COFFEE HOLDING CO INC
Form 10-Q
September 10, 2014

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended: July 31, 2014

OR

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

For the transition period from ______________ to _______________

Commission file number: 001-32491

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

Nevada	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)

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

N/A

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No o

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

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

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

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

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

6,272,494 shares of common stock, par value $0.001 per share, are outstanding at September 10, 2014.

	PAGE
PART I	
ITEM 1 – FINANCIAL STATEMENTS	3
ITEM 2 – MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS	17
ITEM 3 – QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK	23
ITEM 4 – CONTROLS AND PROCEDURES	23
PART II	
ITEM 1 – LEGAL PROCEEDINGS	24
ITEM 1A – RISK FACTORS	24
ITEM 2 – UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS	24
ITEM 3 – DEFAULTS UPON SENIOR SECURITIES	25
ITEM 4 – MINE SAFETY DISCLOSURES	25
ITEM 5 – OTHER INFORMATION	25
ITEM 6 – EXHIBITS	25

ITEM 1. FINANCIAL STATEMENTS

COFFEE HOLDING CO., INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

JULY 31, 2014 AND OCTOBER 31, 2013

	July 31, 2014 (Unaudited)	October 31, 2013
- ASSETS -		
CURRENT ASSETS:		
Cash	$3,389,412	$4,035,669
Accounts receivable, net of allowances of $144,000 for 2014 and 2013	13,364,483	12,362,792
Inventories	12,961,287	9,373,018
Prepaid green coffee	524,334	439,290
Prepaid expenses and other current assets	685,813	336,494
Prepaid and refundable income taxes	798,517	1,000,317
Deferred income tax asset	19,364	1,330,666
TOTAL CURRENT ASSETS	31,743,210	28,878,246
Machinery and equipment, at cost, net of accumulated depreciation of $3,560,119 and $3,130,902 for 2014 and 2013, respectively	2,028,545	2,060,350
Customer list and relationships, net of accumulated amortization of $31,875 and $26,250 for 2014 and 2013, respectively	118,125	123,750
Trademarks	180,000	180,000
Goodwill	440,000	440,000
Equity method investments	97,331	98,178
Deposits and other assets	618,536	618,498
TOTAL ASSETS	$35,225,747	$32,399,022
- LIABILITIES AND STOCKHOLDERS' EQUITY -		
CURRENT LIABILITIES:		
Accounts payable and accrued expenses	$5,988,156	$7,244,822
Line of credit	3,500,000	1,229,182
Due to broker	44,374	984,040
Income taxes payable	700	-
TOTAL CURRENT LIABILITIES	9,533,230	9,458,044
Deferred income tax liabilities	145,364	145,666
Deferred rent payable	206,536	195,452
Deferred compensation payable	515,536	515,498
TOTAL LIABILITIES	10,400,666	10,314,660
STOCKHOLDERS' EQUITY:		
Coffee Holding Co., Inc. stockholders' equity:		
Preferred stock, par value $.001 per share; 10,000,000 shares authorized; no shares issued and outstanding	-	-
Common stock, par value $.001 per share; 30,000,000 shares authorized, 6,456,316 shares issued; 6,272,494 and 6,372,309 shares outstanding for 2014 and 2013, respectively	6,456	6,456
Additional paid-in capital	15,904,109	15,904,109
Retained earnings	9,503,540	6,111,633
Less: Treasury stock, 183,822 and 84,007 common shares, at cost for 2014 and 2013	(932,911)	(272,133)

Total Coffee Holding Co., Inc. Stockholders' Equity	24,481,194	21,750,065
Non-controlling interest	343,887	334,297
TOTAL EQUITY	24,825,081	22,084,362
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$35,225,747	$32,399,022

See Notes to Condensed Consolidated Financial Statements.

COFFEE HOLDING CO., INC.
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(Unaudited)

	Nine Months Ended July 31,		Three Months Ended July 31,	
	2014	2013	2014	2013
NET SALES	$79,373,667	$100,375,542	$26,628,571	$32,370,692
COST OF SALES (including $13.2 and $24.7 million of related party costs for the nine months ended July 31, 2014 and 2013, respectively. Including $4.1 and $6.3 million for the three months ended July 31, 2014 and 2013, respectively.)	68,239,903	96,463,019	23,574,095	33,526,657
GROSS PROFIT (LOSS)	11,133,764	3,912,523	3,054,476	(1,155,965)
OPERATING EXPENSES:				
Selling and administrative	5,094,939	5,233,157	1,656,789	1,713,051
Officers' salaries	459,300	440,992	159,100	169,954
TOTALS	5,554,239	5,674,149	1,815,889	1,883,005
INCOME (LOSS) FROM OPERATIONS	5,579,525	(1,761,626)	1,238,587	(3,038,970)
OTHER INCOME (EXPENSE)				
Interest income	32,064	30,176	12,769	12,370
(Loss) income from equity investment	(847)	(105,204)	(759)	(158)
Interest expense	(42,340)	(71,320)	(16,271)	(10,542)
TOTALS	(11,123)	(146,348)	(4,261)	1,670
INCOME (LOSS) BEFORE INCOME TAXES AND NON-CONTROLLING INTEREST IN SUBSIDIARIES	5,568,402	(1,907,974)	1,234,326	(3,037,300)
Provision (benefit) for income taxes	2,114,905	(490,108)	450,952	(997,618)
NET INCOME (LOSS) BEFORE NON-CONTROLLING INTEREST IN SUBSIDIARY	3,453,497	(1,417,866)	783,374	(2,039,682)
Less: net income attributable to the non-controlling interest	(61,590)	(149,020)	(24,427)	(69,229)
NET INCOME (LOSS) ATTRIBUTABLE TO COFFEE HOLDING CO., INC.	$3,391,907	$(1,566,886)	$758,947	$(2,108,911)
Basic earnings per share	$.53	$(.25)	$.12	$(.33)

Diluted earnings per share	$ .51	$ (.25)	$ .11	$ (.33)
Dividends declared per share	$ .00	$ .06	$ .00	$ .00
Weighted average common shares outstanding:				
Basic	6,362,933	6,372,309	6,344,487	6,372,309
Diluted	6,629,933	6,672,309	6,611,487	6,372,309

See Notes to Condensed Consolidated Financial Statements.

COFFEE HOLDING CO., INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
NINE MONTHS ENDED JULY 31, 2014 AND 2013
(Unaudited)

	2014	2013
OPERATING ACTIVITIES:		
Net income (loss)	$3,453,497	$(1,417,866)
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization	436,277	355,570
Unrealized gain on commodities	(1,211,540)	(317,192)
Loss on equity method investments	847	105,204
Deferred rent	11,084	12,035
Deferred income taxes	1,311,000	229,000
Changes in operating assets and liabilities:		
Accounts receivable	(1,001,691)	377,509
Inventories	(3,588,269)	2,147,252
Prepaid expenses and other current assets	(77,445)	299,518
Prepaid green coffee	(85,044)	(278,231)
Prepaid and refundable income taxes	201,800	1,860,797)
Accounts payable and accrued expenses	(1,256,666)	(5,721,168)
Deposits and other assets		11,621
Income taxes payable	700	(21,122)
Net cash used in by operating activities	(1,805,450)	(6,078,667)
INVESTING ACTIVITIES:		
Proceeds from disposition of equity method investment	-	232,069
Purchases of machinery and equipment	(398,847)	(588,879)
Net cash used in investing activities	(398,847)	(356,810)
FINANCING ACTIVITIES:		
Advances under bank line of credit	3,551,522	6,788,920
Principal payments under bank line of credit	(1,280,704)	(4,051,420)
Purchase of treasury stock	(660,778)	-
Payment of dividend	(52,000)	(387,377)
Net cash provided by financing activities	1,558,040	2,350,123
NET DECREASE IN CASH	(646,257)	(4,085,354)
CASH, BEGINNING OF PERIOD	4,035,669	7,568,583
CASH, END OF PERIOD	$3,389,412	$3,483,229

	2014	2013
SUPPLEMENTAL DISCLOSURE OF CASH FLOW DATA:		
Interest paid	$ 37,513	$ 73,261
Income taxes paid	$ 715,000	$ 803,490

See Notes to Condensed Consolidated Financial Statements.

COFFEE HOLDING CO., INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
NINE MONTHS ENDED JULY 31, 2014 AND 2013
(Unaudited)

Schedule of noncash investing and financing activities:

Proceeds from disposition of equity method investment:

	2014	2013
Inventory received	$-	$503,500
Settlement of accounts payable	-	992,402
Total noncash proceeds	$-	$1,495,902

COFFEE HOLDING CO., INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
JULY 31, 2014 AND 2013
(UNAUDITED)

NOTE 1 - BUSINESS ACTIVITIES:

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

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

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

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

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

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

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

On November 30, 2011, the Company entered into a stock purchase agreement with Global Mark LLC, Peter Schmalfeld and Lawrence Elsie to purchase a 40% interest in Global Mark LLC (“GM”). The terms of the agreement provided for the Company to pay up to an aggregate of $2,000,000 in cash to fund operations and for GM to provide to the Company a preferred pricing arrangement for the supply of instant coffee. On December 10, 2012, the Company entered into an agreement with GM and other members of GM, whereby the Company withdrew as a member of GM.

COFFEE HOLDING CO., INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
JULY 31, 2014 AND 2013
(UNAUDITED)

NOTE 1 - BUSINESS ACTIVITIES (cont'd):

As a result of GM's inability to successfully develop a significant customer base (other than the Company) and the Company's evaluation of the long term prospects of the GM relationship, the Company determined that it was in the best interests of the parties to terminate the relationship. In connection with withdrawing from GM, the Company received assets comprised of cash, receivables and inventory equal to approximately $1.8 million, resulting in a write down of approximately $130,000, which was recognized as of October 31, 2012. Subsequent to the end of the first quarter of 2013, the Company received the final accounting of the GM business. The amount of cash received was approximately $104,000 less than originally expected, resulting in the final write down that was recognized as of January 31, 2013.

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

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

NOTE 2 - BASIS OF PRESENTATION:

The following (a) condensed consolidated balance sheet as of October 31, 2013, which has been derived from audited financial statements, and (b) the unaudited interim condensed financial statements have been prepared by the Company pursuant to the rules and regulations of the Securities and Exchange Commission (the "SEC"). Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles ("U.S. GAAP") have been condensed or omitted pursuant to those rules and regulations, although the Company believes that the disclosures made are adequate to make the information not misleading. It is suggested that these condensed consolidated financial statements be read in conjunction with the consolidated financial statements and the notes thereto included in the Company's latest shareholders' annual report on Form 10-K filed with the SEC on January 24, 2014 for the fiscal year ended October 31, 2013 ("Form 10-K").

In the opinion of management, all adjustments (which include normal and recurring nature adjustments) necessary to present a fair statement of the Company's financial position as of July 31, 2014, and results of operations for the three and nine months ended July 31, 2014 and 2013 and the cash flows for the nine months ended July 31, 2014 and 2013, as applicable, have been made.

The results of operations for the three and nine months ended July 31, 2014 and 2013 are not necessarily indicative of the operating results for the full fiscal year or any future periods.

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

COFFEE HOLDING CO., INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
JULY 31, 2014 AND 2013
(UNAUDITED)

NOTE 3 - RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS AFFECTING THE COMPANY:

During the first quarter ended January 31, 2014, the Financial Accounting Standards Board has issued Accounting Standards Update (ASU) No. 2011-11, Balance Sheet (Topic 210): Disclosures about Offsetting Assets and Liabilities. Upon adoption an entity is required to disclose information about offsetting and related arrangements to enable users of its financial statements to understand the effect of those arrangements on its financial position. The amendments in this guidance are effective for the Company for the first annual reporting period beginning on or after January 1, 2013, and interim periods within those annual periods. Management is still evaluating the effects of adoption.

During the second quarter ended April 30, 2014 the FASB has issued ASU No. 2013-11, Income Taxes (Topic 740): Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists. The amendments in this ASU provide that an unrecognized tax benefit, or a portion thereof, should be presented in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward. To the extent that a net operating loss carryforward, similar tax loss, or a tax credit carryforward is not available at the reporting date to settle ant additional income taxes that would result from disallowance of a tax position, or the tax law does not require the entity to use, and the entity does not intend to use, the deferred tax asset for such purpose, then the unrecognized tax benefit should be presented as a liability and should not be combined with deferred tax assets.

For fiscal years, and interim periods within those years, beginning after December 15, 2013 for public entities. The amendments should be applied prospectively to all unrecognized tax benefits that exist at the effective date. Retrospective application is also permitted.

No other new accounting pronouncements were issued during the nine months ended July 31, 2014, but not yet adopted are expected to have a material impact on the Companys condensed consolidated financial statements.

NOTE 4 - PREPAID GREEN COFFEE:

The balance represents advance payments made by OPTCO to several coffee growing cooperatives for the purchase of green coffee. Interest is charged to the cooperatives for these advances. Interest earned was $32,064 and $12,769 for the nine months ended July 2014 and 2013, respectively. The prepaid coffee balance was $524,334 at July 31, 2014 and $439,290 at October 31, 2013.

COFFEE HOLDING CO., INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
JULY 31, 2014 AND 2013
(UNAUDITED)

NOTE 5 - ACCOUNTS RECEIVABLE:

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

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

	July 31, 2014	October 31, 2013
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

NOTE 6 - INVENTORIES:

Inventories at July 31, 2014 and October 31, 2013 consisted of the following:

	July 31, 2014	October 31, 2013
Packed coffee	$1,732,501	$1,873,982
Green coffee	10,517,508	6,818,261
Packaging supplies	711,278	680,775
Totals	$12,961,287	$9,373,018

NOTE 7 - COMMODITIES HELD BY BROKER:

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

COFFEE HOLDING CO., INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
JULY 31, 2014 AND 2013
(UNAUDITED)

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

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

	July 31, 2014	October 31, 2013
Option Contracts	(2,077,774)	(188,819)
Future Contracts	2,305,274	(795,221)
Total Commodities	227,500	(984,040)

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

At July 31, 2014, the Company held 160 options covering an aggregate of 6,000,000 pounds of green coffee beans at $1.791 per pound. The fair market value of these options, which was obtained from observable market data of similar instruments was $(1,447,143). At July 31, 2014, the Company held 160 futures contracts for the purchase of 6,000,000 pounds of green coffee at a weighted average price of $1.709 per pound. The fair market value of coffee applicable to such contracts was $1.950 per pound at that date.

At October 31, 2013, the Company held 149 futures contracts for the purchase of 5,587,500 pounds of green coffee at a weighted average price of $1.19 per pound. The fair market value of coffee applicable to such contracts was $1.08 per pound at that date. The Company also held 120 options covering an aggregate of 4,500,000 pounds of green coffee beans at $1.10 per pound. The fair market value of these options, which was obtained from observable market data of similar instruments was $244,800.

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

	Three Months Ended July 31,	
	2014	2013
Gross realized gains	$1,165,014	$630,564
Gross realized losses	(824,285)	(4,482,121)
Unrealized losses	38,437	286,637
Total	$379,166	$(3,564,920)

COFFEE HOLDING CO., INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
JULY 31, 2014 AND 2013
(UNAUDITED)

	Nine Months Ended July 31,	
	2014	2013
Gross realized gains	$3,321,023	$1,782,571
Gross realized losses	(1,796,474)	(6,987,735)
Unrealized gains	1,211,540	317,192
Total	$2,736,089	$(4,887,972)

NOTE 8 - LINE OF CREDIT:

On February 17, 2009, the Company entered into a financing agreement with Sterling National Bank ("Sterling") for a $5,000,000 credit facility. The credit facility is a revolving $5,000,000 line of credit and the Company can draw on the line at an amount up to 85% of eligible accounts receivable and 25% of eligible inventory consisting of green coffee beans and finished coffee not to exceed $1,000,000. Sterling shall have the right from time to time to adjust the foregoing percentages based upon, among other things, dilution, its sole determination of the value or likelihood of collection of eligible accounts receivables owed to the Company and considerations regarding inventory. The credit facility is payable monthly in arrears on the average unpaid balance of the line of credit at an interest rate equal to a per annum reference rate (3.75% and 4.25% at July 31, 2014 and October 31, 2013, respectively).

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

The initial term of the credit facility was for three years and expired on February 17, 2012. The initial terms of the credit facility provided that the credit facility may be automatically extended for successive periods of one year each unless one party shall have provided the other party with a written notice of termination at least ninety days prior to the expiration of the then current term. Prior to the expiration of the initial term, and effective as of February 12, 2012, the term was extended until February 17, 2014 and the interest rate was reduced to the Wall Street Journal Prime rate (which is currently 3.25%) plus one percent (1%). On May 10, 2013, the credit facility was extended until February 17, 2015. The credit facility is secured by all tangible and intangible assets of the Company.

The credit facility contains covenants that place annual restrictions on the Company's operations, including covenants relating to debt restrictions, capital expenditures, minimum deposit restrictions, tangible net worth, net profit, leverage, employee loan restrictions, distribution restrictions (common stock and preferred stock), dividend restrictions, and restrictions on intercompany transactions. The credit facility also requires that the Company maintain a minimum working capital at all times. The Company was in compliance with all required financial covenants at July 31, 2014 and October 31, 2013.

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

As of July 31, 2014 and October 31, 2013, the outstanding balance under the bank line of credit was $3,500,000 and $1,229,182, respectively.

COFFEE HOLDING CO., INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
JULY 31, 2014 AND 2013
(UNAUDITED)

NOTE 9 - INCOME TAXES:

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

The Company adopted FASB authoritative guidance for accounting for uncertainty in income taxes. As of July 31, 2014 and October 31, 2013, the Company did not have any unrecognized tax benefits or open tax positions. The Company's practice is to recognize interest and/or penalties related to income tax matters in income tax expense. As of July 31, 2014 and October 31, 2013, the Company had no accrued interest or penalties related to income taxes. The Company currently has no federal or state tax examinations in progress.

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

NOTE 10 - EARNINGS PER SHARE:

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

The weighted average common shares outstanding used in the computation of basic earnings per share were 6,362,933 and 6,344,487 for the nine and three months ended July 31, 2014 and 6,372,309 for the nine and three months ended July 31, 2013. The weighted average common shares outstanding used in the computation of diluted earnings per share were 6,629,933 and 6,611,487 for the nine and three months ended July 31, 2014 and 6,372,309 for the nine and three months ended July 31, 2013. The 267,000 shares that could be exercised pursuant to the warrant agreement attached to the units issued in September 2011 have been included in the diluted earnings per share calculation because of their dilutive impact.

COFFEE HOLDING CO., INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
JULY 31, 2014 AND 2013
(UNAUDITED)

NOTE 11 - ECONOMIC DEPENDENCY:

Approximately 52% of the Company's sales were derived from one customer during the nine months ended July 31, 2014. This customer also accounted for approximately $7,900,000 of the Company's accounts receivable balance at July 31, 2014. Approximately 59% of the Company's sales were derived from one customer during the nine months ended July 31, 2013. This customer also accounted for approximately $7,086,000 of the Company's accounts receivable balance at July 31, 2013. 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 that management believes will adequately provide for credit losses.

For the nine months ended July 31, 2014, approximately 62% of the Company's purchases were from four vendors. These vendors accounted for approximately $2,844,000 of the Company's accounts payable at July 31, 2014. For the nine months ended July 31, 2013, approximately 67% of the Company's purchases were from four vendors. These vendors accounted for approximately $2,773,000 of the Company's accounts payable at July 31, 2013. Management does not believe the loss of any one vendor would have a material adverse effect of the Company's operations due to the availability of many alternate suppliers.

Approximately 52% of the Company's sales were derived from one customer during the three months ended July 31, 2014. Approximately 62% of the Company's sales were derived from one customer during the three months ended July 31, 2013.

For the three months ended July 31, 2014, approximately 58% of the Company's purchases were from four vendors. For the three months ended July 31, 2013, approximately 72% of the Company's purchases were from three vendors. Management does not believe the loss of any one vendor would have a material adverse effect on the Company's operations due to the availability of many alternate suppliers.

NOTE 12 - RELATED PARTY TRANSACTIONS:

The Company has engaged its 40% partner in GCC as an outside contractor (the "Partner"). Included in contract labor expense are expenses incurred from the Partner during the three and nine months ended July 31, 2014 of $116,101 and $338,445, respectively, for the processing of finished goods.

An employee of one of the top four vendors is a director of the Company. Purchases from that vendor totaled approximately $13,200,000 and $4,100,000 for the nine and three months ended July 31, 2014 and $24,700,000 and $6,300,000 for the nine and three months ended July 31, 2013. The corresponding accounts payable balance to this vendor was approximately $387,000 and $1,173,000 at July 31, 2014 and 2013, respectively.

In January 2005, the Company established the "Coffee Holding Co., Inc. Non-Qualified Deferred Compensation Plan." Currently, there is only one participant in the plan: Andrew Gordon, the Company's Chief Executive Officer. Within the plan guidelines, this employee is deferring a portion of his current salary and bonus. The assets are held in a separate trust. The deferred compensation payable represents the liability due to an officer of the Company. The assets are included in the Deposits and other assets in the accompanying balance sheets. The deferred compensation asset and liability at July 31, 2014 and October 31, 2013 were $515,536 and $515,498, respectively.

COFFEE HOLDING CO., INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
JULY 31, 2014 AND 2013
(UNAUDITED)

NOTE 13 - STOCKHOLDERS' EQUITY:

a. Treasury Stock. The Company utilizes the cost method of accounting for treasury stock. The cost of reissued shares is determined under the last-in, first-out method. The Company purchased 99,815 shares for $660,778 during the three months ended July 31, 2014 and zero during 2013. On January 24, 2014, the Company announced that the Board of Directors approved a share repurchase program pursuant to which the Company may repurchase up to $1 million of the Company's outstanding Common Stock (the "Repurchase Program"). The Repurchase Program does not have an expiration date.

b. Dividends: On December 27, 2012, the Company paid a cash dividend of $387,379 ($0.06 per share) to all stockholders of record as of December 15, 2012.

NOTE 14 - FAIR VALUE MEASUREMENTS:

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

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

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

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

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

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

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

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

COFFEE HOLDING CO., INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
JULY 31, 2014 AND 2013
(UNAUDITED)

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

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

	Fair Value Measurements as of July 31, 2014			
	Total	Level 1	Level 2	Level 3
Assets:				
Money market	$515,536	$515,536	–	–
Equities	–	–	–	–
Commodities Futures	2,305,274	–	2,305,274	–
Total Assets	$2,820,810	$515,536	2,305,274	–
Liabilities:				
Commodities Options	(2,077,774)	–	(2,077,774)	–
Total Liabilities	$(2,077,774)	–	$(2,077,774)	–

	Fair Value Measurements as of October 31, 2013			
	Total	Level 1	Level 2	Level 3
Assets:				
Money market	$515,498	$515,498	-	–
Total Assets	$515,498	$515,498	-	–
Liabilities:				
Commodities Options	(188,819)		(188,819)	
Commodities Futures	(795,221)	–	(795,221)	–
Total Liabilities	$(984,040)	–	$(984,040)	–

NOTE 15 - SUBSEQUENT EVENTS:

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

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

Cautionary Note on Forward-Looking Statements

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

- our dependency on a single commodity could affect our revenues and profitability;
- our success in expanding our market presence in new geographic regions;
- the effectiveness of our hedging policy may impact our profitability;
- the success of our joint ventures;
- our success in implementing our business strategy or introducing new products;
- our ability to attract and retain customers;
- our ability to retain key personnel;
- our ability to obtain additional financing;
- our ability to comply with the restrictive covenants we are subject to under our current financing;
- the effects of competition from other coffee manufacturers and other beverage alternatives;
- the impact to the operations of our Colorado facility;
- general economic conditions and conditions which affect the market for coffee;
- the macro global economic environment;
- our ability to maintain and develop our brand recognition;
- the impact of rapid or persistent fluctuations in the price of coffee beans;
- fluctuations in the supply of coffee beans;
- the volatility of our common stock; and
- other risks which we identify in future filings with the SEC.

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

Overview

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

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

- the sale of wholesale specialty green coffee;
- the roasting, blending, packaging and sale of private label coffee; and
- the roasting, blending, packaging and sale of our eight brands of coffee.

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

- the level of marketing and pricing competition from existing or new competitors in the coffee industry;
- our ability to retain existing customers and attract new customers;
- our hedging policy;
- fluctuations in purchase prices, the supply of green coffee and the selling prices of our products; and
- our ability to manage inventory and operations and maintain gross margins.

Our net sales are driven primarily by the success of our sales and marketing efforts and our ability to retain existing customers and attract new customers. For this reason, we have made, and will continue to evaluate, strategic decisions to invest in measures that are expected to increase net sales. These transactions include our acquisitions of certain assets of Premier Roasters, LLC, which included equipment and a roasting facility in La Junta, Colorado, a West Coast Brand Manager to market our S&W brand and to increase sales of S&W coffee to new customers, our joint venture with Caruso's Coffee, Inc. of Brecksville, Ohio, the acquisition with Organic Products and the expansion of our Café Caribe and Supremo brands. We believe these efforts will allow us to expand our 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 40% of the world's green coffee, the coffee crops are historically susceptible to frost in June and July and drought in September, October and November. However, because we purchase coffee from a number of countries and are able to freely substitute one country's coffee for another in our products, price fluctuations in one country generally have not had a material impact on the price we pay for coffee. Accordingly, price fluctuations in one country generally have not had a material effect on our results of operations, liquidity and capital resources. Historically, because we generally have been able to pass green coffee price increases through to customers, increased prices of green coffee generally result in increased net sales.

We have used, and continue to use, short-term coffee futures and options contracts primarily for the purpose of partially hedging and minimizing the effects of changing green coffee prices and to reduce our cost of sales. In addition, 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 and we generally remain exposed to loss when prices decline significantly in a short period of time. In addition, we would remain exposed to supply risk in the event of non-performance by the counterparties to any of our futures contracts. If the hedges that we enter into 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 increase of our losses. See Item 3, Quantitative and Qualitative Disclosures About Market Risk.

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 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 sale 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 1% of our accounts receivable that becomes uncollectible, would decrease our operating income by approximately $133,000 for the quarter ended July 31, 2014. 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.

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 1% of potential inventory write-down would have decreased operating income by approximately $130,000 for the quarter ended July 31, 2014.

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. Accordingly, our net deferred tax liability as of July 31, 2014 of $19,364 may require a valuation allowance if we do not generate taxable income.

Our goodwill consists of the cost in excess of the fair market value of the acquired net assets of OPTCO. OPTCO has been integrated into a structure which does not provide the basis for separate reporting units. Consequently, the Company is a single reporting unit for goodwill impairment testing purposes. We also have intangible assets consisting of customer lists and relationships and trademarks acquired from OPTCO. At July 31, 2014, our balance reflected goodwill and intangible assets as set forth below:

Customer list and relationships, net	$	120,000
Trademarks		180,000
Goodwill		440,000
Total	$	740,000

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 circumstances indicate that an impairment or decline in value may have occurred.

Three Months Ended July 31, 2014 Compared to the Three Months Ended July 31, 2013

Net Income. We had net income of $758,947, or $0.12 per share basic and $0.11 per share diluted, for the three months ended July 31, 2014 compared to a net loss of $2,108,911, or ($0.33) per share basic and diluted, for the three months ended July 31, 2013. The increase in net income reflects increased profitability on our sales.

Net Sales. Net sales totaled $26,628,571 for the three months ended July 31, 2014, a decrease of $5,742,121, or 17.7%, from $32,370,692 for the three months ended July 31, 2013. The decrease in net sales primarily reflected a decrease of 20% in pounds of green coffee sold during the quarter as compared to the quarter ended July 31, 2013. We believe that the decrease in pounds sold resulted from a continued decrease in purchases by customers as a result of market volatility and a significant increase in coffee prices during the quarter.

Cost of Sales. Cost of sales for the three months ended July 31, 2014 was $23,574,095 or 88.5% of net sales, as compared to $33,526,657 or 103.6% of net sales for the three months ended July 31, 2013. The decrease in cost of sales reflects favorable inventory positions and increased coffee prices which allowed for improved margins during the quarter.

Gross Profit. Gross profit increased by $4,210,441, to $3,054,476 for the three months ended July 31, 2014 as compared to gross profit of negative $1,155,965 for the three months ended July 31, 2013. Gross profit as a percentage of net sales increased by 15.0% for the three months ended July 31, 2014, as compared to gross profit as a percentage of net sales for the three months ended July 31, 2013. The increase in our margins reflects realized and unrealized gains in our hedging activities and favorable inventory positions during this period compared to the same period during 2013.

Operating Expenses. Total operating expenses decreased by $67,116, or 3.6%, to $1,815,889 for the three months ended July 31, 2014 as compared to operating expenses of $1,883,005 for the three months ended July 31, 2013. The decrease in operating expenses was primarily due to a decrease in selling and administrative expenses of $56,262.

Other Income and Expenses. Other expenses increased by $5,931to $4,261 for the three months ended July 31, 2014 compared to income of $1,670 for the three months ended July 31, 2013. Interest income increased by $399, interest expense increased by $5,729 and the loss on equity investment increased by $601 for the three months ended July 31, 2014 compared to the three months ended July 31, 2013. The increase in interest income resulted from the increase in pre-finance agreements with the coffee growing cooperatives. The increase in interest expense resulted from an increase in the average balance outstanding on our line of credit.

Income Taxes. Our provision for income taxes for the three months ended July 31, 2014 totaled $450,952 compared to a benefit of $997,618 for the three months ended July 31, 2013. The increase reflects higher pre-tax income for the quarter.

Nine Months Ended July 31, 2014 Compared to the Nine Months Ended July 31, 2013

Net Income. We had net income of $3,391,907, or $0.53 per share basic and $0.51 diluted, for the nine months ended July 31, 2014 compared to a net loss of $1,566,866 or ($0.25) per share basic and diluted, for the nine months ended July 31, 2013. The increase in net income reflects increased profitability on our sales.

Net Sales. Net sales totaled $79,373,667 for the nine months ended July 31, 2014, a decrease of $21,001,875, or 20.9%, from $100,375,542 for the nine months ended July 31, 2013. The decrease in net sales primarily reflected a decrease of 5% in pounds of green coffee sold during the nine month period ended July 31, 2014 as compared to the nine months ended July 31, 2013. We believe that the continued decrease in pounds sold resulted from a decrease in purchases by customers as a result of market volatility.

Cost of Sales. Cost of sales for the nine months ended July 31, 2014 was $68,239,903 or 85.9% of net sales, as compared to $96,463,019 or 96.1% of net sales for the nine months ended July 31, 2013. The decrease in cost of sales reflects favorable inventory positions and increased coffee prices which allowed for improved margins during the period.

Gross Profit. Gross profit increased $7,221,241, or 85.4%, to $11,133,764 for the nine months ended July 31, 2014 as compared to gross profit of $3,912,523 for the nine months ended July 31, 2013. Gross profit as a percentage of net sales increased by 10.1% for the nine months ended July 31, 2014 as compared to gross profit as a percentage of net sales for the nine months ended July 31, 2013. The increase in our margins reflects realized and unrealized gains in our hedging activities and favorable inventory positions during this period compared to the same period during 2013.

Operating Income and Expenses. Total operating expenses decreased by $119,910, or 2.1%, to $5,554,239 for the nine months ended July 31, 2014 as compared to operating expenses of $5,674,149 for the nine months ended July 31, 2013. The decrease in operating expenses was due to a decrease in selling and administrative expense of $138,218, partially offset by an increase in officers' salaries of $18,308.

Other Income and Expenses. Other expenses decreased by $135,225 to $11,123 for the nine months ended July 31, 2014 compared to other expenses of $146,348 for the nine months ended July 31, 2013. Interest income increased by $1,888, interest expense decreased by $28,980 and the loss on equity investment decreased by $104,357 for the nine months ended July 31, 2014. The decrease in interest expense resulted from a decrease in the average balance outstanding on our line of credit.

Income Taxes. Our provision for income taxes for the nine months ended July 31, 2014 totaled $2,114,905 compared to a benefit of $490,108 for the nine months ended July 31, 2013. The increase reflects higher pre-tax income for the period.

Liquidity and Capital Resources

As of July 31, 2014, we had working capital of $22,209,980, which represented a $2,789,778 increase from our working capital of $19,420,202 as of October 31, 2013, and total stockholders' equity of $24,481,194, which increased by $2,731,129 from our total stockholders' equity of $21,750,065 as of October 31, 2013. Our working capital increased primarily due to an increase of $1,001,691 in accounts receivable, an increase of $3,588,269 in inventory, an increase of $77,445 in prepaid expenses and other current assets, an increase in prepaid green coffee of $85,044, a decrease of 1,256,666 in accounts payable and accrued expenses, and a decrease of $939,666 in due to broker, partially offset by a decrease of $646,257 in cash, a decrease of $201,800 in our prepaid and refundable income taxes, a decrease of $1,311,000 in deferred income tax and an increase in our line of credit of $2,270,818. At July 31, 2014, the outstanding balance on our line of credit was $3,500,000 compared to $1,229,182 at October 31, 2013. Total stockholders’ equity increased due to an increase in retained earnings as a result of our net income and was partially offset by our purchase of treasury stock.

For the nine months ended July 31, 2014, our operating activities used net cash of $1,805,450 as compared to the nine months ended July 31, 2013 when operating activities used net cash of $6,078,667. The increased cash flow from operations for the nine months ended July 31, 2014 was primarily due to an increase in net income of $4,871,363.

For the nine months ended July 31, 2014, our investing activities used net cash of $398,847 as compared to the nine months ended July 31, 2013 when net cash used in investing activities was $356,810. The increase in our uses of cash in investing activities was primarily due to our recovery of our equity investment in GM partially offset by our decreased purchases of equipment.

For the nine months ended July 31, 2014, our financing activities provided net cash of $1,558,040 compared to net cash provided by financing activities of $2,350,123 for the nine months ended July 31, 2013. The change in cash flow from financing activities for the nine months ended July 31, 2014 was primarily due to the reduced need for borrowing from our credit facility and our treasury stock repurchase of $660,778 and partially offset by the decrease in the payment of dividends of $335,377.

On February 17, 2009, we entered into a financing agreement with Sterling National Bank ("Sterling") for a $5,000,000 credit facility. The credit facility is a revolving $5,000,000 line of credit and we can draw on the line at an amount up to 85% of eligible accounts receivable and 25% of eligible inventory consisting of green coffee beans and finished coffee not to exceed $1,000,000. Sterling shall have the right from time to time to adjust the foregoing percentages based upon, among other things, dilution, its sole determination of the value or likelihood of collection of eligible accounts receivables owed to us and considerations regarding inventory. The credit facility is payable monthly in arrears on the average unpaid balance of the line of credit at an interest rate equal to a per annum reference rate of 3.75% and 4.25% at July 31, 2014 and October 31, 2013, respectively.

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

The initial term of the credit facility was for three years and expired on February 17, 2012. The initial terms of the credit facility provided that the credit facility may be automatically extended for successive periods of one year each unless one party shall have provided the other party with a written notice of termination at least ninety days prior to the expiration of the then current term. Prior to the expiration of the initial term, and effective as of February 12, 2012, the term was extended until February 17, 2014 and the interest rate was reduced to the Wall Street Journal Prime rate (which is currently 3.25%) plus 1%. On May 10, 2013, the Credit Facility was extended until February 17, 2015. The credit facility is secured by all our tangible and intangible assets.

The 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. We were in compliance with all required financial covenants at July 31, 2014 and October 31, 2013.

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

We expect to fund our operations, including paying our liabilities, funding capital expenditures and making required payments on our debts, through October 31, 2014 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.

Recent Accounting Pronouncements

See Note 3 to the Condensed Consolidated Financial Statements (the "Financial Statements") in Part I, Item 1 of this Quarterly Report on Form 10-Q.

ITEM 3. 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. At July 31, 2014, our debt was $3,500,000. Given our current level of borrowing, we believe this risk is immaterial.

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 expect to continue to use, 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 7 of the notes to the 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 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 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" in our Annual Report on Form 10-K filing with the SEC on January 24, 2014.

As of July 31, 2014, we held 160 options covering an aggregate of 6,000,000 pounds of green coffee beans at $1.791 per pound. The fair market value of these options, which was obtained from observable market data of similar instruments, was $(1,447,143). As of July 31, 2014, we also held 160 futures contracts for the purchase of 6,000,000 pounds of green coffee at a weighted average price of $1.709 per pound. The fair market value of coffee applicable to such contracts was $1.950 per pound at that date. At October 31, 2013, we held 149 futures contracts covering an aggregate of 5,587,500 pounds of green coffee at a weighted average price of $1.19 per pound. The fair market value of coffee applicable to such contracts was $1.08 per pound at that date. We also held 120 options covering an aggregate of 4,500,000 pounds of green coffee beans at $1.10 per pound. The fair market value of these options, which was obtained from observable market data of similar instruments, was $244,800.

ITEM 4. CONTROLS AND PROCEDURES.

Management, including 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, the President and Chief Executive Officer, who is also the 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 are (1) recorded, processed, summarized and reported as and when required; and (2) accumulated and communicated, as is appropriate, to the Company’s management, including its President and Chief Executive Officer, who is also the principal executive officer and principal financial officer, to allow timely discussions regarding required disclosure.

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.

PART II - OTHER INFORMATION

ITEM 1. 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 1A. RISK FACTORS.

There were no material changes during the quarter ended July 31, 2014 to the Risk Factors disclosed in Item 1A "Risk Factors" in our Annual Report on Form 10-K for the fiscal year ended October 31, 2013.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS.

Issuer Purchases of Equity Securities1

Period	(a) Total number of shares (or units) 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
Month #1 (May 1 to May 31, 2014)	-	-	-	-
Month #2 (June 1 to June 30, 2014)	27,319	$6.92	27,319	$811,031.85
Month #3 (July 1 to July 31, 2014)	72,496	$6.46	72,496	$342,463.74
Total	99,815	$6.59	99,815	$342,463.74 (2)

(1) On January 24, 2014, we announced that our Board of Directors approved a share repurchase program pursuant to which we may repurchase up to $1 million of our outstanding common stock (the "Repurchase Program"). The Repurchase Program does not have an expiration date.

(2) The figure does not contemplate brokerage fees to be paid in connection with future purchases. To date, the Company has paid a total of $3,241.95 in brokerage fees.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES.

None.

ITEM 4. MINE SAFETY DISCLOSURES.

None.

ITEM 5. OTHER INFORMATION.

None.

ITEM 6. EXHIBITS.

31.1	Principal Executive Officer and Principal Financial Officer's Certification furnished pursuant to Section 302 of the Sarbar of 2002.
32.1	Principal Executive Officer and Principal Financial Officer's Certification furnished pursuant to Section 906 of the Sarban 2002.

Signatures

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized and in the capacities indicated on September 10, 2014.

Coffee Holding Co., Inc.

Date: September 10, 2014	By:	/s/ Andrew Gordon Andrew Gordon President Chief Executive Officer and Chief Financial Officer