

COFFEE HOLDING CO INC  
Form 10-Q  
March 17, 2010

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

FORM 10-Q

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

For the quarterly period ended: January 31, 2010

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

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required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant 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	<input type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>

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

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

5,440,823 shares of common stock, par value \$0.001 per share, are outstanding at March 9, 2010.

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## PART I – FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS

COFFEE HOLDING CO., INC.  
CONDENSED CONSOLIDATED BALANCE SHEETS  
JANUARY 31, 2010 AND OCTOBER 31, 2009

	January 31, 2010 (unaudited)	October 31, 2009
- ASSETS -		
CURRENT ASSETS:		
Cash and cash equivalents	\$1,543,042	\$1,367,933
Commodities held at broker	617,530	482,746
Accounts receivable, net of allowances of \$165,078 for 2010 and 2009	9,616,508	10,174,221
Inventories	4,949,728	4,800,143
Prepaid expenses and other current assets	432,441	419,740
Prepaid and refundable income taxes	40,356	36,068
Deferred income tax assets	394,000	286,000
<b>TOTAL CURRENT ASSETS</b>	<b>17,593,605</b>	<b>17,566,851</b>
Property and equipment, at cost, net of accumulated depreciation of \$4,792,560 and \$4,681,558 for 2010 and 2009, respectively	1,618,206	1,648,214
Deposits and other assets	587,455	588,573
<b>TOTAL ASSETS</b>	<b>\$19,799,266</b>	<b>\$19,803,638</b>
- LIABILITIES AND STOCKHOLDERS' EQUITY -		
CURRENT LIABILITIES:		
Accounts payable and accrued expenses	\$5,414,333	\$6,655,916
Line of credit	1,424,553	791,628
Income taxes payable	401,709	453,512
Deferred income tax liabilities	-	121,000
<b>TOTAL CURRENT LIABILITIES</b>	<b>7,240,595</b>	<b>8,022,056</b>
Deferred income tax liabilities	205,000	14,500
Deferred rent payable	105,489	99,067
Deferred compensation payable	514,451	489,782
<b>TOTAL LIABILITIES</b>	<b>8,065,535</b>	<b>8,625,405</b>
STOCKHOLDERS' EQUITY:		
Coffee Holding Co., Inc. stockholders' equity:		
Preferred stock, par value \$.001 per share; 10,000,000 shares authorized; none issued	-	-
Common stock, par value \$.001 per share; 30,000,000 shares authorized, 5,529,830 shares issued; 5,440,823 shares outstanding for 2010 and 2009	5,530	5,530
Additional paid-in capital	7,327,023	7,327,023
Retained earnings	4,653,649	4,095,671
Less: Treasury stock, 89,007 common shares, at cost for 2010 and 2009	(295,261 )	(295,261 )
<b>Total Coffee Holding Co., Inc. Stockholders' Equity</b>	<b>11,690,941</b>	<b>11,132,963</b>
Noncontrolling interest	42,790	45,270
<b>TOTAL EQUITY</b>	<b>11,733,731</b>	<b>11,178,233</b>
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b>\$19,799,266</b>	<b>\$19,803,638</b>

See notes to Condensed Consolidated Financial Statements.

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COFFEE HOLDING CO., INC.  
CONDENSED CONSOLIDATED STATEMENTS OF INCOME  
THREE MONTHS ENDED JANUARY 31, 2010 AND 2009  
(Unaudited)

	2010	2009
NET SALES	\$21,359,151	\$18,857,870
COST OF SALES (including \$6.6 and \$3.4 million of related party costs in 2010 and 2009, respectively)	18,721,387	16,742,775
GROSS PROFIT	2,637,764	2,115,095
OPERATING EXPENSES:		
Selling and administrative	1,439,025	1,256,831
Officers' salaries	149,849	149,849
TOTALS	1,588,908	1,406,680
INCOME FROM OPERATIONS	1,048,856	708,415
OTHER INCOME (EXPENSE):		
Interest income	1,319	2,265
Interest expense	(53,415 )	(40,794 )
TOTALS	(52,096 )	(38,529 )
INCOME BEFORE INCOME TAXES AND NONCONTROLLING INTEREST IN SUBSIDIARY	996,760	669,886
Provision for income taxes	441,262	276,636
NET INCOME	555,498	393,250
Less: Net loss (income) attributable to the noncontrolling interest	2,480	(1,449 )
NET INCOME ATTRIBUTABLE TO COFFEE HOLDING CO., INC.	\$557,978	\$391,801
Basic and diluted earnings per share attributable to Coffee Holding Co., Inc. common stockholders	\$.10	\$.07
Weighted average common shares outstanding:		
Basic	5,440,823	5,442,603
Diluted	5,440,823	5,442,603

See notes to Condensed Consolidated Financial Statements.

COFFEE HOLDING CO., INC.  
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
THREE MONTHS ENDED JANUARY 31, 2010 AND 2009  
(Unaudited)

	2010	2009
<b>OPERATING ACTIVITIES:</b>		
Net income	\$ 555,498	\$ 393,250
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Depreciation and amortization	111,002	141,059
Unrealized loss (gain) on commodities	262,862	(130,636 )
Realized gain on commodities	(397,551 )	(152,375 )
Bad debt expense	13,500	-
Deferred rent	6,422	7,276
Deferred income taxes	(38,500 )	264,500
Changes in operating assets and liabilities:		
Commodities held at broker	(95 )	(150,328 )
Accounts receivable	544,213	1,042,416
Inventories	(149,585 )	243,060
Prepaid expenses and other current assets	(12,701 )	32,127
Prepaid and refundable income taxes	(4,288 )	11,136
Accounts payable and accrued expenses	(1,241,583 )	(281,312 )
Deposits, other assets, and deferred compensation	25,787	(28,419 )
Income taxes payable	(51,803 )	1,000
Net cash (used in) provided by operating activities	(376,822 )	1,392,754
<b>INVESTING ACTIVITIES:</b>		
Purchases of property and equipment	(80,994 )	(67,327 )
Net cash used in investing activities	(80,994 )	(67,327 )
<b>FINANCING ACTIVITIES:</b>		
Advances under bank line of credit	22,465,558	14,919,844
Principal payments under bank line of credit	(21,832,633)	(15,359,975)
Purchase of treasury stock	-	(4,132 )
Net cash provided by (used in) financing activities	632,925	(444,263 )
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>		
	175,109	881,164
Cash and cash equivalents, beginning of period	1,367,933	963,298
<b>CASH AND CASH EQUIVALENTS, END OF PERIOD</b>	<b>\$ 1,543,042</b>	<b>\$ 1,844,462</b>
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW DATA:</b>		
Interest paid	\$ 63,366	\$ 51,879
Income taxes paid	\$ 489,788	\$ -

See notes to Condensed Consolidated Financial Statements.





COFFEE HOLDING CO., INC. AND SUBSIDIARY  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
JANUARY 31, 2010 AND 2009

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 sales are primarily to customers that are located throughout the United States with limited sales in Canada. Such customers include supermarkets, wholesalers, gourmet roasters and individually-owned and multi-unit retailers. The Company closed its manufacturing operations at its Brooklyn, New York location in May 2009. The majority of the Company’s coffee processing capacity has been moved to its La Junta, Colorado facility and its facility in Brecksville, Ohio. The Company has leased office and warehouse space located in Staten Island, New York to house the corporate offices and serve as temporary storage of its branded product. The Company sold the property located in Brooklyn, New York in October 2009.

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 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 interim condensed consolidated financial statements included herein have been prepared by the Company, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission (the “SEC”). Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles (“U.S. GAAP”) have been condensed or omitted pursuant to such rules and regulations, although we believe that the disclosures made are adequate to provide for fair presentation and a reasonable understanding of the information presented. The Condensed Consolidated Financial Statements and Management’s Discussion and Analysis of Financial Condition and Results of Operations included in this Form 10-Q should be read in conjunction with the consolidated financial statements and the related notes, as well as Management’s Discussion and Analysis of Financial Condition and Results of Operations, included in the Company’s Annual Report on Form 10-K for the fiscal year ended October 31, 2009, previously filed with the SEC.

In the opinion of management, all adjustments (which include normal recurring adjustments) necessary to present a fair statement of financial position as of January 31, 2010, and results of operations for the three months ended January 31, 2010 and 2009 and cash flows for the three months ended January 31, 2010 and 2009, as applicable, have been made.

## NOTE 2 -

## BASIS OF PRESENTATION (cont'd):

The results of operations for the three months ended January 31, 2010 and 2009 are not necessarily indicative of the operating results for the full fiscal year or any future periods.

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

## NOTE 3 - RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS AFFECTING THE COMPANY:

## Noncontrolling Interests in Consolidated Financial Statements

In December 2007, the Financial Accounting Standards Board ("FASB") issued authoritative guidance clarifying that a noncontrolling interest in a subsidiary is an ownership interest in the consolidated entity that should be reported as equity in the consolidated financial statements. This guidance requires that a change in a parent's ownership interest in a subsidiary be reported as an equity transaction in the consolidated financial statements when it does not result in a change in control of the subsidiary. When a change in a parent's ownership interest results in deconsolidation, a gain or loss should be recognized in the consolidated financial statements. This guidance was adopted and is effective as of November 1, 2009. The provisions of this guidance have been applied to all noncontrolling interests prospectively, except for the presentation and disclosure requirements, which have been applied retrospectively for all periods presented. The retrospective impact of applying this guidance was to reclassify minority interest as a part of equity noncontrolling interest. The following table summarizes the changes in total stockholders' equity:

	For the three Months Ended January 31,					
	2010 Unaudited			2009 Unaudited		
	Coffee Holding Co., Inc.	Noncontrolling Interests	Total Equity	Coffee Holding Co., Inc.	Noncontrolling Interests	Total Equity
Balance, beginning of period	\$ 11,132,963	\$ 45,270	\$ 11,178,233	\$ 7,843,291	\$ 6,123	\$ 7,846,516
Net (loss) income	557,978	(2,480 )	555,498	391,801	1,449	393,250
Balance, end of period	\$ 11,690,941	\$ 42,790	\$ 11,733,731	\$ 8,235,092	\$ 4,674	\$ 8,239,766

## Collaborative Arrangements

In December 2007, the FASB issued authoritative guidance to participants in a collaborative arrangement. A collaborative arrangement is a contractual arrangement that involves a joint operating activity. These arrangements involve two (or more) parties who are both (a) active participants in the activity and (b) exposed to significant risks and rewards dependent on the commercial success of the activity. Many collaborative arrangements involve licenses of intellectual property, and the participants may exchange consideration related to the license at the inception of the arrangement. Participants in a collaborative arrangement shall report costs incurred and revenue generated from transactions with third parties (that is, parties that do not participate in the arrangement) in each entity's respective income statement pursuant to such guidance. An entity should not apply the equity method of accounting to activities of collaborative arrangements.



NOTE 3 -RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS AFFECTING THE COMPANY (cont'd):

This guidance is effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years. The Company adopted this standard as of November 1, 2009 and it did not have a material impact on the consolidated financial statements.

Business Combinations

In December 2007, the FASB revised the authoritative guidance for business combinations. Transaction costs are now required to be expensed as incurred and adjustments to the acquired entity's deferred tax assets and uncertain tax position balances occurring outside the measurement period are recorded as a component of income tax expense, rather than goodwill, among other changes.

In April 2009, the FASB revised the authoritative guidance related to the initial recognition and measurement, subsequent measurement and accounting, and disclosure of assets and liabilities arising from contingencies in a business combination. Generally, assets acquired and liabilities assumed in a business combination that arise from contingencies must be recognized at fair value at the acquisition date. This guidance is effective for the Company as of November 1, 2009. As this guidance is applied prospectively to business combinations with an acquisition date on or after the date the guidance became effective, the impact to the Company cannot be determined until the transactions occur.

Pension and Other Postretirement Benefit Plan Asset Disclosures

In December 2008, the FASB issued authoritative guidance requiring additional disclosures for employers' pension and other postretirement benefit plan assets. This guidance requires employers to disclose information about fair value measurements of plan assets, the investment policies and strategies for the major categories of plan assets, and significant concentrations of risk within plan assets. This guidance will be effective for the Company as of October 31, 2010. As this guidance provides only disclosure requirements, the adoption of this standard will not impact the Company's consolidated results of operations, cash flows or financial positions.

Fair Value Measurements

In February 2008, the FASB delayed the effective date of fair value measurement and disclosure guidance for all nonrecurring fair value measurements of nonfinancial assets and liabilities until fiscal years beginning after November 15, 2008. The Company adopted this standard as of November 1, 2009 and it did not have a material impact on the consolidated financial statements.

In September 2009, the FASB issued authoritative guidance that provides further clarification for measuring the fair value of investments in entities that meet the FASB's definition of an investment company. This guidance permits a company to estimate the fair value of an investment using the net asset value per share of the investment if the net asset value is determined in accordance with the FASB's guidance for investment companies as of the company's measurement date. This creates a practical expedient to determining a fair value estimate and certain attributes of the investment (such as

NOTE 3 -RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS AFFECTING THE COMPANY (cont'd):

redemption restrictions) will not be considered in measuring fair value. Additionally, companies with investments within the scope of this guidance must disclose additional information related to the nature and risks of the investments. This guidance will become effective for the Company as of October 31, 2010 and is required to be applied prospectively. The Company does not expect that the adoption of this standard will have a material impact on its consolidated financial statements.

In January 2010, the FASB issued authoritative guidance that requires new disclosures about recurring and nonrecurring fair-value measurements including significant transfers in and out of Level 1 and Level 2 fair-value measurements and a description of the reasons for the transfers. In addition, the standard requires new disclosures regarding activity in Level 3 fair value measurements, including information on purchases, sales, issuances, and settlements on a gross basis in the reconciliation of Level 3 fair-value measurements. The Company will adopt the guidance for Level 1 and Level 2 fair-value measurements for our second fiscal quarter beginning on February 1, 2010, as required. The Company will adopt the guidance for Level 3 fair-value measurements for our second fiscal quarter beginning on February 1, 2011, as required. The Company does not expect the adoption of this standard will have a material impact on our disclosures for fair-value measurements.

#### Subsequent Events

In May 2009, the FASB issued authoritative guidance which incorporates the principles and accounting guidance for recognizing and disclosing subsequent events that originated as auditing standards into the body of authoritative literature issued by the FASB, and prescribes disclosures regarding the date through which subsequent events have been evaluated.

In February 2010, the FASB revised the authoritative guidance related to subsequent events. The Company is required to evaluate subsequent events through the date the financial statements are issued. The Company is not required to disclose the date through which subsequent events have been evaluated. This guidance was effective upon issuance for the Company for the period ended January 31, 2010. Since this guidance is not intended to significantly change the current practice of reporting subsequent events, it did not have an impact on the Company's consolidated results of operations, cash flows or financial positions.

#### Transfers of Financial Assets

In June 2009, the FASB issued authoritative guidance amending the accounting for the transfers of financial assets. Key provisions include (i) the removal of the concept of qualifying special purpose entities, (ii) the introduction of the concept of a participating interest, in circumstances in which a portion of a financial asset has been transferred, and (iii) the requirement that to qualify for sale accounting, the transferor must evaluate whether it maintains effective control over transferred financial assets either directly or indirectly. Furthermore, this guidance requires enhanced disclosures about transfers of financial assets and a transferor's continuing involvement. This guidance is effective for the Company beginning November 1, 2010, and is required to be applied prospectively.

## NOTE 3 -RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS AFFECTING THE COMPANY (cont'd):

The Company does not expect that adoption of this statement will have a material impact on its consolidated financial statements.

## Consolidation of Variable Interest Entities ("VIEs")

In June 2009, the FASB issued authoritative guidance to amend the manner in which entities evaluate whether consolidation is required for VIEs. The model for determining which enterprise has a controlling financial interest and is the primary beneficiary of a VIE has changed significantly under the new guidance. Previously, variable interest holders had to determine whether they had a controlling financial interest in a VIE based on a quantitative analysis of the expected gains and/or losses of the entity. In contrast, the new guidance requires an enterprise with a variable interest in a VIE to qualitatively assess whether it has a controlling financial interest in the entity, and if so, whether it is the primary beneficiary. Furthermore, this guidance requires that companies continually evaluate VIEs for consolidation, rather than assessing based upon the occurrence of triggering events. This revised guidance also requires enhanced disclosures about how a company's involvement with a VIE affects its financial statements and exposure to risks. This guidance is effective for the Company beginning November 1, 2010. The Company is currently assessing the impact, if any, this may have on their consolidated financial statements.

## Revenue Arrangements with Multiple Deliverables

In October 2009, the FASB issued authoritative guidance that amends existing guidance for identifying separate deliverables in a revenue-generating transaction where multiple deliverables exist, and provides guidance for allocating and recognizing revenue based on those separate deliverables. The guidance is expected to result in more multiple-deliverable arrangements being separable than under current guidance. This guidance is effective for the Company beginning on November 1, 2011 and is required to be applied prospectively to new or significantly modified revenue arrangements. The Company is currently assessing the impacts this guidance may have on their consolidated financial statements.

## NOTE 4 -

## ACCOUNTS RECEIVABLE:

Accounts receivable are recorded net of allowances. The allowance for doubtful accounts represents the estimated uncollectible portion of accounts receivable. The Company establishes the allowance for doubtful accounts based on a history of past writeoffs and collections and current credit considerations. The reserve for sales discounts represents the estimated discount that customers will take upon payment. The allowances are summarized as follows:

	January 31, 2010 (unaudited)	October 31, 2009 (audited)
Allowance for doubtful accounts	\$ 105,078	\$ 105,078
Reserve for sales discounts	60,000	60,000
Totals	\$ 165,078	\$ 165,078

## NOTE 5 -

## INVENTORIES:

Inventories at January 31, 2010 and October 31, 2009 consisted of the following:

	January 31, 2010 (unaudited)	October 31, 2009 (audited)
Packed coffee	\$ 1,523,038	\$ 1,388,547
Green coffee	2,614,602	2,484,518
Packaging supplies	812,088	927,078
Totals	\$ 4,949,728	\$ 4,800,143

## NOTE 6 -

## COMMODITIES:

The Company uses options and futures contracts, which are not designated and do not qualify as hedging instruments, to partially hedge the effects of fluctuations in the price of green coffee beans. Options and futures contracts are measured at fair value each reporting period 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 a broker which includes primarily cash and commodities for futures and options in the amount of \$617,530 and \$482,746, at January 31, 2010 and October 31, 2009, respectively, net of unrealized losses of \$185,566 at January 31, 2010 and an unrealized gain of \$77,306 at October 31, 2009. 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 January 31, 2010, the Company held 60 options (generally with terms of two months or less) covering an aggregate of 2,250,000 pounds of green coffee beans at a price of \$1.32 per pound. The fair value of these options was \$63,900 at January 31, 2010. At January 31, 2009, the Company held 160 options (generally with terms of two months or less) covering an aggregate of 6,000,000 pounds of green coffee beans at a price of \$1.20 per pound. The fair market value of these options was \$344,000 at January 31, 2009.

The Company acquires futures contracts with longer terms (generally three to four months) primarily for the purpose of guaranteeing an adequate supply of green coffee. At January 31, 2010, the Company held 50 futures contracts for the purchase of 1,875,000 pounds of coffee at an average price of \$1.36 per pound. The market price of coffee applicable to such contracts was \$1.32 per pound at that date. At January 31, 2009, the Company did not hold any futures contracts

Included in cost of sales for the three months ended January 31, 2010 and 2009, the Company recorded realized and unrealized gains and losses, respectively, on these contracts as follows:

	Three Months Ended January 31,	
	2010	2009
	unaudited	unaudited
Gross realized gains	\$ 400,919	\$ 211,275
Gross realized (losses)	(3,368)	(58,900)
Unrealized gains (losses)	(262,862)	130,636
Total	\$ 134,689	\$ 283,011

## NOTE 7 -

## 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, considerations regarding inventory, and other factors. 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 (currently 4.25%) plus 1.0%. The initial term of the credit facility is three years, expiring on February 17, 2012, and shall 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 credit facility is secured by all tangible and intangible assets of the Company and was personally guaranteed by two officers/stockholders of the Company. The personal guarantees of the two officers/stockholders was released by Sterling effective October 31, 2009.

The credit facility contains covenants that place annual restrictions on the Company’s operations, including covenants relating to mergers, debt restrictions, capital expenditures, tangible net worth, net profit, leverage, fixed charge coverage, employee loan restrictions, distribution restrictions (common stock and preferred stock), dividend restrictions, restrictions on lease payments to affiliates, restrictions on changes in business, asset sale restrictions, restrictions on acquisitions and intercompany transactions, restrictions on fundamental changes. 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 January 31, 2010 and October 31, 2009. The initial borrowings under the revolving credit facility were used to repay the outstanding principal and accrued interest under the \$4,500,000 line of credit previously held with Merrill Lynch, which was terminated and replaced with the revolving line of credit, with the excess being available for working capital purposes.

## NOTE 8 -

## 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



## NOTE 8 -

## INCOME TAXES (cont'd):

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.

On November 1, 2007, the Company adopted FASB authoritative guidance for accounting for uncertainty in income taxes. There was no impact on the Company's consolidated financial position, results of operations or cash flows at October 31, 2008 and for the fiscal year then ended as a result of implementing the guidance. As of January 31, 2010 and October 31, 2009, the Company did not have any unrecognized tax benefits. The Company's practice is to recognize interest and/or penalties related to income tax matters in income tax expense. As of January 31, 2010 and October 31, 2009, the Company had no accrued interest or penalties related to income taxes. The Company currently has no federal or state tax examinations in progress.

## NOTE 9 -

## EARNINGS PER SHARE:

The Company presents "basic" and "diluted" earnings per common share in accordance with FASB authoritative guidance. Basic earnings (loss) per common share is computed by dividing the net income (loss) attributable to the Company's controlling interest by the sum of the weighted-average number of common shares outstanding and diluted earnings (loss) per share is computed by dividing the net income (loss) attributable to the Company's controlling interest by the weighted-average number of common shares outstanding plus the dilutive effect of common shares issuable upon exercise of potential sources of dilution. Through April 30, 2009, on a common share equivalent basis, 70,000 warrants, all of which expired as of May 6, 2009, have been excluded from the diluted earnings (loss) per share calculation due to the anti-dilution impact.

## NOTE 10 -ECONOMIC DEPENDENCY:

Approximately 43% of the Company's sales were derived from one customer during the three months ended January 31, 2010. This customer also accounted for approximately \$1,720,500 of the Company's accounts receivable balance at January 31, 2010. Approximately 34% of the Company's sales were derived from one customer during the three months ended January 31, 2009. This customer also accounted for approximately \$1,203,000 of the Company's accounts receivable balance at January 31, 2009. 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 three months ended January 31, 2010, approximately 35% and 6% of the Company's purchases were from two vendors. These vendors accounted for approximately \$208,000 of the Company's accounts payable at January 31, 2010. For the three months ended January 31, 2009, approximately 22% and 12% of the Company's purchases were from two vendors. These vendors accounted for approximately \$1,012,000 of the Company's accounts payable at January 31, 2009.

NOTE 11 -RELATED PARTY TRANSACTIONS:

The Company has engaged its 40% partner in Generation Coffee Company, LLC as an outside contractor (the "Partner"). Included in contract labor expense are expenses incurred from the Partner during the three months ended January 31, 2010 of \$151,270 for the processing of finished goods. There were no contract labor expenses incurred from the Partner during the three months and January 31, 2009.

An employee of one of the top two vendors is a director of the Company. Purchases from that vendor totaled approximately \$6,600,000 and \$3,364,000 for the three months ended January 31, 2010 and 2009, respectively. The corresponding accounts payable balance to this vendor was approximately \$138,000 at January 31, 2010 and \$829,000 at October 31, 2009. 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.

The deferred compensation payable represents the liability due to an officer of the Company. Deferred compensation expenses included in officers' salaries were approximately \$7,000 and \$40,000 during the three months ended January 31, 2010 and 2009, respectively.

NOTE 12 -STOCKHOLDERS' EQUITY:

a. Warrants to Purchase Common Stock:

The Company entered into an agreement with Maxim Group, LLC ("Maxim") for Maxim to serve as the Company's financial advisors and lead managing underwriter for a public offering of the Company's common stock which concluded on June 16, 2005. Subsequently, Maxim and Joseph Stevens & Company, Inc. ("Joseph Stevens") entered into an agreement pursuant to which Joseph Stevens agreed to act as managing underwriter and Maxim participated in the underwriting syndicate of the offering. The Company also sold to Joseph Stevens and Maxim for \$100, warrants to purchase 70,000 shares of common stock at a price of \$6.00 per share. The fair value of these warrants were credited to additional paid-in capital. The warrants were exercisable for a period of five (5) years and contained provisions for cashless exercise, anti-dilution and piggyback registration rights. The warrants expired on May 6, 2009 and are no longer exercisable.

b. 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 months ended January 31, 2010. The Company purchased 17,800 shares for \$88,017 during the three months ended January 31, 2009.

## NOTE 13 -FAIR VALUE MEASUREMENTS:

The Company adopted the authoritative guidance on “Fair Value Measurements” as of November 1, 2008. 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 is 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:

Investments, at fair value – The Company’s investments, at fair value, consist of commodities securities – marked to market. The Company’s marketable securities are classified within level 1 of the fair value hierarchy as they are valued using quoted market prices from an exchange.

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.

	Unaudited Fair Value Measurements as of January 31, 2010			
	Total	Level 1	Level 2	Level 3
<b>Assets:</b>				
Commodities – Futures	\$ 617,530	\$ 617,530	–	–
<b>Total Assets</b>	<b>\$ 617,530</b>	<b>\$ 617,530</b>	<b>–</b>	<b>–</b>
	Audited Fair Value Measurements as of October 31, 2009			
	Total	Level 1	Level 2	Level 3
<b>Assets:</b>				
Commodities – Futures	\$ 482,746	\$ 482,746	–	–
<b>Total Assets</b>	<b>\$ 482,746</b>	<b>\$ 472,746</b>	<b>–</b>	<b>–</b>

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," "Business," "Risk Factors" 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:

- the impact of rapid or persistent fluctuations in the price of coffee beans;
  - fluctuations in the supply of coffee beans;
  - general economic conditions and conditions which affect the market for coffee;
  - the macro global economic environment;
  - our success in implementing our business strategy or introducing new products;
  - our ability to attract and retain customers;
  - our success in expanding our market presence in new geographic regions;
  - the effects of competition from other coffee manufacturers and other beverage alternatives;
  - changes in tastes and preferences for, or the consumption of, coffee;
  - our ability to obtain additional financing; and
- other risks which we identify in future filings with the Securities and Exchange Commission (the "SEC").

In some cases, you can identify forward-looking statements by terminology such as "may," "will," "should," "could," "predict," "potential," "continue," "expect," "anticipate," "future," "intend," "plan," "believe," "estimate" and similar expressions (or the such expressions). Any or all of our forward looking statements in this quarterly report and in any other public statements we make may turn out to be wrong. They can be affected by inaccurate assumptions we might make or by known or unknown risks and uncertainties. Consequently, no forward looking statement can be guaranteed. In addition, we undertake no responsibility to update any forward-looking statement to reflect events or circumstances, that occur after the date of this quarterly report.

Overview

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



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

- the sale of wholesale specialty green coffee;
- the roasting, blending, packaging and sale of private label coffee; and
- the roasting, blending, packaging and sale of our seven 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 Generations Coffee Company, LLC, a Delaware limited liability company, which engages in the roasting, packaging and sale of private label specialty coffee products. We own a 60% equity interest in Generations Coffee Company and we are the exclusive supplier of its coffee inventory. We believe that the joint venture will allow us to bid on the private label gourmet whole bean business which we have 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.

We closed our manufacturing operations at our Brooklyn, New York location in May 2009. The majority of our processing has been moved to our Colorado facility with our Generations Coffee Company facility in Brecksville, Ohio becoming more involved with our everyday coffee production. We have leased office and warehouse space located in Staten Island, New York to house the corporate offices and serve as temporary storage of our branded product. We sold the property located in Brooklyn, New York in October 2009 for a pre-tax gain of approximately \$2,108,000, which enhanced our already strong cash position and liquidity. We used the proceeds of the sale to pay down our line of credit borrowings and reduce interest expense. Although we incurred a related severance cost of \$78,500 in the third quarter of fiscal 2009, we believe that these measures will reduce long-term operating expenses, increase efficiencies and ultimately increase the profitability of our Company.

In July 2007, we entered into a three-year licensing agreement with Entenmann's Products, Inc., a subsidiary of Entenmann's, Inc., which is one of the nation's oldest baking companies. The agreement gives us the exclusive rights to manufacture, market and distribute a full line of Entenmann's brand coffee products throughout the United States. We are continuing to develop not only mainstream Entenmann's coffee items, but upscale flavored Entenmann's products in twelve-ounce valve bags as well. These products will give the line a visible upscale image to our retailers and their customers, which we believe will be integral to the long-term success of this arrangement.

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 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 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 counter-parties 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.

#### 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, 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 of passage to the customer of title and risk of loss, when there is persuasive evidence of an arrangement, the sales price is determinable, and collection of the resulting receivable is reasonably assured. We generally recognize revenue at the time of shipment. Sales are reflected net of discounts and returns.

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 January 31, 2010.



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 \$49,000 for the quarter ended January 31, 2010.

We account for income taxes in accordance with the relevant authoritative guidance. Deferred tax assets and liabilities are determined based on the liabilities, using 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 January 31, 2010 of \$189,000 may require a valuation allowance if we do not generate taxable income.

#### Quarter Ended January 31, 2010 Compared to the Quarter Ended January 31, 2009

**Net Income.** We had net income of \$557,978, or \$0.10 per share (basic and diluted), for the three months ended January 31, 2010 compared to net income of \$391,801, or \$0.07 per share (basic and diluted), for the three months ended January 31, 2009. The increase in net income primarily reflects increased net sales, which resulted in an increase in gross profit.

**Net Sales.** Net sales totaled \$21,359,151 for the three months ended January 31, 2010, an increase of \$2,501,281, or 13.3%, from \$18,857,870 for the three months ended January 31, 2009. The increase in net sales reflects increased sales of both green coffee and private label coffee to our largest customers.

**Cost of Sales.** Cost of sales for the three months ended January 31, 2010 was \$18,721,387, or 87.7% of net sales, as compared to \$16,742,775, or 88.8%, of net sales for the three months ended January 31, 2009. The decrease in cost of sales as a percentage of net sales reflects the benefits we are beginning to realize due to our cost cutting measures as well as a more favorable green coffee inventory position. Net gains on options and futures contracts, a component of cost of sales, decreased \$148,322 from \$283,011 for the quarter ended January 31, 2009 to \$134,689 for the quarter ended January 31, 2010.

**Gross Profit.** Gross profit increased \$522,669 to \$2,637,764 for the three months ended January 31, 2010 as compared to gross profit of \$2,115,095 for the three months ended January 31, 2009. Gross profit as a percentage of net sales increased by 1.1% to 12.3% for the three months ended January 31, 2010 as compared to 11.2% for the three months ended January 31, 2009. The increase in our margins primarily reflects the decreased cost of sales as a percentage of net sales.

**Operating Expenses.** Total operating expenses increased by \$182,228, or 13.0%, to \$1,588,908 for the three months ended January 31, 2010 as compared to operating expenses of \$1,406,680 for the three months ended January 31, 2009. The increase in operating expenses was due to increased selling and administrative expense due mainly to increases of approximately \$170,000 in contract labor expense, \$30,000 in Entenmann's setup expenses, \$28,000 in freight expense, \$27,000 in travel and entertainment expense, \$10,000 in packaging development costs and \$9,000 in advertising expense, partially offset by \$60,000 in insurance expense, decreases of approximately \$7,000 in payroll costs, and \$8,000 in each of depreciation, security and utilities expenses. The added expenses were justified due to the high level of business during this period.

**Other Expense.** Other expense increased by \$13,567 to \$52,096 for the three months ended January 31, 2010 compared to other expense of \$38,529 for the three months ended January 31, 2009. Interest income decreased by \$946 and interest expense increased \$12,621 during the quarter compared to the same period in 2009. The decrease in

interest income resulted from lower interest rates. The increase in interest expense resulted from an increase in the average balance outstanding on our line of credit.

Income Taxes. Our provision for income taxes for the three months ended January 31, 2010 totaled \$441,262 compared to a provision of \$276,636 for the three months ended January 31, 2009. The increase reflects higher pre-tax income for the 2010 quarter.

#### Liquidity and Capital Resources

As of January 31, 2010, we had working capital of \$10,353,010 which represented a \$808,215 increase from our working capital of \$9,544,795 as of October 31, 2009, and total stockholders' equity of \$11,733,731 which increased by \$555,498 from our total stockholders' equity of \$11,178,233 as of October 31, 2009. Our working capital increased primarily due to modest increases in cash and cash equivalents, commodities held at broker, inventories and deferred income tax assets and a \$1,241,583 decrease in accounts payable, partially offset by a \$557,713 decrease in accounts receivable and a \$632,925 increase in the outstanding balance on our line of credit. At January 31, 2010, the outstanding balance on our line of credit was \$1,424,553 compared to \$791,628 at October 31, 2009. Total stockholders' equity increased due to an increase in retained earnings as a result of our net income for the quarter ended January 31, 2010.

For the three months ended January 31, 2010, our operating activities used net cash of \$376,822 as compared to the three months ended January 31, 2009 when net cash provided by operating activities was \$1,392,754. The decreased cash flow from operations for the three months ended January 31, 2010 was primarily due to a \$960,271 decrease in accounts payable and accrued expenses, and a \$498,203 decrease in accounts receivable.

For the three months ended January 31, 2010, our investing activities used net cash of \$80,994, as compared to the three months ended January 31, 2009 when net cash used in investing activities was \$67,327. The increase in net cash used in investing activities for the three months ended January 31, 2010 was due to the increase in purchases of property and equipment.

For the three months ended January 31, 2010, our financing activities provided net cash of \$632,925 compared to net cash used in financing activities of \$444,263 for the three months ended January 31, 2009. The change in cash flow from financing activities for the three months ended January 31, 2010 was primarily due to increased advances under our line of credit, partially offset by increased principal payments under the line of credit.

As of October 31, 2008, we had a financing agreement with Merrill Lynch Business Financial Services Inc. ("Merrill Lynch"). This \$4,500,000 line of credit was to expire on February 28, 2009 and required monthly interest payments at a rate of LIBOR plus 1.95%. This loan was secured by a blanket lien on all of our assets. On February 17, 2009, we entered into a Loan and Security Agreement with Sterling National Bank ("Sterling") for a new credit facility to provide for our working capital requirements and we terminated the credit facility with Merrill Lynch. The new 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. 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 (currently 4.25%) plus 1.0%. The initial term of the credit facility is three years and shall be automatically extended for successive periods of one (1) year each unless one party shall have provided the other party with a written notice of termination, at least ninety (90) days prior to the expiration of the initial contract term or any renewal term. The credit facility is secured by all tangible and intangible assets of the Company. The personal guarantees of the two officers and shareholders was released by Sterling effective October 31, 2009. The credit facility contains covenants that place restrictions on our operations, including covenants relating to mergers, debt restrictions, capital expenditures, tangible net worth, leverage, fixed charge coverage, minimum working capital, dividend restrictions, restrictions on lease payments to affiliates, restrictions on changes in business, asset sale restrictions, restrictions on acquisitions and restrictions on fundamental changes.



We expect to fund our operations, including paying our liabilities, funding capital expenditures and making required payments on our debts, through October 31, 2010 with cash provided by operating activities and the use of our credit facility. In addition, an increase in eligible accounts receivable and inventory would permit us to make additional borrowings under our line of credit.

We closed our manufacturing operations at our Brooklyn, New York location in May 2009. The majority of our processing has been moved to our La Junta, Colorado facility with our Generations Coffee Company facility in Brecksville, Ohio becoming more involved with our everyday coffee production. We have leased office and warehouse space located in Staten Island, New York to house the corporate offices and serve as temporary storage of our branded product. We sold the property located in Brooklyn, New York in October 2009 for a pre-tax gain of approximately \$2,108,000, which enhanced our already strong cash position and liquidity. We believe that these measures will reduce long-term operating expenses, increase efficiencies and ultimately increase the profitability of our Company.

#### Off-Balance Sheet Arrangements

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

#### Recent Accounting Pronouncements

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

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. At January 31, 2010, our debt consisted of \$1,424,553 of variable rate debt under our revolving line of credit.

**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 short-term coffee futures and options contracts (generally with terms of two months or less) primarily for the purpose of partially hedging and minimizing the effects of changing green coffee prices, as further explained in Note 6 of the notes to financial statements in this report. 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. The use of these derivative financial instruments has enabled us to mitigate the effect of changing prices although we generally remain exposed to loss when prices decline significantly in a short period of time or remain at higher levels, preventing us from obtaining inventory at favorable prices. We generally have been able to pass green coffee price increases through to customers, thereby maintaining our gross profits. However, we cannot predict whether we will be able to pass inventory price increases through to our customers in the future. We believe that, in normal economic times, our hedging policies are a vital element to our business model which not only control our cost of sales, but also give us the flexibility to obtain the inventory necessary to continue to grow our sales while minimizing margin compression if coffee prices were to suddenly rise.

At January 31, 2010 we held 60 options covering an aggregate of 2,250,000 pounds of green coffee beans at \$1.32 per pound. The market price of these options was \$63,900 at January 31, 2010. At January 31, 2009, we held 160 options covering an aggregate of 6,000,000 pounds of green coffee beans at \$1.36 per pound. The market price of these options was \$344,000 at January 31, 2009.

At January 31, 2010, we held 50 futures contracts for the purchase of 1,875,000 pounds of coffee at a weighted average price of \$1.36 per pound. The market price of coffee applicable to such contracts was \$1.32 per pound at that date. At January 31, 2009, we did not hold any future contracts.

ITEM 4T. 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 is (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 January 31, 2010 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, 2009.

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

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES.

None.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.

None.

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 March 15, 2010.

Coffee Holding Co., Inc.

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

