RCM TECHNOLOGIES INC
Form 10-Q
May 08, 2008

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 or 15(d)

OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended **March 29, 2008**
OR

[ ] 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: **1-10245**
RCM TECHNOLOGIES, INC.

(Exact Name of Registrant as Specified in Its Charter)

Nevada	**95-1480559**
(State or other Jurisdiction of Incorporation)	(I.R.S. Employer Identification No.)

2500 McClellan Avenue, Suite 350, Pennsauken, New Jersey 08109-4613
(Address of Principal Executive Offices) (Zip Code)

(856) 486-1777
(Registrant's Telephone Number, Including Area Code)

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

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). (Check one):

Large Accelerated Filer ___	Accelerated Filer ___	Non-Accelerated Filer ___ (Do not check if a smaller reporting company)	Smaller Reporting CompanyxX x

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

YES NO X

Indicate the number of shares outstanding of the Registrant's class of common stock, as of the latest

practicable date.

Common Stock, $0.05 par value, 12,758,689 shares outstanding as of May 7, 2008.

RCM TECHNOLOGIES, INC. AND SUBSIDIARIES

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ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS

RCM TECHNOLOGIES, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
March 29, 2008 and December 29, 2007

(Dollars in thousands, except share and per share amounts, unless otherwise indicated)

ASSETS

	March 29, 2008 (Unaudited)	December 29, 2007
Current assets		
Cash and cash equivalents	$4,658	$11,642
Accounts receivable, net of allowance for doubtful accounts of $1,486 (March 29, 2008) and $1,583 (December 29, 2007), respectively	49,910	45,468
Note receivable-current portion, net of allowance for doubtful account of $2,419 at March 29, 2008		1,893
Prepaid expenses and other current assets	1,449	1,493
Deferred tax assets	2,899	711
Total current assets	58,916	61,207
Property and equipment, at cost		
Equipment and leasehold improvements	9,778	9,407
Less: accumulated depreciation and amortization	4,746	5,178
	5,032	4,229
Other assets		
Note receivable – long term, net of allowance for doubtful account of $3,671 at March 29, 2008		4,216
Deposits	155	125
Goodwill	47,396	39,588
Intangible assets, net of accumulated amortization of $806 (March 29, 2008) and $ 726 (December 29, 2007), respectively	269	349
	47,820	44,278
Total assets	$111,768	$109,714

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

RCM TECHNOLOGIES, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS – (Continued)
March 29, 2008 and December 29, 2007

(Dollars in thousands, except share and per share amounts, unless otherwise indicated)

LIABILITIES AND STOCKHOLDERS' EQUITY

	March 29, 2008	December 29, 2007
	(Unaudited)	
Current liabilities		
Line of credit	$5,000	
Accounts payable and accrued expenses	6,215	$8,005
Accrued compensation	6,128	7,418
Payroll and withheld taxes	1,213	1,087
Income taxes payable		1,156
Total current liabilities	18,556	17,666
Stockholders' equity		
Preferred stock, $1.00 par value; 5,000,000 shares authorized;		
no shares issued or outstanding		

1,868,223
1,887,008

INCOME (LOSS) FROM OPERATIONS
3,449,322
(2,883,762)
1,282,967
161,483

OTHER INCOME (EXPENSE)

Interest income

30,889
26,302
9,890
13,074
Loss from equity method investment
(1,049)
(162)
(805)
(610)
Interest expense
(116,144)
(153,768)
(42,671)
(35,156)
TOTAL
(86,304)
(127,628)
(33,586)
(22,692)

INCOME (LOSS) BEFORE INCOME TAXES AND NON-CONTROLLING INTEREST IN SUBSIDIARIES
3,363,018
(3,011,390)
1,249,381
138,791

Provision (benefit) for income taxes
1,236,319
(1,189,785)
448,399
40

NET INCOME (LOSS) BEFORE NON-CONTROLLING INTEREST IN SUBSIDIARY
2,126,699
(1,821,605)
800,982
138,751
Less: net income attributable to the non-controlling interest
(100,811)

(19,992)
(45,464)
411

NET INCOME (LOSS) ATTRIBUTABLE TO COFFEE HOLDING CO., INC.
$2,025,888
$(1,841,597)
$755,518
$139,162

Basic earnings (loss) per share
$.33
$(.30)
$.12
$.02

Diluted earnings (loss) per share
$.33
$(.30)
$.12
$.02

Weighted average common shares outstanding:

Basic and diluted
6,117,610
6,215,894

6,056,420
6,215,894

See Notes to Condensed Consolidated Financial Statements.

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COFFEE HOLDING CO., INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
NINE MONTHS ENDED JULY 31, 2016 AND 2015
(Unaudited)

	2016	2015
OPERATING ACTIVITIES:		
Net income (loss)	$2,126,699	$(1,821,605)
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Depreciation and amortization	425,977	408,436
Unrealized gain on commodities	(591,566)	(8,263)
Loss on equity method investments	1,049	162
Deferred rent	6,872	9,311
Deferred income taxes	890,750	(1,149,500)
Changes in operating assets and liabilities:		
Accounts receivable	(4,766,640)	3,424,104
Inventories	1,432,701	2,765,836
Prepaid expenses and other current assets	(262,707)	(29,039)
Prepaid green coffee	58,310	(547,756)
Prepaid and refundable income taxes	931,250	(1,433,818)
Deposits and other assets	31,558	
Accounts payable and accrued expenses	(1,554,385)	(3,093,085)
Income taxes payable	925	(331,051)
Net cash used in operating activities	(1,269,207)	(1,806,268)
INVESTING ACTIVITIES:		
Cash paid for acquisition of business	(856,904)	
Purchases of machinery and equipment	(661,591)	(351,194)
Net cash used in investing activities	(1,518,495)	(351,194)
FINANCING ACTIVITIES:		
Advances under bank line of credit	5,204,254	9,272,578
Principal payments under bank line of credit	(3,500,000)	(7,502,578)
Purchase of treasury stock	(839,927)	
Payment of dividend	(100,000)	(80,000)
Net cash provided by financing activities	764,327	1,690,000
NET DECREASE IN CASH	(2,023,375)	(467,462)
CASH, BEGINNING OF PERIOD	3,853,816	3,782,639
CASH, END OF PERIOD	$1,830,441	$3,315,177

See Notes to Condensed Consolidated Financial Statements.

COFFEE HOLDING CO., INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
NINE MONTHS ENDED JULY 31, 2016 AND 2015
(Unaudited)

SUPPLEMENTAL DISCLOSURE OF CASH FLOW DATA:

Interest paid	$111,060	$152,765
Income taxes paid	$26,582	$1,647,668

SUPPLEMENTAL DISCLOSURE OF NON-CASH INVESTING AND FINANCING ACTIVITIES:

On June 29, 2016 Coffee Holding Co., Inc. acquired certain assets of Coffee Kinetics, LLC:

Fair value of assets acquired	$1,128,952
Less: liabilities assumed	(72,045)
Net assets acquired:	1,056,907
Common stock, par value $.001 per share, 38,364 shares	38
Additional paid-in capital	199,965
Non-cash payment	200,003
Net cash paid	$856,904

See Notes to Condensed Consolidated Financial Statements.

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COFFEE HOLDING CO., INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
JULY 31, 2016 AND 2015
(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 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 - BASIS OF PRESENTATION:

The following (a) condensed consolidated balance sheet as of October 31, 2015, 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 26, 2016 for the fiscal year ended October 31, 2015 ("Form 10-K").

COFFEE HOLDING CO., INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
JULY 31, 2016 AND 2015
(Unaudited)

NOTE 2 - BASIS OF PRESENTATION (cont'd):

In the opinion of management, all adjustments (which include normal and recurring nature adjustments) necessary to present a fair statement of the Company's financial position as of July 31, 2016, and results of operations for the three and nine months ended July 31, 2016 and the cash flows for the nine months ended July 31, 2016 as applicable, have been made.

The results of operations for the three and nine months ended July 31, 2016 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, the Company's subsidiaries, Organic Products Trading Company, LLC ("OPTCO"), Sonofresco LLC ("SONO") and Generations Coffee Company, LLC ("GCC"), the entity formed as a result of the Company's joint venture with Caruso's Coffee, Inc. The Company owns a 60% equity interest in GCC. All significant inter-company transactions and balances have been eliminated in consolidation.

NOTE 3 - RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS AFFECTING THE COMPANY:

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.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
JULY 31, 2016 AND 2015
(Unaudited)

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 Financial Accounting Standards Board (the "FASB") issued Accounting Standards Update ("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.

COFFEE HOLDING CO., INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
JULY 31, 2016 AND 2015
(Unaudited)
NOTE 4 - 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. This was accounted for as a business combination. The Buyer purchased the Assets for a purchase price consisting of $856,904 in cash and 38,364 shares with a value of $200,003 of the Company's common stock issued on June 29, 2016, the date of closing.

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 assets purchased and liabilities assumed:

Assets acquired:	
Accounts receivable	$84,142
Inventory	306,905
Equipment	40,000
Customer List	120,000
Goodwill	577,905
Less: liabilities assumed	(72,045)
Net assets acquired:	$1,056,907
Purchase of assets funded by:	
Cash paid	$856,904
Common stock, par value $.001 per share, 38,364 shares	38
Additional paid-in capital	199,965
	$1,056,907

COFFEE HOLDING CO., INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
JULY 31, 2016 AND 2015
(Unaudited)
NOTE 4 - FORMATION OF SUBSIDIARY (cont'd):
Pro Forma Results of Operations (unaudited)

The following pro forma results of operations for the three and nine months ended July 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:

	Nine Months Ended July 31,		Three Months Ended July 31,	
	2016	2015	2016	2015
Pro forma sales	$62,751,256	$96,910,164	$17,689,710	$27,456,352
Pro forma net income (loss)	$2,103,684	$(1,960,479)	$775,650	$202,569
Pro forma basic and diluted earnings per share	$.34	$(.32)	$.13	$.03

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 $146,000.
NOTE 5 - 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 $30,889 and $9,890 for the nine and three months ended July 31, 2016 and $26,302 and $13,074 for the nine and three months ended July 31, 2015. The prepaid coffee balance was $562,142 at July 31, 2016 and $620,452 at October 31, 2015.
NOTE 6 - 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.

COFFEE HOLDING CO., INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
JULY 31, 2016 AND 2015
(Unaudited)
NOTE 6 - ACCOUNTS RECEIVABLE (cont'd):
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, 2016	October 31, 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

NOTE 7 - INVENTORIES:
Inventories at July 31, 2016 and October 31, 2015 consisted of the following:

	July 31, 2016	October 31, 2015
Packed coffee	$1,938,043	$1,441,451
Green coffee	10,086,200	11,730,006
Packaging supplies	712,779	691,361
Totals	$12,737,022	$13,862,818

NOTE 8 - COMMODITIES HELD BY BROKER:

The Company has used, and intends to continue to use in a limited capacity, 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. The commodities held at 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, 2016 AND 2015
(Unaudited)
NOTE 8 - COMMODITIES HELD BY BROKER (cont'd):
The Company has open position contracts held by the broker, which are summarized as follows:

	July 31, 2016	October 31, 2015
Option Contracts	25,744	(134,613)
Future Contracts	81,987	(349,222)
Total Commodities	107,731	(483,835)

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, 2016, the Company held 16 futures contracts (generally with terms of three to four months) for the purchase of 600,000 pounds of green coffee at a weighted average price of $1.397 per pound.
The fair market value of coffee applicable to such contracts was $1.462 per pound at that date. At July 31, 2016, the Company held 20 options covering an aggregate of 750,000 pounds of green coffee beans at $1.425 per pound. The fair market value of these options, which was obtained from observable market data of similar instruments was $42,375.
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.
The Company recorded realized and unrealized gains and losses respectively, on these contracts as follows

	Three Months Ended July 31,	
	2016	2015
Gross realized gains	$681,200	$293,439
Gross realized losses	(23,379)	(175,280)
Unrealized gain (losses)	(97,521)	(481,433)
Total	$560,300	$(363,274)

	Nine Months Ended July 31,	
	2016	2015

Gross realized gains	$1,247,113	$991,706
Gross realized losses	(924,507)	(6,415,825)
Unrealized gains	591,566	8,263
Total	$914,172	$(5,415,856)

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COFFEE HOLDING CO., INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
JULY 31, 2016 AND 2015
(Unaudited)
NOTE 9 - 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 July 31, 2016 and October 31, 2015.

As of July 31, 2016 and October 31, 2015, the outstanding balance under the bank line of credit was $5,421,375 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 3.25%). 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 July 31, 2016 and October 31, 2015, the outstanding balance under the New Loan Facility was $1,837,000 and $1,237,000, respectively.

COFFEE HOLDING CO., INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
JULY 31, 2016 AND 2015
(Unaudited)

NOTE 10 - 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, 2016 and October 31, 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 July 31, 2016 and October 31, 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.

The Company files a U.S. federal income tax return and California, Colorado, New Jersey, New York, Kansas, Oregon, Rhode Island, South Carolina, Rhode Island, Virginia, Connecticut, Michigan 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 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 2009. 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 2010.

NOTE 11 - 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 and diluted earnings per share were 6,117,610 and 6,056,420 for the nine and three months ended July 31, 2016, respectively, and 6,215,894 for the nine and three months ended July 31, 2015.

COFFEE HOLDING CO., INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
JULY 31, 2016 AND 2015
(Unaudited)

NOTE 12 - ECONOMIC DEPENDENCY:

Approximately 33% of the Company’s sales were derived from one customer during the nine months ended July 31, 2016. This customer also accounted for approximately $8,588,000 of the Company’s accounts receivable balance at July 31, 2016. Approximately 57% of the Company’s sales were derived from one customer during the nine months ended July 31, 2015. This customer also accounted for approximately $4,113,000 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 that management believes will adequately provide for credit losses.

For the nine months ended July 31, 2016, approximately 51% of the Company’s purchases were from four vendors. These vendors accounted for approximately $520,000 of the Company’s accounts payable at July 31, 2016. For the nine months ended July 31, 2015, approximately 64% of the Company’s purchases were from four vendors. These vendors accounted for approximately $2,961,000 of the Company’s accounts payable at July 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.

Approximately 23% of the Company’s sales were derived from one customer during the three months ended July 31, 2016. Approximately 48% of the Company’s sales were derived from one customer during the three months ended July 31, 2015.

For the three months ended July 31, 2016, approximately 42% of the Company’s purchases were from four vendors. For the three months ended July 31, 2015, approximately 60% of the Company’s purchases were from four vendors.

NOTE 13 - 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, 2016 of $135,957 and $363,808, 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 $7,441,000 and $1,885,000 for the nine and three months ended July 31, 2016, respectively, and $17,900,000 and $3,000,000 for the nine and three months ended July 31, 2015, respectively. The corresponding accounts payable balance to this vendor was approximately $303,000 and $586,000 at July 31, 2016 and October 31, 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 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, 2016 and October 31, 2015 were $497,034 and $482,499, respectively.

COFFEE HOLDING CO., INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
JULY 31, 2016 AND 2015
(Unaudited)
NOTE 14 - 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 80,200 shares for $453,607 during the three months ended July 31, 2016. The Company purchased 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 July 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 80,200 shares during the three months ended July 31, 2016 for $453,607. 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. The Company did not repurchase any shares of common stock during the three months ended January 31, 2016.
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 Operation" 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 obtain additional 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 quarterly report and in any other public statements we make may turn out to be wrong. They can be affected by inaccurate assumptions we might make or by known or unknown risks and uncertainties. Consequently, no forward-looking statement can be guaranteed. In addition, we undertake no responsibility to update any forward-looking statement to reflect events or circumstances, that occur after the date of this quarterly report.

Overview

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

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

- the sale of wholesale specialty green coffee;
- the roasting, blending, packaging and sale of private label coffee; and
- the roasting, blending, packaging and sale of our seven proprietary 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 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 and our licensing arrangement with DTS8 Coffee Company, Ltd. On June 23, 2016, we formed our wholly-owned subsidiary, Sonofresco, LLC ("SONO"), a Delaware limited liability company. On June 29, 2016, we purchased through SONO, substantially all the assets, including equipment, inventory, customer list and relationships of Coffee Kinetics LLC, a Washington limited liability company. 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.

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. 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 in 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 3, Quantitative and Qualitative Disclosures About Market Risk. 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 $158,000 for the quarter ended July 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 write-down would have decreased operating income by approximately $127,000 for the quarter ended July 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. Accordingly, our net deferred tax asset as of July 31, 2016 of $85,272 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 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 list and relationships and trademarks acquired from OPTCO. At July 31, 2016 our balance sheet reflected goodwill and intangible assets as set forth below:

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	July 31, 2016
Customer list and relationships, net	$223,125
Trademarks	180,000
Goodwill	1,017,905
	$1,421,030

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.

Three Months Ended July 31, 2016 Compared to the Three Months Ended July 31, 2015

Net Sales. Net sales totaled $17,354,533 for the three months ended July 31, 2016, a decrease of $9,685,324, or 35.8%, from $27,039,857 for the three months ended July 31, 2015. The decrease in net sales reflects reduced wholesale transactions with our largest wholesale green coffee customer during the quarter of approximately $9,379,000.

Cost of Sales. Cost of sales for the three months ended July 31, 2016 was $14,203,343, or 81.9% of net sales, as compared to $24,991,366, or 92.5% of net sales, for the three months ended July 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 the quarter and reduced wholesale transactions with our largest wholesale green coffee customer.

Gross Profit. Gross profit for the three months ended July 31, 2016 was $3,151,190, an increase of $1,102,699 from $2,048,491 for the three months ended July 31, 2015. Gross profit as a percentage of net sales increased to 18.1% for the three months ended July 31, 2016 from 7.5% for the three months ended July 31, 2015. The increase in gross profits was due to improved margins on our wholesale and roasted business as well as a decrease in our losses quarter to quarter on our hedging operations.

Operating Expenses. Total operating expenses decreased by $18,785 to $1,868,223 for the three months ended July 31, 2016 from $1,887,008 for the three months ended July 31, 2015. The decrease was primarily the result of a decrease of $18,785 to $1,704,373 in selling and administrative expenses for the three months ended July 31, 2016 from $1,723,158 for the three months ended July 31, 2015.

Other Income (Expense). Other expense for the three months ended July 31, 2016 was $33,586, an increase of $10,894 from $22,692 for the three months ended July 31, 2015. The increase in other expense was attributable to a decrease in interest income of $3,184, an increase in interest expense of $7,515 and an increase of $195 in our loss from our equity investments, during the three months ended July 31, 2016.

Income Taxes. Our provision for income taxes for the three months ended July 31, 2016 totaled $448,399 compared to a provision of $40 for the three months ended July 31, 2015. The change was attributable to the difference in the gain for the quarter ended July 31, 2016 versus the gain in the quarter ended July 31, 2015.

Net Income. We had net income of $755,518 or $0.12 per share basic and diluted, for the three months ended July 31, 2016 compared to net income of $139,162, or $0.02 per share basic and diluted for the three months ended July 31, 2015. The increase in net income was due primarily to the reasons described above.

Nine Months Ended July 31, 2016 Compared to the Nine Months Ended July 31, 2015

Net Sales. Net sales totaled $61,566,868 for the nine months ended July 31, 2016, a decrease of $34,142,022, or 35.7%, from $95,708,890 for the nine months ended July 31, 2015. The decrease in net sales reflects reduced wholesale transactions with our largest wholesale green coffee customer during the nine-month period of approximately $32,616,000.

Cost of Sales. Cost of sales for the nine months ended July 31, 2016 was $52,455,081, or 85.2% of net sales, as compared to $92,816,224, or 97% of net sales, for the nine months ended July 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 the period and our reduced wholesale transactions with our largest wholesale green coffee customer.

Gross Profit. Gross profit for the nine months ended July 31, 2016 was $9,111,787, an increase of $6,219,121 from $2,892,666 for the nine months ended July 31, 2015. Gross profit as a percentage of net sales increased to 14.8% for the nine months ended July 31, 2016 from 3% for the nine months ended July 31, 2015. The increase in gross profits 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 decreased by $113,963 to $5,662,465 for the nine months ended July 31, 2016 from $5,776,428 for the nine months ended July 31, 2015. The decrease was primarily the result of a decrease of $116,078 to $5,170,915 in selling and administrative expenses for the nine months ended July 31, 2016 from $5,286,993 for the nine months ended July 31, 2015.

Other Income (Expense). Other expense for the nine months ended July 31, 2016 was $86,304, a decrease of $41,324 from $127,628 for the nine months ended July 31, 2015. The decrease in other expense was attributable to an increase in interest income of $4,587 and a decrease in interest expense of $37,624, during the nine months ended July 31, 2016.

Income Taxes. Our provision for income taxes for the nine months ended July 31, 2016 totaled $1,236,319 compared to a benefit of $(1,189,785) for the nine months ended July 31, 2015. The change was attributable to the difference in the gain for the nine months ended July 31, 2016 versus the loss in the nine months ended July 31, 2015.

Net Income. We had net income of $2,025,888 or $0.33 per share basic and diluted, for the nine months ended July 31, 2016 compared to a net loss of $(1,841,597), or $(0.30) per share basic and diluted for the nine months ended July 31, 2015. The increase in net income was due primarily to the reasons described above.

Liquidity and Capital Resources

As of July 31, 2016, we had working capital of $22,365,515, which represented a $431,038 increase from our working capital of $21,934,477 as of October 31, 2015, and total stockholders' equity of $25,467,758 which increased by $1,385,965 from our total stockholders' equity of $24,081,793 as of October 31, 2015. Our working capital increased primarily due to increases of $4,850,782 in accounts receivable, $591,566 in due from broker and $262,707 in prepaid expenses and other current assets, decreases in accounts payable and accrued expenses of $1,482,341, which were partially offset by decreases of $2,023,375 in cash, $1,125,796 in inventory, $58,310 in prepaid green coffee, $931,250 in prepaid income taxes, $912,448 in deferred income tax asset, an increase of $1,704,254 in our line of credit and an increase of $925 in income taxes payable. As of July 31, 2016, the outstanding balance on our line of credit was $7,258,375 compared to $5,554,121 as of October 31, 2015. Total stockholders' equity increased due to our net income and our purchase of substantially all of the assets of Coffee Kinetics LLC through our wholly-owned subsidiary SONO and was reduced by our stock repurchases.

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 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 July 31, 2016 and October 31, 2015.

As of July 31, 2016 and October 31, 2015, the outstanding balance under the bank line of credit was $5,421,375 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"). 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 3.25%). 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 July 31, 2016 and October 31, 2015, the outstanding balance under the New Loan Facility was $1,837,000 and $1,237,000, respectively.

For the nine months ended July 31, 2016, our operating activities used net cash of $1,269,207 as compared to the nine months ended July 31, 2015 when operating activities used net cash of $1,806,268. The increased cash flow from operations for the nine months ended July 31, 2016 was primarily due to our net income of $2,126,699, $890,750 of deferred income taxes, $1,432,701 of inventories and $931,250 of prepaid income taxes.

For the nine months ended July 31, 2016, our investing activities used net cash of $1,518,495 as compared to the nine months ended July 31, 2015 when net cash used by investing activities was $351,194. The increase in our uses of cash in investing activities was due to our increased outlays for equipment and our investment in our Sonofresco subsidiary during the nine months ended July 31, 2016.

For the nine months ended July 31, 2016, our financing activities provided net cash of $764,327 compared to net cash provided by financing activities of $1,690,000 for the nine months ended July 31, 2015. The change in cash flow from financing activities for the nine months ended July 31, 2016 was due to our decreased net borrowing and our stock repurchase plan.

We expect to fund our operations, including paying our liabilities, funding capital expenditures and making required payments on our indebtedness, through July 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 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. As of July 31, 2016, our debt consisted of $7,258,375 of variable rate debt under our revolving line of credit. Our line of credit provides for a maximum of $9,000,000 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 3.25%). 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 7 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” in our Annual Report on Form 10-K for the fiscal year ended October 31, 2015 filed with the SEC on January 26, 2016. 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.

As of July 31, 2016, the Company held 16 futures contracts (generally with terms of three to four months) for the purchase of 600,000 pounds of green coffee at a weighted average price of $1.397 per pound. The fair market value of coffee applicable to such contracts was $1.462 per pound at that date. As of July 31, 2016, the Company held 20 options covering an aggregate of 750,000 pounds of green coffee beans at $1.425 per pound. The fair market value of these options, which was obtained from observable market data of similar instruments was $42,375. As of October 31, 2015, we 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, 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, which was obtained from observable market data of similar instruments, was $42,750 at October 31, 2015.

ITEM 4. 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 to our management, including our principal executive officer and financial officer to allow timely decisions 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, 2016 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, 2015 filed with the SEC on January 26, 2016.

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

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 (2)
May 1, 2016 to May 31, 2016	0	-	-	-
June 1, 2016 to June 30, 2016	56,863	$5.59	56,863	$1,068,806
July 1, 2016 to July 31, 2016	23,337	$5.81	23,337	$933,224
Total	80,200	$5.66	80,200	$933,224

(1) On September 29, 2015, we announced that the Board of Directors had approved a share repurchase program (the “2015 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 2015 Share Repurchase Program may be discontinued or suspended at any time.

(2) Dollar amount reflects the value of shares purchased previously pursuant to the 2015 Share Repurchase Program during the fiscal quarters ended October 31, 2015 and April 30, 2016.

On June 29, 2016, pursuant to the terms of the of the 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 Company issued 38,364 shares of its common stock, par value $0.001 per share, to the Seller. The shares of common stock were issued in a private placement and without registration under the Securities Act of 1933, as amended, pursuant to Section 4(a)(2) of the Securities Act and Regulation D promulgated pursuant thereto.

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 Sarbar 2002.

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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.

	Coffee Holding Co., Inc.
Date: September 14, 2016	By:/s/ Andrew Gordon
	Andrew Gordon President Chief Executive Officer and Chief Financial Officer (Principal Executive Officer, Principal Financial Officer, Chief Accounting Officer)