COFFEE HOLDING CO INC
Form 10-K
January 27, 2017

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
Form 10-K
ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended October 31, 2016
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	11-2238111
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
3475 Victory Boulevard, Staten Island, New York	10314
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: (718) 832-0800
Securities registered under Section 12(b) of the Act:

Title of each class:	Name of each exchange on which registered:
Common Stock, Par Value $0.001 Per Share	NASDAQ Capital Market

Securities registered under Section 12(g) of the Exchange Act: None
Indicate by check mark if registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No
Indicate by check mark if registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No
Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No
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 shorter period that the registrant was required to submit and post such files). Yes No
Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (17 CFR 229.405) is not contained herein, and will not be contained in, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or 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. (Check one):
Large accelerated filer Non-accelerated filer Accelerated filer Smaller Reporting Company
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes No
The aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant, computed by reference to the closing price of the registrant's common stock on the NASDAQ Capital Market on April 30, 2016, was $20,042,945.
As of January 20, 2017, the registrant had 5,863,302 shares of common stock, par value $0.001 per share, outstanding.
Documents incorporated by reference

Portions of the registrant's proxy statement for the 2016 annual meeting of stockholders to be filed pursuant to Regulation 14A within 120 days after the registrant's fiscal year ended October 31, 2016, are incorporated by reference in Part III of this Form 10-K.

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PART I

ITEM 1.
BUSINESS

General Overview

Products and Operations. We are an integrated wholesale coffee roaster and dealer in the United States. Our core products can be divided into three categories:

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 our own specifications and packaged and sold under our eight proprietary and licensed brand names in different segments of the market.

Our private label and branded coffee products are sold throughout the United States, Canada and certain countries in Asia to supermarkets, wholesalers, and individually owned and multi-unit retail customers. Our unprocessed green coffee, which includes over 90 specialty coffee offerings, is sold to specialty gourmet roasters.

We conduct our operations in accordance with strict freshness and quality standards. All of our private label and branded coffees are produced from high quality coffee beans that are deep roasted for full flavor using a slow roasting process that has been perfected utilizing our more than thirty years of experience in the coffee industry. In order to ensure freshness, our products are delivered to our customers within 72 hours of roasting. We believe that our long history has enabled us to develop a loyal customer base.

In June of 2016, we acquired substantially all of the assets of Coffee Kinetics LLC (doing business as Sonofresco) through our wholly-owned subsidiary Sonofresco, LLC ("Sonofresco"), including equipment, inventory, customer lists, relationships and accounts payable. In addition to our wholesale green coffee, private label coffee and branded coffee product offerings, we currently sell tabletop coffee roasting equipment to our customers through Sonofresco.

We were incorporated on October 9, 1995 under the laws of the State of Nevada under the name Transpacific International Group Corp ("Transpacific"). On April 16, 1998, Transpacific completed a merger with Coffee Holding Co., Inc., a New York corporation. Upon the consummation of the merger, Coffee Holding Co., Inc. was merged into Transpacific and Transpacific changed its name to Coffee Holding Co., Inc.

Our corporate offices are located at 3475 Victory Boulevard, Staten Island, New York 10314. Our telephone number is (718) 832-0800 and our website address is www.coffeeholding.com. The information on our website is not incorporated by reference into this Annual Report on Form 10-K.

Our Competitive Strengths

To achieve our growth objectives described below, we intend to leverage the following competitive strengths:

Positioned to Profitably Grow Through Varying Cycles of the Coffee Market. We believe that we are one of the few coffee companies to offer a broad array of branded and private label roasted ground coffees and wholesale

green coffee across the spectrum of consumer tastes, preferences and price points. While many of our competitors engage in distinct segments of the coffee business, we sell products in each of the following areas:

Retail branded coffee;

Mainstream retail private label coffee;

Specialty retail coffees both private label and branded including organic and fair trade coffees;

Wholesale specialty green and gourmet whole bean coffees including organic and fair trade coffees;

Food service;

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Instant coffees;

Tea; and

Tabletop coffee roasting equipment.

Our branded and private label roasted ground coffees are sold at competitive and value price levels while some of our other branded and specialty coffees are sold predominantly at premium price levels. Premium price level coffee is high-quality gourmet coffee, such as AA Arabica coffee, which sell at a substantial premium over traditional retail canned coffee, while competitive and value price level coffee is mainstream or traditional canned coffee. Because of this diversification, we believe that our profitability is not dependent on any one area of the coffee industry and, therefore, is less sensitive than our competition to potential coffee commodity price and overall economic volatility.

Wholesale Green Coffee Market Presence. As a large roaster-dealer of green coffee, we believe that we are favorably positioned to increase our specialty coffee sales. Since 1998, we have increased the number of our wholesale green coffee customers, including coffee houses, single store operators, mall coffee stores and mail order sellers, by 425% from 150 to 787. We are a charter member of the Specialty Coffee Association of America and one of the largest distributors of Swiss Water Processed Decaffeinated Coffees along the east coast. Our over 40 years of experience as a roaster and a dealer of green coffee allows us to provide our roasting experience as a value added service to our gourmet roaster customers. The assistance we provide to our customers includes training, coffee blending and market identification. We believe that our relationships with wholesale green coffee customers and our focus on selling green coffee as a wholesaler has enabled us to participate in the growth of the specialty coffee market while mitigating the risks associated with the competitive retail specialty coffee environment.

Diverse Portfolio of Differentiated Branded Coffees. We have amassed a portfolio of six proprietary name brands sold to supermarkets, wholesalers and individually owned stores in the United States, including brands for specialty espresso, Latin espresso, Italian espresso, 100% Colombian coffee and blended coffee. In addition, we have entered into a licensing agreement with Del Monte Corporation for the exclusive right to use the S&W and IL CLASSICO trademarks in the United States and other countries approved by Del Monte Corporation in connection with the production, manufacture and sale of roasted whole bean and ground coffee for distribution to retail customers. Our existing portfolio of differentiated brands combined with our management expertise serve as a platform to add additional name brands through acquisition or licensing agreements which target product niches and segments that do not compete with our existing brands.

Management Has Extensive Experience in the Coffee Industry. We have been a family-operated business for three generations. Throughout this time, we have remained strong through varying cycles in the coffee industry and the economy. Andrew Gordon, our President, Chief Executive Officer, Chief Financial Officer and Treasurer, and David Gordon, our Executive Vice President – Operations, have worked with Coffee Holding for 34 and 36 years, respectively. David Gordon is an original member of the Specialty Coffee Association of America. We believe that our employees and management are dedicated to our vision and mission, which is to produce high quality products, as well as to provide quality and responsive service to our customers.

Our Growth Strategy

We believe that significant growth opportunities exist by selectively pursuing strategic acquisitions and alliances, targeting the rapidly growing Hispanic market in the United States, increasing penetration with existing customers by adding new products, and developing our food service business. By capitalizing on this strategy, we hope to continue to grow our business with our commitment to quality and personalized service to our customers. We do not intend to compete on price alone nor do we intend to expand sales at the expense of profitability.

Selectively Pursue Strategic Acquisitions and Alliances. We have expanded our operations by acquiring coffee companies, entering into strategic alliances and acquiring or licensing brands, which complement our business objectives and we intend to continue to seek such opportunities.

Grow Our Cafe Caribe and Cafe Supremo Products. We believe the Hispanic population in the United States is the fastest growing and now represents the largest minority demographic in the United States. We believe there is significant opportunity for our Café Caribe and Café Supremo brands to gain market share among Hispanic consumers in the United States. Café Caribe, which has historically been our leading brand by poundage, is a specialty espresso coffee that targets espresso coffee drinkers and, in particular, Hispanic consumers. Café Supremo is a specialty espresso coffee which is priced for the more price sensitive Hispanic espresso coffee drinker.

Further Market Penetration of Our Niche Products. We intend to capture additional market share through our existing distribution channels by selectively adding or introducing new brand names and products across multiple price points, including:

Specialty blends;

Teton tea;

Private label “value” blends;

Specialty instant coffees;

Sales of our tabletop coffee roasting equipment; and

Cold brew.

Develop Our Food Service Business. We plan to expand further into the food service business by developing new distribution channels for our products. Currently, we have a limited presence in the food service market. Food service coffee products tend to have a higher gross profit margin than our traditional supermarket product retail offerings. We have expanded our food service offerings to include instant cappuccinos, tea products and an equipment program for our customers. We attend various annual trade shows held by different buying groups, which provide us a national audience to market our food service products.

Expansion into China and Other Countries in Asia. During 2013, we (i) introduced our Don Manuel brand for sale in the Shanghai market through an exclusive licensing arrangement with the DTS8 Coffee Company, Ltd., (ii) commenced sales of green coffee into China and (iii) continued to build upon prior sales of our S&W coffee in certain countries in Asia. We intend to pursue opportunities to increase sales of our green coffee, private label coffee and branded coffee into certain countries in Asia.

Our Core Products

Our core products can be divided into three categories:

Wholesale Green Coffee: unroasted raw beans imported from around the world and sold to large, medium 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 our own specifications and packaged and sold under our eight proprietary and licensed brand names in different segments of the market.

Wholesale Green Coffee. The specialty coffee market represents the fastest growing area of our industry. The number of gourmet coffee houses have been increasing in all areas of the United States. The growth in specialty coffee sales has created a marketplace for higher quality and differentiated products, which can be priced at a premium in the marketplace. As a large roaster-dealer of green coffee, we are favorably positioned to increase our specialty coffee sales. We sell green coffee beans to small roasters and coffee shop operators located throughout the United States and carry over approximately 90 different varieties. Specialty green coffee beans are sold unroasted, direct from warehouses to small roasters and gourmet coffee shop operators, which then roast the beans themselves. We sell from as little as one bag (132 pounds) to a full truckload (44,000 pounds) of specialty green

coffee beans, depending on the size and need of the customer. We believe that we can increase sales of wholesale green coffee without an increase in infrastructure as well as without venturing into the highly competitive retail specialty coffee environment. We believe that by utilizing our current strategy we can be as profitable or more profitable than our competitors in this segment by selling “one bag at a time” rather than “one cup at a time.”

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Private Label Coffee. We roast, blend, package and sell coffee under private labels for companies throughout the United States and Canada. Our private label coffee is sold in cans, brick packages and instants in a variety of sizes. As of October 31, 2016, we supplied coffee under approximately 26 different labels to wholesalers and retailers. We produce private label coffee for customers who desire to sell coffee under their own name but do not want to engage in the manufacturing process. Our private label customers seek a quality similar to the national brands at a lower cost, which represents a better value for the consumer.

Branded Coffee. We roast and blend our branded coffee according to our own recipes and package the coffee at our facilities in La Junta, Colorado and Brecksville, Ohio. We then sell the packaged coffee under our brand labels to supermarkets, wholesalers and individually-owned stores throughout the United States.

We hold trademarks for each of our proprietary name brands and have the exclusive right to use the S&W, IL CLASSICO brand names in the United States in connection with the production, manufacture and sale of roasted whole bean and ground coffee for distribution at the retail level. For further information regarding our trademark rights, see “Business—Trademarks.”
Each of our name brands is directed at a particular segment of the coffee market. Our branded coffees are:

Cafe Caribe, a specialty espresso coffee that targets espresso coffee drinkers and, in particular, the Hispanic consumer market;

Don Manuel, is produced from the finest 100% Colombian coffee beans. Don Manuel is an upscale quality product which commands a substantial premium compared to the more traditional brown coffee blends. We also use this known trademark in our food service business because of the high brand quality;

S&W, an upscale canned coffee established in 1921 and includes Premium, Premium Decaf, French Roast, Colombian, Colombian Decaf, Swiss Water Decaf, Kona, Mellow’d Roast and IL CLASSICO lines;

Cafe Supremo, a specialty espresso that targets espresso drinkers of all backgrounds and tastes. It is designed to introduce coffee drinkers to the tastes of dark roasted coffee;

Via Roma, an Italian espresso targeted at the more traditional espresso drinker;

Il CLASSICO, an S&W brand espresso product; and

Premier Roasters, retail high end premium whole-bean canisters and food service packs.

Other Products

We also offer several niche products, including:

specialty instant coffees;

tea; and

trial-sized mini-brick coffee packages.

Raw Materials

Coffee is a commodity traded on the Commodities and Futures Exchange subject to price fluctuations. Over the past five years, the average price per pound of coffee beans ranged from approximately $1.03 to $3.05. The price for

coffee beans on the commodities market as of October 31, 2016 and 2015 was $1.64 and $1.21 per pound, respectively. Specialty green coffee, unlike most coffee, is not tied directly to the commodities cash markets. Instead, it tends to trade on a negotiated basis at a substantial premium over commodity coffee pricing, depending on the origin, supply and demand at the time of purchase. We are a licensed Fair Trade dealer for Fair Trade certified coffee. Fair Trade certified coffee helps small coffee farmers to increase their incomes and improve the prospects of their communities and families by guaranteeing farmers a minimum price of ten cents above the current market price. Our Ohio Facility operated by Generations Coffee Company, LLC ("GCC") is certified organic by the Organic Crop Improvement Association ("OCIA"). All of our specialty green coffees, as well as all of the other coffees we import for roasting, are subject to multiple levels of quality control.

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. For the fiscal years ended 2016 and 2015, approximately 43% and 64%, respectively, of all of our green coffee purchases were from five suppliers. One of these suppliers, Rothfos Corporation, accounted for approximately $8.5 million, or 13%, in 2016, and $22.1 million, or 21%, in 2015, of our total product purchases. An employee of Rothfos Corporation is one of our directors. We do not have any formalized, material agreements or long-term contracts with any of these suppliers. Rather, our purchases are typically made pursuant to individual purchase orders. We do not believe that the loss of any one supplier, including Rothfos, would have a material adverse effect on our operations due to the availability of alternate suppliers.

The supply and price of coffee beans are subject to volatility and are influenced by numerous factors which are beyond our control. Supply and price can be affected by factors such as weather, politics, currency fluctuations and economics within the countries that export coffee. Increases in the cost of coffee beans can, to a certain extent, be passed on to our customers in the form of higher prices for coffee beans and processed coffee. Drastic or prolonged increases in coffee prices may also adversely impact our business as it could lead to a decline in overall consumption of coffee. Similarly, rapid decreases in the cost of coffee beans may force us to lower our sale prices before realizing cost reductions in our purchases.

We subject all of our private unroasted green coffee to both a pre-shipment sample approval and an additional sample approval upon arrival into the United States. Once the arrival sample is approved, we then bring the coffee to one of our facilities to roast and blend according to our own strict specifications. During the roasting and blending process, samples are pulled off the production line and tested on an hourly basis to ensure that each batch roasted is consistent with the others and meets the strict quality standards demanded by our customers and us.

Our Use of Derivatives

The supply and price of coffee beans are subject to volatility and are influenced by numerous factors which are beyond our control. Historically, we have used, and intend to continue to use in a limited capacity, short-term coffee futures and options contracts primarily for the purpose of partially hedging the effects of changing green coffee prices and to reduce our costs of sales, as further explained in Note 2 of the Notes to the Condensed Consolidated Financial Statements in this Report. In addition, we acquired, and expect to continue to acquire, futures contracts with longer terms, generally three to four months, primarily for the purpose of guaranteeing an adequate supply of green coffee. Realized and unrealized gains or losses on options and futures contracts are reflected in our cost of sales. Gains on options and futures contracts reduce our cost of sales and losses on options and futures contracts increase our cost of sales. The use of these derivative financial instruments has generally enabled us to mitigate the effect of changing prices. We believe that, under normal market conditions, our hedging policies are a necessary component of our business model not only in controlling our cost of sales, but also giving us the flexibility to obtain the inventory necessary to continue to grow our sales while trying to minimize margin compression during a time of historically high coffee prices. However, no strategy can entirely eliminate pricing risks and we generally remain exposed to losses on futures contracts when prices decline significantly in a short period of time, and we would generally remain exposed to supply risk in the event of non-performance by the counterparties to any of our futures contracts. Although we have had net gains on options and futures contracts in the past, we incurred significant losses on options and futures contracts during past reporting periods in 2015. In those cases, our cost of sales increased, resulting in a decrease in our profitability or increase in our losses. Such losses have, and similar losses could in the future, materially increase our cost of sales and materially decrease our profitability and adversely affect our stock price. See “Item 1A – Risk Factors - If our hedging policy is not effective, we may not be able to control our coffee costs, we may be forced to pay greater than market value for green coffee and our profitability may be reduced.” Failure to properly design and implement an effective hedging strategy may materially adversely affect our business and operating results. If the hedges that we enter do not adequately offset the risks of coffee bean price volatility or our hedges result in losses, our cost of sales may increase, resulting in a decrease in profitability or increased

losses. As previously announced, as a result of the volatile nature of the commodities markets, we have scaled back our use of hedging and short-term trading of coffee futures and options contracts, and intend to continue to use these practices in a more limited capacity than we did previously. See “Quantitative and Qualitative Disclosures About Market Risk—Commodity Price Risks.”

Trademarks

We hold trademarks, registered with the United States Patent and Trademark Office, for all six of our proprietary coffee brands and an exclusive license for S&W, IL CLASSICO brands for sale in the United States. Trademark registrations are subject to periodic renewal and we anticipate maintaining our registrations. We believe that our brands are recognizable in the marketplace and that brand recognition is important to the success of our branded coffee business.

Customers

We sell our private label and our branded coffee to some of the largest retail and wholesale customers in the United States (according to Supermarket News). We sell wholesale green coffee to GMCR. Sales to GMCR accounted for approximately $22.6 million or 29% of our net sales for the fiscal year ended October 31, 2016, and $63.8 million or 54% for the fiscal year ended October 31, 2015.

Although our agreements with wholesale customers generally contain only pricing terms, our contracts with certain customers also contain minimum and maximum purchase obligations at fixed prices. Because our profits on a fixed-price contract could decline if coffee prices increased, we acquire futures contracts with longer terms (generally three to four months) primarily for the purpose of guaranteeing an adequate supply of green coffee at favorable prices. Although the use of these derivative financial instruments has generally enabled us to mitigate the effect of changing prices, no strategy can entirely eliminate pricing risks or increased losses and we generally remain exposed to losses on futures contacts when prices decline significantly in a short period of time, and we would generally remain exposed to supply risk in the event of non-performance by the counterparties to any futures contracts. See “Our Use of Derivatives.”

Marketing

We market our private label and wholesale coffee through trade shows, industry publications, face-to-face contact and through the use of our internal sales force and non-exclusive independent food and beverage sales brokers. We also use our web site (www.coffeeholding.com) as a method of marketing our coffee products and ourselves.

For our private label and branded coffees, we will, from time to time in conjunction with retailers and with wholesalers, conduct in-store promotions, such as product demonstrations, coupons, price reductions, two-for-one sales and new product launches to capture changing consumer taste preferences for upscale canned coffees.

We evaluate opportunities for growth consistent with our business objectives. In addition, we have established relationships with independent sales brokers to market our products across the United States, in areas of the country where we have not had a high penetration of sales and Canada. We utilize our in-house sales personnel to market our private label brands. We intend to capture additional market share in our existing distribution channels by selectively adding or introducing new brand names and products across multiple price points, including niche specialty blends, private label “value” blends and tea and our own brands, filter packages, and peripheral products.

Charitable Activities

We are also a supporter of several coffee-oriented charitable organizations and during fiscal 2016 and 2015, we donated approximately $46,000 and $67,000, respectively, to charities.

For over 20 years, we have been members of Coffee Kids, an international non-profit organization that helps to improve the quality of life of children and their families in coffee-growing communities in Mexico, Guatemala, Nicaragua and Costa Rica.

We are members of Grounds for Health, an organization that educates, screens, and arranges treatment for women who have cancer and live in the rural coffee growing communities of Mexico.

We are a licensed Fair Trade dealer of Fair Trade certified coffee. Fair Trade certified coffee helps small coffee farmers to increase their incomes and improve the prospects of their communities and families. It guarantees farmers a minimum price of $1.90 per pound.

We are the administrative benefactors to a non-profit organization called Cup for Education. After discovering the lack of schools, teachers, and basic fundamental learning supplies in the poor coffee growing communities of Central and Latin America, “Cup” was established by our employee, Karen Gordon, to help build schools, sponsor teachers, and purchase basic supplies such as books, chalk and other necessities for a proper education.

Competition

The coffee market is highly competitive. We compete in the following areas:

Wholesale Green Coffee. There are many green coffee dealers throughout the United States. Many of these dealers have greater financial resources than we do. However, we believe that we have both the knowledge and the capability to assist small specialty gourmet coffee roasters with developing and growing their businesses. Our over 40 years of experience as a roaster and a dealer of green coffee allows us to provide our roasting experience as a value added service to our gourmet roaster customers. While other coffee merchants may be able to offer lower prices for coffee beans, we market ourselves as a value-added supplier to small roasters, with the ability to help them market their specialty coffee products and develop a customer base. The assistance we provide our customers includes training, coffee blending, market identification as well as providing access to an extensive variety of coffee products and inventory. Because specialty green coffee beans are sold unroasted to small coffee shops and roasters that market their products to local gourmet customers, we do not believe that our specialty green coffee customers compete with our private label or branded coffee lines of business. We believe that the addition of Organic Products Trading Company, LLC ("OPTCO") and Sonofresco as well as our two green coffee salespersons in South Carolina and Oregon allows us to compete more effectively throughout the country.

Private Label Competition. There are several major producers of coffee for private label sales in the United States. Many other companies produce coffee for sale on a regional basis. Our main competitor is the former retail coffee division of Sara Lee Corporation, which was purchased by Segafredo Zanetti Group in 2006, now known as Massimo Zanetti Beverage. Massimo Zanetti Beverage is larger and has more financial and other resources than we do and, therefore, is able to devote more resources to product development and marketing. We believe that we remain competitive by providing a higher level of quality and customer service. This service includes ensuring that the coffee produced for each label maintains a consistent taste and is delivered on time and in the proper quantities. In addition, we provide our private label customers with information on the coffee market on a regular basis.

Branded Competition. Our proprietary brand coffees compete with many other brands that are sold in supermarkets and specialty stores, primarily in the Northeastern United States. The branded coffee market in both the Northeast and elsewhere is dominated by three large companies: Kraft General Foods, Inc. (owner of the Maxwell House brand), Smuckers (owner of the Folgers Café Bustelo brands) and Massimo Zanetti Beverage which also markets specialty coffee in addition to non-specialty coffee. Our large competitors have greater access to capital and a greater ability to conduct marketing and promotions. We believe that, while our competitors' brands may be more nationally recognizable, our Café Caribe brand is competitive in the fast growing Hispanic demographic and our S&W brand has been a popular and recognizable brand on the west coast for over 80 years.

Government Regulation

Our coffee roasting operations are subject to various governmental laws and regulations, which require us to obtain licenses relating to customs, health and safety, building and land use and environmental protection. Our roasting facility is subject to state and local air-quality and emissions regulation. If we encounter difficulties in obtaining any necessary licenses or if we have difficulty complying with these laws and regulations, then we could be subject to fines and penalties, which could have a material adverse effect on our profitability. In addition, our product offerings could be limited, thereby reducing our revenues.

We believe that we are in compliance in all material respects with all such laws and regulations and that we have obtained all material licenses and permits that are required for the operation of our business. We are not aware of any environmental regulations that have or that we believe will have a material adverse effect on our operations.

Employees

We have 70 full-time employees. None of our employees are represented by unions or collective bargaining agreements. Our management believes that we maintain good working relationships with our employees. To supplement our internal sales staff, we sometimes engage independent national and regional sales brokers as

independent contractors who work on a commission basis.

ITEM 1A.
RISK FACTORS

An investment in our common stock is subject to risks inherent in our business. Before making an investment decision, you should carefully consider the risks and uncertainties described below together with all of the other information included in this report. In addition to the risks and uncertainties described below, other risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially and adversely affect our business, financial condition and results of operations. The value or market price of our common stock could decline due to any of these identified or other risks, and you could lose all of your investment.

Risks affecting our Company

Because our business is highly dependent upon a single commodity, coffee, any decrease in demand for coffee could materially adversely affect our revenues and profitability. Our business is centered on essentially one commodity: coffee. Our operations have primarily focused on the following areas of the coffee industry:

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

the roasting, blending, packaging and distribution of proprietary branded coffee; and

the sale of wholesale specialty green coffee.

Demand for our products is affected by:

consumer tastes and preferences;

global economic conditions;

demographic trends; and

the type, number and location of competing products.

Because we rely on a single commodity, any decrease in demand for coffee would harm our business more than if we had more diversified product offerings and could materially adversely affect our revenues and operating results.

If we are unable to geographically expand our branded and private label products, our growth will be impeded which could result in reduced sales and profitability. Our business strategy emphasizes, among other things, geographic expansion of our branded and private label products as opportunities arise. We may not be able to implement successfully this portion of our business strategy. Our ability to implement this portion of our business strategy is dependent on our ability to:

market our products on a national scale;

increase our brand recognition on a national scale;

enter into distribution and other strategic arrangements with third party retailers; and

manage growth in administrative overhead and distribution costs likely to result from the planned expansion of our distribution channels.

Our sales and profitability may be adversely affected if we fail to successfully expand the geographic distribution of our branded and private label products. In addition, our expenses could increase and our profits could decrease as we implement our growth strategy.

If our hedging policy is not effective, we may not be able to control our coffee costs, we may be forced to pay greater than market value for green coffee and our profitability may be reduced. The supply and price of coffee beans are subject to volatility and are influenced by numerous factors which are beyond our control. We have used and expect to continue to use to a lesser extent than used previously short-term coffee futures and options contracts for the purpose of hedging the effects of changing green coffee prices. In addition, we have acquired and expect to continue to acquire to a lesser extent than done previously futures contracts with longer terms, generally three to four months,

for the purpose of guaranteeing an adequate supply of green coffee. Realized and unrealized gains or losses on options and futures contracts are reflected in our cost of sales. Gains on options and futures contracts reduce our cost of sales and losses on options and futures contracts increase our cost of sales.

The use of these derivative financial instruments has generally enabled us to mitigate the effect of changing prices. However, no strategy can entirely eliminate pricing risks and we generally remain exposed to losses on futures contracts when prices decline significantly in a short period of time, and we would generally remain exposed to supply risk in the event of non-performance by the counterparties to any futures contracts. Historically, we generally have been able to pass green coffee price increases through to customers, thereby maintaining our gross profits, however, we may not be able to pass price increases through to our customers in the future. Failure to properly design and implement an effective hedging strategy may materially adversely affect our business and operating results. If the hedges that we enter do not adequately offset the risks of coffee bean price volatility or our hedging results in losses, our cost of sales may increase, resulting in a decrease in profitability or an increase in losses. Although we have had net gains on options and futures contracts in the past, we incurred losses on options and futures contracts during some reporting periods in 2015. In those cases, our cost of sales increased, resulting in a decrease in our profitability or an increase in losses. Such losses have, and similar losses could in the future, could materially increase our cost of sales and materially decrease our profitability or increase losses and adversely affect our stock price.

Our revenues and profitability could be adversely affected if our joint ventures or acquisitions are not successful. We have historically utilized acquisitions and joint ventures to grow our business and we intend to continue to seek opportunities for new joint ventures and acquisitions that will be complementary to our business. While we believe that our joint ventures will be successful, losses in our joint ventures or any future joint ventures would hurt our profitability. In addition, we generally will not be in a position to exercise sole decision-making authority regarding our joint ventures. Investments in joint ventures may under certain circumstances, involve risks not present when a third party is not involved, including the possibility that joint venture partners might become bankrupt or fail to fund their share of the required capital contributions. Joint venture partners may have business interests, strategies or goals that are inconsistent with our business interests, strategies or goals and may be, in cases where we have a minority interest, in a position to take actions contrary to our policies, strategies or objectives. Any disputes that may arise between us and our joint venture partners may result in litigation or arbitration that could increase our expenses and could prevent our officers and/or directors from focusing their time and effort exclusively on our business strategies. In addition, we may in certain circumstances be liable for the actions of our third-party joint venture partners.

Acquisitions including strategic investments or alliances entail numerous risks, which may include:

difficulties in integrating acquired operations or products, including the loss of key employees from, or customers of, acquired businesses;

diversion of management’s attention from our existing businesses;

adverse effects on existing business relationships with suppliers and customers;

adverse impacts of margin and product cost structures different from those of our current mix of business; and

risks of entering distribution channels, categories or markets in which we have limited or no prior experience.

Our failure to successfully complete the integration of any acquired business, and any adverse consequences associated with our acquisition activities, could have a material adverse effect on our business, financial condition and operating results.

Any inability to successfully implement our strategy of growth through selective acquisitions, licensing arrangements and other strategic alliances, including joint ventures, could materially affect our revenues and profitability. Part of our growth strategy utilizes the selective acquisition of coffee companies, the selective acquisition or licensing of

additional coffee brands and other strategic alliances including joint ventures, presents risks that could result in increased expenditures and could materially adversely affect our revenues and profitability, including:

such acquisitions, licensing arrangements or other strategic alliances may divert our management's attention from our existing operations;

we may not be able to successfully integrate any acquired coffee companies or new coffee brands into our existing business;

we may not be able to manage the contingent risks associated with the past operations of, and other unanticipated problems arising in, any acquired coffee company; and

we may not be able to control unanticipated costs associated with such acquisitions, licensing arrangements or strategic alliances.

In addition, any such acquisitions, licensing arrangements or strategic alliances may result in:

potentially dilutive issuances of our equity securities;

the incurrence of additional debt

restructuring charges; and

the recognition of significant charges for depreciation and amortization related to intangible assets.

As has been our practice in the past, we will continuously evaluate any such acquisitions, licensing opportunities or strategic alliances as they arise. However, we have not reached any new agreements or arrangements with respect to any such acquisition, licensing opportunity or strategic alliance (other than those described herein) at this time and we may not be able to consummate any acquisitions, licensing arrangements or strategic alliances on terms favorable to us or at all. The failure to consummate any such acquisitions, licensing arrangements or strategic alliances may reduce our growth and expansion. In addition, if these acquisitions, licensing opportunities or strategic alliances are not successful, our earnings could be materially adversely affected by increased expenses and decreased revenues.

The loss of any of our key customers, including Keurig Green Mountain, could negatively affect our revenues and decrease our earnings. We are dependent upon sales of our products to our key customers, including GMCR, which accounted for approximately 29% and 54% of our net sales for the fiscal years ended October 31, 2016 and 2015, respectively. Going forward, we expect this decrease to continue. No other customer accounted for greater than 10% of our net sales during our 2015 and 2016 fiscal years. We generally do not enter long-term contracts with our customers that are material to our business. Accordingly, some of our customers can stop purchasing our products at any time without penalty and are free to purchase products from our competitors. The loss of, or reduction in sales to our key customers such as GMCR or any of our other customers to which we sell a significant amount of our products or any material adverse change in the financial condition of such customers would negatively affect our revenues and decrease our earnings.

If we lose our key personnel, including Andrew Gordon and David Gordon, our revenues and profitability could suffer. Our success depends to a large degree upon the services of Andrew Gordon, our President, Chief Executive Officer, Chief Financial Officer and Treasurer, and David Gordon, our Executive Vice President – Operations and Secretary. We also depend to a large degree on the expertise of our coffee roasters. We do not have employment contracts with our coffee roasters. Our ability to source and purchase a sufficient supply of high quality coffee beans and to roast coffee beans consistent with our quality standards could suffer if we lose the services of any of these individuals. As a result, our business and operating results would be adversely affected. We may not be successful in obtaining and retaining a replacement for either Andrew Gordon or David Gordon if they elect to stop working for us. In addition, we do not have key-person insurance on the lives of Andrew Gordon or David Gordon.

Our indebtedness may adversely affect our ability to obtain additional funds and may increase our vulnerability to economic or business downturns. From time to time, we utilize borrowings under our credit facility in connection with operations. Outstanding debt could have important negative consequences to the holders of our securities, including the following:

general domestic and global economic conditions;

a portion of our cash flow from operations will be needed to pay debt service and will not be available to fund future operations;

we have increased vulnerability to adverse general economic and coffee industry conditions;

we may be vulnerable to higher interest rates because interest expense on borrowings under our revolving line of credit is based on variable rates; and

we may be subject to covenants that could restrict our operations.

Our ability to make payments on our indebtedness and to fund our operations depends on our ability to generate cash in the future. Our future operating performance is subject to market conditions and business factors that are beyond our control. If our cash flows and capital resources are insufficient to allow us to make scheduled payments on our debt, we may have to reduce or delay capital expenditures, sell assets, seek additional capital or restructure or refinance our debt.

Our credit facility contains covenants that place annual restrictions on our 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 we maintain a minimum working capital at all times. There can be no assurance that we will be in compliance with all covenants in the future or that we will be able to modify the terms of the credit facility should that become necessary. Failure to comply with any of these covenants and restrictions would result in an event of default under the loan agreement.

If our planned increase in marketing expenditures fails to promote and enhance our brands, the value of our brands could decrease and our revenues and profitability could be adversely affected. We believe that promoting and enhancing our brands is critical to our success. We intend to continue to increase our marketing expenditures and slotting payments to increase retail shelf space, to increase awareness of our brands, which we expect will create and maintain brand loyalty. If our brand-building strategy is unsuccessful, these expenses, including the slotting expenses, may never be recovered, and we may be unable to increase awareness of our brands or protect the value of our brands. If we are unable to achieve these goals, our revenues and ability to implement our business strategy could be adversely affected.

Our success in promoting and enhancing our brands will also depend on our ability to provide customers with high quality products and service. Although we take measures to ensure that we sell only fresh roasted coffee, we have no control over our roasted coffee products once they are purchased by our customers. Accordingly, wholesale customers may store our coffee for longer periods of time or resell our coffee without our consent, in each case, potentially affecting the quality of the coffee prepared from our products. Although we believe we are less susceptible to quality control problems than many of our competitors because our products are processed in-house under strict quality control guidelines which have been in place for more than 30 years, if consumers do not perceive our products and service to be of high quality, then the value of our brands may be diminished and, consequently, our operating results and ability to implement our business strategy may be adversely affected.

Our roasting methods are not proprietary, so competitors may be able to duplicate them, which could harm our competitive position. If our competitive position is weakened, our revenues and profitability could be materially adversely affected. We consider our roasting methods essential to the flavor and richness of our roasted coffee and, therefore, essential to our brands of coffee. Because we do not hold any patents for our roasting methods, it may be difficult for us to prevent competitors from copying our roasting methods if such methods become known. If our competitors copy our roasting methods, the value of our coffee brands may be diminished, and we may lose customers to our competitors. In addition, competitors may be able to develop roasting methods that are more advanced than our roasting methods, which may also harm our competitive position.

The success of our brand also depends in part on our intellectual property. We rely on a combination of trademarks, copyrights, service marks, trade secrets and similar rights to protect our intellectual property. The success of our growth strategy depends on our continued ability to use our existing trademarks and service marks in order to increase brand awareness and further develop our brand in both domestic and international markets. If our efforts to protect our intellectual property are not adequate, or if any third party misappropriates or infringes on our intellectual property, the value of our brand may be harmed, which could have a material adverse effect on our business. We may become engaged in litigation to protect our intellectual property, which could result in substantial costs to us as well as diversion of management attention.

Since we rely heavily on common carriers to ship our coffee on a daily basis, any disruption in their services or increase in shipping costs could adversely affect our relationship with our customers, which could result in reduced revenues, increased operating expenses, a loss of customers or reduced profitability. We rely on a number of common carriers to deliver coffee to our customers and to deliver coffee beans to us. We have no control over these common carriers and the services provided by them may be interrupted as a result of labor shortages, contract disputes and other factors. If we experience an interruption in these services, we may be unable to ship our coffee in a timely manner, which could reduce our revenues and adversely affect our relationship with our customers. In addition, a delay in shipping could require us to contract with alternative, and possibly more expensive, common carriers and could cause orders to be cancelled or receipt of goods to be refused. Any significant increase in shipping costs could lower our profit margins or force us to raise prices, which could cause our revenue and profits to suffer.

If there was a significant interruption in the operation of our Colorado facility, we may not have the capacity to service all of our customers and we may not be able to service our customers in a timely manner, thereby reducing our

revenues and earnings. We are dependent on the continued operations of our Colorado coffee roasting and distribution facility. Our ability to maintain our computer and telecommunications equipment in effective working order and to protect against damage from fire, natural disaster, power loss, telecommunications failure or similar events. In addition, growth of our customer base may strain or exceed the capacity of our systems and lead to degradations in performance or systems failure. Although we continually review and consider upgrades to our order fulfillment infrastructure and provide for system redundancies to limit the likelihood of systems overload or failure, substantial damage to our systems or a systems failure that causes interruptions for a number of days could adversely affect our business. Additionally, if we are unsuccessful in updating and expanding our order fulfillment infrastructure, our ability to grow may be constrained. As a result, our revenues and earnings could be materially adversely affected.

Prolonged negative economic conditions could adversely affect us, our customers and suppliers, which could harm our financial condition. We are subject to the risks arising from adverse changes in general economic and market conditions. Uncertainty remains in the United States economy as it continues to recover from a severe economic recession. The United States economy continues to experience market volatility, difficulties in the financial services sector, diminished liquidity and availability of credit, concerns regarding inflation, increases in the costs of commodities, continuing high unemployment rates, reduced consumer spending and consumer confidence and continuing economic uncertainties. If the United States economy were to deteriorate significantly, our business could be negatively impacted.

If we fail to continue to develop and maintain our brand, our business could suffer. We believe that maintaining and developing our brand is critical to our success and that the importance of brand recognition may increase as a result of competitors offering products similar to ours. If our brand building initiative is unsuccessful, we may never recover the expenses incurred in connection with these efforts and we may be unable to increase our future revenue or implement our business strategy. Our success in promoting and enhancing our brand will also depend on our ability to provide customers with high-quality products and customer service. Although we take measures to ensure that we sell only fresh roasted coffee, we have no control over our coffee products once purchased by customers. Accordingly, customers may prepare coffee from our brands inconsistent with our standards, store our coffee for long periods of time or resell our coffee without our consent, which in each case, potentially affects the quality of the coffee prepared from our products. If customers do not perceive our products and service to be of high-quality, then the value of our brand may be diminished and, consequently, our ability to implement our business strategy may be adversely affected.

Risks related to the coffee industry

Increases in the cost of high quality Arabica or Robusta coffee beans could reduce our gross margin and profit. Green coffee is our largest single cost of sales. Coffee is a traded commodity and, in general, its price can fluctuate depending on:

weather patterns in coffee-producing countries;

economic and political conditions affecting coffee-producing countries, including acts of terrorism in such countries;

foreign currency fluctuations; and

trade regulations and restrictions between coffee-producing countries and the United States.

If the cost of wholesale green coffee increases due to any of these factors, our margins could decrease and our profitability could suffer accordingly. It is expected that coffee prices will remain volatile in the coming years. Although we have historically attempted to raise the selling prices of our products in response to increases in the price of wholesale green coffee, when wholesale green coffee prices increase rapidly or to significantly higher than normal levels, we are not always able to pass the price increases through to our customers on a timely basis, if at all, which adversely affects our operating margins and cash flow. We may not be able to recover any future increases in the cost of wholesale green coffee. Even if we are able to recover future increases, our operating margins and results of operations may still be materially and adversely affected by time delays in the implementation of price increases.

Disruptions in the supply of green coffee could result in a deterioration of our relationship with our customers, decreased revenues or could impair our ability to grow our business. Green coffee is a commodity and its supply is subject to volatility beyond our control. Supply is affected by many factors in the coffee growing countries including weather, pest damage, economic conditions, acts of terrorism, as well as efforts by coffee growers to expand or form

cartels or associations. In addition, the political situation in many of the Arabica coffee growing regions, including Africa, Indonesia, and Central and South America, can be unstable, and such instability could affect our ability to purchase coffee from those regions. If Arabica coffee beans from a region become unavailable or prohibitively expensive, we could be forced to discontinue particular coffee types and blends or substitute coffee beans from other regions in our blends. Frequent substitutions and changes in our coffee product lines could lead to cost increases, customer alienation and fluctuations in our gross margins.

Some of the Arabica coffee beans of the quality we purchase do not trade directly on the commodity markets. Rather, we purchase the high-end Arabica coffee beans that we use on a negotiated basis. We depend on our relationships with coffee brokers, exporters and growers for the supply of our primary raw material, high quality Arabica coffee beans. If any of our relationships with coffee brokers, exporters or growers deteriorate, we may be unable to procure a sufficient quantity of high quality coffee beans at prices acceptable to us or at all. In such case, we may not be able to fulfill the demand of our existing customers, supply new retail stores or expand other channels of distribution. A raw material shortage could result in a deterioration of our relationship with our customers, decreased revenues or could impair our ability to expand our business.

The coffee industry is highly competitive and if we cannot compete successfully, we may lose our customers or experience reduced sales and profitability. The coffee markets in which we do business are highly competitive and competition in these markets could become increasingly more intense due to the relatively low barriers of entry. The industry in which we compete is particularly sensitive to price pressure, as well as quality, reputation and viability for wholesale and brand loyalty for retail. To the extent that one or more of our competitors becomes more successful with respect to any key competitive factor, our ability to attract and retain customers could be materially adversely affected. Our private label and branded coffee products compete with other manufacturers of private label coffee and branded coffees. These competitors, such as Kraft General Foods, Inc. (owner of the Maxwell House brand), Smuckers (owner of the Folgers Café Bustelo brands), and Massimo Zanetti Beverage, have much greater financial, marketing, distribution, management and other resources than we do for marketing, promotions and geographic and market expansion. In addition, there are a growing number of specialty coffee companies who provide specialty green coffee and roasted coffee for retail sale. If we are unable to compete successfully against existing and new competitors, we may lose our customers or experience reduced sales and profitability.

Besides coffee, we face exposure to other commodity cost fluctuations, which could impair our profitability. In addition to the increase in coffee costs discussed in the risk factor above, we are exposed to cost fluctuation in other commodities, including, in particular, steel, natural gas and gasoline. In addition, an increase in the cost of fuel could indirectly lead to higher electricity costs, transportation costs and other commodity costs. Much like coffee costs, the costs of these commodities depend on various factors beyond our control, including economic and political conditions, foreign currency fluctuations, and global weather patterns. To the extent we are unable to pass along such costs to our customers through price increases, our margins and profitability will decrease.

Adverse public or medical opinion about caffeine may harm our business. Coffee contains caffeine and other active compounds, the health effects of some of which are not fully understood. A number of research studies conclude or suggest that excessive consumption of caffeine may lead to increased heart rate, nausea and vomiting, restlessness and anxiety, depression, headaches, tremors, sleeplessness and other adverse health effects. An unfavorable report on the health effects of caffeine or other compounds present in coffee could significantly reduce the demand for coffee, which could harm our business and reduce our sales and profits. In addition, we could become subject to litigation relating to the existence of such compounds in our coffee; litigation that could be costly and could divert management attention.

Risks related to our common stock

Our operating results may fluctuate significantly, which makes our results of operations difficult to predict and could cause our results of operations to fall short of expectations. Our operating results may fluctuate from quarter to quarter and year to year as a result of a number of factors, many of which are outside of our control. These fluctuations could be caused by a number of factors including:

fluctuations in purchase prices and supply of green coffee;

fluctuations in the selling prices of our products;

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

the success of our hedging strategy;

our ability to retain existing customers and attract new customers; and

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

As a result of the foregoing, period-to-period comparisons of our operating results may not necessarily be meaningful and those comparisons should not be relied upon as indicators of future performance. Accordingly, our operating results in future quarters may be below market expectations. In this event, the price of our common stock may decline.

The Gordon family has the ability to influence action requiring stockholder approval. Members of the Gordon family, including Andrew Gordon, our President, Chief Executive Officer, Chief Financial Officer and Treasurer, and David Gordon, our Executive Vice President and Secretary, own, in the aggregate, approximately 11.5% of our outstanding shares of common stock. As a result, the Gordon family is able to influence the actions that require stockholder approval, including:

the election of a majority of our directors;

the amendment of our charter documents; and

the approval of mergers, sales of assets or other corporate transactions or matters submitted for stockholder approval.

As a result, our other stockholders may have reduced influence over matters submitted for stockholder approval. In addition, the Gordon family's influence could preclude any unsolicited acquisition of us and consequently materially adversely affect the price of our common stock.

The market price of our common stock has been volatile over the year and may continue to be volatile. The market price and trading volume of our common stock has been volatile over the past year and it may continue to be volatile. Over the past year, our common stock has traded as low as $3.00 and as high as $6.15 per share. We cannot predict the price at which our common stock will trade in the future and it may decline. The price at which our common stock trades may fluctuate significantly and may be influenced by many factors, including our financial results, developments generally affecting the coffee industry, general economic, industry and market conditions, the depth and liquidity of the market for our common stock, fluctuations in coffee prices, investor perceptions of our business, reports by industry analysts, negative announcements by our customers, competitors or suppliers regarding their own performances, and the impact of other "Risk Factors" discussed in this Annual Report.

Provisions in our articles of incorporation, bylaws and of Nevada law have anti-takeover effects that could prevent a change in control that could be beneficial to our stockholders, which could depress the market price of shares of our common stock. Our articles of incorporation, bylaws and Nevada corporate law contain provisions that could delay, defer or prevent a change in control of us or our management that could be beneficial to our stockholders. These provisions could also discourage proxy contests and make it more difficult for our stockholders to elect directors and take other corporate actions. These provisions might also discourage a potential acquisition proposal or tender offer, even if the acquisition proposal or tender offer is at a price above the then current market price for shares of our common stock. These provisions:

provide that directors may only be removed upon a vote of at least eighty percent of the shares outstanding;

establish advance notice requirements for nominating directors and proposing matters to be voted on by shareholders at shareholder meetings;

limit the right of our stockholders to call a special meeting of stockholders;

authorize our board of directors to issue preferred stock and to determine the rights and preferences of those shares, which would be senior to our common stock, without prior stockholder approval;

require amendments to our articles of incorporation to be approved by the holders of at least eighty percent of our outstanding shares of common stock;

a classified board of directors with three-year staggered terms, which may delay the ability of stockholders to change the membership of a majority of our board of directors; and

provide a prohibition on stockholder action by written consent, thereby only permitting stockholder action to be taken at an annual or special meeting of our stockholders.

We are also subject to certain anti-takeover provisions under Nevada law. Under Nevada law, a corporation may not, in general, engage in a business combination with any “interested stockholder” for two (2) years after the date that the person first became an interested stockholder, unless the combination meets all of the requirements of our articles of incorporation and (i) the purchase of shares by the interested stockholder is approved by our board of directors before that date or (ii) the combination is approved by our board of directors and, at or after that time, the combination is approved at an annual or special meeting of our stockholders, and not by written consent, by the affirmative vote of the holders of stock representing at least sixty percent (60%) of our outstanding voting power not beneficially owned by the interested stockholder or the affiliates or associates of the interested stockholder.

ITEM 1B.
UNRESOLVED STAFF COMMENTS

Not applicable.

ITEM 2.
PROPERTIES

We are headquartered at 3475 Victory Boulevard, Staten Island, New York, where we lease office and warehouse space. We pay annual rent of $129,420 under the terms of the lease, which expires on October 31, 2023.

We lease a 50,000 square foot facility located at 27700 Frontage Road in La Junta, Colorado from the City of La Junta. We pay annual rent of $100,093 under the terms of the lease, which expires in January 2024.

We lease office space in Vancouver, Washington. We pay annual rent of $36,889 under the terms of a lease, which expires in May 2017.

We lease office space in Burlington, Washington. We pay annual rent of $36,000 under the terms of a lease, which expires in December 2017.

We also use a variety of independent, bonded commercial warehouses to store our green coffee beans. Our management believes that our facilities are adequate for our current operations and for our contemplated operations in the foreseeable future.

ITEM 3.
LEGAL PROCEEDINGS

We are not a party to, and none of our property is the subject of, any pending legal proceedings other than routine litigation that is incidental to our business. To our knowledge, no governmental authority is contemplating initiating any such proceedings.

ITEM 4.
MINE SAFETY DISCLOSURES

Not applicable.

PART II

ITEM 5.
MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Our common stock trades on the NASDAQ Capital Market under the symbol "JVA." We do not currently pay cash dividends on our common stock. We do not intend to declare or pay cash dividends on our common stock for the foreseeable future, but currently intend to retain any future earnings for use in the operation and expansion of our business. The payment of cash dividends if any, on the common stock will rest solely within the discretion of our board of directors and will depend, among other things, upon our earnings, capital requirements, financial condition, and other relevant factors.

As of January 20, 2017, we had 174 holders of record.

We repurchased 53,687 shares of our common stock during the year ended October 31, 2015.

We repurchased 337,269 shares of our common stock during the year ended October 31, 2016.

ISSUER PURCHASES OF EQUITY SECURITIES (1)

Period	(a) Total Number of Shares (or Unites) Purchased	(b) Average Price Paid per Share (or Unit)	(c) Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs	(d) Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs
August 1, 2016 to August 31, 2016	-	-	-	-
September 1, 2016 to September 30, 2016	66,750	$5.53	66,750	$564,033
October 1, 2016 to October 31, 2016	96,231	$5.67	96,231	$18,272
Total				

(1)
On September 29, 2015, we announced that the Board of Directors had approved a share repurchase program (the "Share Repurchase Program") pursuant to which we may repurchase up to $2 million of our outstanding common stock from time to time on the open market and in privately negotiated transactions subject to market conditions, share price and other factors. The Share Repurchase Program may be discontinued or suspended at any time.

The following table sets forth the high and low sales prices of our common stock for each quarter of the last two fiscal years.

	High	Low
	2016	
1st Quarter	$4.90	$3.00
2nd Quarter	$4.49	$3.05
3rd Quarter	$6.15	$3.50
4th Quarter	$6.00	$5.01
	2015	
1st Quarter	$6.20	$4.50
2nd Quarter	$5.38	$4.39
3rd Quarter	$5.50	$4.70
4th Quarter	$5.07	$3.74

ITEM 6.
SELECTED FINANCIAL DATA

The following table sets forth selected financial data for the last five years from the consolidated financial statements of Coffee Holding Co., Inc. The following information is only a summary, and you should read it in conjunction with our consolidated financial statements and notes beginning on page F-1.

	For the Years Ended October 31,				
	2016	2015	2014	2013	2012
	(Dollars in thousands, except per share data)				
Income Statement Data:					
Net sales	$78,948	$118,154	$108,863	$133,981	$173,656
Cost of sales	67,066	112,437	93,334	128,012	161,649
Gross profit	11,882	5,717	15,529	5,969	12,007
Operating expenses	8,019	7,654	7,527	7,522	7,607
Income (loss) from operations	3,863	(1,937)	8,002	(1,553)	4,400
Other income (expense)	(147)	(156)	(37)	(169)	(345)
Income (loss) before income taxes	3,716	(2,093)	7,965	(1,722)	4,055
Provision (benefit) for income taxes	1,366	(764)	2,947	(393)	1,471
Minority interest	(138)	(84)	(51)	(152)	(98)
Net income (loss)	$2,212	$(1,413)	$4,967	$(1,481)	$2,486
Net income (loss) per share – Basic	$0.36	$(0.23)	$0.78	$(0.23)	$0.39
Net income (loss) per share – Diluted	$0.36	$(0.23)	$0.78	$(0.23)	$0.37

	At October 31,				
	2016	2015	2014	2013	2012
	(Dollars in thousands, except per shares data)				
Balance Sheet Data:					
Total assets	$37,023	$35,274	$38,952	$32,399	$38,248
Short-term debt	6,958	5,554	2,498	1,229	563
Long-term debt	–	–	–	–	–
Total liabilities	11,910	10,856	12,898	10,315	14,448
Stockholders' equity	24,913	24,418	26,055	22,084	23,800

Book value per share	$4.28	$3.96	$4.19	$3.47	$3.73

	At October 31,				
	2016	2015	2014	2013	2012
Per Common Share Data:					
Basic EPS	$.36	$(.23)	$.78	$(.23)	$.39
Diluted EPS	$.36	$(.23)	$.78	$(.23)	$.37
Cash dividends declared	$0	$0	$0	$387,379	$774,756

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ITEM 7.
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 Operation," "Business," "Risk Factors" and elsewhere in this annual 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-K 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 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 Securities and Exchange Commission (the "SEC").

In some cases, you can identify forward-looking statements by terminology such as "may," "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 annual 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 annual 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;

the roasting, blending, packaging and sale of our eight brands of coffee; and

sales of our tabletop coffee roasting equipment.

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

our ability to manage inventory and fulfillment 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 acquisition of Premier Roasters, LLC, including equipment and a roasting facility in La Junta, Colorado, the addition of a west coast sales manager to increase sales of our private label and branded coffees to new customers, our joint venture with Caruso's Coffee, Inc. of Brecksville, Ohio, the transaction with OPTCO, the transaction with Sonofresco and our licensing arrangement with DTS8 Coffee Company, Ltd. We believe these efforts will allow us to expand or business.

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 35% 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.

The supply and price of coffee beans are subject to volatility and are influenced by numerous factors which are beyond our control. Historically, we have used, and intend to continue to use in a limited capacity, short-term coffee futures and options contracts primarily for the purpose of partially hedging the effects of changing green coffee prices, as further explained in Note 2 of the Notes to the Condensed Consolidated Financial Statements in this Report. In addition, we acquired, and expect to continue to acquire, futures contracts with longer terms, generally three to four months, primarily for the purpose of guaranteeing an adequate supply of green coffee. Realized and unrealized gains or losses on options and futures contracts are reflected in our cost of sales. Gains on options and futures contracts reduce our cost of sales and losses on options and futures contracts increase our cost of sales. The use of these derivative financial instruments has generally enabled us to mitigate the effect of changing prices. We believe that, in normal economic times, our hedging policies remain a vital element to our business model not only in controlling our cost of sales, but also giving us the flexibility to obtain the inventory necessary to continue to grow our sales while trying to minimize margin compression during a time of historically high coffee prices. However, no strategy can entirely eliminate pricing risks and we generally remain exposed to losses on futures contracts when prices decline significantly in a short period of time, and we would generally remain exposed to supply risk in the event of non-performance by the counterparties to any of our futures contracts. Although we have had net gains on options and futures contracts in the past, we have incurred significant losses on options and futures contracts during some recent reporting periods. In these cases, our cost of sales has increased, resulting in a decrease in our profitability or increase our losses. Such losses have and could in the future materially increase our cost of sales and materially decrease our profitability and adversely affect our stock price. See “Item 1A – Risk Factors - If our hedging policy is not effective, we may not be able to control our coffee costs, we may be forced to pay greater than market value for green coffee and our profitability may be reduced.” Failure to properly design and implement an effective hedging strategy may materially adversely affect our business and operating results. If the hedges that we enter do not adequately offset the risks of coffee bean price volatility or our hedges result in losses, our cost of sales may increase, resulting in a decrease in profitability or increased losses. As previously announced, as a result of the volatile nature of the commodities markets, we have and are continuing to scale back our use of hedging and short-term trading of coffee futures and options contracts, and intend to continue to use these practices in a limited capacity going forward.

Critical Accounting Policies and Estimates

The preparation of financial statements and related disclosures in conformity with accounting principles generally accepted in the United States of America ("U.S. GAAP") requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Estimates are used for, but not limited to, the accounting for the allowance for doubtful accounts, inventories, assets held for sale, income taxes, commodities held and loss contingencies. Management bases its estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances. Actual results could differ from these estimates under different assumptions or conditions.

We believe the following critical accounting policies, among others, may be impacted significantly by judgment, assumptions and estimates used in the preparation of the financial statements:

We recognize revenue in accordance with the relevant authoritative guidance. Revenue is recognized at the point title and risk of ownership transfers to its customers which is upon the shippers taking possession of the goods because i) title passes in accordance with the terms of the purchase orders and with our agreements with our customers, ii) any risk of loss is covered by the customers' insurance, iii) there is persuasive evidence of a sales arrangement, iv) the sales price is determinable and v) collection of the resulting receivable is reasonably assured. Thus, revenue is recognized at the point of shipment.

Our allowance for doubtful accounts is maintained to provide for losses arising from customers' inability to make required payments. If there is deterioration of our customers' credit worthiness and/or there is an increase in the length of time that the receivables are past due greater than the historical assumptions used, additional allowances may be required. For example, every additional one percent of our accounts receivable that becomes uncollectible, would decrease our operating income by approximately $135,000 for the year ended October 31, 2016. 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 us from our customers.

Inventories are stated at lower of cost (determined on a first-in, first-out basis) or market. Based on our assumptions about future demand and market conditions, inventories are subject to be written-down to market value. If our assumptions about future demand change and/or actual market conditions are less favorable than those projected, additional write-downs of inventories may be required. Each additional one percent of potential inventory writedown would have decreased operating income by approximately $142,000 for the year ended October 31, 2016.

The commodities held at broker represent the market value of the Company's trading account, which consists of option and futures contracts for coffee held with a brokerage firm. We use 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 consolidated financial statements with current recognition of gains and losses on such positions. We classify options and futures contracts as trading securities and accordingly, unrealized holding gains and losses are included in earnings. We record realized and unrealized gains and losses in our cost of sales in the statement of operations/income.

We account for income taxes in accordance with the relevant authoritative guidance. Deferred tax assets and liabilities are 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 rates in effect for the year in which the differences are expected to reverse. Deferred tax assets are reflected on the balance sheet when it is determined that it is more likely than not that the asset will be realized.

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Our goodwill consists of the cost in excess of the fair market value of the acquired net assets of OPTCO and Sonofresco, which has been integrated into a structure that does not provide the basis for separate reporting units. Consequently, we are a single reporting unit for goodwill impairment testing purposes. We also have intangible assets consisting of our customer lists and relationships and trademarks acquired from OPTCO and Sonofesco. At October 31, 2016 our balance sheet reflected goodwill and intangible assets as set forth below:

	October 31, 2016
Customer list and relationships, net	$219,750
Trademarks	180,000
Goodwill	1,017,905
	$1,417,655

Goodwill and the trademarks which are deemed to have indefinite lives are subject to annual impairment tests. Goodwill impairment tests require the comparison of the fair value and carrying value of reporting units. We assess the potential impairment of goodwill and intangible assets annually and on an interim basis whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Upon completion of such review, if impairment is found to have occurred, a corresponding charge will be recorded. The value assigned to the customer list and relationships is being amortized over a twenty year period.

Because the Company is a single reporting unit, the closing NASDAQ Capital Market price of our common stock as of the acquisition date was used as a basis to measure the fair value of goodwill. Goodwill and the intangible assets will be tested annually at the end of each fiscal year to determine whether they have been impaired. Upon completion of each annual review, there can be no assurance that a material charge will not be recorded. Impairment testing is required more often than annually if an event or circumstance indicates that an impairment or decline in value may have occurred.

Year Ended October 31, 2016 (Fiscal Year 2016) Compared to the Year Ended October 31, 2015 (Fiscal Year 2015)

Net Sales. Net sales totaled $78,948,228 for the fiscal year ended October 31, 2016, a decrease of $39,205,313, or approximately 33%, from $118,153,541 for the fiscal year ended October 31, 2015. The decrease in net sales reflects reduced wholesale transactions with our largest wholesale green coffee customer during fiscal 2016 of approximately $41,044,000.

Cost of Sales. Cost of sales for the fiscal year ended October 31, 2016 was $67,066,050, or approximately 85% of net sales, as compared to $112,436,831, or approximately 95% of net sales, for the fiscal year ended October 31, 2015. Cost of sales consists primarily of the cost of green coffee and packaging materials and realized and unrealized gains or losses on hedging activity. The decrease in cost of sales reflects a more favorable inventory position during fiscal 2016 and our reduced wholesale transactions with our largest wholesale green coffee customer.

Gross Profit. Gross profit for the fiscal year ended October 31, 2016 was $11,882,178, an increase of $6,165,468 from $5,716,710 for the fiscal year ended October 31, 2015. Gross profit as a percentage of net sales increased to approximately 15% for the fiscal year ended October 31, 2016 from approximately 5% for the fiscal year ended October 31, 2015. The increase in our margins was due to improved margins on our wholesale and roasted business as well as a decrease in our losses period to period on our hedging operations.

Operating Expenses. Total operating expenses increased by $365,081 to $8,019,110 for the fiscal year ended October 31, 2016 from $7,654,029 for the fiscal year ended October 31, 2015. Selling and administrative expenses increased

$362,966, or approximately 5%, to $7,363,710 for the fiscal year ended October 31, 2016 from $7,000,744 for the fiscal year ended October 31, 2015.

Other Income (Expense). Other expense for the fiscal year ended October 31, 2016 was $147,106, a decrease of $8,752 from $155,858 for the fiscal year ended October 31, 2015. The decrease in other expense was attributable to a decrease in interest expense of $12,764 partially offset by an increase in our loss from our equity investments of $139 and a decrease in interest income of $3,873, during the fiscal year ended October 31, 2016.

Income (Loss) Before Taxes and Non-controlling Interest in Subsidiary. We had income of $3,715,962 before income taxes and non-controlling interest in subsidiary for the fiscal year ended October 31, 2016 compared to a net loss of $(2,093,177) for the fiscal year ended October 31, 2015, resulting in a net change of $5,809,139 for the year ended October 31, 2016. The increase was primarily attributable to our decreased realized trading loss.

Income Taxes. Our provision (benefit) for income taxes for the fiscal year ended October 31, 2016 totaled $1,365,920 compared to a benefit of $(763,647) for the fiscal year ended October 31, 2015. The change was attributable to the difference in the gain for the year ended October 31, 2016 versus the loss in the fiscal year ended October 31, 2015. The Company's effective tax rate for the year ended October 31, 2016 was 37% compared to (37%) for the year ended October 31, 2015.

Net Income (Loss). We had net income of $2,212,288 or $0.36 per share basic and diluted, for the fiscal year ended October 31, 2016 compared to a net loss of $(1,413,228), or $(0.23) per share basic and diluted for the fiscal year ended October 31, 2015. The increase in net income was due primarily to the reasons described above.

Liquidity and Capital Resources

As of October 31, 2016, we had working capital of $21,669,442, which represented a $265,035 decrease from our working capital of $21,934,477 as of October 31, 2015, and total stockholders' equity of $24,539,203 which increased by $657,414 from our total stockholders' equity of $24,081,793 as of October 31, 2015. Our working capital decreased primarily due to decreases of $625,835 in cash, $184,875 in prepaid green coffee, $952,600 in prepaid and refundable income taxes, $916,175 in deferred income tax asset and increases of $41,184 in accounts payable and accrued expenses, $1,404,254 in our line of credit and $1,050 in income taxes payable partially offset by increases of $2,549,655 in accounts receivable, $413,472 in inventory, $279,254 in prepaid expenses and other current assets and $618,557 in due to/from broker. As of October 31, 2016, the outstanding balance on our line of credit was $6,958,375 compared to $5,554,121 as of October 31, 2015. Total stockholders' equity increased due to our net income, partially offset by our Share Repurchase Program.

On March 10, 2015, we entered into a loan modification agreement (the "Modification Agreement") with our lender Sterling National Bank ("Sterling") which modified the terms of the financing agreement with Sterling previously entered into on February 17, 2009 (the "Financing Agreement"). Prior to the Modification Agreement, the Financing Agreement, as amended, provided for a credit facility in which we had a revolving line of credit for a maximum of $7,000,000 (the "Loan Facility"). On February 3, 2011, we amended the Financing Agreement to create a sublimit within the revolving line of credit in the form of a $300,000 term loan for the benefit of GCC. The Financing Agreement was set to expire on March 31, 2015. Pursuant to the Modification Agreement, the Financing Agreement was modified to, among other things, (i) extend the term of the Financing Agreement until February 28, 2017; (ii) increase the maximum amount of the Loan Facility from $7,000,000 to $9,000,000; (iii) reduce the interest rate on the average unpaid balance of the line of credit from an interest rate equal to a per annum reference rate of 3.75% to an interest rate per annum equal to the Wall Street Journal Prime Rate; and (iv) require us to pay, upon the occurrence of certain termination events, a prepayment premium of 0.50% of the maximum amount of the credit facility in effect as of the date of the termination event.

Other than as described above, the Financing Agreement remains in full force and effect. Pursuant to the Modification Agreement, we are able to draw on the loan Facility up to an amount of 85% of eligible accounts receivable and 25% of eligible inventory consisting of green coffee beans and finished coffee not to exceed $1,000,000. The Loan Facility is secured by all tangible and intangible assets of the Company.

The Loan Facility contains covenants that place annual restrictions on our operations, including covenants related 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 restrictive

transactions. The Loan Facility also requires that we maintain a minimum working capital at all times. The Company was in compliance with all required financial covenants at October 31, 2016 and October 31, 2015.

As of October 31, 2016 and 2015, the outstanding balance under the bank line of credit was $5,121,375 and $4,317,121, respectively.

Also on March 10, 2015, we, as guarantor, and OPTCO (the "Borrower"), as borrower, entered into a new loan facility agreement with Sterling. The new loan facility is a revolving line of credit for a maximum of $3,000,000 (the "New Loan Facility"), including a letter of credit in the amount of $286,855. The New Loan Facility terminates on February 28, 2017. The Borrower is able to draw on the New Loan Facility at an amount up to 85% of eligible accounts receivable, not to exceed 25% of all accounts of the Borrower. The New Loan Facility is payable monthly in arrears on the average unpaid balance of the line of credit at an interest rate per annum equal to the Wall Street Journal Prime Rate (currently 3.5%). The New Loan Facility is secured by all tangible and intangible assets of the Company. In connection with the New Loan Facility, the Company entered into a security agreement with Sterling and provided Sterling with a guarantee of the Borrower's obligations.

As of October 31, 2016 and 2015, the outstanding balance under the New Loan Facility was $1,837,000 and $1,237,000, respectively.

For the fiscal year ended October 31, 2016, our operating activities provided net cash of $1,607,788 as compared to the fiscal year ended October 31, 2015 when operating activities used net cash of $2,285,840. The increased cash flow from operations for the fiscal year ended October 31, 2016 was primarily due to our net income of $2,350,042, $991,275 of deferred income taxes, $184,875 of prepaid green coffee, $952,600 of prepaid and refundable income taxes partially offset by, $618,557 of Unrealized commodities gains, $2,465,513 in accounts receivable, $143,907 in inventory, $279,254 in prepaid expenses and other current assets and $30,860 in accounts payable and accrued expenses.

For the fiscal year ended October 31, 2016, our investing activities used net cash of $1,782,999 as compared to the fiscal year October 31, 2015 when net cash used by investing activities was $391,796. The increase in our uses of cash in investing activities was due to our increased outlays for equipment and our acquisition of Sonofresco during fiscal year 2016.

For the fiscal year ended October 31, 2016, our financing activities used net cash of $450,624 compared to net cash provided by financing activities of $2,748,813 for the fiscal year ended October 31, 2015. The change in cash flow from financing activities for the fiscal year ended October 31, 2016 was due to our decreased net borrowing of $1,651,409 and an increase of $1,528,028 in our treasury stock purchases and an increase in our dividend payment of $20,000.

We expect to fund our operations, including paying our liabilities, funding capital expenditures and making required payments on our indebtedness, through October 31, 2017 with cash provided by operating activities and the use of our credit facility. In addition, an increase in eligible accounts receivable and inventory would permit us to make additional borrowings under our line of credit.

Off-Balance Sheet Arrangements

We do not have any off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that is material to investors.

ITEM 7A.
QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market risks relating to our operations result primarily from changes in interest rates and commodity prices as further described below.

Interest Rate Risks. We are subject to market risk from exposure to fluctuations in interest rates. As of October 31, 2016, our debt consisted of $6,958,375 of variable rate debt under our revolving line of credit. Our line of credit provides for a maximum of $12,000,000 and 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 (currently 3.5%). This loan is secured by all tangible and intangible assets of the Company.

Commodity Price Risks. The supply and price of coffee beans are subject to volatility and are influenced by numerous factors which are beyond our control. Historically, we have used, and intend to continue to use in a limited capacity, short-term coffee futures and options contracts primarily for the purpose of partially hedging the effects of changing green coffee prices, as further explained in Note 2 of the Notes to the Condensed Consolidated Financial Statements in this Report. In addition, we acquired, and expect to continue to acquire, futures contracts with longer terms, generally three to four months, primarily for the purpose of guaranteeing an adequate supply of green coffee. Realized and unrealized gains or losses on options and futures contracts are reflected in our cost of sales. Gains on options and futures contracts reduce our cost of sales and losses on options and futures contracts increase our cost of sales. The use of these derivative financial instruments has generally enabled us to mitigate the effect of changing prices. We believe that, under normal market conditions, our hedging policies are a necessary component of our business model not only in controlling our cost of sales, but also giving us the flexibility to obtain the inventory necessary to continue to grow our sales while trying to minimize margin compression during a time of historically high coffee prices. However, no strategy can entirely eliminate pricing risks and we generally remain exposed to losses on futures contracts when prices decline significantly in a short period of time, and we would generally remain exposed to supply risk in the event of non-performance by the counterparties to any of our futures contracts. Although we have had net gains on options and futures contracts in the past, we have incurred significant losses on options and futures contracts during past reporting periods in 2015. In those cases, our cost of sales increased, resulting in a decrease in our profitability or increase in our losses. Such losses have, and similar losses could, in the future materially increase our cost of sales and materially decrease our profitability and adversely affect our stock price. See “Item 1A – Risk Factors - If our hedging policy is not effective, we may not be able to control our coffee costs, we may be forced to pay greater than market value for green coffee and our profitability may be reduced.” Failure to properly design and implement an effective hedging strategy may materially adversely affect our business and operating results. If the hedges that we enter do not adequately offset the risks of coffee bean price volatility or our hedges result in losses, our cost of sales may increase, resulting in a decrease in profitability or increased losses. As previously announced, as a result of the volatile nature of the commodities markets, we have and are continuing to scale back our use of hedging and short-term trading of coffee futures and options contracts, and intend to continue to use these practices in a more limited capacity than we did previously. See “Quantitative and Qualitative Disclosures About Market Risk—Commodity Price Risks.”

As of October 31, 2016, we held 22 futures contracts for the purchase of 825,000 pounds of green coffee at a weighted average price of $1.45 per pound compared to 38 futures contracts for the purchase of 1,425,000 pounds of coffee at a weighted average price of $1.23 per pound for the fiscal year ended October 31, 2015. The fair market value of coffee applicable to such contracts was $1.64 and $1.21 per pound, respectively. At October 31, 2016, we did not hold any options. At October 31, 2015, we also held 20 options covering an aggregate of 750,000 pounds of green coffee beans at $1.25 per pound. The fair market value of these options, was $42,750 at October 31, 2015.

ITEM 8.
FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

See pages F-1 through F-21 following the Exhibit Index of this Annual Report on Form 10-K.

ITEM 9.
CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A.
CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures. Management, which includes our President, Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, as amended (the “Exchange Act”)) as of the end of the period covered by this report. Based upon that evaluation, our President, Chief Executive Officer and Chief Financial Officer concluded that the disclosure controls and procedures were effective to ensure that information required to be disclosed in the reports that we file and submit under the Exchange Act is (i) recorded, processed, summarized and reported as and when required and (ii) accumulated and communicated, as is appropriate, to our management, including its principal executive officer and financial officer to allow timely decisions regarding disclosure.

Management Report on Internal Control Over Financial Reporting. Management is responsible for establishing and maintaining adequate internal control over financial reporting. Our internal control system is a process designed to provide reasonable assurance to our management and Board of Directors regarding the preparation and fair presentation of published financial statements.

Our internal control over financial reporting includes policies and procedures that pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect transactions and dispositions of assets, provide reasonable assurances that transactions are recorded as necessary to permit preparation of financial statements in accordance with U.S. GAAP, and that receipts and expenditures are being made only in accordance with authorizations of our management and the directors, and provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on our financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Our management assessed the effectiveness of its internal control over financial reporting as of October 31, 2016. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (2013). Based on our assessment our management believes that, as of October 31, 2016, our internal control over financial reporting was effective based on those criteria.

There have been no changes in our internal control over financial reporting identified in connection with the evaluation that occurred during our last fiscal quarter that has materially affected, or that is reasonably likely to materially affect, our internal control over financial reporting.

Attestation Report of the Registered Public Accounting Firm.

This annual report does not include an attestation report of our registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by our registered public accounting firm pursuant to section 989G of the Dodd-Frank Wall Street Reform and Consumer Protection Act that permits us to provide only management's report in this annual report.

ITEM 9B.
OTHER INFORMATION

None.

PART III

ITEM 10.
DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

Information required by this item is incorporated by reference to our Proxy Statement for the 2017 Annual Meeting of Stockholders.

ITEM 11.
EXECUTIVE COMPENSATION

Information required by this item is incorporated by reference to our Proxy Statement for the 2017 Annual Meeting of Stockholders.

ITEM 12.
SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

Information required by this item is incorporated by reference to our Proxy Statement for the 2017 Annual Meeting of Stockholders.

ITEM 13.
CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

Information required by this item is incorporated by reference to our Proxy Statement for the 2017 Annual Meeting of Stockholders.

ITEM 14.
PRINCIPAL ACCOUNTING FEES AND SERVICES

Information required by this item is incorporated by reference to our Proxy Statement for the 2017 Annual Meeting of Stockholders.

PART IV

ITEM 15.
EXHIBITS, FINANCIAL STATEMENT SCHEDULES

(a) List of Documents filed as part of this Report

(1) Financial Statements

The financial statements and related notes, together with the report of Marcum LLP appear at pages F-1 through F-21 following the Exhibit List as required by Part II, Item 8 “Financial Statements and Supplementary Data” of this Form 10-K.

(2) Financial Statement Schedules

None.

(3) List of Exhibits

(a) Exhibits

The Company has filed with this report or incorporated by reference herein certain exhibits as specified below pursuant to Rule 12b-32 under the Exchange Act. See Exhibit Index following the signature page to this report for a complete list of documents filed with this report.

Exhibit No.	Description
2.1	Agreement and Plan of Merger, dated October 31, 1997, by and among Transpacific International Group Corp. and Coffee Holding Co., Inc. (incorporated herein by reference to Exhibit 2 to Post-Effective Amendment No. 1 to the Company’s Registration Statement on Form SB-2 filed on November 10, 1997 (File No. 333-00588-NY)).
2.2	Asset Purchase Agreement, dated February 4, 2004, by and between Coffee Holding Co., Inc. and Premier Roasters LLC (incorporated herein by reference to Exhibit 2.1 to the Company’s Current Report on Form 8-K filed on February 20, 2004 (File No. 333-00588-NY)).
3.1	Amended and Restated Articles of Incorporation of the Company (incorporated herein by reference to Exhibit 3.1 to the Company’s Registration Statement on Form 8-A the “2005 Registration Statement” filed on May 2, 2005 (File No. 001-32491)).
3.2	ByLaws of the Company (incorporated herein by reference to Exhibit 3.2 to the 2005 Registration Statement (File No. 001-32491)).
4.1	Form of Stock Certificate of the Company (incorporated herein by reference to the Company’s Registration Statement on Form SB-2 filed on June 24, 2004 (Registration No. 333-116838)).
10.1	Loan and Security Agreement, dated February 17, 2009, by and between Sterling National Bank and Coffee Holding Co., Inc. (incorporated herein by reference to Exhibit 10.21 to the Company’s Current Report on Form 8-K filed on February 23, 2009 (File No. 001-32491)).

10.2	Lease, dated February 4, 2004, by and between Coffee Holding Co., Inc. and the City of La Junta, Colorado (incorporated herein by reference to Exhibit 10.12 to Amendment No. 1 to the Company's Registration Statement on Form SB-2/A filed on August 12, 2004 (Registration No. 333-116838)).
10.3	Trademark License Agreement, dated February 4, 2004, between Del Monte Corporation and Coffee Holding Co., Inc. (incorporated herein by reference to Exhibit 10.13 to the Company's Quarterly Report on Form 10-QSB/A for the quarter ended April 30, 2004 filed on August 26, 2004 (File No. 333-00588-NY)) as amended by that First Amendment to Trademark License Agreement, dated January 4, 2013.

10.4	First Amendment to Trademark License Agreement, dated January 4, 2013, by and between Del Monte Corporation and Coffee Holding Co., Inc. Certain portions of Exhibit 10.4 are omitted based upon approval of the Company's request for confidential treatment through January 28, 2023. The omitted portions were filed separately with the SEC on a confidential basis (incorporated herein by reference to Exhibit 10.4 to the Company's Annual Report on Form 10-K for the year ended October 31, 2012 filed on January 28, 2013 (File No. 001-32491)).
10.5	Amended and Restated Employment Agreement, dated April 11, 2008, by and between Coffee Holding Co., Inc. and Andrew Gordon (incorporated herein by reference to Exhibit 10.14 of the Company's Current Report on Form 8-K filed on April 16, 2008 (File No. 001-32491)).
10.6	Amended and Restated Employment Agreement, dated April 11, 2008, by and between Coffee Holding Co., Inc. and David Gordon (incorporated herein by reference to Exhibit 10.15 of the Company's Current Report on Form 8-K filed on April 16, 2008 (File No. 001-32491)).
10.7	Coffee Holding Co., Inc. Non-Qualified Deferred Compensation Plan (incorporated herein by reference to Exhibit 10.19 of the Company's Quarterly Report on Form 10-QSB filed on June 14, 2005 (File No. 001-32491)).
10.8	Contract of Sale, dated April 14, 2009, by and between Coffee Holding Co., Inc. and 4401 1st Ave LLC (incorporated herein by reference to Exhibit 10.7 to the Company's Annual Report on Form 10-K filed on January 28, 2010 (File No. 001-32491)).
10.9	First Amendment to Loan and Security Agreement between Coffee Holding Co., Inc. and Sterling National Bank, dated July 23, 2010 (incorporated herein by reference to Exhibit 103 to the Company's Annual Report on Form 10-K filed on January 31, 2011 (File No. 001-32491)).
10.10	Placement Agency Agreement, dated as of September 27, 2011, by and among the Company, the selling stockholders named therein, Roth Capital Partners, LLC and Maxim Group, LLC (incorporated herein by reference to Exhibit 10.1 to the Company's Report on Form 8-K filed on September 27, 2011 (File No. 001-32491)).
10.11	Subscription Agreement, dated as of September 27, 2011, by and between the Company, the selling stockholders named therein and each of the purchasers identified on the signature pages thereto (incorporated herein by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed on September 27, 2011 (File No. 001-32491)).
10.12	2013 Equity Compensation Plan (incorporated by reference to Annex A of the Company's Definitive Proxy Statement filed on February 28, 2013 (File No. 13653320)).
10.13	Loan Modification Agreement, dated as of May 10, 2013, by and between Sterling National Bank and Coffee Holding Co., Inc. (incorporated herein by reference to Exhibit 10.11 to the Company's Annual Report on Form 10-K filed on January 24, 2014 (File No. 001-32491)).
10.14	Loan Modification Agreement, dated March 10, 2015, by and between Sterling National Bank and Coffee Holding Co., Inc. (incorporated herein by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on March 31, 2015).
10.15	

Loan Agreement, dated March 10, 2015, by and between Sterling National Bank and Organic Products Trading Company LLC (incorporated herein by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed on March 31, 2015).

10.16 Security Agreement, dated March 10, 2015, by and between Sterling National Bank and Coffee Holding Co., Inc. (incorporated herein by reference to Exhibit 10.3 to the Company's Current Report on Form 8-K filed on March 31, 2015).

10.17	Guarantee, dated March 10, 2015, by Coffee Holding Co., Inc. (incorporated herein by reference to Exhibit 10.4 to the Company's Current Report on Form 8-K filed on March 31, 2015).
21.1	List of Significant Subsidiaries.*
31.1	Principal Executive Officer and Principal Financial Officer's Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.*
32.1	Principal Executive Officer and Principal Financial Officer's Certification furnished pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.*
101.INS	XBRL Instance Document.
101.SCH	XBRL Taxonomy Extension Schema Document.
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document.
101.LAB	XBRL Taxonomy Extension Label Linkbase Document.
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document.
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document.

* Filed herewith

SIGNATURES

In accordance with Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized on January 27, 2017.

COFFEE HOLDING CO., INC.

By: /s/ Andrew Gordon
Andrew Gordon
President, Chief Executive Officer

In accordance with the Exchange Act, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/s/Andrew Gordon Andrew Gordon	President, Chief Executive Officer, Chief Financial Officer, Treasurer and Director (principal executive officer and principal financial and accounting officer)	January 27, 2017
/s/ David Gordon David Gordon	Executive Vice President – Operations, Secretary and Director	January 27, 2017
/s/ Gerard DeCapua Gerard DeCapua	Director	January 27, 2017
/s/ Daniel Dwyer Daniel Dwyer	Director	January 27, 2017
/s/ Barry Knepper Barry Knepper	Director	January 27, 2017
/s/ John Rotelli John Rotelli	Director	January 27, 2017
/s/ George F. Thomas George F. Thomas	Director	January 27, 2017

EXHIBIT INDEX

Exhibit No.	Description
2.1	Agreement and Plan of Merger, dated October 31, 1997, by and among Transpacific International Group Corp. and Coffee Holding Co., Inc. (incorporated herein by reference to Exhibit 2 to Post-Effective Amendment No. 1 to the Company's Registration Statement on Form SB-2 filed on November 10, 1997 (File No. 333-00588-NY)).
2.2	Asset Purchase Agreement, dated February 4, 2004, by and between Coffee Holding Co., Inc. and Premier Roasters LLC (incorporated herein by reference to Exhibit 2.1 to the Company's Current Report on Form 8-K filed on February 20, 2004 (File No. 333-00588-NY)).
3.1	Amended and Restated Articles of Incorporation of the Company (incorporated herein by reference to Exhibit 3.1 to the Company's Registration Statement on Form 8-A the "2005 Registration Statement" filed on May 2, 2005 (File No. 001-32491)).
3.2	ByLaws of the Company (incorporated herein by reference to Exhibit 3.2 to the 2005 Registration Statement (File No. 001-32491)).
4.1	Form of Stock Certificate of the Company (incorporated herein by reference to the Company's Registration Statement on Form SB-2 filed on June 24, 2004 (Registration No. 333-116838)).
10.1	Loan and Security Agreement, dated February 17, 2009, by and between Sterling National Bank and Coffee Holding Co., Inc. (incorporated herein by reference to Exhibit 10.21 to the Company's Current Report on Form 8-K filed on February 23, 2009 (File No. 001-32491)).
10.2	Lease, dated February 4, 2004, by and between Coffee Holding Co., Inc. and the City of La Junta, Colorado (incorporated herein by reference to Exhibit 10.12 to Amendment No. 1 to the Company's Registration Statement on Form SB-2/A filed on August 12, 2004 (Registration No. 333-116838)).
10.3	Trademark License Agreement, dated February 4, 2004, between Del Monte Corporation and Coffee Holding Co., Inc. (incorporated herein by reference to Exhibit 10.13 to the Company's Quarterly Report on Form 10-QSB/A for the quarter ended April 30, 2004 filed on August 26, 2004 (File No. 333-00588-NY)) as amended by that First Amendment to Trademark License Agreement, dated January 4, 2013.
10.4	First Amendment to Trademark License Agreement, dated January 4, 2013, by and between Del Monte Corporation and Coffee Holding Co., Inc. Certain portions of Exhibit 10.4 are omitted based upon a approval of the Company's request for confidential treatment through January 28, 2023. The omitted portions were filed separately with the SEC on a confidential basis (incorporated herein by reference to Exhibit 10.4 to the Company's Annual Report on Form 10-K for the year ended October 31, 2012 filed on January 28, 2013 (File No. 001-32491)).
10.5	Amended and Restated Employment Agreement, dated April 11, 2008, by and between Coffee Holding Co., Inc. and Andrew Gordon (incorporated herein by reference to Exhibit 10.14 of the Company's Current Report on Form 8-K filed on April 16, 2008 (File No. 001-32491)).
10.6	Amended and Restated Employment Agreement, dated April 11, 2008, by and between Coffee Holding Co., Inc. and David Gordon (incorporated herein by reference to Exhibit 10.15 of the Company's Current Report

on Form 8-K filed on April 16, 2008 (File No. 001-32491)).

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10.7	Coffee Holding Co., Inc. Non-Qualified Deferred Compensation Plan (incorporated herein by reference to Exhibit 10.19 of the Company's Quarterly Report on Form 10-QSB filed on June 14, 2005 (File No. 001-32491)).
10.8	Contract of Sale, dated April 14, 2009, by and between Coffee Holding Co., Inc. and 4401 1st Ave LLC (incorporated herein by reference to Exhibit 10.7 to the Company's Annual Report on Form 10-K filed on January 28, 2010 (File No. 001-32491)).
10.9	First Amendment to Loan and Security Agreement between Coffee Holding Co., Inc. and Sterling National Bank, dated July 23, 2010 (incorporated herein by reference to Exhibit 10.9 to the Company's Annual Report on Form 10-K filed on January 31, 2011 (File No. 001-32491).
10.10	Placement Agency Agreement, dated as of September 27, 2011, by and among the Company, the selling stockholders named therein, Roth Capital Partners, LLC and Maxim Group, LLC (incorporated herein by reference to Exhibit 10.1 to the Company's Report on Form 8-K filed on September 27, 2011 (File No. 001-32491)).
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10.12	2013 Equity Compensation Plan (incorporated by reference to Annex A of the Company's Definitive Proxy Statement filed on February 28, 2013 (File No. 13653320)).
10.13	Loan Modification Agreement, dated as of May 10, 2013, by and between Sterling National Bank and Coffee Holding Co., Inc. (incorporated herein by reference to Exhibit 10.11 to the Company's Annual Report on Form 10-K filed on January 24, 2014 (File No. 001-32491)).
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COFFEE HOLDING CO., INC. AND SUBSIDIARY
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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Audit Committee of the
Board of Directors and Shareholders
Coffee Holding Co., Inc. and Subsidiaries

We have audited the accompanying consolidated balance sheets of Coffee Holding Co., Inc. and Subsidiaries (the "Company") as of October 31, 2016 and 2015 and the related consolidated statements of operations, changes in redeemable common stock and stockholders' equity and cash flows for each of the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Coffee Holding Co., Inc. and Subsidiaries as of October 31, 2016 and 2015, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

/s/ Marcum LLP

New York, NY

January 27, 2017

COFFEE HOLDING CO., INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
OCTOBER 31, 2016 AND 2015

	2016	2015
- ASSETS -		
CURRENT ASSETS:		
Cash	$3,227,981	$3,853,816
Accounts receivable, net of allowances of $144,000 for 2016 and 2015	13,517,892	10,968,237
Inventories	14,276,290	13,862,818
Prepaid green coffee	435,577	620,452
Prepaid expenses and other current assets	535,456	256,202
Prepaid and refundable income taxes	481,977	1,434,577
Due from broker	134,722	
Deferred income tax asset	81,545	997,720
TOTAL CURRENT ASSETS	32,691,440	31,993,822
Machinery and equipment, at cost, net of accumulated depreciation of $4,819,828 and $4,241,256 for 2016 and 2015, respectively	2,269,863	1,845,000
Customer list and relationships, net of accumulated amortization of $50,250 and $41,250 for 2016 and 2015, respectively	219,750	108,750
Trademarks	180,000	180,000
Goodwill	1,017,905	440,000
Equity method investments	95,598	96,571
Deposits and other assets	549,337	610,499
TOTAL ASSETS	$37,023,893	$35,274,642
- LIABILITIES, REDEEMABLE COMMON STOCK AND STOCKHOLDERS' EQUITY -		
CURRENT LIABILITIES:		
Accounts payable and accrued expenses	$4,062,573	$4,021,389
Line of credit	6,958,375	5,554,121
Due to broker	-	483,835
Income taxes payable	1,050	-
TOTAL CURRENT LIABILITIES	11,021,998	10,059,345
Deferred income tax liabilities	167,470	92,370
Deferred rent payable	231,216	222,055
Deferred compensation payable	489,668	482,499

TOTAL LIABILITIES	11,910,352	10,856,269
Redeemable common stock:		
Common stock subject to possible redemption, at $200,004; 38,364 shares issued and outstanding at redemption value as of October 31, 2016, none as of October 31, 2015	200,004	
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS' EQUITY:		
Coffee Holding Co., Inc. stockholders' equity:		
Preferred stock, par value $.001 per share; 10,000,000 shares authorized; none issued	-	-
Common stock, par value $.001 per share; 30,000,000 shares authorized, 6,494,680 and 6,456,316 shares issued; 5,824,938 and 6,162,207 shares outstanding for 2016 and 2015	6,456	6,456
Additional paid-in capital	15,904,109	15,904,109
Retained earnings	11,878,228	9,665,940
Less: Treasury stock, 631,378 and 294,109 common shares, at cost for 2016 and 2015	(3,249,590)	(1,494,712)
Total Coffee Holding Co., Inc. Stockholders' Equity	24,539,203	24,081,793
Noncontrolling interest	374,334	336,580
TOTAL EQUITY	24,913,537	24,418,373
TOTAL LIABILITIES, REDEEMABLE COMMON STOCK AND STOCKHOLDERS' EQUITY	$37,023,893	$35,274,642

See Notes to Consolidated Financial Statements

COFFEE HOLDING CO., INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
YEARS ENDED OCTOBER 31, 2016 AND 2015

	2016	2015
NET SALES	$78,948,228	$118,153,541
COST OF SALES (which include purchases of approximately $8.5 million and $22.1 million in fiscal years 2016 and 2015, respectively, from a related party)	67,066,050	112,436,831
GROSS PROFIT	11,882,178	5,716,710
OPERATING EXPENSES:		
Selling and administrative	7,363,710	7,000,744
Officers' salaries	655,400	653,285
TOTAL	8,019,110	7,654,029
INCOME (LOSS) FROM OPERATIONS	3,863,068	(1,937,319)
OTHER INCOME (EXPENSE):		
Interest income	41,176	45,049
Loss from equity method investments	(972)	(833)
Interest expense	(187,310)	(200,074)
TOTAL	(147,106)	(155,858)
INCOME (LOSS) BEFORE PROVISION (BENEFIT) FOR INCOME TAXES AND NON-CONTROLLING INTEREST IN SUBSIDIARY	3,715,962	(2,093,177)
Provision (benefit) for income taxes	1,365,920	(763,647)
NET INCOME (LOSS) BEFORE NON-CONTROLLING INTEREST IN SUBSIDIARY	2,350,042	(1,329,530)
Less: Net income attributable to the non-controlling interest in subsidiary	(137,754)	(83,698)
NET INCOME (LOSS) ATTRIBUTABLE TO COFFEE HOLDING CO., INC.	$2,212,288	$(1,413,228)
Basic and diluted earnings (loss) per share	$.36	$(.23)
Weighted average common shares outstanding:		
Basic and diluted	6,082,777	6,212,929

See Notes to Consolidated Financial Statements

COFFEE HOLDING CO., INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CHANGES IN REDEEMABLE COMMON STOCK AND STOCKHOLDERS' EQUITY
YEARS ENDED OCTOBER 31, 2016 AND 2015

	Redeemable Common Stock		Common Stock $.001 Par Value		Treasury Stock		Additional		Non-	
	Number of Shares	Amount	Number of Shares	Amount	Number of Shares	Amount	Paid-in Capital	Retained Earnings	Controlling Interest	Total
Balance,10/31/14				6,215,894	$ 6,456	240,422	$ (1,267,862)	$ 15,904,109	$ 11,079,168	$ 332,88
Treasury Stock				(53,687)		53,687	(226,850)			
Dividend										(80,000
Net loss									(1,413,228)	
Non-Controlling Interest	-		-	-	-	-	-	-	-	83,698
Balance, 10/31/15	-		$ -	6,162,207	$ 6,456	294,109	$ (1,494,712)	$ 15,904,109	$ 9,665,940	$ 336,58
Treasury Stock				(337,269)		337,269	(1,754,878)			
Stock issued in connection with Acquisition	38,364		200,004							
Dividend										(100,00
Net income									2,212,288	
Non-Controlling Interest				-	-	-	-	-	-	137,754

Balance, 10/31/16	38,364	$ 200,004	5,824,938	$ 6,456	631,378	$ (3,249,590)	$ 15,904,109	$ 11,878,228	$ 374,3

See Notes to Consolidated Financial Statements

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COFFEE HOLDING CO., INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED OCTOBER 31, 2016 AND 2015

	2016	2015
OPERATING ACTIVITIES:		
Net income (loss)	$2,350,042	$(1,329,530)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation and amortization	587,572	545,390
Unrealized (gain) on commodities	(618,557)	(1,089)
Loss on equity method investments	972	833
Deferred rent	9,161	12,415
Deferred income taxes	991,275	(726,850)
Changes in operating assets and liabilities:		
Accounts receivable	(2,465,512)	4,451,623
Inventories	(143,907)	1,347,335
Prepaid expenses and other current assets	(279,254)	3,910
Prepaid green coffee	184,875	(153,297)
Prepaid and refundable income taxes	952,600	(1,433,818)
Accounts payable and accrued expenses	(30,860)	(4,671,711)
Deposits and other assets	68,331	-
Income taxes payable	1,050	(331,051)
Net cash provided by (used in) operating activities	1,607,788	(2,285,840)
INVESTING ACTIVITIES:		
Cash paid for acquisition of business	(819,564)	-
Purchases of machinery and equipment	(963,435)	(391,796)
Net cash used in investing activities	(1,782,999)	(391,796)
FINANCING ACTIVITIES:		
Line of credit	1,404,254	3,055,663
Purchase of treasury stock	(1,754,878)	(226,850)
Payment of dividend	(100,000)	(80,000)
Net cash (used in) provided by financing activities	(450,624)	2,748,813
NET (DECREASE) INCREASE IN CASH	(625,835)	71,177
CASH, BEGINNING OF PERIOD	3,853,816	3,782,639
CASH, END OF PERIOD	$3,227,981	$3,853,816

See Notes to Consolidated Financial Statements

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COFFEE HOLDING CO., INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED OCTOBER 31, 2016 AND 2015

	2016	2015
SUPPLEMENTAL DISCLOSURE OF CASH FLOW DATA:		
Interest paid	$181,007	$196,556
Income taxes paid	$34,183	$1,651,156
SUPPLEMENTAL DISCLOSURE OF NON-CASH INVESTING AND FINANCING ACTIVITIES:		
On June 29, 2016 Coffee Holding Co., Inc. acquired certain assets of Coffee Kinetics, LLC:		
Accounts receivable	$84,142	
Inventory	269,565	
Equipment	40,000	
Customer list	120,000	
Goodwill	577,905	
Less: liabilities assumed	(72,044)	
Net assets acquired:	1,019,568	
Redeemable Common Stock	200,004	
Net cash paid	$819,564	

See Notes to Consolidated Financial Statements

COFFEE HOLDING CO., INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
OCTOBER 31, 2016 AND 2015

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 also manufactures and sells coffee roasters. 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 eight 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 certain countries in Asia. 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.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

BASIS OF PRESENTATION:

The consolidated financial statements include the accounts of the Company, Organic Products Trading Company, LLC ("OPTCO"), Sonofresco LLC ("Sono") and Generations Coffee Company, LLC ("GCC"). All significant inter-company balances and transactions have been eliminated in consolidation.

USE OF ESTIMATES:

The preparation of the Company's financial statements in conformity with accounting principles generally accepted in the United States of America ("U.S. GAAP") requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Significant estimates include allowance for uncollectible accounts receivable and reserves, inventory obsolescence, depreciation, intangible asset valuations and useful lives, taxes,

contingencies, and valuation of financial instruments. These estimates may be adjusted as more current information becomes available, and any adjustment could have a significant impact on recorded amounts.

CASH:

Cash consists primarily of unrestricted cash on deposit at financial institutions and brokerage firms.

COFFEE HOLDING CO., INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
OCTOBER 31, 2016 AND 2015

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd):

PREPAID GREEN COFFEE:

Prepaid coffee is an item that emanates from OPTCO. 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 $41,176 and $45,049 as of October 31, 2016 and 2015, respectively. The prepaid coffee balance was $435,577 and $620,452 as of October 31, 2016 and 2015, respectively.

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 collectability 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 collectability. 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:

	2016	2015
Allowance for doubtful accounts	$65,000	$65,000
Reserve for other allowances	35,000	35,000
Reserve for sales discounts	44,000	44,000
Totals	$144,000	$144,000

INVENTORIES:

Inventories are stated at the lower of cost (First in, first out basis) or market, including provisions for obsolescence commensurate with known or estimated exposures. There are no reserves for obsolescence as of October 31, 2016 and 2015.

MACHINERY AND EQUIPMENT:

Machinery and equipment are recorded at cost and depreciated using the straight-line method over the estimated useful lives of the assets. Purchases of machinery and equipment and additions and betterments which substantially extend the useful life of an asset are capitalized at cost. Expenditures which do not materially prolong the normal

useful life of an asset are charged to operations as incurred. The Company also provides for amortization of leasehold improvements.

COFFEE HOLDING CO., INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
OCTOBER 31, 2016 AND 2015

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd):

COMMODITIES HELD BY BROKER:

The commodities held at broker represent the market value of the Company's trading account, which consists of option 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 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:

	2016	2015
Option contracts	$(83,753)	$(134,613)
Future contracts	218,475	(349,222)
Commodities due to broker	$134,722	$(483,835)

The Company classifies its options and future contracts as trading securities and accordingly, unrealized holding gains and losses are included in earnings.

At October 31, 2016, the Company held 22 futures contracts (generally with terms of three to four months) for the purchase of 825,000 pounds of green coffee at a weighted average price of $1.45 per pound. The fair market value of coffee applicable to such contracts was $1.64 per pound at that date. At October 31, 2016, the Company did not have any options.

At October 31, 2015, the Company held 38 futures contracts (generally with terms of three to four months) for the purchase of 1,425,000 pounds of green coffee at a weighted average price of $1.23 per pound. The fair market value of coffee applicable to such contracts was $1.21 per pound at that date. At October 31, 2015, the Company held 20 options covering an aggregate of 750,000 pounds of green coffee beans at $1.25 per pound. The fair market value of these options, which was obtained from observable market data of similar instruments was $42,750.

Included in cost of sales for the years ended October 31, 2016 and 2015, the Company recorded realized and unrealized gains and losses respectively, on these contracts as follows:

	Year Ended October 31,	
	2016	2015

Gross realized gains	$1,443,046	$1,292,471
Gross realized (losses)	(1,000,976)	(6,778,407)
Unrealized gains	618,558	1,089
Total	$1,060,628	$(5,484,847)

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COFFEE HOLDING CO., INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
OCTOBER 31, 2016 AND 2015

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd):

GOODWILL AND TRADEMARKS:

The Company has determined that its goodwill and trademarks, which consist of product lines, trade names and packaging designs have an indefinite useful life. The value of the goodwill and trademarks was allocated based on an independent valuation. Goodwill and trademarks are not amortized but are assigned to a specific reporting unit or asset class and tested for impairment at least annually or upon the occurrence of an event or when circumstances indicate that the reporting unit's carrying amount of goodwill and trademarks is greater than its fair value. As of October 31, 2016 and 2015, the Company has determined by using a qualitative assessment that an impairment did not exist. In 2011, the Company adopted Financial Accounting Standard ASB ASU 2011-08 Intangibles – Goodwill and Other – Testing Goodwill for Impairment, which allows an entity to first assess qualitative factors to determine whether it is necessary to perform the two-step quantitative goodwill impairment test. Under this amendment, an entity would not be required to calculate the fair value of a reporting unit unless the entity determines, based on a qualitative assessment, that it is more likely than not that its fair value is less than its carrying amount. The amendment includes a number of events and circumstances for an entity to consider in conducting the qualitative assessment.

CUSTOMER LIST AND RELATIONSHIPS:

Customer list and relationships consist of a specific customer lists and customer contracts obtained by the Company in the acquisition of OPTCO and Sono which are being amortized on the straight-line method over their estimated useful life of twenty years.

ADVERTISING:

The Company expenses the cost of advertising and promotion as incurred. Advertising costs charged to operations totaled $170,774 and $157,922 for the years ended October 31, 2016 and 2015, respectively.

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. Deferred tax assets and liabilities are individually classified as current or non-current based on their characteristics. 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.

EARNINGS PER SHARE:

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 and diluted earnings per share were 6,082,777 and 6,212,929 for the years ended October 31, 2016 and 2015, respectively.

COFFEE HOLDING CO., INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 2 -SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd):

FAIR VALUE OF FINANCIAL INSTRUMENTS:

The carrying amounts of cash, accounts receivable, notes receivable, accounts payable and accrued expenses approximate fair value because of the short-term nature of these instruments. The carrying amount of the bank line of credit borrowings approximates fair value because the debt is based on current rates at which the Company could borrow funds with similar remaining maturities. Fair value estimates are made at a specific point in time, based on relevant market information about the financial instruments when available. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and therefore, cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

REVENUE RECOGNITION:

The Company recognizes revenue in accordance with the authoritative guidance. Revenue is recognized at the point title and risk of ownership transfers to its customers upon the Company's shippers taking possession of the goods at the time of shipment because i) title passes in accordance with the terms of the Company's purchase orders and with its agreements with its customers, ii) any risk of loss is covered by the Company's customers' insurance, iii) there is persuasive evidence of a sales arrangement, iv) the sales price is determinable and v) collection of the resulting receivable is reasonably assured. Thus, revenue is recognized at the point of shipment to its customers.

Returns: The Company does not accept returns for damaged goods on packaged coffee and usable green coffee, as the customer takes possession of our product at the point of shipment. In the event a customer claims receipt of damaged goods, the Company, acting as an agent on behalf of the customer, may file a claim for reimbursement with the shipper. The Company is not obligated or required to act as an agent on behalf of its customers, but may make the business decision to do so as a convenience to its customers. The shipper keeps the damaged product. The Company will then ship a completely new order to the customer once a claim has been filed and the Company receives reimbursement or credit from the shipper for the initial shipment. The Company does evaluate the need, if any, of an accrual for returns for damaged goods. To date, returns for damaged goods have been immaterial. The Company estimates that, based on historical trends, that future returns for damaged goods should also be immaterial.

In the event that the Company ships an incorrect order or has returns for short dated product, the Company will accept those two types of items back as returns. The amount for these two types of returns are estimated, accrued and recognized at the date of sale. These amounts are included in the determination of net sales.

Slotting fees: Certain retailers require the payment of slotting fees in order to obtain space for the Company's products on the retailer's store shelves. The cost of these fees are estimated, accrued and recognized at the earlier of the date cash is paid or a liability to the retailer is created. The amounts are included in the determination of net sales.

Sales discounts: The amount of sales discounts are estimated, accrued and recognized at the date of the sale. These amounts are included in the determination of net sales.

COFFEE HOLDING CO., INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
OCTOBER 31, 2016 AND 2015

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd):

REVENUE RECOGNITION (cont'd):

Volume-based incentives: These incentives typically involve rebates or refunds of a specific amount of cash consideration that are redeemable only if the reseller completes a specified cumulative level of sales transactions. Under incentive programs of this nature, the Company estimates and accrues the cost of the rebate when it is taken by the reseller. These amounts are included in the determination of net sales.

Cooperative advertising: Under these arrangements, the Company will agree to reimburse the reseller for a portion of the costs incurred by the reseller to advertise and promote certain of the Company's products. The Company estimates, accrues and recognizes the cost of cooperative advertising programs in the period in which the advertising and promotional activity first takes place. The costs of these incentives are included in advertising expense.

SHIPPING AND HANDLING FEES AND COSTS:

Revenue earned from shipping and handling fees is reflected in net sales. Costs associated with shipping product to customers aggregating approximately $1,506,000 and $1,352,000 for the years ended October 31, 2016 and 2015, respectively, is included in selling and administrative expenses.

CONCENTRATION OF RISK:

Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of cash deposits at financial institutions and brokerage firms.

Accounts at each institution are insured by the Federal Deposit Insurance Corporation ("FDIC") up to certain limits. At October 31, 2016 and 2015, the Company had approximately $1,539,429 and $220,422 in excess of FDIC insured limits, respectively.

The accounts at the brokerage firm contain cash and securities. Balances are insured up to $500,000, with a limit of $100,000 for cash, by the Securities Investor Protection Corporation ("SIPC"). At October 31, 2016 and 2015, the Company had approximately $348,041 and $2,818,431 in excess of SIPC insured limits, respectively.

See Note 10 for concentration of risks with respect to trade receivables and purchases from accounts payable vendors.

OPERATING LEASES:

The Company has operating lease agreements for its corporate office and warehouses, some of which contain provisions for future rent increases or periods in which rent payments are abated. Operating leases which provide for lease payments that vary materially from the straight-line basis are adjusted for financial accounting purposes to reflect rental income or expense on the straight-line basis in accordance with the authoritative guidance issued by the FASB. The excess of straight-line rent over actual payments by the Company of $231,216 and $222,055 is included as deferred rent payable as of October 31, 2016 and 2015, respectively.

COFFEE HOLDING CO., INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
OCTOBER 31, 2016 AND 2015

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd):

EQUITY METHOD OF ACCOUNTING:

Investee companies that are not consolidated, but over which the Company exercises significant influence, are accounted for under the equity method of accounting. Whether or not the Company exercises significant influence with respect to an Investee depends on an evaluation of several factors including, among others, representation on the Investee company's board of directors and ownership level, which is generally a 20% to 50% interest in the voting securities of the Investee company. Under the equity method of accounting, an Investee company's accounts are not reflected within the Company's Consolidated Balance Sheets and Consolidated Statements of Income; however, the Company's share of the earnings or losses of the Investee company is reflected in the caption "Loss from equity method investments" in the Consolidated Statements of Income. The Company's carrying value in an equity method Investee company is reflected in the caption "Equity method investments" in the Company's Consolidated Balance Sheets.

The Company's investment in a company that is accounted for on the equity method of accounting consist of the following: (1) 20% interest in Healthwise Gourmet Coffees, LLC, a distributor of low acidity coffees. The investments in this company amounted to $100,000. The loss recognized amounted to $972 and $833 for the years ended October 31, 2016 and 2015, respectively. The net value of this investment as presented on our consolidated balance sheet at October 31, 2016 and 2015 was $95,598 and $96,571, respectively.

NOTE 3 - RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS AFFECTING THE COMPANY:
The FASB has issued ASU No. 2015-17, Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes, which changes how deferred taxes are classified on organizations' balance sheets.

The ASU eliminates the current requirement for organizations to present deferred tax liabilities and assets as current and noncurrent in a classified balance sheet. Instead, organizations will be required to classify all deferred tax assets and liabilities as noncurrent. The amendments apply to all organizations that present a classified balance sheet. For public companies, the amendments are effective for financial statements issued for annual periods beginning after December 15, 2016, and interim periods within those annual periods. For private companies, not-for-profit organizations, and employee benefit plans, the amendments are effective for financial statements issued for annual periods beginning after December 15, 2017, and interim periods within annual periods beginning after December 15, 2018. The adoption of this standard is not expected to have a material impact on the Company's consolidated financial position and results of operations.
In July 2015, the FASB issued ASU 2015-11, "Inventory (Topic 330): Simplifying the Measurement of Inventory," which applies to inventory that is measured using first-in, first-out ("FIFO") or average cost. Under the updated guidance, an entity should measure inventory that is within scope at the lower of cost and net realizable value, which is the estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal and transportation. Subsequent measurement is unchanged for inventory that is measured using last-in, last-out ("LIFO"). This ASU is effective for annual and interim periods beginning after December 15, 2016, and should be applied prospectively with early adoption permitted at the beginning of an interim or annual reporting period. The Company is currently evaluating the impact of adopting this guidance.
The FASB issued ASU 2016-02, Leases (Topic 842). ASU 2016-01 requires that a lessee recognize the assets and liabilities that arise from operating leases. A lessee should recognize in the statement of financial position a liability to make lease payments (the lease liability) and a right-of-use asset representing its right to use the underlying asset for

the lease term. For leases with a term of 12 months or less, a lessee is permitted to make an accounting policy election by class of underlying asset not to recognize lease assets and lease liabilities. In transition, lessees and lessors are required to recognize and measure leases at the beginning of the earliest period presented using a modified retrospective approach.

COFFEE HOLDING CO., INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
OCTOBER 31, 2016 AND 2015

NOTE 3 - RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS AFFECTING THE COMPANY (cont'd):
Public business entities should apply the amendments in ASU 2016-02 for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years (i.e., January 1, 2019, for a calendar year entity). Nonpublic business entities should apply the amendments for fiscal years beginning after December 15, 2019 (i.e., January 1, 2020, for a calendar year entity), and interim periods within fiscal years beginning after December 15, 2020. Early application is permitted for all public business entities and all nonpublic business entities upon issuance. The Company is currently evaluating the impact of adopting this guidance.
On March 17, 2016 the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2016-08 that amends the guidance for Principle versus Agent Considerations (Reporting Revenue Gross versus Net) in ASC 2014-09, Revenue from Contracts with Customers (Topic 606), issued in May 2014. The ASU clarifies that the principal or agent determination is based on whether the entity controls the goods or services before they are transferred to its customer. Public entities must apply ASU 2016-08 to annual reporting periods beginning after December 15, 2017, including interim reporting periods within that reporting period. Nonpublic entities will be required to adopt the amendments for annual reporting periods beginning after December 15, 2018, and interim periods within annual reporting periods beginning after December 15, 2019. Earlier application is permitted for both types of entities only as of annual reporting periods beginning after December 15, 2016, including interim reporting periods within that reporting period. Early adoption prior to that date is not permitted. The Company is evaluating the effect that ASU 2016-08 will have on its results of operations, financial position or cash flows.

In May 2014 the FASB issued ASU 2014-09, Revenue from Contracts with Customers, which is a new standard related to revenue recognition. Under the new standard, recognition of revenue occurs when a customer obtains control of promised services or goods in an amount that reflects the consideration to which the entity expects to receive in exchange for those goods or services. In addition, the standard requires disclosure of the nature, amount, timing, and uncertainty of revenue and cash flows arising from customer contracts. The standard must be adopted using either a full retrospective approach for all periods presented in the period of adoption or a modified retrospective approach. In July 2015, the FASB issued ASU 2015-14, Revenue from Contracts with Customers - Deferral of the Effective Date, which defers the implementation of this new standard to be effective for fiscal years beginning after December 15, 2017. Early adoption is permitted effective January 1, 2017. In March 2016, the FASB issued ASU 2016-08, Principal versus Agent Considerations, which clarifies the implementation guidance on principal versus agent considerations in the new revenue recognition standard pursuant to ASU 2014-09. In April 2016, the FASB issued ASU 2016-10, Identifying Performance Obligations and Licensing, and in May 2016, the FASB issued ASU 2016-12, Narrow-Scope Improvements and Practical Expedients, which amend certain aspects of the new revenue recognition standard pursuant to ASU 2014-09. We are currently evaluating which transition approach we will utilize and the impact of adopting this accounting standard on our financial statements.

NOTE 4 - INVENTORIES:
Inventories at October 31, 2016 and 2015 consisted of the following:

	2016	2015
Packed coffee	$1,804,633	$1,441,451
Green coffee	11,434,024	11,730,006
Roasters and parts	210,007	-

Packaging supplies	827,626	691,361
Totals	$14,276,290	$13,862,818

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COFFEE HOLDING CO., INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
OCTOBER 31, 2016 AND 2015

NOTE 5 - FORMATION OF SUBSIDIARY:
On June 23, 2016, the Company formed a wholly-owned subsidiary named Sonofresco, LLC a Delaware limited liability company.

Pursuant to the terms of an Agreement for Purchase and Sale of Assets dated June 23, 2016 (the “Sono Agreement”), by and among the Company, Coffee Kinetics LLC, a Washington limited liability company (the “Seller”), the members of the Seller and Sono (the “Buyer”), the Company, through its wholly-owned subsidiary Sono, purchased substantially all the assets, including equipment, inventory, customer list and relationships (the “Assets”) of the Seller. The acquisition was accounted for using the purchase method in accordance with ASC 805, “Business Combinations.” The Buyer purchased the Assets for a purchase price consisting of $819,564 in cash and 38,364 shares of the Company's redeemable common stock (the "Sono Shares") with a value of $200,004 (the "Common Stock Payment Amount") issued on June 29, 2016.

As part of the transaction, all of the employees of the Seller became employees of the Buyer. In addition, on June 29, 2016, the Company entered into a one-year advisory agreement (the “Advisory Agreement”), with one of the Seller’s executives (the “Executive”), on an independent contractor basis, to ensure continuity of the business and to continue to operate the business located in Washington. The Advisory Agreement will automatically renew for an additional one year term upon the expiration of the first year term unless terminated by the Company. After completion of the first year term, the Advisory Agreement is subject to renewal by mutual agreement of the parties. Pursuant to the terms of the Advisory Agreement, the Executive is entitled to cash compensation of $50,000 per annum. If the Advisory Agreement is terminated prior to the end of the first year term, the Executive is entitled to receive an additional $50,000 termination fee. If the term of the Advisory Agreement is extended past the first year term, subject to certain exceptions, the Executive will be entitled to the $50,000 termination fee upon termination of the Advisory Agreement.

The following table summarizes the estimated fair value of the assets and liabilities assumed at the acquisition:

Assets acquired:	
Accounts receivable	$84,142
Inventory	269,565
Equipment	40,000
Customer list	120,000
Goodwill	577,905
Less: liabilities assumed	(72,044)
Net assets acquired:	$1,019,568
Purchase of assets funded by:	
Cash Paid	819,564
Redeemable Common Stock	200,004
	$1,019,568

Pursuant to the terms of Sono Agreement, the value of the Sono Shares was based on the three day average of the closing price of the Company's common stock for the three trading days immediately prior to June 23, 2016. In addition, pursuant to the terms of the Sono Agreement, during the twelve month period commencing on June 29, 2016

(the "Closing Date"), if Seller informs Buyer of its desire to sell all, but not less than all of the Sono Shares to the Company, Buyer agrees to repurchase all but not less than all of the Sono Shares at the Common Stock Payment amount.

COFFEE HOLDING CO., INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
OCTOBER 31, 2016 AND 2015

NOTE 5 - FORMATION OF SUBSIDIARY (cont'd):
Pro Forma Results of Operations (unaudited) The following pro forma results of operations for the years ended October 31, 2016 and 2015 have been prepared as though the acquisition of Sono had occurred as of the beginning of the earliest period presented. This pro forma financial information is not indicative of the results of operations that the Company would have attained had the acquisition of Sono occurred at the beginning of the periods presented, nor is the pro forma financial information indicative of the results of operations that may occur in the future:

	Year ended October 31,	
	2016	2015
Pro forma sales	$80,132,616	$119,711,018
Pro forma net income (loss)	$2,290,084	$(1,433,493)
Pro forma basic and diluted earnings per share	$.38	$(.23)
Basic and diluted weighted average common shares outstanding	6,082,777	6,212,929

The operations of Sono have been included in the Company's consolidated statement of operations since the date of the acquisition on June 29, 2016. The total revenue included for the period is $560,736.
NOTE 6 - MACHINERY AND EQUIPMENT:

Machinery and equipment at October 31, 2016 and 2015 consisted of the following:

	Estimated Useful Life	2016	2015
Improvements	15-30 years	$202,285	$199,035
Machinery and equipment	7 years	6,004,156	5,274,277
Furniture and fixtures	7 years	883,250	612,944
		7,089,691	6,086,256
Less, accumulated depreciation		4,819,828	4,241,256
		$2,269,863	$1,845,000

Depreciation expense totaled $578,572 and $537,890 for the years ended October 31, 2016 and 2015, respectively.

COFFEE HOLDING CO., INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
OCTOBER 31, 2016 AND 2015

NOTE 7 - LINE OF CREDIT:

On March 10, 2015, the Company entered into a loan modification agreement (the "Modification Agreement") with its lender Sterling National Bank ("Sterling") which modified the terms of the financing agreement with Sterling previously entered into on February 17, 2009 (the "Financing Agreement"). Prior to the Modification Agreement, the Financing Agreement, as amended, provided for a credit facility in which the Company had a revolving line of credit for a maximum of $7,000,000 (the "Loan Facility"). On February 3, 2011, the Company amended the Financing Agreement to create a sublimit within the revolving line of credit in the form of a $300,000 term loan for the benefit of GCC. The Financing Agreement was set to expire on March 31, 2015. Pursuant to the Modification Agreement, the Financing Agreement was modified to, among other things, (i) extend the term of the Financing Agreement until February 28, 2017; (ii) increase the maximum amount of the Loan Facility from $7,000,000 to $9,000,000; (iii) reduce the interest rate on the average unpaid balance of the line of credit from an interest rate equal to a per annum reference rate of 3.75% to an interest rate per annum equal to the Wall Street Journal Prime Rate; and (iv) require the Company to pay, upon the occurrence of certain termination events, a prepayment premium of 0.50% of the maximum amount of the credit facility in effect as of the date of the termination event.

Other than as described above, the Financing Agreement remains in full force and effect. Pursuant to the Modification Agreement, the Company is able to draw on the loan Facility up to an amount of 85% of eligible accounts receivable and 25% of eligible inventory consisting of green coffee beans and finished coffee not to exceed $1,000,000. The Loan Facility is secured by all tangible and intangible assets of the Company.

The Loan Facility contains covenants that place annual restrictions on our operations, including covenants related 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 restrictive transactions. The Loan 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 October 31, 2016 and 2015.

As of October 31, 2016 and 2015, the outstanding balance under the bank line of credit was $5,121,375 and $4,317,121, respectively.

Also on March 10, 2015, the Company, as guarantor, and OPTCO (the "Borrower"), as borrower, entered into a new loan facility agreement with Sterling. The new loan facility is a revolving line of credit for a maximum of $3,000,000 (the "New Loan Facility"). The New Loan Facility terminates on February 28, 2017. The Borrower is able to draw on the New Loan Facility at an amount up to 85% of eligible accounts receivable, not to exceed 25% of all accounts of the Borrower. The New Loan Facility is payable monthly in arrears on the average unpaid balance of the line of credit at an interest rate per annum equal to the Wall Street Journal Prime Rate (currently 3.5%). The New Loan Facility is secured by all tangible and intangible assets of the Company. In connection with the New Loan Facility, the Company entered into a security agreement with Sterling and provided Sterling with a guarantee of the Borrower's obligations. As of October 31, 2016 and 2015, the outstanding balance under the New Loan Facility was $1,837,000.

COFFEE HOLDING CO., INC. AND SUBSIDIARIES
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NOTE 8 - INCOME TAXES:

The Company's provision (benefit) for income taxes in 2016 and 2015 consisted of the following:

	2016	2015
Current		
Federal	$219,562	$(73,407)
State and local	155,083	36,610
	374,645	(36,797)
Deferred		
Federal	941,150	(657,500)
State and local	50,125	(69,350)
	991,275	(726,850)
Income tax (benefit) expense	$1,365,920	$(763,647)

A reconciliation of the difference between the expected income tax rate using the statutory U.S. federal tax rate and the Company's effective tax rate is as follows:

	2016	2015
Tax at the federal statutory rate of 34%	$1,263,427	$(711,680)
Other permanent differences	(32,944)	(30,359)
State and local tax, net of federal benefit	135,437	(21,608)
Provision for income taxes	$1,365,920	$(763,647)
Effective income tax rate	37%	(37%)

COFFEE HOLDING CO., INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
OCTOBER 31, 2016 AND 2015

NOTE 8 - INCOME TAXES (cont'd):

The tax effects of the temporary differences that give rise to the deferred tax assets and liabilities as of October 31, 2016 and 2015 are as follows:

	2016	2015
Current deferred tax assets:		
Accounts receivable	$67,034	$53,605
Net operating loss		714,150
Unrealized loss		180,112
Inventory	64,384	49,853
Total current deferred tax asset	$131,418	$997,720
Non-current deferred tax assets:		
Deferred rent	107,635	82,666
Deferred compensation	227,947	179,614
Total non-current deferred tax asset	$335,582	$262,280
Total deferred tax asset	$467,000	$1,260,000
Current deferred tax liability:		
Unrealized gain	$49,873	$
Non-current deferred tax liability:		
Fixed assets	$503,052	354,650
Total deferred tax liabilities	$552,925	$354,650

A valuation allowance was not provided at October 31, 2016 or 2015. In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies in making this assessment. Based upon the level of historical taxable income and projections for future taxable income over the periods in which the deferred tax assets are expected to be deductible, management believes it is more likely than not the Company will realize the benefits of these deductible differences. The amount of the deferred tax asset considered realizable, however, could be reduced in the near term if estimates of future taxable income are reduced.

As of October 31, 2016 and 2015, 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 October 31, 2016 and 2015, the Company had no accrued interest or penalties related to income taxes. The Company currently has no federal or state tax examinations in progress.

COFFEE HOLDING CO., INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
OCTOBER 31, 2016 AND 2015

NOTE 8 - INCOME TAXES (cont'd):

The Company files a U.S. federal income tax return and California, Colorado, Connecticut, Idaho, Kansas, Michigan, New Jersey, New York, Texas, Rhode Island, South Carolina, Virginia and Oregon state tax returns. The Company's federal income tax return is no longer subject to examination by the federal taxing authority for years before fiscal 2013. 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 2010. The Company's Oregon, New York, Kansas, South Carolina, Rhode Island, Connecticut and Michigan and Texas income tax returns are no longer subject to examination by their respective taxing authorities for the years before fiscal 2011.

NOTE 9 - COMMITMENTS AND CONTINGENCIES:

OPERATING LEASES:

In February 2004, the Company entered into a lease for office and warehouse space in La Junta City, Colorado. This lease, which is at a monthly rental of $8,341 beginning January 2005, expires on January 31, 2024. Rent charged to operations amounted to $95,504 for the years ended October 31, 2016 and 2015.

In October 2008, the Company entered into a lease for office and warehouse space in Staten Island, NY. This lease, which is at a monthly rental beginning November 2008, expires on October 31, 2023 and includes annual rent increases. Rent charged to operations amounted to $143,171 and $146,423 for the years ended October 31, 2016 and 2015. The Company also uses a variety of independent, bonded commercial warehouses to store its green coffee beans.

In March 2015, the Company entered into a lease for office space in Vancouver, WA. This lease, which is at a monthly rental beginning April 1, 2015, expires on March 31, 2017. Rent charged to operations amounted to $37,745 and $36,721 for the years ended October 31, 2016 and 2015, respectively.

In December 2016, the Company entered into a lease for office and warehouse space in Burlington WA. This lease which is at a monthly rental beginning December 1, 2016, expires on December 31, 2017.

The aggregate minimum future lease payments as of October 31, 2016 for each of the next five years and thereafter are as follows:

October 31,	
2017	$300,123
2018	260,683
2019	262,413
2020	271,051
2021	279,051

Thereafter	610,416
	$1,983,737

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COFFEE HOLDING CO., INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
OCTOBER 31, 2016 AND 2015

NOTE 9 - COMMITMENTS AND CONTINGENCIES (cont'd):

401 (K) RETIREMENT PLAN:

The Company has a 401(k) Retirement Plan, which covers all the full time employees who have completed one year of service and have reached their 21st birthday. The Company matches 100% of the aggregate salary reduction contribution up to the first 3% of compensation and 50% of aggregate contribution of the next 2% of compensation. Contributions to the plan aggregated $67,083 and $67,166 for the years ended October 31, 2016 and 2015, respectively.

NOTE 10 - ECONOMIC DEPENDENCY:
Approximately 29% of the Company's sales were derived from one customer during the year ended October 31, 2016. This customer also accounted for approximately $3,661,000 or 27% of the Company's accounts receivable balance at October 31, 2015. Approximately 54% of the Company's sales were derived from one customer during the year ended October 31, 2015. This customer also accounted for approximately $4,113,000 or 38% of the Company's accounts receivable balance at October 31, 2015. Concentration of credit risk with respect to other trade receivables is 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 and other allowances that management believes will adequately provide for credit losses.

For the year ended October 31, 2016, approximately 43% of the Company's purchases were from four vendors. These vendors accounted for approximately $609,000 of the Company's accounts payable at October 31, 2016. For the year ended October 31, 2015, approximately 64% of the Company's purchases were from five vendors. These vendors accounted for approximately $2,664,000 of the Company's accounts payable at October 31, 2015. 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.

NOTE 11 - RELATED PARTY TRANSACTIONS:

The Company has engaged its 40% partner in Generation Coffee Company, LLC as an outside contractor (the "Partner"). Included in contract labor expense, which is a component of cost of sales, are expenses incurred from the Partner during the years ended October 31, 2016 and 2015 of $459,345 and $422,039, respectively.

An employee of one of the top two vendors is a director of the Company. Purchases from that vendor totaled approximately $8,475,000 and $22,143,000 for the years ended October 31, 2016 and 2015, respectively. The corresponding accounts payable balance to this vendor was approximately $237,000 and $586,000 at October 31, 2016 and 2015, 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 CEO. Within the plan guidelines, this employee is deferring a portion of his current salary and bonus. The deferred compensation payable represents the liability due to an officer of the Company. The deferred compensation liability at October 31, 2016 and 2015 was $489,668 and $482,499, respectively. Deferred compensation expenses included in officers' salaries were $0 during the years ended October 31, 2016 and 2015, respectively.

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NOTE 12 - 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 purchased 337,269 shares for $1,754,878 during the year ended October 31, 2016 and 53,687 shares for $226,850 during the year ended October 31, 2015.

b.
Share Repurchase Program. On January 24, 2014, the Company announced that the Board of Directors had approved a share repurchase program (the "2014 Share Repurchase Program") pursuant to which the Company may repurchase up to $1 million of its outstanding shares of common stock from time to time on the open market and in privately negotiated transactions subject to market conditions, share price and other factors. The 2014 Share Repurchase Program may be discontinued or suspended at any time. The Company does not intend to make any further repurchases under the 2014 Share Repurchase Program and the 2014 Share Repurchase Program is terminated. As of October 31, 2016, pursuant to the terms of the 2014 Share Repurchase Program, the Company had repurchased 156,415 shares of outstanding common stock in an amount equal in value to $995,729. On September 29, 2015, the Company announced that the Board of Directors had approved a share repurchase program (the "2015 Share Repurchase Program") pursuant to which the Company may repurchase up to $2 million of the outstanding common stock from time to time on the open market and in privately negotiated transactions subject to market conditions, share price and other factors. The timing and amount of any shares repurchased will be determined based on the Company's evaluation of market conditions and other factors. The 2015 Share Repurchase Program may be discontinued or suspended at any time. Pursuant to the terms of the 2015 Share Repurchase Program, the Company purchased 337,269 shares during the year ended October 31, 2016 for $1,754,878. Also pursuant to the terms of the 2015 Share Repurchase Program, the Company had repurchased 53,687 shares of outstanding common stock in an amount equal in value to $226,850 during the year ended October 31, 2015.

NOTE 13 - FAIR VALUE MEASUREMENTS:

Fair value is 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; and

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 13 - 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 10.

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 and liabilities that are measured at fair value on a recurring basis and are categorized using the fair value hierarchy.

	Fair Value Measurements as of October 31, 2016			
	Total	Level 1	Level 2	Level 3
Assets:				
Money market	489,826	489,826	–	–
Commodities-Futures	218,475		218,475	
Total Assets	$708,301	$489,826	218,475	–
Liabilities:				
Commodities – Options	(83,753)		(83,753)	
Total Liabilities	$(83,753)	–	$(83,753)	–

	Fair Value Measurements as of October 31, 2015			
	Total	Level 1	Level 2	Level 3
Assets:				

Money market	482,499	482,499	–	–
Total Assets	$482,499	$482,499	–	–
Liabilities:				
Commodities – Options	(134,613)	(134,613)		
Commodities – Futures	(349,222)	–	(349,222)	–
Total Liabilities	$(483,835)	–	$(483,835)	–

NOTE 14 - SUBSEQUENT EVENT:
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.