other technical support.

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COFFEE HOLDING CO., INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 1 - BUSINESS ACTIVITIES (cont'd):

On November 30, 2011, the Company entered into a stock purchase agreement with Global Mark LLC, Peter Schmalfeld and Lawrence Elsie to purchase a 40% interest in Global Mark LLC ("GM"). The terms of the agreement provided for the Company to pay up to an aggregate of $2,000,000 in cash to fund operations and for GM to provide to the Company a preferred pricing arrangement for the supply of instant coffee. On December 10, 2012, the Company entered into an agreement with GM and other members of GM, whereby the Company withdrew as a member of GM. As a result of GM's inability to successfully develop a significant customer base (other than the Company) and the Company's evaluation of the long term prospects of the GM relationship, the Company determined that it was in the best interests of the parties to terminate the relationship. In connection with withdrawing from GM, the Company was to receive assets comprised of cash, receivables and inventory equal to approximately $1.8 million. Subsequent to the end of the first quarter of 2013, the Company received the final accounting of the GM business. The amount of cash received was approximately $104,000 less than originally expected, resulting in the final write down that was recognized as of January 31, 2013.

On May 17, 2010, the Company entered into an asset purchase agreement with Organic Products Trading Company, Inc. to purchase certain assets. The Company formed a wholly-owned subsidiary Coffee Holding Acquisition Company, LLC to purchase the assets. Subsequent to closing, the Company changed the name of the subsidiary to Organic Products Trading Company, LLC ("OPTCO"). The financial statements of OPTCO are consolidated with those of the Company.

On April 7, 2006, the Company entered into a joint venture with Caruso's Coffee, Inc. and formed Generations Coffee Company, LLC ("GCC"). The Company now owns a 60% equity interest in GCC. GCC operates the facility located in Brecksville, Ohio and is in the same general business as the Company. The Company also exercises control of GCC. As a result of its 60% equity interest and control of GCC, the financial statements of GCC are consolidated with those of the Company.

NOTE 2 - BASIS OF PRESENTATION:

The following (a) condensed consolidated balance sheet as of October 31, 2012, which has been derived from audited financial statements, and (b) the unaudited interim condensed financial statements have been prepared by the Company pursuant to the rules and regulations of the Securities and Exchange Commission (the "SEC"). Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles ("U.S. GAAP") have been condensed or omitted pursuant to those rules and regulations, although the Company believes that the disclosures made are adequate to make the information not misleading. It is suggested that these condensed consolidated financial statements be read in conjunction with the consolidated financial statements and the notes thereto included in the Company's latest shareholders' Annual Report on Form 10-K filed with the SEC on January 30, 2013 for the fiscal year ended October 31, 2012 ("Form 10-K").

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 2 - BASIS OF PRESENTATION (cont'd):

In the opinion of management, all adjustments (which include normal and recurring nature adjustments) necessary to present a fair statement of the Company's financial position as of July 31, 2013, and results of operations for the three and nine months ended July 31, 2013 and 2012 and the cash flows for the nine months ended July 31, 2013 and 2012, as applicable, have been made.

The results of operations for the three and nine months ended July 31, 2013 and 2012 are not necessarily indicative of the operating results for the full fiscal year or any future periods.

The condensed consolidated financial statements include the accounts of the Company, OPTCO and GCC. All significant inter-company transactions and balances have been eliminated in consolidation.

NOTE 3 - RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS AFFECTING THE COMPANY:

During the first quarter, the Financial Accounting Standards Board has issued Accounting Standards Update (ASU) No. 2011-11, Balance Sheet (Topic 210): Disclosures about Offsetting Assets and Liabilities. Upon adoption an entity is required to disclose information about offsetting and related arrangements to enable users of its financial statements to understand the effect of those arrangements on its financial position. The amendments in this guidance became effective for the Company for the first annual reporting period beginning on or after January 1, 2013, and interim periods within those annual periods. Management is still evaluating the effects of adoption of this Accounting Standards Update.

The FASB has issued Accounting Standards Update (ASU) No. 2012-02, Intangibles--Goodwill and Other (Topic 350): Testing Indefinite-Lived Intangible Assets for Impairment. This ASU states that an entity has the option first to assess qualitative factors to determine whether the existence of events and circumstances indicates that it is more likely than not that the indefinite-lived intangible asset is impaired. If, after assessing the totality of events and circumstances, an entity concludes that it is not more likely than not that the indefinite-lived intangible asset is impaired, then the entity is not required to take further action. However, if an entity concludes otherwise, then it is required to determine the fair value of the indefinite-lived intangible asset and perform the quantitative impairment test by comparing the fair value with the carrying amount in accordance with Codification Subtopic 350-30, Intangibles--Goodwill and Other, General Intangibles Other than Goodwill.

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NOTE 3 - RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS AFFECTING THE COMPANY (cont’d):

Under the guidance in this ASU, an entity also has the option to bypass the qualitative assessment for any indefinite-lived intangible asset in any period and proceed directly to performing the quantitative impairment test. An entity will be able to resume performing the qualitative assessment in any subsequent period. The amendments in this ASU became effective for annual and interim impairment tests performed for fiscal years beginning after September 15, 2012. Early adoption is permitted, including for annual and interim impairment tests performed as of a date before July 27, 2012, if a public entity’s financial statements for the most recent annual or interim period have not yet been issued or, for nonpublic entities, have not yet been made available for issuance. The Company has determined that the adoption of the ASU has not had a material effect on the Company.

In January 2013, the Financial Accounting and Standards Board (FASB) issued Accounting Standards Update (“ASU”) ASU 2013-01, Balance Sheet (Topic 210): Clarifying the Scope of Disclosure about Offsetting Assets and Liabilities. The ASU clarifies disclosures required for derivatives accounted for in accordance with Topic 815, Derivatives and Hedging, including bifurcated embedded derivatives, repurchase agreements, and securities borrowing and lending transactions that are either offset in accordance with Section 310-20-45 or Section 815-10-46 or subject to an enforceable master netting arrangement or similar agreement. The ASU became effective for annual and interim periods beginning after January 1, 2013. The Company adopted this guidance in 2013 without material impact on its financial position, results of operations or cash flows.

NOTE 4 - PREPAID GREEN COFFEE:

The balance represents advance payments made by OPTCO to several coffee growing cooperatives for the purchase of green coffee. Interest is charged to the cooperatives for these advances. Interest earned was $12,370 and $6,238 for the three months ended July 2013 and July 2012, respectively. Interest earned was $22,596 and $19,423 for the nine months ended July 2013 and 2012, respectively. The prepaid coffee balance was $428,231 at July 31, 2013 and $150,000 at October 31, 2012.

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NOTE 5 - ACCOUNTS RECEIVABLE:

Trade accounts receivable are stated at the amount the Company expects to collect. The Company maintains allowances for doubtful accounts for estimated losses resulting from the inability of its customers to make required payments. Management considers the following factors when determining the collectibility of specific customer accounts: customer credit-worthiness, past transaction history with the customer, current economic industry trends, and changes in customer payment terms. Past due balances over 60 days and other higher risk amounts are reviewed individually for collectibility. If the financial condition of the Company's customers were to deteriorate, adversely affecting their ability to make payments, additional allowances would be required. Based on management's assessment, the Company provides for estimated uncollectible amounts through a charge to earnings and a credit to a valuation allowance. Balances that remain outstanding after the Company has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable.

The reserve for sales discounts represents the estimated discount that customers will take upon payment. The reserve for other allowances represents the estimated amount of returns, slotting fees and volume based discounts estimated to be incurred by the Company from its customers. The allowances are summarized as follows:

	July 31, 2013	October 31, 2012
Allowance for doubtful accounts	$ 126,674	$ 126,674
Reserve for other allowances	47,000	47,000
Reserve for sales discounts	40,000	40,000
Totals	$ 213,674	$ 213,674

NOTE 6 - INVENTORIES:

Inventories at July 31, 2013 and October 31, 2012 consisted of the following:

	July 31, 2013	October 31, 2012
Packed coffee	$ 1,810,032	$ 1,753,314
Green coffee	7,136,839	8,989,763
Packaging supplies	712,958	560,504
Totals	$ 9,659,829	$ 11,303,581

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 7 - COMMODITIES HELD BY BROKER:

The commodities held at the broker represent the market value of the Company's trading account, which consists of options and future contracts for coffee held with a brokerage firm. The Company uses options and futures contracts, which are not designated or qualifying as hedging instruments, to partially hedge the effects of fluctuations in the price of green coffee beans. Options and futures contracts are recognized at fair value in the condensed consolidated financial statements with current recognition of gains and losses on such positions. The Company's accounting for options and futures contracts may increase earnings volatility in any particular period.

The Company has open position contracts held by the broker, which are summarized as follows:

	July 31, 2013	October 31, 2012
Option Contracts	(27,456)	253,369
Future Contracts	(1,022,741)	(1,620,758)
Total Commodities	(1,050,197)	(1,367,389)

The Company classifies its options and future contracts as trading securities and accordingly, unrealized holding gains and losses are included in earnings and not reflected as a net amount as a separate component of stockholders' equity.

At July 31, 2013, the Company held 136 futures contracts for the purchase of 5,100,000 pounds of green coffee at a weighted average price of $1.2359 per pound. The fair market value of coffee applicable to such contracts was $1.1860 per pound at that date. At July 31, 2013, the Company also held 75 options covering an aggregate of 2,812,500 pounds of green coffee beans at $1.275 per pound. The fair market value of these options, which was obtained from observable market data of similar instruments was $256,219.

At October 31, 2012, the Company held 319 futures contracts for the purchase of green coffee at a weighted average price of $1.66 and $1.86 per pound. The fair market value of coffee applicable to such contracts was $1.55 to $1.65 per pound at that date.

The Company recorded realized and unrealized gains and losses respectively, on these contracts as follows:

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COFFEE HOLDING CO., INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
JULY 31, 2013 AND 2012
(UNAUDITED)

NOTE 7 - COMMODITIES HELD BY BROKER (cont'd):

	Three Months Ended July 31, 2013	2012
Gross realized gains	$ 630,564	$ 2,698,809
Gross realized losses	(4,482,121)	(2,576,080)
Unrealized gains	286,637	404,643
Total	$ (3,564,920)	$ 527,372

	Nine Months Ended July 31, 2013	2012
Gross realized gains	$ 1,782,571	$ 3,187,914
Gross realized losses	(6,987,735)	(4,774,068)
Unrealized gains	317,192	1,701,257
Total	$ (4,887,972)	$ 115,103

NOTE 8 - LINE OF CREDIT:

On February 17, 2009, the Company entered into a financing agreement with Sterling National Bank ("Sterling") for a $5,000,000 credit facility. The credit facility is a revolving $5,000,000 line of credit and the Company can draw on the line at an amount up to 85% of eligible accounts receivable and 25% of eligible inventory consisting of green coffee beans and finished coffee not to exceed $1,000,000. Sterling shall have the right from time to time to adjust the foregoing percentages based upon, among other things, dilution, its sole determination of the value or likelihood of collection of eligible accounts receivables owed to the Company, and considerations regarding inventory. The credit facility is payable monthly in arrears on the average unpaid balance of the line of credit at an interest rate equal to a per annum reference rate (4.25% at July 31, 2013 and October 31, 2012).

On July 22, 2010, the credit facility was increased to $7,000,000. In addition, OPTCO was added as a co-borrower and the inventory sublimit was raised from $1,000,000 to $2,000,000. Subsequent to July 31, 2010, $1,800,000 of the credit facility was allocated to OPTCO.

The initial term of the credit facility was for three years and expired on February 17, 2012. The initial terms of the credit facility provided that the credit facility may be automatically extended for successive periods of one year each unless one party shall have provided the other party with a written notice of termination at least ninety days prior to the expiration of the then current term. Prior to the expiration of the initial term, and effective as of February 12, 2012, the term was extended until February 17, 2014 and the interest rate was reduced to the Wall Street Journal Prime rate (which is currently 3.25%) plus one percent (1%). The credit facility is secured by all tangible and intangible assets of the Company.

The credit facility contains covenants that place annual restrictions on the Company's operations, including covenants relating to debt restrictions, capital expenditures, minimum deposit restrictions, tangible net worth, net profit, leverage, employee loan restrictions, distribution restrictions (common stock and preferred stock), dividend restrictions, and restrictions on intercompany transactions. The credit facility also requires that the Company maintain a minimum working capital at all times. The Company was in compliance with all required financial covenants at July

31, 2013 and October 31, 2012.

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COFFEE HOLDING CO., INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 8 - LINE OF CREDIT (cont'd):

On February 3, 2011, the Company amended their credit facility regarding the creation of a sublimit within the revolving line of credit in the form of a $300,000 term loan for the benefit of GCC. The Company provided a corporate guarantee to Sterling in connection with the amendment.

The Company previously was a party to a Guarantee Agreement with CORDAID, a non-profit organization that supports development projects in developing countries, registered under the laws of the Netherlands, in which it had agreed to make available $1,800,000 (which was subsequently reduced to $1,500,000) to be used as collateral for a loan facility from Sterling to the Company under a Guarantee Agreement. The Guarantee Agreement expired on March 31, 2012 and the parties did not renew this agreement.

Triodos Bank is one of the world's leading sustainable banks, with a mission to make money work for positive social, environmental and cultural change. Triodos has offices in the Netherlands, Germany, Spain, UK and Belgium. The Company initiated a corporate guarantee on April 15, 2011 to Triodos Sustainable Trade Fund ("TSTF") up to a maximum amount of $250,000. TSTF provided financing to two coffee growing cooperatives for $1,000,000 based upon relationships established with OPTCO. As of January 28, 2013 the agreement between TSTF and the cooperatives had been fulfilled and the guarantee was released.

As of July 31, 2013 and October 31, 2012, the outstanding balance under the bank line of credit was $3,300,000 and $562,500, respectively.

NOTE 9 - INCOME TAXES:

The Company accounts for income taxes pursuant to the asset and liability method which requires deferred income tax assets and liabilities to be computed for temporary differences between the financial statement and tax basis of assets and liabilities that will result in taxable or deductible amounts in the future based on enacted tax laws and rates applicable to the periods in which the differences are expected to affect taxable income. Valuation allowances are established when necessary to reduce deferred tax assets to the amount expected to be realized. The income tax provision or benefit is the tax incurred for the period plus or minus the change during the period in deferred tax assets and liabilities.

The Company adopted FASB authoritative guidance for accounting for uncertainty in income taxes. As of July 31, 2013 and October 31, 2012, the Company did not have any unrecognized tax benefits or open tax positions. The Company's practice is to recognize interest and/or penalties related to income tax matters in income tax expense. As of July 31, 2013 and October 31, 2012, the Company had no accrued interest or penalties related to income taxes. The Company currently has no federal or state tax examinations in progress.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 9 - INCOME TAXES (cont'd):

The Company incurred a tax loss of approximately $2,451,000 as of July 31, 2013. Subject to certain provisions and limitations contained in the tax code, the Company intends to carry the loss back to recapture taxes paid in previous years. The Company estimates that the refund will approximate $833,000. This amount has been included in prepaid and refundable income taxes.

The Company files a U.S. federal income tax return and California, Colorado, New Jersey, New York, Kansas, Oregon, South Carolina and Texas state tax returns. The Company's federal income tax return is no longer subject to examination by the federal taxing authority for the years before fiscal 2008. The Company's California, Colorado and New Jersey income tax returns are no longer subject to examination by their respective taxing authorities for the years before fiscal 2007. The Company's Oregon and New York income tax returns are no longer subject to examination by their respective taxing authorities for the years before fiscal 2008.

NOTE 10 - EARNINGS PER SHARE:

The Company presents "basic" and "diluted" earnings per common share pursuant to the provisions included in the authoritative guidance issued by FASB, "Earnings per Share," and certain other financial accounting pronouncements. Basic earnings per common share were computed by dividing net income by the sum of the weighted-average number of common shares outstanding. Diluted earnings per common share is computed by dividing the net income by the weighted-average number of common shares outstanding plus the dilutive effect of common shares issuable upon exercise of potential sources of dilution.

The weighted average common shares outstanding used in the computation of basic earnings per share were 6,372,309 for the three and nine months ended July 31, 2013 and 2012. The weighted average common shares outstanding used in the computation of diluted earnings per share were 6,372,309 for the nine months and three months ended July 31, 2013 and 6,639,309 for the nine and three months ended July 31, 2012. The 267,000 shares that could be exercised pursuant to the warrant agreement attached to the units issued in September 2011 have not been included in the diluted earnings per share calculation because of their anti-dilutive impact.

NOTE 11 - ECONOMIC DEPENDENCY:

Approximately 59% of the Company's sales were derived from one customer during the nine months ended July 31, 2013. This customer also accounted for approximately $7,086,000 of the Company's accounts receivable balance at July 31, 2013. Approximately 63% of the Company's sales were derived from one customer during the nine months ended July 31, 2012. This customer also accounted for approximately $6,886,000 of the Company's accounts receivable balance at July 31, 2012. Concentration of credit risk with respect to other trade receivables is

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NOTE 11 - ECONOMIC DEPENDENCY (cont'd):

limited due to the short payment terms generally extended by the Company, by ongoing credit evaluations of customers, and by maintaining an allowance for doubtful accounts that management believes will adequately provide for credit losses.

For the nine months ended July 31, 2013, approximately 67% of the Company's purchases were from four vendors. These vendors accounted for approximately $2,773,000 of the Company's accounts payable at July 31, 2013. For the nine months ended July 31, 2012, approximately 62% of the Company's purchases were from four vendors. These vendors accounted for approximately $3,057,000 of the Company's accounts payable at July 31, 2012. Management does not believe the loss of any one vendor would have a material adverse effect of the Company's operations due to the availability of many alternate suppliers.

Approximately 62% of the Company's sales were derived from one customer during the three months ended July 31, 2013. Approximately 63% of the Company's sales were derived from one customer during the three months ended July 31, 2012.

For the three months ended July 31, 2013, approximately 72% of the Company's purchases were from four vendors. For the three months ended July 31, 2012, approximately 65% of the Company's purchases were from three vendors. Management does not believe the loss of any one vendor would have a material adverse effect on the Company's operations due to the availability of many alternate suppliers.

NOTE 12 - RELATED PARTY TRANSACTIONS:

The Company has engaged its 40% partner in GCC as an outside contractor (the "Partner"). Included in contract labor expense are expenses incurred from the Partner during the three and nine months ended July 31, 2013 of $133,970 and $365,364, respectively, for the processing of finished goods.

An employee of one of the top four vendors is a director of the Company. Purchases from that vendor totaled approximately $24,700,000 and $6,300,000 for the nine and three months ended July 31, 2013 and $23,400,000 and $5,900,000 for the nine and three months ended July 31, 2012. The corresponding accounts payable balance to this vendor was approximately $1,173,000 and $1,540,000 at July 31, 2013 and 2012, respectively.

In January 2005, the Company established the "Coffee Holding Co., Inc. Non-Qualified Deferred Compensation Plan." Currently, there is only one participant in the plan: Andrew Gordon, the Company's Chief Executive Officer. Within the plan guidelines, this employee is deferring a portion of his current salary and bonus. The assets are held in a separate trust. The deferred compensation payable represents the liability due to an officer of the Company. The assets are included in the Deposits and other assets in the accompanying balance sheets. The deferred compensation asset and liability at July 31, 2013 and October 31, 2012 were $515,485 and $528,687, respectively.

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NOTE 13 - STOCKHOLDERS' EQUITY:

a. Treasury Stock. The Company utilizes the cost method of accounting for treasury stock. The cost of reissued shares is determined under the last-in, first-out method. The Company did not purchase any shares during the three and six months ended April 30, 2013 and 2012.

b. Dividends: On December 27, 2012, the Company paid a cash dividend of $387,379 ($0.06 per share) to all stockholders of record as of December 15, 2012. On January 20, 2012 and April 30, 2012, the Company paid a cash dividend of $193,689 ($0.03 per share) to all stockholders of record as of January 16, 2012 and April 16, 2012. On June 13, 2013, the Company announced that the Board elected to terminate the dividend program.

NOTE 14 - FAIR VALUE MEASUREMENTS:

The Company adopted the authoritative guidance on "Fair Value Measurements." The guidance defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, not adjusted for transaction costs. The guidance also establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value into three broad levels giving the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3) as described below:

Level 1 Inputs – Unadjusted quoted prices in active markets for identical assets or liabilities that are accessible by the Company;

Level 2 Inputs – Quoted prices in markets that are not active or financial instruments for which all significant inputs are observable, either directly or indirectly;

Level 3 Inputs – Unobservable inputs for the asset or liability including significant assumptions of the Company and other market participants.

The Company determines fair values for its investment assets as follows:

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NOTE 14 - FAIR VALUE MEASUREMENTS (cont'd):

Investments at fair value consist of commodity securities and deferred compensation plan assets.

The Company maintains a deferred compensation plan. The fair value of the plan assets are classified within Level 1 as the assets are valued using quoted prices in active markets. The assets are included with Deposits and other assets in the accompanying balance sheets. Additional information related to the Company's deferred compensation plan is disclosed in Note 12 to the condensed consolidated financial statements.

The Company's commodity securities are classified within Level 2 and include coffee futures and options contracts. To determine fair value, the Company utilizes the market approach valuation technique for the coffee futures and options contracts. The Company uses Level 2 inputs that are based on market data of similar instruments that are in observable markets. All commodities on the balance sheet are recorded at fair value with changes in fair value included in earnings.

The following tables present the Company's assets that are measured at fair value on a recurring basis and are categorized using the fair value hierarchy. The fair value hierarchy has three levels based on the reliability of the inputs used to determine fair value.

		Fair Value Measurements as of July 31, 2013		
	Total	Level 1	Level 2	Level 3
Assets:				
Money market	$ 515,485	$ 515,485	–	–
Commodities Options	–	–	–	–
Total Assets	$ 515,485	$ 515,458	–	–
Liabilities:				
Commodities Options	$ (27,456)		$ (27,456)	
Commodities Futures	(1,022,741)	–	(1,022,741)	–
Total Liabilities	$ (1,050,197)	–	$ (1,050,197)	–

		Fair Value Measurements as of October 31, 2012		
	Total	Level 1	Level 2	Level 3
Assets:				
Money market	$ 334,221	$ 334,221	–	–
Equities	194,466	194,466	–	–
Commodities Options	253,369	–	253,369	–
Total Assets	$ 782,056	$ 528,687	253,369	–
Liabilities:				
Commodities Futures	(1,620,758)	–	(1,620,758)	–
Total Liabilities	$ (1,620,758)	–	$ (1,620,758)	–

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NOTE 15 - SUBSEQUENT EVENTS:

The Company evaluates events that have occurred after the balance sheet date but before the financial statements are issued. Based upon the evaluation, the Company did not identify any recognized or non-recognized subsequent events that would have required further adjustment or disclosure in the condensed consolidated financial statements.

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Cautionary Note on Forward-Looking Statements

Some of the matters discussed under the caption "Management's Discussion and Analysis of Financial Condition and Results of Operations" and elsewhere in this quarterly report include forward-looking statements made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. We have based these forward-looking statements upon information available to management as of the date of this Form 10-Q and management's expectations and projections about future events, including, among other things:

our dependency on a single commodity could affect our revenues and profitability;

our success in expanding our market presence in new geographic regions;

the effectiveness of our hedging policy may impact our profitability;

the success of our joint ventures;

our success in implementing our business strategy or introducing new products;

our ability to attract and retain customers;

our ability to retain key personnel;

our ability to obtain additional financing;

our ability to comply with the restrictive covenants we are subject to under our current financing;

the effects of competition from other coffee manufacturers and other beverage alternatives;

the impact to the operations of our Colorado facility;

general economic conditions and conditions which affect the market for coffee;

the macro global economic environment;

our ability to maintain and develop our brand recognition;

the impact of rapid or persistent fluctuations in the price of coffee beans;

fluctuations in the supply of coffee beans;

the volatility of our common stock; and

other risks which we identify in future filings with the SEC.

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In some cases, you can identify forward-looking statements by terminology such as “may,” “will,” “should,” “could,” “predict, “potential,” “continue,” “expect,” “anticipate,” “future,” “intend,” “plan,” “believe,” “estimate” and similar expressions (or the such expressions). Any or all of our forward-looking statements in this quarterly report and in any other public statements we make may turn out to be wrong. They can be affected by inaccurate assumptions we might make or by known or unknown risks and uncertainties. Consequently, no forward-looking statement can be guaranteed. In addition, we undertake no responsibility to update any forward-looking statement to reflect events or circumstances that occur after the date of this quarterly report.

Overview

We are an integrated wholesale coffee roaster and dealer in the United States and one of the few coffee companies that offers a broad array of coffee products across the entire spectrum of consumer tastes, preferences and price points. As a result, we believe that we are well-positioned to increase our profitability and endure potential coffee price volatility throughout varying cycles of the coffee market and economic conditions.

Our operations have primarily focused on the following areas of the coffee industry:

the sale of wholesale specialty green coffee;

the roasting, blending, packaging and sale of private label coffee; and

the roasting, blending, packaging and sale of our seven brands of coffee.

Our operating results are affected by a number of factors including:

the level of marketing and pricing competition from existing or new competitors in the coffee industry;

our ability to retain existing customers and attract new customers;

our hedging policy;

fluctuations in purchase prices, the supply of green coffee and the selling prices of our products; and

our ability to manage inventory and operations and maintain gross margins.

Our net sales are driven primarily by the success of our sales and marketing efforts and our ability to retain existing customers and attract new customers. For this reason, we have made, and will continue to evaluate, strategic decisions to invest in measures that are expected to increase net sales. These transactions include our acquisitions of certain assets of Premier Roasters, LLC, which included equipment and a roasting facility in La Junta, Colorado, a West Coast Brand Manager to market our S&W brand and to increase sales of S&W coffee to new customers, our joint venture with Caruso’s Coffee, Inc. of Brecksville, Ohio the transaction with Organic Products and the addition of three sales persons from the Café Bustelo division of Folgers to assist with the expansion of our Café Caribe and Supremo brands. We believe these efforts will allow us to expand our business.

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Our net sales are affected by the price of green coffee. We purchase our green coffee from dealers located primarily within the United States. The dealers supply us with coffee beans from many countries, including Colombia, Mexico, Kenya, Indonesia, Brazil and Uganda. The supply and price of coffee beans are subject to volatility and are influenced by numerous factors which are beyond our control. For example, in Brazil, which produces approximately 40% of the world's green coffee, the coffee crops are historically susceptible to frost in June and July and drought in September, October and November. However, because we purchase coffee from a number of countries and are able to freely substitute one country's coffee for another in our products, price fluctuations in one country generally have not had a material impact on the price we pay for coffee. Accordingly, price fluctuations in one country generally have not had a material effect on our results of operations, liquidity and capital resources. Historically, because we generally have been able to pass green coffee price increases through to customers, increased prices of green coffee generally result in increased net sales.