

COFFEE HOLDING CO INC
Form 10-Q
March 14, 2008

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

FORM 10-Q

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

For the quarterly period ended: **January 31, 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: **001-32491**

Coffee Holding Co., Inc.

(Exact name of registrant as specified in its charter)

Nevada

(State or other jurisdiction of incorporation or organization)

11-2238111

(I.R.S. Employer Identification No.)

4401 First Avenue, Brooklyn, New York

(Address of principal executive offices)

11232-0005

(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 ☒ 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 ☐

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Non-accelerated filer ☐ Smaller reporting company ☒

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

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

5,497,130 shares of common stock, par value \$0.001 per share, outstanding at February 29, 2008

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PART I — FINANCIAL INFORMATION**Item 1. Financial Statements**

COFFEE HOLDING CO., INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
JANUARY 31, 2008 AND OCTOBER 31, 2007

	January 31, 2008 (unaudited)	October 31, 2007
- ASSETS -		
CURRENT ASSETS:		
Cash	\$ 1,089,041	\$ 890,649
Commodities held at broker	3,082,871	3,468,530
Accounts receivable, net of allowances of \$127,464 and \$136,781 for 2008 and 2007, respectively	5,543,343	7,130,467
Inventories	4,709,513	4,472,097
Prepaid expenses and other current assets	483,649	502,240
Prepaid and refundable income taxes	108,712	236,406
Deferred income tax assets	270,000	279,000
TOTAL CURRENT ASSETS	15,287,129	16,979,389
Property and equipment, at cost, net of accumulated depreciation of \$4,601,266 and \$4,542,490 for 2008 and 2007, respectively	2,640,353	2,651,960
Deposits and other assets	742,016	765,368
TOTAL ASSETS	\$ 18,669,498	\$ 20,396,717
- LIABILITIES AND STOCKHOLDERS' EQUITY -		
CURRENT LIABILITIES:		
Accounts payable and accrued expenses	\$ 4,968,590	\$ 6,791,690
Line of credit borrowings	889,253	897,191
Dividend payable	1,544,568	-
Income taxes payable	7,005	9,161
TOTAL CURRENT LIABILITIES	7,409,416	7,698,042
Deferred income tax liabilities	127,500	145,000
Deferred compensation payable	380,559	351,332
TOTAL LIABILITIES	7,917,475	8,194,374
MINORITY INTEREST	-	-
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS' EQUITY:		
Preferred stock, par value \$.001 per share; 10,000,000 shares authorized; none issued	-	-
Common stock, par value \$.001 per share; 30,000,000 shares authorized, 5,529,830 shares issued; 5,497,130 shares outstanding for 2008 and 5,514,930 shares outstanding in 2007	5,530	5,530
Additional paid-in capital	7,327,023	7,327,023

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Retained earnings	3,584,164	4,946,467
Less: Treasury stock, 32,700 and 14,900 common shares, at cost for 2008 and 2007, respectively	(164,694)	(76,677)
TOTAL STOCKHOLDERS' EQUITY	10,752,023	12,202,343
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 18,669,498	\$ 20,396,717

See notes to Condensed Consolidated Financial Statements.

COFFEE HOLDING CO., INC.
CONDENSED CONSOLIDATED STATEMENTS OF INCOME AND RETAINED EARNINGS
THREE MONTHS ENDED JANUARY 31, 2008 AND 2007
(Unaudited)

	2008	2007
NET SALES	\$ 14,962,541	\$ 12,635,112
COST OF SALES	13,082,423	10,466,517
GROSS PROFIT	1,880,118	2,168,595
OPERATING EXPENSES:		
Selling and administrative	1,378,924	1,390,690
Writedown of amount due from dissolved joint venture	-	242,000
Officers' salaries	161,377	117,012
TOTALS	1,540,301	1,749,702
INCOME FROM OPERATIONS	339,817	418,893
OTHER INCOME (EXPENSE):		
Interest income	24,271	34,116
Equity in loss from dissolved joint venture	-	(63,939)
Writedown of investment in dissolved joint venture	-	(33,000)
Management fee income	-	12,026
Interest expense	(29,006)	(24,232)
TOTALS	(4,735)	(75,029)
INCOME BEFORE INCOME TAXES AND MINORITY INTEREST IN SUBSIDIARY	335,082	343,864
Provision for income taxes	142,051	37,850
INCOME BEFORE MINORITY INTEREST	193,031	306,014
Minority interest in earnings (loss) of subsidiary	(10,766)	3,670
NET INCOME	182,265	309,684
Retained earnings – beginning	4,946,467	4,009,151
Dividend declared	(1,544,568)	-
RETAINED EARNINGS - ENDING	\$ 3,584,164	\$ 4,318,835
Basic and diluted earnings per share	\$.03	\$.06
Weighted average common shares outstanding:		
Basic	5,506,326	5,529,830
Diluted	5,576,326	5,599,830

COFFEE HOLDING CO., INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
THREE MONTHS ENDED JANUARY 31, 2008 AND 2007
(Unaudited)

	2008	2007
OPERATING ACTIVITIES:		
Net income	\$ 182,265	\$ 309,684
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	119,572	60,630
Writedown of amount due from dissolved joint venture	-	242,000
Loss from dissolved joint venture	-	63,939
Writedown of investment in dissolved joint venture	-	33,000
Deferred income taxes	(8,500)	(229,200)
Changes in operating assets and liabilities:		
Commodities held at broker	385,659	1,375,961
Accounts receivable	1,587,124	1,916,454
Inventories	(237,416)	(561,482)
Prepaid expenses and other assets	18,591	84,362
Prepaid and refundable income taxes	127,694	256,672
Accounts payable and accrued expenses	(1,823,100)	(867,450)
Due from dissolved joint venture	-	(183,232)
Deposits and other assets	41,813	(132,557)
Income taxes payable	(2,156)	-
Net cash provided by operating activities	391,546	2,368,781
INVESTING ACTIVITIES:		
Purchases of property and equipment	(107,965)	(92,091)
Net cash (used in) investing activities	(107,965)	(92,091)
FINANCING ACTIVITIES:		
Advances under bank line of credit	14,282,082	11,103,226
Principal payments under bank line of credit	(14,290,020)	(12,660,888)
Purchase of treasury stock	(88,017)	-
Net cash (used in) financing activities	(95,955)	(1,557,662)
MINORITY INTEREST	10,766	(3,670)
NET INCREASE IN CASH	198,392	715,358
Cash, beginning of year	890,649	1,112,165
CASH, END OF PERIOD	\$ 1,089,041	\$ 1,827,523
SUPPLEMENTAL DISCLOSURE OF CASH FLOW DATA:		
Interest paid	\$ 19,515	\$ 18,642
Income taxes paid	\$ 24,962	\$ 3,550
NONCASH INVENTORY AND FINANCING ACTIVITIES:		

On January 31, 2008, the Company declared dividends in the amount of \$1,544,568.

See notes to Condensed Consolidated Financial Statements.

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 sells green coffee. The Company’s sales are primarily to customers that are located throughout the United States with limited sales in Canada, consisting of supermarkets, wholesalers, gourmet roasters and individually owned and multi-unit retailers.

The Company owns a 60% interest in Generations Coffee Company, LLC (“GCC”) effective April 7, 2006. GCC is in the same business as the Company and had limited operations since it commenced its operations during the quarter ended October 31, 2006. The Company also exercises control of GCC. As a result of its 60% interest and control, the financial statements of GCC are consolidated with the Company.

The Company also owned a 50% interest in Cafe La Rica, LLC (“CLR”) effective March 10, 2006. CLR was in the same business as the Company and was being recorded as an investment in joint venture since the Company did not exercise control of CLR. As a result, the financial statements of CLR were not consolidated and was accounted for by the equity method of accounting. Effective October 17, 2007 the Company dissolved the joint venture.

NOTE 2 -

BASIS OF PRESENTATION:

The interim condensed consolidated financial information as of January 31, 2008 and for the three-month periods ended January 31, 2008 and 2007 has been prepared without audit, 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 have been condensed or omitted pursuant to such rules and regulations, although we believe that the disclosures made are adequate to provide for fair presentation. These Financial Statements should be read in conjunction with the Financial Statements and the notes thereto, included in the Company’s Annual Report on Form 10-K for the fiscal year ended October 31, 2007, previously filed with the SEC.

In the opinion of management, all adjustments (which include normal recurring adjustments) necessary to present a fair statement of financial position as of January 31, 2008, and results of operations and cash flows for the three months ended January 31, 2008 and 2007, as applicable, have been made. The results of operations for the three months ended January 31, 2008 and 2007 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 and GCC. The equity method of accounting was used to record the Company’s share of the loss in CLR for the quarter ended January 31, 2007 only. All significant inter-company transactions and balances have been eliminated in consolidation.

NOTE 3 - ADOPTION OF RECENTLY ISSUED ACCOUNTING PRONOUNCEMENT:

In June 2006, the Financial Accounting Standards Board issued Interpretation No. 48, Accounting for Uncertainty in Income Taxes ("Fin 48"). This Interpretation clarifies the accounting for uncertainty in income taxes recognized in an entity's financial statements and prescribes a recognition threshold of more-likely-than-not to be sustained upon examination. Measurement of the tax uncertainty occurs if the recognition threshold has been met. This Interpretation also provides guidance on de-recognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. The Company conducts business primarily in the US and, as a result, files income tax returns for US, New York, New York City and in four other states and jurisdictions. In the normal course of business the Company is subject to examination by taxing authorities. At present, there are no ongoing income tax audits or unresolved disputes with the various tax authorities that the Company currently files or has filed with. The Company's New York State tax returns have been accepted as filed through October 31, 2004 and the Company's New York City tax returns have been accepted as filed through October 31, 2003. Given the Company's history with the taxing authorities, conservative tax approach and no material uncertain tax positions, the adoption of FIN 48 on November 1, 2007 did not have any effect on our financial position, results of operations or cash flows as of and for the three months ended January 31, 2008.

NOTE 4 - CAFÉ LA RICA, LLC - JOINT VENTURE

The following represents condensed financial information of CLR as of January 31, 2007 and for the three months then ended.

Current assets	\$ 423,828
Machinery and other assets	448,555
Total assets	\$ 872,383
Current liabilities	\$ 643,172
Other liabilities	5,889
Capital (deficit)	223,322
Total liabilities and capital	\$ 872,383
Sales	\$ 314,806
Expenses	442,684
Net loss	\$ (127,878)
Company's share of net loss	\$ (63,939)

As of January 31, 2007, the Company wrote-down the amount due from joint venture by \$242,000 and wrote-down its investment in joint venture by \$33,000 as a result of the Company's plans to dissolve CLR. CLR was dissolved on October 17, 2007, so no condensed financial information is presented as of January 31, 2008 and for the three months then ended.

NOTE 5 -**ACCOUNTS RECEIVABLE:**

Accounts receivable are recorded net of allowances. The allowance for doubtful accounts represents the estimated uncollectible portion of accounts receivable. The reserve for sales discounts represents the estimated discount that customers will take upon payment. The allowances are summarized as follows:

	2008 (unaudited)	2007 (audited)
Allowance for doubtful accounts	\$ 92,464	\$ 92,464
Reserve for sales discounts	35,000	44,317
Totals	\$ 127,464	\$ 136,781

NOTE 6 -**INVENTORIES:**

Inventories at January 31, 2008 and October 31, 2007 consisted of the following:

	January 31, 2008 (unaudited)	October 31, 2007 (audited)
Packed coffee	\$ 1,207,559	\$ 1,233,457
Green coffee	2,722,505	2,379,212
Packaging supplies	779,449	859,428
Totals	\$ 4,709,513	\$ 4,472,097

NOTE 7 -**HEDGING:**

The Company uses options and futures contracts to partially hedge the effects of fluctuations in the price of green coffee beans. Options and futures contracts are marked to market with current recognition of gains and losses on such positions. The Company's accounting for options and futures contracts may increase earnings volatility in any particular period. The Company has open position contracts held by the broker which includes primarily cash and commodities for futures and options in the amount of \$3,082,871 and \$3,468,530, which includes unrealized gains of \$326,887 and \$335,750 at January 31, 2008 and October 31, 2007, respectively. 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 in a separate component of shareholders' equity.

At January 31, 2008, the Company held 210 options (generally with terms of two months or less) covering an aggregate of 7,875,000 pounds of green coffee beans at a price of \$1.30 per pound including the value of the option. The fair market value of these options, which was obtained from major financial institutions, was \$654,000 at January 31, 2008.

At January 31, 2007, the Company held 40 options (generally with terms of two months or less) covering an aggregate of 1,500,000 pounds of green coffee beans at a price of \$1.15 per pound including the value of the option. The fair market value of these options, which was obtained from a major financial institution, was \$54,000 at January 31, 2007.

NOTE 7 -**HEDGING (Continued):**

The Company acquires futures contracts with longer terms (generally three to four months) primarily for the purpose of guaranteeing an adequate supply of green coffee.

At January 31, 2008, the Company held 35 futures contracts for the purchase of 1,312,500 pounds of coffee at an average price of \$1.33 per pound. The market price of coffee applicable to such contracts was \$1.38 per pound at that date.

At January 31, 2007, the Company held 75 futures contracts for the purchase of 2,812,500 pounds of coffee at an average price of \$1.10 per pound. The market price of coffee applicable to such contracts was \$1.1765 per pound at that date.

Included in cost of sales and due from commodities held at broker for the three months ended January 31, 2008 and 2007, the Company recorded realized and unrealized gains and losses respectively, on these contracts as follows:

	Three Months Ended January 31,	
	2008	2007
	(unaudited)	(unaudited)
Gross realized gains	\$ 1,145,109	\$ 688,456
Gross realized losses	\$ (542,803)	\$ (94,401)
Unrealized losses	\$ (8,863)	\$ (3,739)

NOTE 8 -**LINE OF CREDIT:**

The Company has a financing agreement with Merrill Lynch Business Financial Services, Inc. for a line of credit of up to \$4,000,000 with a maturity date of October 31, 2008. The line of credit is secured by a blanket lien on all the assets of the Company and the personal guarantees of two of the Company's officer/shareholders, requires monthly interest payments at a rate of LIBOR plus 1.95%, or 5.21% as of January 31, 2008 (the rate was LIBOR plus 2.15%, or 6.66%, as of October 31, 2007), and requires the Company to comply with various financial covenants. As of Janua