COFFEE HOLDING CO INC
Form 10-Q
September 14, 2016

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, 2016
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: 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 [ ]

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 [ ]

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 [ ]	Accelerated filer [ ]
Non-accelerated filer [ ]	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 [ ] No [X]

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

6,026,283 shares of common stock, par value $0.001 per share, are outstanding at September 14, 2016.

ITEM 1. FINANCIAL STATEMENTS
COFFEE HOLDING CO., INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
JULY 31, 2016 AND OCTOBER 31, 2015

	July 31, 2016	October 31, 2015
	(Unaudited)	
- ASSETS -		
CURRENT ASSETS:		
Cash	$1,830,441	$3,853,816
Accounts receivable, net of allowances of $144,000 for 2015 and 2014	15,819,019	10,968,237
Inventories	12,737,022	13,862,818
Prepaid green coffee	562,142	620,452
Prepaid expenses and other current assets	518,909	256,202
Prepaid income taxes	503,327	1,434,577
Due from broker	107,731	
Deferred income tax asset	85,272	997,720
TOTAL CURRENT ASSETS	32,163,863	31,993,822
Machinery and equipment, at cost, net of accumulated depreciation of $4,661,610 and $4,241,256 for 2016 and 2015, respectively	2,126,239	1,845,000
Customer list and relationships, net of accumulated amortization of $46,875 and $41,250 for 2016 and 2015, respectively	223,125	108,750
Trademarks	180,000	180,000
Goodwill	1,017,905	440,000
Equity method investments	95,522	96,571
Deposits and other assets	593,476	610,499
TOTAL ASSETS	$36,400,130	$35,274,642
- LIABILITIES AND STOCKHOLDERS' EQUITY -		
CURRENT LIABILITIES:		
Accounts payable and accrued expenses	$2,539,048	$4,021,389
Line of credit	7,258,375	5,554,121
Due to broker		483,835
Income taxes payable	925	
TOTAL CURRENT LIABILITIES	9,798,348	10,059,345
Deferred income tax liabilities	70,672	92,370
Deferred rent payable	228,927	222,055
Deferred compensation payable	497,034	482,499

TOTAL LIABILITIES	10,594,981	10,856,269
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, 6,494,680 and 6,456,316 shares issued; 6,026,283 and 6,162,207 shares outstanding at July 31, 2016 and October 31, 2015, respectively	6,495	6,456
Additional paid-in capital	16,104,074	15,904,109
Retained earnings	11,691,828	9,665,940
Less: Treasury stock, 468,397 and 294,109 common shares, at cost at July 31, 2016 and October 31, 2015, respectively	(2,334,639)	(1,494,712)
Total Coffee Holding Co., Inc. Stockholders' Equity	25,467,758	24,081,793
Non-controlling interest	337,391	336,580
TOTAL EQUITY	25,805,149	24,418,373
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$36,400,130	$35,274,642

See Notes to Condensed Consolidated Financial Statements.

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

	Nine Months Ended July 31,		Three Months Ended July 31,	
	2016	2015	2016	2015
NET SALES	$61,566,868	$95,708,890	$17,354,533	$27,039,857
COST OF SALES (including $7.4 and $17.9 million of related party costs for the nine months ended July 31, 2016 and 2015, respectively. Including $1.9 and $3.0 million for the three months ended July 31, 2016 and 2015, respectively.)	52,455,081	92,816,224	14,203,343	24,991,366
GROSS PROFIT	9,111,787	2,892,666	3,151,190	2,048,491
OPERATING EXPENSES:				
Selling and administrative	5,170,915	5,286,993	1,704,373	1,723,158
Officers' salaries	491,550	489,435	163,850	163,850
TOTALS	5,662,465	5,776,428	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.

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	