COFFEE HOLDING CO INC
Form 10-Q
June 13, 2012

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

FORM 10-Q

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

For the quarterly period ended: April 30, 2012

OR

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

For the transition period from _____________ to ______________

Commission file number: 001-32491

Coffee Holding Co., Inc.

(Exact name of registrant as specified in its charter)

Nevada	11–2238111
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
3475 Victory Boulevard, Staten Island, New York	10314
(Address of principal executive offices)	(Zip Code)

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

N/A

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T

(§232.405 of this chapter) during the preceding 12 months (or for such period that the registrant was required to submit and post such files). Yes þ No o

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

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

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

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

6,372,309 shares of common stock, par value $0.001 per share, are outstanding at June 7, 2012.

ITEM 1. FINANCIAL STATEMENTS

COFFEE HOLDING CO., INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
APRIL 30, 2012 AND OCTOBER 31, 2011

	April 30, 2012 (unaudited)	October 31, 2011
- ASSETS -		
CURRENT ASSETS:		
Cash	$ 2,432,001	$ 4,244,335
Accounts receivable, net of allowances of $269,611 for 2012 and 2011	9,634,929	16,021,581
Inventories	11,993,084	13,475,855
Prepaid green coffee	50,283	388,754
Prepaid expenses and other current assets	207,145	275,679
Prepaid and refundable income taxes	501,191	377,972
Deferred income tax asset	365,978	896,400
TOTAL CURRENT ASSETS	25,184,611	35,680,576
Machinery and equipment, at cost, net of accumulated depreciation of $2,411,214 and $2,191,566 for 2012 and 2011, respectively	1,630,751	1,661,759
Customer list and relationships, net of accumulated amortization of $15,000 and $11,250 for 2012 and 2011, respectively	135,000	138,750
Trademarks	180,000	180,000
Goodwill	440,000	440,000
Equity investment	1,968,902	-
Deferred income tax asset	1,522	-
Deposits and other assets	683,643	677,606
TOTAL ASSETS	$ 30,224,429	$ 38,778,691
- LIABILITIES AND STOCKHOLDERS' EQUITY -		
CURRENT LIABILITIES:		
Accounts payable and accrued expenses	$ 5,950,502	$ 12,379,414
Line of credit	137,500	1,820,109
Due to broker	570,945	1,867,558
Income taxes payable	-	100
TOTAL CURRENT LIABILITIES	6,658,947	16,067,181
Deferred income tax liabilities	-	35,900
Deferred rent payable	156,795	146,921
Deferred compensation payable	554,490	538,707
TOTAL LIABILITIES	7,370,232	16,788,709
STOCKHOLDERS' EQUITY:		
Coffee Holding Co., Inc. stockholders' equity:		
Preferred stock, par value $.001 per share; 10,000,000 shares authorized; 0 issued	-	-
	6,456	6,456

Common stock, par value $.001 per share; 30,000,000 shares authorized, 6,456,316 shares issued; 6,372,309 shares outstanding for 2012 and 2011				
Additional paid-in capital		15,884,609		15,884,609
Contingent consideration		19,500		19,500
Retained earnings		7,089,046		6,268,326
Less: Treasury stock, 84,007 common shares, at cost for 2012 and 2011		(272,133)		(272,133)
Total Coffee Holding Co., Inc. Stockholders' Equity		22,727,478		21,906,758
Noncontrolling interest		126,719		83,224
TOTAL EQUITY		22,854,197		21,989,982
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$	30,224,429	$	38,778,691

See notes to Condensed Consolidated Financial Statements.

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

	Six Months Ended April 30, 2012	Six Months Ended April 30, 2011	Three Months Ended April 30, 2012	Three Months Ended April 30, 2011
NET SALES	$ 93,687,243	$ 62,973,110	$ 37,085,559	$ 37,332,017
COST OF SALES (including $17.5 and $11.7 million of related party costs for the six months ended April 30, 2012 and 2011, respectively. Including $7.0 and $6.8 million for the three months ended April 30, 2012 and 2011, respectively.)	87,853,608	56,292,992	35,701,667	33,732,594
GROSS PROFIT	5,833,635	6,680,118	1,383,892	3,599,423
OPERATING EXPENSES:				
Selling and administrative	3,443,982	3,145,367	1,763,249	1,637,363
Officers' salaries	288,258	329,700	141,100	149,850
TOTALS	3,732,240	3,475,067	1,904,349	1,787,213
INCOME (LOSS) FROM OPERATIONS	2,101,395	3,205,051	(520,457)	1,812,210
OTHER INCOME (EXPENSE)				
Interest income	18,641	111,331	4,758	6,316
Loss from equity investment	(31,098)	-	(10,961)	-
Interest expense	(106,532)	(118,660)	(40,803)	(61,595)
TOTALS	(118,989)	(7,329)	(47,006)	(55,279)
INCOME (LOSS) BEFORE PROVISION FOR INCOME TAXES AND NONCONTROLLING INTEREST IN SUBSIDIARY	1,982,406	3,197,722	(567,463)	1,756,931
Provision (benefit) for income taxes	730,813	958,656	(233,687)	568,996
NET INCOME (LOSS) BEFORE NONCONTROLLING INTEREST IN SUBSIDIARY	1,251,593	2,239,066	(333,776)	1,187,935
Less: Net (income) loss attributable to the noncontrolling interest	(43,495)	(10,037)	(36,471)	22
NET INCOME (LOSS) ATTRIBUTABLE TO COFFEE HOLDING CO., INC.	$ 1,208,098	$ 2,229,029	$ (370,247)	$ 1,187,957

Basic earnings (loss) per share	$ .19	$ .41	$ (.06)	$ .22
Diluted earnings (loss) per share	$ .18	$ .41	$ (.06)	$ .22
Dividends declared per share	$ .06	$ .06	$ .03	$ .03
Weighted average common shares outstanding:				
Basic	6,372,309	5,490,823	6,372,309	5,490,823
Diluted	6,644,309	5,500,823	6,372,309	5,500,823

See notes to Condensed Consolidated Financial Statements.

COFFEE HOLDING CO., INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
SIX MONTHS ENDED APRIL 30, 2012 AND 2011
(Unaudited)

	2012	2011
OPERATING ACTIVITIES:		
Net income	$1,251,593	$2,239,066
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	223,398	219,633
Unrealized gain on commodities	(1,296,613)	(47,886)
Loss on equity investment	31,098	-
Deferred rent	9,874	11,083
Deferred income taxes	493,000	(123,000)
Changes in operating assets and liabilities:		
Accounts receivable	6,386,652	(2,772,887)
Inventories	1,482,771	(1,222,985)
Prepaid expenses and other current assets	68,534	226,309
Prepaid green coffee	338,471	906,539
Prepaid and refundable income taxes	(123,219)	(100,724)
Accounts payable and accrued expenses	(6,428,912)	2,110,769
Deposits and other assets	9,746	9,744
Income taxes payable	(100)	183,129
Net cash provided by operating activities	2,446,293	1,638,790
INVESTING ACTIVITIES:		
Equity investment	(2,000,000)	-
Purchases of machinery and equipment	(188,640)	(283,580)
Net cash used in investing activities	(2,188,640)	(283,580)
FINANCING ACTIVITIES:		
Advances under bank line of credit	90,112,780	58,006,191
Principal payments under bank line of credit	(91,795,389)	(58,791,717)
Payment of dividend	(387,378)	(333,978)
Net cash used in financing activities	(2,069,987)	(1,119,504)
NET INCREASE (DECREASE) IN CASH	(1,812,334)	235,706
CASH, BEGINNING OF PERIOD	4,244,335	1,672,921
CASH, END OF PERIOD	$2,432,001	$1,908,627
SUPPLEMENTAL DISCLOSURE OF CASH FLOW DATA:		
Interest paid	$121,872	$93,446
Income taxes paid	$343,805	$991,698

See notes to Condensed Consolidated Financial Statements.

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COFFEE HOLDING CO., INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
APRIL 30, 2012 AND 2011

NOTE 1 - BUSINESS ACTIVITIES:

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

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

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

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

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

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

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

COFFEE HOLDING CO., INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
APRIL 30, 2012 AND 2011

NOTE 1 - BUSINESS ACTIVITIES (cont'd):

On November 30, 2011, the Company entered into a stock purchase agreement with Global Mark LLC, Peter Schmalfeld and Lawrence Elsie to purchase a 40% interest in Global Mark LLC ("GM"). GM is an instant coffee and related product supplier. The terms of the agreement provide for the Company to pay up to an aggregate of $2,000,000 in cash to fund operations and GM will provide to the Company a preferred pricing arrangement for the supply of instant coffee. As a result of the 40% equity interest and lack of control of GM, the investment in GM will be accounted for using the equity method.

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

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

NOTE 2 - BASIS OF PRESENTATION:

The following (a) condensed consolidated balance sheet as of October 31, 2011, 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 31, 2012 for the fiscal year ended October 31, 2011 ("Form 10-K").

In the opinion of management, all adjustments (which include normal and recurring nature adjustments) necessary to present a fair statement of the Company's financial position as of April 30, 2012, and results of operations for the three and six months ended April 30, 2012 and 2011 and the cash flows for the six months ended April 30, 2012 and 2011, as applicable, have been made.

COFFEE HOLDING CO., INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
APRIL 30, 2012 AND 2011

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

The results of operations for the three and six months ended April 30, 2012 and 2011 are not necessarily indicative of the operating results for the full fiscal year or any future periods.

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

NOTE 3 - RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS AFFECTING THE COMPANY:

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

NOTE 4 - FORMATION OF SUBSIDIARY:

On April 21, 2010, the Company formed a 100% owned subsidiary named Coffee Holding Acquisition Company, LLC in the state of Delaware.

On May 17, 2010 (the "Closing Date"), the Company and Coffee Holding Acquisition Company, LLC (the name of which was changed to Organic Products Trading Company LLC "OPTCO," collectively, the "Buyer") purchased substantially all of the assets, including fixed assets, inventory, trademarks, customer list and supply-chain relationships (the "Assets") of Organic Products Trading Company, Inc., a Washington corporation (the "Seller") pursuant to the terms of an Asset Purchase Agreement dated April 22, 2010 (the "Agreement"). The Buyer purchased the Assets for a purchase price consisting of: a) $450,000 in cash at closing, b) an additional $50,000 in cash if "OPTCO" generated a pre-tax net profit of $300,000 or more during the period from May 1, 2010 to April 30, 2011 ("Supplemental Cash Payment"), (c) 50,000 shares of the Company's common stock on the Closing Date, (d) up to an additional 5,000 shares of the Company's common stock if "OPTCO" generated a pre-tax net profit of $300,000 or more during the period from May 1, 2010 to April 30, 2011 (the "First Supplemental Common Stock Payment" and together with the Supplement Cash Payment, the "Supplemental Payment"); (e) up to an additional 5,000 shares of the Company's common stock if "OPTCO" generates a pre-tax net profit of $300,000 or more during the period from May 1, 2011, to April 30, 2012 (the

COFFEE HOLDING CO., INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
APRIL 30, 2012 AND 2011

NOTE 4 - FORMATION OF SUBSIDIARY (cont'd):

"Second Supplemental Common Stock Payment") and (f) an additional cash payment of $1,809,924 based on the cost of inventory transferred to Buyer on the Closing Date.

Since "OPTCO" met the first pre-tax net profit target, the Supplemental Cash Payment was made during the third quarter of the fiscal year ended October 31, 2011 and the First Supplemental Common Stock Payment was made during the fourth quarter for the fiscal year ended October 31, 2011. More recently, OPTCO met the second pre-tax net target, and, therefore, will receive the Second Supplemental Common Stock Payment during the third quarter. The Agreement also indicated that commencing no sooner than six months from the Closing Date, the Company agreed, at the Seller's request, to repurchase the common stock shares issued to the Seller for $4.00 per share regardless of the market value of the common stock at that time not to exceed the repurchase of 10,000 shares in any given year. This provision was subsequently waived by the Seller for the fiscal year commencing on October 22, 2010 through October 21, 2011 (the "Waiver") and we believe that, subsequent to the Waiver the seller sold the shares.

As part of the transaction, all of the employees of the Seller became employees of the Buyer. The Buyer entered into two-year employment agreements commencing on May 14, 2010, with two of the Seller's principals and executives, Garth Smith and Gaylene Smith, to ensure continuity of the business and to continue the operations of the business located in Vancouver, Washington. The employment agreements include base pay for each executive of $150,000 and each are each eligible for a bonus. The Buyer has the right to terminate the employment of the executives at any time with or without cause and the executives have the right to resign at any time with or without good reason.

The Buyer has also entered into confidentiality and non-compete agreements with seven employees and or executives of the Seller. The non-compete agreements are in effect during their period of employment by the Buyer and continue for one year thereafter, whereby the employees and the executives agreed not to directly or indirectly engage in any activities competitive in nature with the business of the Company.

The Buyer also agreed to lease certain premises located in Vancouver, Washington from Seller for an annual rental of $31,800 plus certain common area charges with one month rent held as a security deposit for a two year period commencing June 1, 2010.

The following table summarizes the allocation of the $2,594,924 purchase price utilizing the estimated fair values of the assets acquired at May 17, 2010.

COFFEE HOLDING CO., INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
APRIL 30, 2012 AND 2011

NOTE 4 - FORMATION OF SUBSIDIARY (cont'd):

Purchase price – cash	$ 2,259,924
Contingent liability	41,000
Contingent consideration	39,000
Common stock, par value $.001 per share, 50,000 shares	50
Additional paid-in Capital	254,950
Total purchase price	2,594,924
Equipment	15,000
Inventory	1,809,924
Customer list and relationships	150,000
Trademarks	180,000
Goodwill	440,000
Total asset acquired	$ 2,594,924

The $440,000 of goodwill and $330,000 of intangible assets, consisting of trademarks and customer relationships, are expected to be fully deductible for income tax reporting purposes. The values assigned to the customer list and relationships are being amortized over a twenty year period. Amortization expense was $7,500 and $3,750 for the years ended October 31, 2011 and 2010, respectively. The future amortization on the customer list and relationships will be $7,500 per year. Goodwill and trademark intangible assets were recorded at their fair value on the Closing Date and will be evaluated at least on an annual basis for impairment. Any future adjustments to the contingent liability for fair value will be recorded in the statement of income. As of October 31, 2011 and 2010, the Company has determined that no adjustment was warranted to the contingent liability. The contingent consideration will not be remeasured each reporting period and any subsequent settlement will be accounted for in stockholders' equity.

NOTE 5 - PREPAID GREEN COFFEE:

Prepaid coffee is an item that emanates from OPTCO. The balance represents advance payments made by OPTCO to several coffee growing cooperatives for the purchase of green coffee. Interest is charged to the cooperatives for these advances. Interest earned was $13,185 and $5,529 for the six months ended April 2012 and 2011, respectively. The prepaid coffee balance was $50,283 at April 30, 2012 and $388,754 at October 31, 2011.

COFFEE HOLDING CO., INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
APRIL 30, 2012 AND 2011

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

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

	2012	2011
Allowance for doubtful accounts	$ 162,611	$ 162,611
Reserve for other allowances	47,000	47,000
Reserve for sales discounts	60,000	60,000
Totals	$ 269,611	$ 269,611

NOTE 7 - INVENTORIES:

Inventories at April 30, 2012 and October 31, 2011consisted of the following:

	April 30, 2012 (unaudited)	October 31, 2011
Packed coffee	$ 1,773,473	$ 1,514,189
Green coffee	9,579,070	11,374,813
Packaging supplies	640,541	586,853
Totals	$ 11,993,084	$ 13,475,855

COFFEE HOLDING CO., INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
APRIL 30, 2012 AND 2011

NOTE 8 - COMMODITIES HELD BY BROKER:

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

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

	April 30, 2012 unaudited	October 31, 2011
Option Contracts	(537,645)	129,750
Future Contracts	(33,300)	(1,997,308)
Total Commodities	(570,945)	(1,867,558)

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 April 30, 2012, the Company held 100 options (generally with terms of two months or less) covering an aggregate of 3,750,000 pounds of green coffee beans at $1.90 per pound. The fair market value of these options, which was obtained from observable market data of similar instruments was $423, 750. At April 30, 2012, the Company held 133 futures contracts for the purchase of 4,987,500 pounds of green coffee at a weighted average price of $1.802 per pound. The fair market value of coffee applicable to such contracts was $1.795 per pound at that date.

At April 30, 2011, the Company held 231 options (generally with terms of two months or less) covering an aggregate of 8,662,500 pounds of green coffee beans at $2.87 per pound. The fair market value of these options, which was obtained from observable market data of similar instruments was $3.00 per pound. At April 30, 2011, the Company did not hold any futures contracts.

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

COFFEE HOLDING CO., INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
APRIL 30, 2012 AND 2011

NOTE 8 - COMMODITIES HELD BY BROKER (cont'd):

	Three Months Ended April 30,	
	2012	2011
	unaudited	unaudited
Gross realized gains	$ 306,575	$ 1,017,311
Gross realized losses	(1,410,588)	(2,814)
Unrealized gains	(280,681)	202,323
Total	$ (1,384,694)	$ 1,216,820

	Six Months Ended April 30,	
	2012	2011
	unaudited	unaudited
Gross realized gains	$ 489,105	$ 1,852,571
Gross realized losses	(2,197,988)	(5,233)
Unrealized gains	1,296,613	47,886
Total	$ (412,270)	$ 1,895,224

COFFEE HOLDING CO., INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
APRIL 30, 2012 AND 2011

NOTE 9 - LINE OF CREDIT:

On February 17, 2009, the Company entered into a financing agreement with Sterling National Bank ("Sterling") for a $5,000,000 credit facility. The credit facility is a revolving $5,000,000 line of credit and the Company can draw on the line at an amount up to 85% of eligible accounts receivable and 25% of eligible inventory consisting of green coffee beans and finished coffee not to exceed $1,000,000. Sterling has the right from time to time to adjust the foregoing percentages based upon, among other things, dilution, its sole determination of the value or likelihood of collection of eligible accounts receivables owed to the Company, considerations regarding inventory. The credit facility is payable monthly in arrears on the average unpaid balance of the line of credit at an interest rate equal to a per annum reference rate (4.25% at April 30, 2012 and 6.00% at April 30, 2011). The initial term of the credit facility is three years, expiring February 17, 2012, and may be automatically extended for successive periods of one year each unless one party shall have provided the other party with a written notice of termination at least ninety days prior to the expiration of the then current term. The term was subsequently extended until February 17, 2014 and the interest rate was reduced to the Wall Street Journal Prime rate (which is currently 3.25%) plus one percent (1%), effective as of February 12, 2012. The credit facility is secured by all tangible and intangible assets of the Company.

The credit facility contains covenants that place annual restrictions on the Company's operations, including covenants relating to debt restrictions, capital expenditures, minimum deposit restrictions, tangible net worth, net profit, leverage, employee loan restrictions, distribution restrictions (common stock and preferred stock), dividend restrictions, and restrictions on intercompany transactions. The credit facility also requires that the Company maintain a minimum working capital at all times. The Company was in compliance with all required financial covenants at April 30, 2012 and 2011.

On July 22, 2010, the credit facility was increased to $7,000,000. In addition, OPTCO was added as a co-borrower and the inventory sublimit was raised from $1,000,000 to $2,000,000. Subsequent to July 31, 2010, $1,800,000 of the credit facility was allocated to OPTCO. Additionally, the Company received a guarantee of $1,800,000 from the not-for-profit entity CORDAID.

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

CORDAID, a non-profit organization that supports development projects in developing countries, registered under the laws of the Netherlands, has agreed to make available $1,800,000 (which was subsequently reduced to $1,500,000) to be used as collateral for a loan facility from Sterling to the Company under a Guarantee Agreement. The Company has agreed to pre-finance coffee from small coffee producer groups. The Company pays a guarantee fee of 1.5% per year in advance. In addition, the Company has a corporate guarantee as security to CORDAID for the first loss guarantee of 25% of the outstanding amount of the guarantee from CORDAID, up to a

COFFEE HOLDING CO., INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
APRIL 30, 2012 AND 2011

NOTE 9 - LINE OF CREDIT (cont'd):

maximum of $350,000. The Guarantee Agreement expired on March 31, 2012 and the parties did not renew this agreement.

Triodos Bank is one of the world's leading sustainable banks, with a mission to make money work for positive social, environmental and cultural change. Triodos has offices in the Netherlands, Germany, Spain, UK and Belgium. The Company initiated a corporate guarantee on April 15, 2011 to Triodos Sustainable Trade Fund ("TSTF") up to a maximum amount of $250,000. TSTF provided financing to two coffee growing cooperatives for $1,000,000 based upon relationships established with OPTCO.

As of April 30, 2012 and October 31, 2011, the outstanding balance under the bank line of credit was $137,500 and $1,820,109, respectively.

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 April 30, 2012 and October 31, 2011, 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 April 30, 2012 and October 31, 2011, the Company had no accrued interest or penalties related to income taxes. The Company currently has no federal or state tax examinations in progress.

The Company files a U.S. federal income tax return and California, Colorado, New Jersey, New York, Kansas, Oregon, South Carolina and Texas state tax returns. The Company's federal income tax return is no longer subject to examination by the federal taxing authority for the years before fiscal 2007. 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 2006. 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 2007.

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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 earnings per share were 6,372,309 for the three and six months ended April 30, 2012 and 5,490,823 for the three and six months ended April 30, 2011. The weighted average common shares outstanding used in the computation of diluted earnings per share were 6,644,309 and 6,372,309 for the six and three months ended April 30, 2012, respectively and 5,500,823 for the three and six months ended April 30, 2011, respectively. The 267,000 shares that could be exercised pursuant to the warrant agreement attached to the units issued in September 2011 and the additional 5,000 contingent shares issuable in connection with the Second Supplemental Common Stock Payment have not been included in the diluted earnings per share calculation because of their anti-dilutive impact as of April 30, 2012 as the Company was in a net loss position. The additional 10,000 contingent shares issuable in connection with the First Supplemental Common Stock Payment and the Second Supplemental Common Stock Payment have been included in the diluted earnings per share calculation because of their dilutive impact as of April 30, 2011.

NOTE 12 - ECONOMIC DEPENDENCY:

Approximately 62% of the Company's sales were derived from one customer during the six months ended April 30, 2012. This customer also accounted for approximately $3,114,000 of the Company's accounts receivable balance at April 30, 2012. Approximately 53% of the Company's sales were derived from one customer during the six months ended April 30, 2011. This customer also accounted for approximately $3,600,000 of the Company's accounts receivable balance at April 30, 2011. 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 six months ended April 30, 2012, approximately 61% of the Company's purchases were from four vendors. These vendors accounted for approximately $1,500,000 of the Company's accounts payable at April 30, 2012. For the six months ended April 30, 2011, approximately 56% of the Company's purchases were from four vendors. These vendors accounted for approximately $2,600,000 of the Company's accounts payable at April 30, 2011. 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.

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NOTE 12 - ECONOMIC DEPENDENCY (cont'd):

Approximately 54% of the Company's sales were derived from one customer during the three months ended April 30, 2012. Approximately 59% of the Company's sales were derived from one customer during the three months ended April 30, 2011.

For the three months ended April 30, 2012, approximately 60% of the Company's purchases were from four vendors. For the three months ended April 30, 2011, approximately 61% of the Company's purchases were from three vendors. Management does not believe the loss of any one vendor would have a material adverse effect on the Company's operations due to the availability of many alternate suppliers.

NOTE 13 - RELATED PARTY TRANSACTIONS:

The Company has engaged GCC as an outside contractor (the "Partner"). Included in contract labor expense are expenses incurred from the Partner during the three and six months ended April 30, 2012 of $143,856 and $291,741, 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 $17,500,000 and $7,000,000 for the six and three months ended April 30, 2012 and $11,675,000 and $6,900,000 for the six and three months ended April 30, 2011. The corresponding accounts payable balance to this vendor was approximately $233,000 and $770,000 at April 30, 2012 and 2011, 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. Additional information related to the Company's deferred compensation plan is disclosed in Note 15 to the condensed consolidated financial statements. The deferred compensation asset and liability at April 30, 2012 and October 31, 2011 were $554,490 and $538,707, respectively.

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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 did not purchase any shares during the three and six months ended April 30, 2012 and 2011.

b. Dividends: On January 30, 2012 and April 30, 2012, the Company paid a cash dividend of $193,689 ($0.03 per share) to all stockholders of record as of January 16, 2012 and April 16, 2012.

NOTE 15 - FAIR VALUE MEASUREMENTS:

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

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

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

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

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

COFFEE HOLDING CO., INC.
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NOTE 15 -FAIR VALUE MEASUREMENTS (cont'd):

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

The Company maintains a deferred compensation plan. The fair value of the plan assets are classified within Level 1 as the assets are valued using quoted prices in active markets. The assets are included with Deposits and other assets in the accompanying balance sheets. Additional information related to the Company's deferred compensation plan is disclosed in Note 13 to the condensed consolidated financial statements.

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

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

	Fair Value Measurements as of April 30, 2012			
	Total	Level 1	Level 2	Level 3
Assets:				
Money market	$325,003	$325,003	–	–
Equities	229,487	229,487	–	–
Commodities Futures	–	–	–	–
Total Assets	$554,490	$554,490	–	–
Liabilities:				
Commodities Options	(570,945)	–	(570,945)	–
Total Liabilities	$(570,945)	–	$(570,945)	–

	Fair Value Measurements as of October 31, 2011			
	Total	Level 1	Level 2	Level 3
Assets:				
Money market	$159,047	$159,047	–	–
Equities	379,660	379,660	–	–
Commodities Options	129,750	–	129,750	–
Total Assets	$668,457	$538,707	129,750	–
Liabilities:				
Commodities Futures	(1,997,308)	–	(1,997,308)	–
Total Liabilities	$(1,997,308)	–	$(1,997,308)	–

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

Cautionary Note on Forward-Looking Statements

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

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

In some cases, you can identify forward-looking statements by terminology such as "may," "will," "should," "could," "predic
"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 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;
- 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 the strategic decision to invest in measures that will increase net sales. In February 2004, we acquired certain assets of Premier Roasters, LLC, including equipment and a roasting facility in La Junta, Colorado. We also hired a West Coast Brand Manager to market our S&W brand and to increase sales of S&W coffee to new customers. In April 2006, we entered into a joint venture with Caruso's Coffee, Inc. of Brecksville, Ohio and formed GCC, which engages in the roasting, packaging and sale of private label specialty and organic coffee products. We own a 60% equity interest in GCC and we are the exclusive supplier of its coffee inventory. The joint venture allows us to bid on the private label gourmet whole bean business which we had not been equipped to pursue from an operational standpoint in the past. With this specialty roasting facility in place, in many cases right in the backyard of our most important wholesale and retail customers, we believe that we are in an ideal position to combine our current canned private label business with high-end private label specialty whole bean business. High-end specialty whole bean coffee sells for as much as three times more per pound than the canned coffees in which we currently specialize. As a result of these efforts, net sales increased in our specialty green coffee, private label and branded coffee business lines in both dollars and pounds sold. In addition, the number of our customers in all three areas increased.

On May 17, 2010, we completed our purchase of OPTCO for a purchase price consisting of: a) $450,000 in cash on the Closing Date, b) an additional $50,000 in cash if Buyer generated a pre-tax net profit of $300,000 or more during the period from May 1, 2010 to April 30, 2011 ("Supplemental Cash Payment") (which was paid during the third quarter of the fiscal year ended October 31, 2011), c) 50,000 shares of Company common stock on the Closing Date (the "Common Stock Payment"), d) up to an additional 5,000 shares of the Company's common stock if the Buyer generates a pre-tax net profit of $300,000 or more during the period from May 1, 2010 to April 30, 2011 (the "First Supplemental Common Stock Payment" and together with the Supplemental Cash Payment, the "Supplemental Payment") (which was paid at the beginning of the fourth quarter of the fiscal year ended October 31, 2011); (e) up to an additional 5,000 shares of the Company's common stock if the Buyer generates a pre-tax net profit of $300,000 or more during the period from May 1, 2011 to April 30, 2012 (the "Second Supplemental Common Stock Payment") (which was satisfied and will be paid during the third quarter) and (f) an additional cash payment of $1,809,924 based on the cost of inventory transferred to the Buyer on the Closing Date. All of the employees of Seller became employees of Buyer at the closing and Buyer entered into two-year employment agreements with each of Seller's principals, Garth Smith and Gaylene Smith, to ensure continuity of the business. Buyer will operate under the "Organic Products Trading Company" name from Seller's Vancouver, Washington location.

In November 2011, we acquired a 40% interest in Global Mark LLC ("GM"), a new venture focusing on supply of instant coffee and related products. Under the terms of the agreement with GM, we will invest up to $2.0 million to fund operations in exchange for a 40% interest and we will receive preferred pricing on our instant coffee needs.

Our net sales are affected by the price of green coffee. We purchase our green coffee from dealers located primarily within the United States. The dealers supply us with coffee beans from many countries, including Colombia, Mexico, Kenya, Indonesia, Brazil and Uganda. The supply and price of coffee beans are subject to volatility and are influenced by numerous factors which are beyond our control. For example, in Brazil, which produces approximately 40% of the world's green coffee, the coffee crops are historically susceptible to frost in June and July and drought in September, October and November. However, because we purchase coffee from a number of countries and are able to freely substitute one country's coffee for another in our products, price fluctuations in one country generally have not had a material impact on the price we pay for coffee. Accordingly, price fluctuations in one country generally have not had a material effect on our results of operations, liquidity and capital resources. Historically, because we generally have been able to pass green coffee price increases through to customers, increased prices of green coffee generally result in increased net sales.

We have used, and continue to use, short-term coffee futures and options contracts primarily for the purpose of partially hedging and minimizing the effects of changing green coffee prices and to reduce our cost of sales. In addition, we acquire futures contracts with longer terms, generally three to four months, primarily for the purpose of guaranteeing an adequate supply of green coffee at favorable prices. Although the use of these derivative financial instruments has generally enabled us to mitigate the effect of changing prices, no strategy can entirely eliminate pricing risks and we generally remain exposed to loss when prices decline significantly in a short period of time. In addition, we would remain exposed to supply risk in the event of non-performance by the counterparties to any futures contracts. If the hedges that we enter into do not adequately offset the risks of coffee bean price volatility or our hedges result in losses, our cost of sales may increase, resulting in a decrease in profitability, as occurred in the three month periods ended July 31, 2011 and October 31, 2011. While we do intend to continue to use hedging as part of our overall corporate strategy, as a result of our growth and the changes in our revenue mix, we expect that our hedging in the future may be utilized to a lesser extent.

Critical Accounting Policies and Estimates

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

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

We recognize revenue in accordance with the relevant authoritative guidance. Revenue is recognized at the point title and risk of ownership transfers to its customers which is upon the shippers taking possession of the goods because a) title passes in accordance with the terms of the purchase orders and with its agreements with its customers, b) any risk of loss is covered by the customers' insurance, c) there is persuasive evidence of a sales arrangement, d) the sales price is determinable and e) 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 $96,000 for the quarter ended April 30, 2012. The reserve for sales discounts represents the estimated discount that customers will take upon payment. The reserve for other allowances represents the estimated amount of returns, slotting fees and volume based discounts estimated to be incurred by the Company from its customers.

Inventories are stated at lower of cost (determined on a first-in, first-out basis) or market. Based on our assumptions about future demand and market conditions, inventories are subject to be written-down to market value. If our assumptions about future demand change and/or actual market conditions are less favorable than those projected, additional write-downs of inventories may be required. Each additional one percent of potential inventory writedown would have decreased operating income by approximately $120,000 for the quarter ended April 30, 2012.

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 April 30, 2012 of $367,500 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. This company has been integrated into a structure which does not provide the basis for separate reporting units. Consequently, the Company is a single reporting unit for goodwill impairment testing purposes. We also have intangible assets consisting of customer list and customer relationships and trademarks acquired from OPTCO. At April 30, 2012, our balance sheet reflected goodwill and intangible assets as set forth below:

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Customer list and relationships, net	$135,000
Trademarks	180,000
Goodwill	440,000
	$755,000

Goodwill and the trademarks which are deemed to have indefinite lives are subject to annual impairment tests. Goodwill impairment tests require the comparison of the fair value and carrying value of reporting units. We assess the potential impairment of goodwill and intangible assets annually and on an interim basis whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Upon completion of such review, if impairment is found to have occurred, a corresponding charge will be recorded. The value assigned to the customer list and customer 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. In addition, the Company retained a third party outside valuation firm to assist it in acquisition valuation as of May 17, 2010. 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 April 30, 2012 Compared to the Three Months Ended April 30, 2011

Net Income. We had a net loss of $370,247, or $0.06 per share (basic and diluted), for the three months ended April 30, 2012 compared to net income of $1,187,957 or $0.22 per share (basic and diluted), for the three months ended April 30, 2011. The decrease in net income primarily reflects increased cost of sales due to a $2.6 million change in our commodity trading.

Net Sales. Net sales totaled $37,085,559 for the three months ended April 30, 2012, a decrease of $246,458, or .6%, from $37,332,017 for the three months ended April 30, 2011. The decrease in net sales reflects a decrease in coffee prices on average of a $1.00 per pound compared to pricing in 2011 and lower sales prices in certain business areas compared to the second quarter of fiscal 2011.

Cost of Sales. Cost of sales for the three months ended April 30, 2012 was $35,701,667 or 96.3% of net sales, as compared to $33,732,954 or 90.3% of net sales for the three months ended April 30, 2011. The increase in cost of sales reflects the increased cost of green coffee, hedging losses, additional poundage sold as well as a greater shift in the percentage of sales of green coffee from roasted coffee sales.

Gross Profit. Gross profit decreased $2,215,531 to $1,383,892 for the three months ended April 30, 2012 as compared to gross profit of $3,599,423 for the three months ended April 30, 2011. Gross profit as a percentage of net sales decreased by 5.9% for the three months ended April 30, 2012 as compared to gross profit as a percentage of net sales for the three months ended April 30, 2011. The decrease in our margins reflects the increased cost of sales primarily due to the net losses of $1,384,694 in our commodity trading as well as a shift in our sales mix to a higher percentage of sales from roasted to green coffee.

Operating Expenses. Total operating expenses increased by $117,136, or 6.6%, to $1,904,349 for the three months ended April 30, 2012 as compared to operating expenses of $1,787,213 for the three months ended April 30, 2011. The increase in operating expenses was due to increases in selling and administrative expenses of $125,886 partially offset by a decrease in officers' salaries of $8,750.

Other Expense. Other expenses decreased by $8,273 to $47,006 for the three months ended April 30, 2012 compared to other expenses of $55,279 for the three months ended April 30, 2011. Interest income decreased by $1,558, we recognized a $10,961 loss from our equity investment in Global Mark, and interest expense decrease of $20,792 for the three months ended April 30, 2012 compared to the three months ended April 30, 2011. The decrease in interest income resulted from the slight decrease in pre-finance agreements with the coffee growing cooperatives. The decrease in interest expense resulted from the reduction of our interest rate and a decrease in the average balance outstanding on our line of credit.

Income Taxes. Our benefit for income taxes for the three months ended April 30, 2012 totaled $233,687 compared to a provision of $568,996 for the three months ended April 30, 2011. The decrease reflects lower pre-tax income for the quarter.

Six Months Ended April 30, 2012 Compared to the Six Months Ended April 30, 2011

Net Income. We had net income of $1,208,098, or $0.19 per share basic and $0.18 per share diluted, for the six months ended April 30, 2012 compared to net income of $2,229,029 or $0.41 per share (basic and diluted), for the six months ended April 30, 2011. The decrease in net income primarily reflects increased cost of sales due to a $2.3 million change in our commodity trading.

Net Sales. Net sales totaled $93,687,243 for the six months ended April 30, 2012, an increase of $30,714,133, or 49%, from $62,973,110 for the six months ended April 30, 2011. The increase in net sales reflects additional poundage sold as well as additional sales of green coffee to new customers and increased branded sales partially offset by lower private label sales.

Cost of Sales. Cost of sales for the six months ended April 30, 2012 was $87,853,608 or 93.8% of net sales, as compared to $56,292,992 or 89.4% of net sales for the six months ended April 30, 2011. The increase in cost of sales reflects the increased cost of green coffee, hedging losses, additional poundage sold as well as a greater shift in the percentage of sales of green coffee from roasted coffee sales.

Gross Profit. Gross profit decreased $846,483 to $5,833,635 for the six months ended April 30, 2012 as compared to gross profit of $6,680,118 for the six months ended April 30, 2011. Gross profit as a percentage of net sales decreased by 4.4% for the six months ended April 30, 2012 as compared to gross profit as a percentage of net sales for the three months ended April 30, 2011. The decrease in our margins reflects the increased cost of sales primarily due to the net losses of $412,270 in our commodity trading as well as a shift in our sales mix to a higher percentage of sales from roasted to green coffee.

Operating Expenses. Total operating expenses increased by $257,173, or 7.4%, to $3,732,240 for the six months ended April 30, 2012 as compared to operating expenses of $3,475,067 for the six months ended April 30, 2011. The increase in operating expenses was due to increases in selling and administrative expense of $298,615 partially offset by a decrease in officers' salaries of $41,442.

Other Expense. Other expenses increased by $111,660 to $118,989 for the six months ended April 30, 2012 compared to other expenses of $7,329 for the six months ended April 30, 2011. Interest income decreased by $92,690, we recognized a $31,098 loss from our equity investment in Global Mark and interest expense decreased by $12,128 for the six months ended April 30, 2012 compared to the six months ended April 30, 2011. The decrease in interest income resulted from the decrease in pre-finance agreements with the coffee growing cooperatives. The decrease in interest expense resulted from the reduction of our interest rate and a decrease in the average balance outstanding on our line of credit.

Income Taxes. Our provision for income taxes for the six months ended April 30, 2012 totaled $730,813 compared to a provision of $958,656 for the six months ended April 30, 2011. The decrease reflects lower pre-tax income for the quarter.

Liquidity and Capital Resources

As of April 30, 2012, we had working capital of $18,525,664 which represented a $1,087,731 decrease from our working capital of $19,613,395 as of October 31, 2011, and total stockholders' equity of $22,854,197 which increased by $864,215 from our total stockholders' equity of $21,989,982 as of October 31, 2011. Our working capital decreased primarily due to a decrease of $1,812,334 in cash, $6,386,652 in accounts receivable, $1,482,771 in inventory, $338,471 in prepaid green coffee, $530,422 in deferred income tax asset partially offset by a decrease of $1,682,609 in our line of credit, $1,296,613 in due to broker and a decrease in accounts payable and accrued expenses of $6,428,908. As of April 30, 2012, the outstanding balance on our line of credit was $137,500 compared to $1,820,109 as of October 31, 2011. Total stockholders' equity increased primarily due to an increase in retained earnings as a result of our net income, partially offset by the payment of our quarterly dividend.

For the six months ended April 30, 2012, our operating activities provided net cash of $2,446,293 as compared to the six months ended April 30, 2011 when operating activities provided net cash of $1,638,790. The increased cash flow from operations for the six months ended April 30, 2012 was primarily due to increases of $493,000 in deferred income taxes, $6,386,652 in accounts receivable, $1,482,771 in inventory partially offset by our unrealized loss on commodities of $1,296,613 and accounts payable and accrued expenses of $6,386,652.

For the six months ended April 30, 2012, our investing activities used net cash of $2,188,640 as compared to the six months ended April 30, 2011 when net cash used by investing activities was $283,580. The increase in our uses of cash in investing activities was primarily due to our equity investment in Global Mark.

For the six months ended April 30, 2012, our financing activities used net cash of $2,069,987 compared to the six months ended April 30, 2011 when net cash used in financing activities was $1,119,504. The increase in uses of cash in financing activities for the six months ended April 30, 2012 was primarily due to the reduction of the outstanding balance of our credit line and by the payment of dividends of $387,378 during the six months ended April 30, 2012.

On February 17, 2009, we entered into a financing agreement with Sterling National Bank ("Sterling") for a $5,000,000 credit facility. The credit facility is a revolving $5,000,000 line of credit and we can draw on the line at an amount up to 85% of eligible accounts receivable and 25% of eligible inventory consisting of green coffee beans and finished coffee not to exceed $1,000,000. Sterling has the right from time to time to adjust the foregoing percentages based upon, among other things, dilution, its sole determination of the value or likelihood of collection of eligible accounts receivables owed to us, considerations regarding inventory. The credit facility is payable monthly in arrears on the average unpaid balance of the line of credit at an interest rate equal to a per annum reference rate (5.00% at January 31, 2012 and 2011, respectively) plus 1.0%. The initial term of the credit facility is three years, expiring February 17, 2012, and may be automatically extended for successive periods of one year each unless one party shall have provided the other party with a written notice of termination at least ninety days prior to the expiration of the initial contract term or any renewal term. The term was subsequently extended until February 17, 2014 and the interest rate was reduced to the Wall Street Journal Prime rate (which is currently 3.25%) plus one percent (1%), effective as of February 12, 2012. The credit facility is secured by all of our tangible and intangible assets.

The credit facility contains covenants that place annual restrictions on our operations, including covenants relating to debt restrictions, capital expenditures, minimum deposit restrictions, tangible net worth, net profit, leverage, employee loan restrictions, distribution restrictions (common stock and preferred stock), dividend restrictions, and restrictions on intercompany transactions. The credit facility also requires that we maintain a minimum working capital at all times. On July 23, 2010, the Company amended their credit facility regarding the payment of dividends. The facility agreement was changed to allow the payment of quarterly dividends of not more than three cents ($0.03) per share.

On July 22, 2010, the Company had the credit facility increased to $7,000,000. In addition, OPTCO was added as a co-borrower and the inventory sublimit was raised from $1,000,000 to $2,000,000. Additionally, the Company received a limited credit guarantee of $1,800,000 from the not-for–profit entity CORDAID that is available to be used as collateral for the loan facility to Sterling.

On February 3, 2011, the Company amended their credit facility regarding the creation of a sublimit within the revolving line of credit in the form of a $300,000 term loan for the benefit of their 60% owned subsidiary GCC. The Company has provided a corporate guarantee to Sterling in connection with the amendment.

CORDAID, a non-profit organization that supports development projects in developing countries, registered under the laws of the Netherlands, has agreed to make available $1,800,000 (which was subsequently reduced to $1,500,000) to be used as collateral by OPTCO for a loan facility from Sterling to the Company under a Guarantee Agreement. OPTCO has agreed to pre-finance coffee from small coffee producer groups. The Company pays a guarantee fee of 1.5% per year in advance. In addition, the Company has a corporate guarantee as security to CORDAID for the first loss guarantee of 25% of the outstanding amount of the guarantee from CORDAID, up to a maximum of $350,000. The Guarantee Agreement expired on March 31, 2012 and the parties did not renew this agreement.

Triodos Bank is one of the world's leading sustainable banks with a mission to make money work for positive social, environmental and cultural change. Triodos has offices in the Netherlands, Germany, Spain, UK and Belgium. The Company initiated a corporate guarantee on April 15, 2011 to Triodos Sustainable Trade Fund ("TSTF") up to a maximum amount of $250,000. TSTF provided financing to two coffee growing cooperatives for $1,000,000 based upon relationships established with OPTCO.

As of April 30, 2012, and October 31, 2011 the outstanding balance under the bank line of credit was $137,500 and $1,820,109, respectively. We were in compliance with all required financial covenants at April 30, 2012 and October 31, 2011.

In October 2011, we sold 890,000 units, each consisting of one share of our common stock and three-tenths of a warrant to purchase one share of our common stock for a purchase price of $10.40 per unit. The warrants (which have an exercise price of $13.59 per share) became exercisable in April 2012 and expire five years thereafter. Net proceeds of the offering, after deducting placement agent fees and other estimated offering expenses payable by us were approximately $8.3 million.

Balance Sheet Arrangements

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

Recent Accounting Pronouncements

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

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 April 30, 2012, our debt consisted of $137,500 of variable rate debt under our revolving line of credit. Given our current level of borrowing, we believe this risk is immaterial.

Commodity Price Risks. The supply and price of coffee beans are subject to volatility and are influenced by numerous factors which are beyond our control. Historically, we have used, and expect to continue to use, short-term coffee futures and options contracts primarily for the purpose of partially hedging the effects of changing green coffee prices, as further explained in Note 8 of the notes to the Financial Statements in this Report. In addition, we acquired, and expect to continue to acquire, futures contracts with longer terms (generally three to four months) primarily for the purpose of guaranteeing an adequate supply of green coffee. Realized and unrealized gains or losses on options and futures contracts are reflected in our cost of sales. Gains on options and futures contracts reduce our cost of sales and losses on options and futures contracts increase our cost of sales. The use of these derivative financial instruments has generally enabled us to mitigate the effect of changing prices. We believe that, in normal economic times, our hedging policies remain a vital element to our business model not only in controlling our cost of sales, but also giving us the flexibility to obtain the inventory necessary to continue to grow our sales while trying to minimize margin compression during a time of historically high coffee prices. However, no strategy can entirely eliminate pricing risks and we generally remain exposed to losses on futures contracts when prices decline significantly in a short period of time, and we would generally remain exposed to supply risk in the event of non-performance by the counterparties to any futures contracts. Although we have had net gains on options and futures contracts in the past, we have incurred losses on options and futures contracts during some reporting periods. In these cases, our cost of sales has increased, resulting in a decrease in our profitability. 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. While we do intend to continue to use hedging as part of our overall corporate strategy, as a result of our growth and the changes in our revenue mix, we expect that our hedging in the future may be utilized to a lesser extent. 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.”

As of April 30, 2012, we held 100 options covering an aggregate of 3,750,000 pounds of green coffee beans at $1.90 per pound. As of April 30, 2011 we held 231 options covering an aggregate of 8,662,500 pounds of green coffee beans at $2.87 per pound. As of April 30, 2012, we held 133 future contracts for the purchase of 4,987,500 pounds of green coffee at a weighted average price of $1.802 per pound. As of April 30, 2011, we did not hold any futures contracts.

ITEM 4. CONTROLS AND PROCEDURES.

Management, including our President, Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, as amended (the "Exchange Act")) as of the end of the period covered by this Report. Based upon that evaluation, the President and Chief Executive Officer, who is also the Chief Financial Officer, concluded that the disclosure controls and procedures were effective to ensure that information required to be disclosed in the reports that we file and submit under the Exchange Act are (1) recorded, processed, summarized and reported as and when required; and (2) accumulated and communicated, as is appropriate, to the Company's management, including its President and Chief Executive Officer, who is also the principal executive officer and principal financial officer, to allow timely discussions regarding 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 April 30, 2012 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, 2011.

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

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES.

None.

ITEM 4 MINE SAFETY DISCLOSURES.

Not Applicable.

ITEM 5. OTHER INFORMATION.

None.

ITEM 6. EXHIBITS.

31.1 Principal Executive Officer and Principal Financial Officer's Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1 Principal Executive Officer and Principal Financial Officer's Certification furnished Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

Signatures

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized and in the capacities indicated on June 13, 2012.

Coffee Holding Co., Inc.

By:	/s/ Andrew Gordon Andrew Gordon President, Chief Executive Officer and Chief Financial Officer (Principal Executive and Accounting Officer)