

COFFEE HOLDING CO INC  
Form 10-Q  
March 12, 2009

**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, 2009**

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number: **001-32491**

**Coffee Holding Co., Inc.**

*(Exact name of registrant as specified in its charter)*

**Nevada**

**11 2238111**

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(State or other jurisdiction of incorporation or organization)

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

**4401 First Avenue, Brooklyn, New York**

**11232-0005**

(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  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.

**5,428,702 shares of common stock, par value \$0.001 per share, outstanding at March 3, 2009**

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**PART I - FINANCIAL INFORMATION****Item 1.****Financial Statements****COFFEE HOLDING CO., INC.****CONDENSED CONSOLIDATED BALANCE SHEETS  
JANUARY 31, 2009 AND OCTOBER 31, 2008**

	<b>January 31, 2009 (unaudited)</b>	<b>October 31, 2008</b>
<b>- ASSETS -</b>		
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$ 1,844,462	\$ 963,298
Commodities held at broker	775,608	342,269
Accounts receivable, net of allowances of \$141,915 for 2009 and 2008	8,025,381	9,067,797
Inventories	4,803,494	5,046,554
Prepaid expenses and other current assets	252,773	284,900
Prepaid and refundable income taxes	1,014,799	1,025,935
Deferred income tax assets	612,877	923,877
<b>TOTAL CURRENT ASSETS</b>	<b>17,329,394</b>	<b>17,654,630</b>
Property and equipment, at cost, net of accumulated depreciation of \$5,161,629 and \$5,020,573 for 2009 and 2008, respectively	2,730,321	2,804,053
Deposits and other assets	550,606	542,893
<b>TOTAL ASSETS</b>	<b>\$ 20,610,321</b>	<b>\$ 21,001,576</b>
<b>- LIABILITIES AND STOCKHOLDERS' EQUITY -</b>		
<b>CURRENT LIABILITIES:</b>		
Accounts payable and accrued expenses	\$ 8,839,811	\$ 9,120,124
Line of credit borrowings		3,522,207
<b>TOTAL CURRENT LIABILITIES</b>	<b>8,839,811</b>	<b>12,642,331</b>
Line of credit borrowings	3,082,076	
Deferred income tax liabilities	39,500	86,000
Deferred rent	77,236	69,959
Deferred compensation payable	331,932	352,637
<b>TOTAL LIABILITIES</b>	<b>12,370,555</b>	<b>13,150,927</b>

<b>MINORITY INTEREST</b>	<b>4,674</b>	3,226
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**COMMITMENTS AND CONTINGENCIES****STOCKHOLDERS' EQUITY:**

Preferred stock, par value \$.001 per share; 10,000,000 shares authorized; none issued

Common stock, par value \$.001 per share; 30,000,000 shares authorized, 5,529,830 shares issued for 2009 and 2008

Additional paid-in capital

Retained earnings

Less: Treasury stock, 87,614 and 84,314 common shares, at cost for 2009 and 2008, respectively

**TOTAL STOCKHOLDERS' EQUITY****TOTAL LIABILITIES AND STOCKHOLDERS EQUITY**

<b>5,530</b>	5,530
<b>7,327,023</b>	7,327,023
<b>1,196,406</b>	804,605
<b>(293,867 )</b>	(289,735 )
<b>8,235,092</b>	7,847,423
<b>\$ 20,610,321</b>	<b>\$ 21,001,576</b>

See Notes to Condensed Consolidated Financial Statements.

**COFFEE HOLDING CO., INC.****CONDENSED CONSOLIDATED STATEMENTS OF INCOME  
THREE MONTHS ENDED JANUARY 31, 2009 AND 2008 (UNAUDITED)**

	<b>2009</b>	2008
<b>NET SALES</b>	<b>\$ 18,857,870</b>	\$ 14,962,541
<b>COST OF SALES</b>	<b>16,742,775</b>	13,082,423
<b>GROSS PROFIT</b>	<b>2,115,095</b>	1,880,118
<b>OPERATING EXPENSES:</b>		
Selling and administrative	1,256,831	1,378,924
Officers salaries	149,849	161,377
<b>TOTALS</b>	<b>1,406,680</b>	1,540,301
<b>INCOME FROM OPERATIONS</b>	<b>708,415</b>	339,817
<b>OTHER INCOME (EXPENSE):</b>		
Interest income	2,265	24,271
Interest expense	(40,794 )	(29,006 )
<b>TOTALS</b>	<b>(38,529 )</b>	(4,735 )
<b>INCOME BEFORE PROVISION FOR INCOME TAXES AND MINORITY INTEREST IN SUBSIDIARY</b>	<b>669,886</b>	335,082
Provision for income taxes	276,636	142,051
<b>INCOME BEFORE MINORITY INTEREST</b>	<b>393,250</b>	193,031
Minority interest in loss of subsidiary	(1,449 )	(10,766 )
<b>NET INCOME</b>	<b>\$ 391,801</b>	\$ 182,265
Basic and diluted earnings per share	\$ .07	\$ .03
Weighted average common shares outstanding:		
Basic and diluted	5,442,603	5,506,326

See Notes to Condensed Consolidated Financial Statements.



## COFFEE HOLDING CO., INC.

**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**THREE MONTHS ENDED JANUARY 31, 2009 AND 2008 (UNAUDITED)**

	2009	2008
<b>OPERATING ACTIVITIES:</b>		
Net income	\$ 391,801	\$ 182,265
Adjustments to reconcile net income to net cash provided by operating activities:		
Unrealized (gains) losses on options and futures	(130,636 )	8,863
Depreciation and amortization	141,056	119,572
Deferred rent amortization	7,277	
Deferred income taxes	264,500	(8,500 )
Minority interest	1,449	10,766
Changes in operating assets and liabilities:		
Commodities held at broker	(302,703 )	376,796
Accounts receivable	1,042,416	1,587,124
Inventories	243,060	(237,416 )
Prepaid expenses and other assets	32,127	18,591
Prepaid and refundable income taxes	11,136	127,694
Accounts payable and accrued expenses	(280,313 )	(1,825,256 )
Deposits and other assets	(28,419 )	41,813
<b>Net cash provided by operating activities</b>	<b>1,392,751</b>	<b>402,312</b>
<b>INVESTING ACTIVITIES:</b>		
Purchases of property and equipment	(67,324 )	(107,965 )
<b>Net cash (used in) investing activities</b>	<b>(67,324 )</b>	<b>(107,965 )</b>
<b>FINANCING ACTIVITIES:</b>		
Advances under bank line of credit	14,919,844	14,282,082
Principal payments under bank line of credit	(15,359,975 )	(14,290,020 )
Purchase of treasury stock	(4,132 )	(88,017 )
<b>Net cash (used in) financing activities</b>	<b>(444,263 )</b>	<b>(95,955 )</b>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>881,164</b>	<b>198,392</b>
Cash and cash equivalents, beginning of year	963,298	890,649
<b>CASH AND CASH EQUIVALENTS, END OF PERIOD</b>	<b>\$ 1,844,462</b>	<b>\$ 1,089,041</b>

**SUPPLEMENTAL DISCLOSURE OF CASH FLOW DATA:**

Interest paid	\$	<b>51,879</b>	\$	19,515
Income taxes paid	\$		\$	24,962

See Notes to Condensed Consolidated Financial Statements.

**COFFEE HOLDING CO., INC.**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
JANUARY 31, 2009**

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

The Company owns a 60% interest in Generations Coffee Company, LLC (GCC) effective April 7, 2006. GCC is in the same business as the Company. The Company also exercises control of GCC. As a result of its 60% interest and control, the financial statements of GCC are consolidated with the Company.

**NOTE 2 -**

**BASIS OF PRESENTATION:**

The interim condensed consolidated financial information as of January 31, 2009 and for the three-month periods ended January 31, 2009 and 2008 has been prepared without audit, pursuant to the rules and regulations of the Securities and Exchange Commission (the SEC). Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations, although we believe that the disclosures made are adequate to provide for fair presentation. These financial statements should be read in conjunction with the financial statements and the notes thereto, included in the Company's Annual Report on Form 10-K for the fiscal year ended October 31, 2008, 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, 2009, and results of operations and cash flows for the three months ended January 31, 2009 and 2008, as applicable, have been made. The results of operations for the three months ended January 31, 2009 and 2008 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**

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements, which defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. This statement does not require any new fair value measurements, but provides guidance on how to measure fair value by providing a fair value hierarchy used to classify the source of the information. SFAS No. 157 is effective for fiscal years beginning after November 15, 2007, and all interim periods within those fiscal years. In February 2008, the FASB released FASB Staff Position (FSP FAS 157-2 Effective Date of FASB Statement No. 157) which delays the effective date of SFAS No. 157 for all nonfinancial assets and nonfinancial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually), to fiscal years beginning after November 15, 2008 and interim periods within those fiscal years. The adoption of this statement with respect to the Company's financial assets and liabilities did not have a material impact on the Company's financial statements. The Company is evaluating the impact of adopting SFAS 157 on its non-financial assets and liabilities.

**COFFEE HOLDING CO., INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
JANUARY 31, 2009****(UNAUDITED)**

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities ( SFAS No. 159 ). SFAS No. 159 permits entities to choose to measure, on an item-by-item basis, specified financial instruments and certain other items at fair value. Unrealized gains and losses on items for which the fair value option has been elected are required to be reported in earnings at each reporting date. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007, the provisions of which are required to be applied prospectively. The provisions of SFAS 159 were effective for the Company on November 1, 2008. The Company has decided not to change the measurement of any financial assets or liabilities.

In December 2007, the FASB issued SFAS No. 160. Noncontrolling Interests in Consolidated Financial Statements-and Amendment of ARB No. 51. SFAS 160 establishes accounting and reporting standards pertaining to ownership interests in subsidiaries held by parties other than the parent, the amount of net income attributable to the parent and to the noncontrolling interest, changes in a parent s ownership interest, and the valuation of any retained noncontrolling equity investment when a subsidiary is deconsolidated. This statement also establishes disclosure requirements that clearly identify and distinguish between the interests of the parent and the interests of the noncontrolling owners. SFAS 160 is effective for fiscal years beginning on or after December 15, 2008. The adoption of SFAS 160 is not currently expected to have a material effect on the Company s consolidated financial position, results of operations, or cash flows.

In March 2008, the FASB issued FASB Statement No. 161, Disclosures about Derivative Instruments and Hedging Activities. The new standard is intended to improve financial reporting about derivative instruments and hedging activities by requiring enhanced disclosures to enable investors to better understand their effects on an entity s financial position, financial performance, and cash flows. It is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008, with early application encouraged. The Company is currently evaluating the impact of adopting SFAS. No. 161 on its 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 reserve for sales discounts represents the estimated discount that customers will take upon payment. The allowances are summarized as follows:

	<b>January 31,</b>	October 31,
	<b>2009</b>	2008
	<b>(unaudited)</b>	(audited)
Allowance for doubtful accounts	\$ 92,464	\$ 92,464
Reserve for sales discounts	49,451	49,451
Totals	\$ 141,915	\$ 141,915

**NOTE 5 -****INVENTORIES:**

Inventories at January 31, 2009 and October 31, 2008 consisted of the following:

	<b>January 31,</b>	October 31,
	<b>2009</b>	2008
	<b>(unaudited)</b>	(audited)
Packed coffee	\$ <b>1,049,657</b>	\$ 1,135,700
Green coffee	<b>2,877,064</b>	3,147,572
Packaging supplies	<b>876,773</b>	763,282
Totals	\$ <b>4,803,494</b>	\$ 5,046,554

**COFFEE HOLDING CO., INC.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**JANUARY 31, 2009**  
**(UNAUDITED)**

**NOTE 6 -****HEDGING:**

The Company uses options and futures contracts to partially hedge the effects of fluctuations in the price of green coffee beans. Options and futures contracts are marked to market with current recognition of gains and losses on such positions. The Company's accounting for options and futures contracts may increase earnings volatility in any particular period. The Company has open position contracts held by the broker which includes primarily cash and commodities for futures and options in the amount of \$775,608 and \$342,269, which includes unrealized losses of \$121,245 and \$251,881 at January 31, 2009 and October 31, 2008, respectively. The Company classifies its options and future contracts as trading securities and accordingly, unrealized holding gains and losses are included in earnings (as a component of cost of sales) and not reflected as a component of stockholders' equity.

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 value of these options, was \$344,000 at January 31, 2009.

At October 31, 2008, the Company held 50 options (generally with terms of two months or less) covering an aggregate of 1,875,000 pounds of green coffee beans at a price of \$1.275 per pound. The fair value of these options, was \$288,375 at October 31, 2008.

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, 2009 and October 31, 2008, the Company did not hold any futures contracts.

Included in cost of sales for the three months ended January 31, 2009 and 2008, the Company recorded realized and unrealized gains and losses respectively, on these contracts as follows:

	<b>Three Months Ended January 31,</b>	
	<b>2009</b>	<b>2008</b>
	<b>(unaudited)</b>	<b>(unaudited)</b>
Gross realized gains	\$ 211,275	\$ 1,145,109
Gross realized losses	(58,900 )	(542,803 )
Unrealized gains (losses)	130,636	(8,863 )
	<b>\$ 283,011</b>	<b>\$ 593,443</b>

**NOTE 7 -****LINE OF CREDIT:**

As of January 31, 2009, the Company had a financing agreement with Merrill Lynch Business Financial Services, Inc. for a line of credit of up to \$4,500,000. The line of credit was secured by a blanket lien on all the assets of the Company and the personal guarantees of two of the Company's officer/shareholders, required monthly interest payments at a rate of LIBOR plus 1.95% (3.66% as of January 31, 2009 and 6.10% as of October 31, 2008) and required the Company to comply with various financial covenants. This agreement originally matured on October 31, 2008 and on November 4, the bank notified the Company that they had elected not to renew the line of credit. The bank offered the Company an extension in which to repay the outstanding principal and accrued interest until February 28, 2009. As of January 31, 2009 and October 31, 2008, the borrowings under the line of credit was \$3,082,076 and \$3,522,207, respectively.

On February 17, 2009, the Company entered into a Loan and Security Agreement with Sterling National Bank (the Agreement) for a new credit facility to provide for its working capital requirements. The credit facility is a revolving line of credit for a maximum of \$5 million with the Company able to draw on the line at an amount up to 85% of eligible accounts receivable



**COFFEE HOLDING CO., INC.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**JANUARY 31, 2009**  
**(UNAUDITED)**

and 25% of eligible inventory consisting of green coffee beans and finished coffee not to exceed \$1,000,000. Interest on 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 and is personally guaranteed by Andrew Gordon and David Gordon.

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, dividend restrictions, restrictions on lease payments to affiliates, restrictions on changes in business, asset sale restrictions, restrictions on acquisitions, restrictions on fundamental changes, and such other covenants as are typically contained in documents relating to similar transactions.

**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 bases 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 credit 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 Financial Accounting Standards Board (FASB) Interpretation No. 48, Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109 (FIN 48). There was no impact on the Company's consolidated financial position, results of operations or cash flows at October 31, 2008 and for the year then ended as a result of implementing FIN 48. As of October 31, 2008 and January 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 October 31, 2008 and January 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 pursuant to the provisions of Statement of Financial Accounting Standards No. 128, Earnings per Share. Basic earnings per share is based on the weighted-average number of common shares outstanding and diluted earnings per share is based on the weighted-average number of common shares outstanding plus all potential dilutive common shares outstanding. On a common share equivalent basis 70,000 warrants have been excluded from the diluted earnings per share calculation

due to the anti-dilution impact.

**NOTE 10 -**

**ECONOMIC DEPENDENCY:**

For the three months ended January 31, 2009, approximately 34% of the Company's sales were derived from one customer. Sales to this customer were approximately \$6,250,000 and the corresponding accounts receivable from this customer at January 31, 2009 was approximately \$1,203,000.

For the three months ended January 31, 2008, approximately 34% and 13% of the Company's sales were derived from two customers. Sales to these customers were approximately

**COFFEE HOLDING CO., INC.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
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**(UNAUDITED)**

\$5,100,000 and \$1,950,000 and the corresponding accounts receivable from these customers at January 31, 2008 was approximately \$729,000 and \$493,000, respectively.

For the three months ended January 31, 2009, approximately 22% and 12% of the Company's purchases were from two vendors. Purchases from these vendors were approximately \$3,364,000 and \$1,877,000 and the corresponding accounts payable to these vendors at January 31, 2009 were approximately \$468,000 and \$554,000, respectively.

For the three months ended January 31, 2008, approximately 51% and 10% of the Company's purchases were from two vendors. Purchases from these vendors were approximately \$6,600,000 and \$1,200,000 and the corresponding accounts payable to these vendors at January 31, 2008 were approximately \$724,000 and \$389,000, respectively.

An employee of one of these vendors is a director of the Company. Purchases from that vendor totaled approximately \$3,364,000 and \$6,600,000 for the three months ended January 31, 2009 and 2008, respectively. The corresponding accounts payable balance to this vendor was approximately \$468,000 at January 31, 2009 and \$1,282,000 at October 31, 2008. Management does not believe that 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.

**NOTE 11 -**

**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 which concluded on June 16, 2005 of the Company's common stock. 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 are exercisable for a period of five (5) years and contain provisions for cashless exercise, anti-dilution and piggyback registration rights.

(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. During the three months ended January 31, 2009, the Company purchased 3,300 shares for \$4,132.

(c) Dividends:

On February 28, 2008 the Company paid a cash dividend of \$1,544,568 (\$0.28 per share) to all shareholders of record as of January 31, 2008.



**COFFEE HOLDING CO., INC.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**JANUARY 31, 2009**  
**(UNAUDITED)**

**NOTE 12 - FAIR VALUE MEASUREMENTS:**

The Company adopted Statement of Financial Accounting Standards ( SFAS ) No.157, Fair Value Measurements ( SFAS 157 ) as of November 1, 2008. SFAS 157 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. SFAS 157 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 investments, at fair value, consists 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 our assets and liabilities 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.

	<b>Fair Value Measurements as of January 31, 2009</b>			
	<b>Total</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
<b>Assets:</b>				
Commodities - Options	\$ 775,608	\$ 775,608		
<b>Total Assets</b>	<b>\$ 775,608</b>	<b>\$ 775,608</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 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 on our current expectations and projections about future events, including, among other things:

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the impact of rapid or persistent fluctuations in the price of coffee beans;

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fluctuations in the supply of coffee beans;

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general economic conditions and conditions which affect the market for coffee;

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the macro global economic environment;

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our success in implementing our business strategy or introducing new products;

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our ability to attract and retain customers;

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our success in expanding our market presence in new geographic regions;

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the effects of competition from other coffee manufacturers and other beverage alternatives;

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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.

In some cases, you can identify forward-looking statements by terminology such as may, will, should, could, potential, continue, expect, anticipate, future, intend, plan, believe, estimate and similar expressions (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, which 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, 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 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 60% of the joint venture and are the exclusive supplier of its coffee inventory. We believe that the Generations Coffee 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, we increased the number of our customers in all three areas.

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 expect 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 import green coffee from Colombia, Mexico, Kenya, 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, coffee crops in Brazil, which produces one-third of the world's green coffee, are 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. However, the average indicator price for Robusta coffee, the main component for our leading espresso brands (Café Caribe and Café Supremo), is still at a historically high level.

Historically, 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 futures and options contracts that we enter 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.

## **Recent Developments**

We will be closing our manufacturing operations at our Brooklyn location on or about March 27, 2009. The majority of our processing will be moved to our Colorado facility with our Generations facility in Brecksville, Ohio becoming more involved with our everyday coffee purchasing. We have leased office and warehouse space located in Staten Island to house the corporate offices and serve as temporary storage of our product. We plan to sell the property located in Brooklyn in the near future. The sale of our Brooklyn property will enhance our already strong cash position and liquidity. We believe that these measures will reduce operating expenses, increase efficiencies and ultimately increase the profitability of our company.

### **Critical Accounting Policies and Estimates**

The preparation of financial statements and related disclosures in conformity with accounting principles generally accepted in the United States 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 Securities and Exchange Commission Staff Accounting Bulletin No. 104, Revenue Recognition ( SAB 104 ). Under SAB 104, 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 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 \$81,000 for the quarter ended January 31, 2009.

Inventories are stated at cost (determined on a first-in, first-out basis). 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 \$48,000 for the quarter ended January 31, 2009.

We account for income taxes in accordance with Statement of Financial Accounting Standards No. 109, Accounting for Income Taxes ( SFAS No. 109 ). Under SFAS No. 109, 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, 2009 of \$573,377 may require a valuation allowance if we do not generate taxable income.

### **Quarter Ended January 31, 2009 Compared to the Quarter Ended January 31, 2008**

**Net Income.** We had a net income of \$391,801, or \$0.07 per share (basic and diluted), for the three months ended January 31, 2009 compared to net income of \$182,265, or \$0.03 per share (basic and diluted), for the three months ended January 31, 2008. The increase in net income primarily reflects increased net sales, which resulted in an increase in gross profit.

**Net Sales.** Net sales totaled \$18,857,870 for the three months ended January 31, 2009, an increase of \$3,895,329, or 26%, from \$14,962,541 for the three months ended January 31, 2008. The increase in net sales reflects both increased amounts of green coffee, branded coffee and private label coffee sold as well as increased sales prices compared to the first quarter of fiscal 2008.

**Cost of Sales.** Cost of sales for the three months ended January 31, 2009 was \$16,742,775 or 88.8% of net sales, as compared to \$13,082,423 or 87.4% of net sales for the three months ended January 31, 2008. The increase in cost of sales primarily reflects the increased cost of green coffee. Green coffee purchases increased \$3,019,335 from \$11,328,822 to \$14,348,157 due to higher private label and green coffee sales volumes. Net gains on options and futures contracts, a component of cost of sales, equaled \$283,011 for the first quarter of fiscal 2009 compared to \$593,443 for the first quarter of fiscal 2008.

**Gross Profit.** Gross profit increased \$234,977 to \$2,115,095 for the three months ended January 31, 2009 from \$1,880,118 for the three months ended January 31, 2008. Gross profit as a percentage of net sales decreased to 11.2% for the three months ended January 31, 2009 from 12.6% for the three months ended January 31, 2008. The decrease in our margins reflects the increased cost of green coffee. We initiated price increases in response to higher green coffee prices in early 2008 and have been able to obtain price concessions from most of our customers. These prices began to have a positive impact beginning in the third quarter of 2008.

**Operating Expenses.** Total operating expenses decreased by \$133,621, or 8.7%, to \$1,406,680 for the three months ended January 31, 2009 from \$1,540,301 for the three months ended January 31, 2008. The decrease in operating expenses was due to decreases in selling and administrative expense of \$122,093 and officers' salaries of \$11,528. The decrease in selling and administrative expenses mainly reflects decreases of approximately \$88,000 in office salaries and the corresponding payroll costs, \$31,000 in repairs and maintenance costs, \$14,000 in equipment rental costs, \$20,000 in licensing fees, \$16,000 of show & demo costs and \$12,000 of packaging development costs, partially offset by increases of \$35,000 in insurance costs and \$14,000 in setup costs for the Entenmann's products. The decrease in office salaries reflects our continued efforts to streamline the company to remain competitive. The decrease in repairs and maintenance and equipment rental reflects the rewards of our continued investment in upgrading our equipment. The decrease in licensing and packaging development is due to our being in year two of our Entenmann's production. The increase in insurance costs reflects the increased cost of workers compensation coverage. The increase in setup cost reflect costs incurred to promote our Entenmann's coffee products outside of the New York market.

**Other Expense.** Other expense increased by \$33,794 to \$38,529 for the three months ended January 31, 2009 compared to other expense of \$4,735 for the three months ended January 31, 2008. Interest income decreased by \$22,006 and interest expense increased \$11,788 during the quarter compared to the same period in 2008. The decrease in interest income resulted from the decreased amounts held at brokers. 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, 2009 totaled \$276,636 compared to a provision of \$142,051 for the three months ended January 31, 2008. The increase reflects higher net income for the quarter.

### **Liquidity and Capital Resources**

As of January 31, 2009, we had working capital of \$8,489,583, which represented a \$3,477,284 increase from our working capital of \$5,012,299 as of October 31, 2008, and total stockholders' equity of \$8,235,092 which increased by \$387,669 from our total stockholders' equity of \$7,847,423 as of October 31, 2008.

For the quarter ended January 31, 2009 our operating activities provided net cash of \$1,392,754 as compared to the quarter ended January 31, 2008 when net cash provided by operating activities was \$402,312. The increased cash flow from operations for the quarter ended January 31, 2009 was primarily due to our net income of \$391,801, a \$1,042,416 decrease in accounts receivable, a \$243,060 decrease in inventory, and a decrease in deferred income taxes of \$264,500, partially offset by an increase in commodities held at broker of \$433,339 and a decrease in accounts payable of \$281,312.

For the quarter ended January 31, 2009, our investing activities used net cash of \$67,327, as compared to the quarter ended January 31, 2008 when net cash used by investing activities was \$107,965. The decrease in net cash used by investing activities for the first quarter of 2009 was due to the decrease in purchases of property and equipment.

For the quarter ended January 31, 2009, our financing activities used net cash of \$444,263, compared to net cash used in financing activities of \$95,955 for the quarter ended January 31, 2008. The change in cash flow from financing activities for the quarter ended January 31, 2009 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. This line of credit is for a maximum \$4,500,000, 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 for a new credit facility to provide for our working capital requirements. The credit facility is a revolving line of credit for a

maximum of \$5 million with the company able to 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 and is personally guaranteed by Andrew Gordon and David Gordon. 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, dividend restrictions, restrictions on lease payments to affiliates, restrictions on changes in business, asset sale restrictions, restrictions on acquisitions, restrictions on fundamental changes, and such other covenants as are typically contained in documents relating to similar transactions.

We expect to fund our operations, including paying our liabilities, funding capital expenditures and making required payments on our debts, through October 31, 2009 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 also believe we could, if necessary, obtain additional loans by mortgaging our headquarters.

### **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.

### **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, 2009, our debt consisted of \$3,082,076 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 characterized by stable commodities prices, 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 minimizing margin compression during a time of historically high coffee prices.

At January 31, 2009, we did not hold any futures contracts. At January 31, 2008, we held 35 futures contracts for the purchase of 1,312,500 pounds of coffee at an average price of \$1.33 per pound. The market price of coffee applicable to such contracts was \$1.38 per pound at January 31, 2008.

#### **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 Exchange Act Rules 13a-15(e) and 15d-15(e)) 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 to the Company's management, including its President and Chief Executive Officer, who is also the principal executive officer and principal financial officer, as appropriate 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.**

Not applicable.

**Item 2.**

**Unregistered Sales of Equity in Securities and Use of Proceeds.**

The following table provides information regarding repurchases of our common stock in each month of the quarter ended January 31, 2009.

**COMPANY PURCHASES OF EQUITY SECURITIES**

<b>Period</b>	<b>Total Number of Shares Purchased</b>	<b>Average Price Paid per Share</b>	<b>Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs(1)</b>	<b>Maximum Number of Shares that may yet be Purchased under the Plans or Programs(1)</b>
	3,300	\$ 1.157	3,300	188,877

November 1, 2008 through November 30, 2008					
December 1, 2008 through December 31, 2008					188,877
January 1, 2009 through January 31, 2009					188,877
<b>Total</b>	3,300	\$	1.157	3,300	188,877

(1)

On April 13, 2007, our Board of Directors authorized a stock repurchase plan pursuant to which we could repurchase up to 276,491 shares (5% of our common stock outstanding as of April 12, 2007) in either open market or private transactions. The stock repurchase plan is not subject to an expiration date.

**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.**

10.22

Lease by and between Coffee Holding Co., Inc. and Our Two Buddies, LLC, Tanj Properties, LLC and Waypoint Properties, LLC for 3475-3479 Victory Blvd., Staten Island, NY 10314

31.1

Rule 13a - 14(a)/15d - 14a Certification.

32.1

Section 1350 Certification.

**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.

**Coffee Holding Co., Inc.**

(Registrant)

By:

/s/ ANDREW GORDON

Andrew Gordon

President, Chief Executive Officer and Chief  
Financial Officer (Principal Executive, Financial  
and Accounting Officer)

March 10, 2009