

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

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: April 30, 2014

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.)

3475 Victory Boulevard,
Staten Island, New York
(Address of principal executive offices) 10314 (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 ☐

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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 ☒ No ☐

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

Large accelerated filer ☐

Accelerated filer ☐

Non-accelerated filer ☐

Smaller reporting company ☒

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.

6,372,309 shares of common stock, par value \$0.001 per share, are outstanding at June 7, 2014.

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ITEM 1. FINANCIAL STATEMENTS

COFFEE HOLDING CO., INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
APRIL 30, 2014 AND OCTOBER 31, 2013

	April 30, 2014 (Unaudited)	October 31, 2013
- ASSETS -		
CURRENT ASSETS:		
Cash	\$6,421,815	\$4,035,669
Accounts receivable, net of allowances of \$144,000 for 2014 and 2013	11,286,799	12,362,792
Inventories	10,207,348	9,373,018
Prepaid green coffee	100,000	439,290
Prepaid expenses and other current assets	588,114	336,494
Prepaid and refundable income taxes	26,271	1,000,317
Deferred income tax, net	21,748	1,330,666
TOTAL CURRENT ASSETS	28,652,095	28,878,246
Machinery and equipment, at cost, net of accumulated depreciation of \$3,421,438 and \$3,130,902 for 2014 and 2013, respectively	1,935,228	2,060,350
Customer list and relationships, net of accumulated amortization of \$30,000 and \$26,250 for 2014 and 2013, respectively	120,000	123,750
Trademarks	180,000	180,000
Goodwill	440,000	440,000
Equity method investment	98,089	98,178
Deposits and other assets	618,523	618,498
TOTAL ASSETS	\$32,043,935	\$32,399,022
- LIABILITIES AND STOCKHOLDERS' EQUITY -		
CURRENT LIABILITIES:		
Accounts payable and accrued expenses	\$6,278,287	\$7,244,822
Line of credit	-	1,229,182
Due to broker	-	984,040
Income taxes payable	216,658	-
TOTAL CURRENT LIABILITIES	6,494,945	9,458,044
Deferred income tax liabilities	127,548	145,666
Deferred rent payable	203,433	195,452
Deferred compensation payable	515,523	515,498
TOTAL LIABILITIES	7,341,449	10,314,660
STOCKHOLDERS' EQUITY:		
Coffee Holding Co., Inc. stockholders' equity:		
Preferred stock, par value \$.001 per share; 10,000,000 shares authorized; no shares issued and outstanding	-	-
Common stock, par value \$.001 per share; 30,000,000 shares authorized, 6,456,316 shares issued; 6,372,309 shares outstanding for 2014 and 2013	6,456	6,456
Additional paid-in capital	15,904,109	15,904,109
Retained earnings	8,744,593	6,111,633
Less: Treasury stock, 84,007 common shares, at cost for 2014 and 2013	(272,133)	(272,133)

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Total Coffee Holding Co., Inc. Stockholders' Equity	24,383,025	21,750,065
Non-controlling interest	319,461	334,297
TOTAL EQUITY	24,702,486	22,084,362
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$32,043,935	\$32,399,022

See notes to Condensed Consolidated Financial Statements.

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

	Six Months Ended April 30,		Three Months Ended April 30,	
	2014	2013	2014	2013
NET SALES	\$52,745,098	\$68,004,850	\$25,398,751	\$36,686,047
COST OF SALES (including \$9.1 and \$18.4 million of related party costs for the six months ended April 30, 2014 and 2013, respectively. Including \$4.1 and \$8.7 million for the three months ended April 30, 2014 and 2013, respectively.)	44,667,209	62,936,854	21,439,484	35,301,868
GROSS PROFIT	8,077,889	5,067,996	3,959,267	1,384,179
OPERATING EXPENSES:				
Selling and administrative	3,434,249	3,519,614	1,723,641	1,753,155
Officers' salaries	300,200	271,037	141,100	141,100
TOTAL	3,734,449	3,790,651	1,864,741	1,894,255
INCOME (LOSS) FROM OPERATIONS	4,343,440	1,277,345	2,094,526	(510,076)
OTHER INCOME (EXPENSE)				
Interest income	16,796	17,805	15,913	10,226
Gain (loss) from equity method investment	(89)	(105,046)	93	(609)
Interest expense	(26,069)	(60,779)	(7,981)	(22,379)
TOTAL	(9,362)	(148,020)	8,025	(12,762)
INCOME (LOSS) BEFORE PROVISION FOR INCOME TAXES AND NON-CONTROLLING INTEREST IN SUBSIDIARY	4,334,078	1,129,325	2,102,551	(522,838)
Provision (benefit) for income taxes	1,663,953	507,510	838,028	(127,974)
NET INCOME (LOSS) BEFORE NON-CONTROLLING INTEREST IN SUBSIDIARY	2,670,125	621,815	1,264,523	(394,864)
Less: Net (income) attributable to the non-controlling interest	(37,165)	(79,790)	(3,303)	(648)
NET INCOME (LOSS) ATTRIBUTABLE TO COFFEE HOLDING CO., INC.	\$2,632,960	\$542,025	\$1,261,220	\$(395,512)
Basic earnings (loss) per share	\$.41	\$.09	\$.20	\$(.06)
Diluted earnings (loss) per share	\$.40	\$.08	\$.19	\$(.06)
Dividends declared per share	\$.00	\$.06	\$.00	\$.00

Weighted average common shares outstanding:

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Basic	6,372,309	6,372,309	6,372,309	6,372,309
Diluted	6,639,309	6,639,309	6,639,309	6,372,309

See notes to Condensed Consolidated Financial Statements.

COFFEE HOLDING CO., INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
SIX MONTHS ENDED APRIL 30, 2014 AND 2013
(Unaudited)

	2014	2013
OPERATING ACTIVITIES:		
Net income	\$2,670,125	\$621,815
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	295,723	234,476
Unrealized gain on commodities	(1,173,103)	(30,555)
Loss on equity method investment	89	989
Loss on disposition of equity method investment	-	104,057
Deferred rent	7,981	8,023
Deferred income taxes	1,290,800	39,000
Changes in operating assets and liabilities:		
Accounts receivable	1,075,993	1,906,712
Inventories	(834,330)	3,055,239
Prepaid expenses and other current assets	(62,557)	44,076
Prepaid green coffee	339,290	(309,473)
Prepaid and refundable income taxes	974,046	(402,967)
Accounts payable and accrued expenses	(966,536)	(4,023,176)
Deposits and other assets	-	6,746
Income taxes payable	216,658	(20,752)
Net cash provided by operating activities	3,834,179	1,234,210
INVESTING ACTIVITIES:		
Proceeds from disposition of equity method investment	-	232,069
Purchases of machinery and equipment	(166,851)	(469,844)
Net cash used in investing activities	(166,851)	(237,775)
FINANCING ACTIVITIES:		
Advances under bank line of credit	48,814	3,466,969
Principal payments under bank line of credit	(1,277,996)	(4,029,469)
Distribution to non-controlling interest	(52,000)	-
Payment of dividend	-	(387,377)
Net cash used in financing activities	(1,281,182)	(949,877)
NET INCREASE IN CASH	2,386,146	46,558
CASH, BEGINNING OF PERIOD	4,035,669	7,568,583
CASH, END OF PERIOD	\$6,421,815	\$7,615,141
SUPPLEMENTAL DISCLOSURE OF CASH FLOW DATA:		
Interest paid	\$29,836	\$64,177
Income taxes paid	\$8,500	\$477,991

COFFEE HOLDING CO., INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
SIX MONTHS ENDED APRIL 30, 2014 AND 2013
(Unaudited)

Schedule of noncash investing and financing activities:

Proceeds from disposition of equity method investment:

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

See notes to Condensed Consolidated Financial Statements.

COFFEE HOLDING CO., INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
APRIL 30, 2014 AND 2013
(UNAUDITED)

NOTE 1 BUSINESS ACTIVITIES:

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

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

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

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

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

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

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

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

COFFEE HOLDING CO., INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
APRIL 30, 2014 AND 2013
(UNAUDITED)

NOTE 1 BUSINESS ACTIVITIES (cont'd):

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

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

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

NOTE 2 BASIS OF PRESENTATION:

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

In the opinion of management, all adjustments (which include normal and recurring nature adjustments) necessary to present a fair statement of the Company's financial position as of April 30, 2014, and results of operations for the three and six months ended April 30, 2014 and 2013 and the cash flows for the six months ended April 30, 2014 and 2013, as applicable, have been made.

The results of operations for the three and six months ended April 30, 2014 and 2013 are not necessarily indicative of the operating results for the full fiscal year or any future periods.

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

COFFEE HOLDING CO., INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
APRIL 30, 2014 AND 2013
(UNAUDITED)

NOTE 3 RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS AFFECTING THE COMPANY:

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

During the second quarter, the FASB has issued ASU No. 2013-11, Income Taxes (Topic 740): Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists.

The amendments in this ASU provide that an unrecognized tax benefit, or a portion thereof, should be presented in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward.

To the extent that a net operating loss carryforward, a similar tax loss, or a tax credit carryforward is not available at the reporting date to settle any additional income taxes that would result from disallowance of a tax position, or the tax law does not require the entity to use, and the entity does not intend to use, the deferred tax asset for such purpose, then the unrecognized tax benefit should be presented as a liability and should not be combined with deferred tax assets.

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

NOTE 4 PREPAID GREEN COFFEE:

The balance represents advance payments made by OPTCO to several coffee growing cooperatives for the purchase of green coffee. Interest is charged to the cooperatives for these advances. Interest earned was \$16,796 and \$17,805 for the six months ended April 30, 2014 and 2013, respectively and \$15,913 and \$10,266 for the three months ended April 30, 2014 and 2013, respectively. The prepaid coffee balance was \$100,000 at April 30, 2014 and \$439,290 at October 31, 2013.

NOTE 5 ACCOUNTS RECEIVABLE:

Trade accounts receivable are stated at the amount the Company expects to collect. The Company maintains allowances for doubtful accounts for estimated losses resulting from the inability of its customers to make required payments. Management considers the following factors when determining the collectibility of specific customer accounts: customer credit-worthiness, past transaction history with the customer, current economic industry trends and changes in customer payment terms. Past due balances over 60 days and other higher risk amounts are reviewed individually for collectibility. If the financial condition of the Company’s customers were to deteriorate, adversely affecting their ability to make payments, additional allowances would be required. Based on management’s

assessment, the Company provides for estimated uncollectible amounts through a charge to earnings and a credit to a valuation allowance. Balances that remain outstanding after the Company has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable.

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

	April 30, 2014	October 31, 2013
Allowance for doubtful accounts	\$65,000	\$65,000
Reserve for other allowances	35,000	35,000
Reserve for sales discounts	44,000	44,000
Totals	\$144,000	\$144,000

COFFEE HOLDING CO., INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
APRIL 30, 2014 AND 2013
(UNAUDITED)

NOTE 6 INVENTORIES:

Inventories at April 30, 2014 and October 31, 2013 consisted of the following:

	April 30, 2014	October 31, 2013
Packed coffee	\$1,779,843	\$1,873,982
Green coffee	7,684,878	6,818,261
Packaging supplies	742,627	680,775
Totals	\$10,207,348	\$9,373,018

NOTE 7 COMMODITIES HELD BY BROKER:

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

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

	April 30, 2014	October 31, 2013
Option Contracts	\$298,722	\$(188,819)
Future Contracts	(109,659)	(795,221)
Total Commodities	\$189,063	\$(984,040)

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

At April 30, 2014, the Company held 80 options covering an aggregate of 3,000,000 pounds of green coffee beans at \$1.975 per pound. The fair market value of these options, which was obtained from observable market data of similar instruments, was \$349,950.

COFFEE HOLDING CO., INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
APRIL 30, 2014 AND 2013
(UNAUDITED)

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

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

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

	Three Months Ended April 30,	
	2014	2013
Gross realized gains	\$1,334,861	\$384,950
Gross realized losses	(933)	(1,312,556)
Unrealized losses	(6,492)	(423,328)
Total	\$1,327,436	\$(1,350,934)
	Six Months Ended April 30,	
	2014	2013
Gross realized gains	\$2,155,843	\$1,152,007
Gross realized losses	(972,188)	(2,505,614)
Unrealized gains	1,173,102	30,555
Total	\$2,356,757	\$(1,323,052)

COFFEE HOLDING CO., INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
APRIL 30, 2014 AND 2013
(UNAUDITED)

NOTE 8 LINE OF CREDIT:

On February 17, 2009, the Company entered into a financing agreement with Sterling National Bank (“Sterling”) for a \$5,000,000 credit facility. The credit facility is a revolving \$5,000,000 line of credit and the Company can draw on the line at an amount up to 85% of eligible accounts receivable and 25% of eligible inventory consisting of green coffee beans and finished coffee not to exceed \$1,000,000. Sterling shall have the right from time to time to adjust the foregoing percentages based upon, among other things, dilution, its sole determination of the value or likelihood of collection of eligible accounts receivables owed to the Company and considerations regarding inventory. The credit facility is payable monthly in arrears on the average unpaid balance of the line of credit at an interest rate equal to a per annum reference rate (4.25% at April 30, 2014 and October 31, 2013).

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

The initial term of the credit facility was for three years and expired on February 17, 2012. The initial terms of the credit facility provided that the credit facility may be automatically extended for successive periods of one year each unless one party shall have provided the other party with a written notice of termination at least 90 days prior to the expiration of the then current term. Prior to the expiration of the initial term, and effective as of February 12, 2012, the term was extended until February 17, 2014 and the interest rate was reduced to the Wall Street Journal Prime rate (which is currently 3.25%) plus 1%. On May 10, 2013, the credit facility was extended until February 17, 2015. The credit facility is secured by all 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 intercom