

COFFEE HOLDING CO INC
Form 10-Q
June 11, 2010

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

FORM 10-Q

Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the quarterly period ended: April 30, 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)

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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 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 checked="" 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.

5,490,823 shares of common stock, par value \$0.001 per share, are outstanding at June 7, 2010.

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PART I – FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

COFFEE HOLDING CO., INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
APRIL 30, 2010 AND OCTOBER 31, 2009

| | April 30, 2010 (unaudited) | October 31, 2009 |
|---|----------------------------------|---------------------|
| - ASSETS - | | |
| CURRENT ASSETS: | | |
| Cash and cash equivalents | \$835,564 | \$1,367,933 |
| Commodities held at broker | 904,428 | 482,746 |
| Accounts receivable, net of allowances of \$165,078 for 2010 and 2009 | 8,150,398 | 10,174,221 |
| Inventories | 5,158,328 | 4,800,143 |
| Prepaid expenses and other current assets | 401,972 | 419,740 |
| Prepaid and refundable income taxes | 57,778 | 36,068 |
| Deferred income tax assets | 310,000 | 286,000 |
| TOTAL CURRENT ASSETS | 15,818,468 | 17,566,851 |
| Property and equipment, at cost, net of accumulated depreciation of \$4,906,891 and \$4,681,558 for 2010 and 2009, respectively | 1,565,241 | 1,648,214 |
| Deposits and other assets | 604,770 | 588,573 |
| TOTAL ASSETS | \$17,988,479 | \$19,803,638 |
| - LIABILITIES AND STOCKHOLDERS' EQUITY - | | |
| CURRENT LIABILITIES: | | |
| Accounts payable and accrued expenses | \$4,342,224 | \$6,655,916 |
| Line of credit | - | 791,628 |
| Income taxes payable | 261,581 | 453,512 |
| Deferred income tax liabilities | - | 121,000 |
| TOTAL CURRENT LIABILITIES | 4,603,805 | 8,022,056 |
| Deferred income tax liabilities | 207,000 | 14,500 |
| Deferred rent payable | 111,912 | 99,067 |
| Deferred compensation payable | 536,638 | 489,782 |
| TOTAL LIABILITIES | 5,459,355 | 8,625,405 |
| 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 | 5,454,097 | 4,095,671 |
| Less: Treasury stock, 89,007 common shares, at cost for 2010 and 2009 | (295,261) | (295,261) |
| Total Coffee Holding Co., Inc. Stockholders' Equity | 12,491,389 | 11,132,963 |
| Noncontrolling interest | 37,735 | 45,270 |
| TOTAL EQUITY | 12,529,124 | 11,178,233 |
| TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY | \$17,988,479 | \$19,803,638 |

The accompanying notes are an integral part of these condensed consolidated financial statements.

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

| | Six Months Ended April 30, | | Three Months Ended April 30, | |
|---|-------------------------------|--------------|---------------------------------|--------------|
| | 2010 | 2009 | 2010 | 2009 |
| NET SALES | \$41,276,459 | \$36,730,739 | \$19,917,308 | \$17,872,065 |
| COST OF SALES (including \$11.6 and \$14.2 million of related party costs for the six months ended April 30, 2010 and 2009, respectively) | 35,790,325 | 32,411,343 | 17,068,938 | 15,667,758 |
| GROSS PROFIT | 5,486,134 | 4,319,396 | 2,848,370 | 2,204,307 |
| OPERATING EXPENSES: | | | | |
| Selling and administrative | 2,865,634 | 2,592,836 | 1,426,576 | 1,336,009 |
| Officers' salaries | 299,700 | 299,699 | 149,850 | 149,850 |
| TOTALS | 3,165,334 | 2,892,535 | 1,576,426 | 1,485,859 |
| INCOME FROM OPERATIONS | 2,320,800 | 1,426,861 | 1,271,944 | 718,448 |
| OTHER INCOME (EXPENSE) | | | | |
| Interest income | 2,651 | 6,115 | 1,332 | 3,850 |
| Interest expense | (94,630) | (101,364) | (41,215) | (60,571) |
| TOTALS | (91,979) | (95,249) | (39,883) | (56,721) |
| INCOME BEFORE INCOME TAXES AND NONCONTROLLING INTEREST IN SUBSIDIARY | 2,228,821 | 1,331,612 | 1,232,061 | 661,727 |
| Provision for income taxes | 877,930 | 533,503 | 436,668 | 256,867 |
| NET INCOME | 1,350,891 | 798,109 | 795,393 | 404,860 |
| Less: Net loss (income) attributable to the noncontrolling interest | 7,535 | (5,658) | 5,055 | (4,210) |
| NET INCOME ATTRIBUTABLE TO COFFEE HOLDING CO., INC. | \$1,358,426 | \$792,451 | \$800,448 | \$400,650 |
| Basic and diluted earnings per share attributable to Coffee Holding Co., Inc. common stockholders | \$.25 | \$.15 | \$.15 | \$.07 |
| Weighted average common shares outstanding: | | | | |
| Basic | 5,440,823 | 5,442,112 | 5,440,823 | 5,441,603 |
| Diluted | 5,440,823 | 5,442,112 | 5,440,823 | 5,441,603 |

The accompanying notes are an integral part of these condensed consolidated financial statements.

COFFEE HOLDING CO., INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
SIX MONTHS ENDED APRIL 30, 2010 AND 2009
(Unaudited)

| | 2010 | 2009 |
|---|------------------|--------------------|
| OPERATING ACTIVITIES: | | |
| Net income | \$1,350,891 | \$798,109 |
| Adjustments to reconcile net income to net cash provided by (used in) operating activities: | | |
| Depreciation and amortization | 225,333 | 284,684 |
| Unrealized gain on commodities | (38,103) | (269,417) |
| Realized gain on commodities | (523,149) | (163,297) |
| Bad debt expense | 13,400 | - |
| Deferred rent | 12,845 | 14,554 |
| Deferred income taxes | 47,500 | 521,377 |
| Changes in operating assets and liabilities: | | |
| Commodities held at broker | 139,570 | (402,095) |
| Accounts receivable | 2,010,423 | 1,463,908 |
| Inventories | (358,185) | 670,792 |
| Prepaid expenses and other current assets | 17,768 | (142,352) |
| Prepaid and refundable income taxes | (21,710) | 717,911 |
| Accounts payable and accrued expenses | (2,313,692) | (4,674,190) |
| Deposits, other assets and deferred compensation | 30,659 | 82,400 |
| Income taxes payable | (191,931) | - |
| Net cash provided by (used in) operating activities | 401,619 | (1,097,616) |
| INVESTING ACTIVITIES: | | |
| Purchases of property and equipment | (142,360) | (107,301) |
| Net cash used in investing activities | (142,360) | (107,301) |
| FINANCING ACTIVITIES: | | |
| Advances under bank line of credit | 43,336,049 | 39,733,280 |
| Principal payments under bank line of credit | (44,127,677) | (38,389,091) |
| Purchase of treasury stock | - | (5,526) |
| Net cash (used in) provided by financing activities | (791,628) | 1,338,663 |
| NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS | | |
| | (532,369) | 133,746 |
| Cash and cash equivalents, beginning of period | 1,367,933 | 963,298 |
| CASH AND CASH EQUIVALENTS, END OF PERIOD | \$835,564 | \$1,097,044 |
| SUPPLEMENTAL DISCLOSURE OF CASH FLOW DATA: | | |
| Interest paid | \$112,915 | \$75,364 |
| Income taxes paid | \$944,284 | \$3,394 |

See notes to Condensed Consolidated Financial Statements.

COFFEE HOLDING CO., INC. AND SUBSIDIARY
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
APRIL 30, 2010 AND 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 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 April 30, 2010, and results of operations for the three and six months ended April 30, 2010 and 2009 and cash flows for the six months ended April 30, 2010 and 2009, as applicable, have been made.

COFFEE HOLDING CO., INC. AND SUBSIDIARY
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
APRIL 30, 2010 AND 2009
(Unaudited)

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

The results of operations for the six and three months ended April 30, 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 Six Months Ended April 30, 2010 | | | 2009 | | |
|------------------------------|---|-----------------------------|---------------|---|-----------------------------|-----------------|
| | Unaudited Coffee Holding Co., Inc. | Noncontrolling Interests | Total Equity | Unaudited Coffee Holding Co., Inc. | Noncontrolling Interests | Total Equity |
| Balance, beginning of period | \$ 11,132,963 | \$ 45,270 | \$ 11,178,233 | \$ 7,847,423 | \$ 3,226 | \$ 7,850,649 |
| Net (loss) income | 1,358,426 | (7,535) | 1,350,891 | 792,451 | 5,658 | 798,109 |
| Treasury stock | | | | (5,526) | | (5,526) |
| Balance, end of period | \$ 12,491,389 | \$ 37,735 | \$ 12,529,124 | \$ 8,634,348 | \$ 8,884 | \$ 8,643,232 |

COFFEE HOLDING CO., INC. AND SUBSIDIARY
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
APRIL 30, 2010 AND 2009
(Unaudited)

| | For the Three Months Ended April 30, | | | 2009 | | |
|------------------------------|--------------------------------------|----------------|---------------|--------------|----------------|--------------|
| | 2010 | | | Unaudited | | |
| | Unaudited | | | Unaudited | | |
| | Coffee | Noncontrolling | Total Equity | Coffee | Noncontrolling | Total |
| | Holding | Interests | | Holding | Interests | Equity |
| | Co., Inc. | | | Co., Inc. | | |
| Balance, beginning of period | \$ 11,690,941 | \$ 42,790 | \$ 11,733,731 | \$ 8,235,092 | \$ 4,674 | \$ 8,239,766 |
| Net (loss) income | 800,448 | (5,055) | 795,393 | 400,650 | 4,210 | 404,860 |
| Treasury stock | | | | (1,394) | | (1,394) |
| Balance, end of period | \$ 12,491,389 | \$ 37,735 | \$ 12,529,124 | \$ 8,634,348 | \$ 8,884 | \$ 8,643,232 |

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.

COFFEE HOLDING CO., INC. AND SUBSIDIARY
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
APRIL 30, 2010 AND 2009
(Unaudited)

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

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 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 adopted the guidance for Level 1 and Level 2 fair-value measurements for the second fiscal quarter beginning February 1, 2010. The Company will adopt the guidance for Level 3 fair-value measurements for the second fiscal quarter beginning February 1, 2011, as required. The Company does not expect the adoption of this standard will have a material impact on the disclosures for fair-value measurements.

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

COFFEE HOLDING CO., INC. AND SUBSIDIARY
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
APRIL 30, 2010 AND 2009
(Unaudited)

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

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 November 1, 2011 and is required to be applied prospectively to new or significantly modified revenue arrangements. The Company is currently assessing the impact this guidance may have on its consolidated financial statements.

Accounting for Distributions to Shareholders with Components of Stock and Cash

In January 2010, the FASB issued guidance which clarified that the stock portion of a distribution to shareholders that allows them to elect to receive cash or stock with a potential limitation on the total amount of cash that all shareholders can elect to receive in the aggregate is considered a share issuance that is reflected in earnings per share prospectively and is not a stock dividend. This update is effective for interim and annual periods ending on or after December 15, 2009, and should be applied on a retrospective basis. The adoption of this guidance had no impact on the Company’s financial statements.

COFFEE HOLDING CO., INC. AND SUBSIDIARY
 NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
 APRIL 30, 2010 AND 2009
 (Unaudited)

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

Effect of Denominating the Exercise Price of a Share-Based Payment Award in the Currency of the Market in Which the Underlying Equity Security Trades

In April 2010, the FASB issued guidance which clarified that an employee share-based payment award with an exercise price denominated in the currency of the market in which a substantial portion of the entity's equity shares trades should not be considered to contain a condition that is not a market, performance, or service condition. Therefore, an entity would not classify such an award as a liability if it otherwise qualifies as equity. The amendments in this guidance are effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2010. The Company is evaluating the impact this guidance will have on its consolidated financial statements, if any.

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:

| | April 30, 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 April 30, 2010 and October 31, 2009 consisted of the following:

| | April 30, 2010 (unaudited) | October 31, 2009 (audited) |
|--------------------|----------------------------------|----------------------------------|
| Packed coffee | \$ 1,469,054 | \$ 1,388,547 |
| Green coffee | 2,899,513 | 2,484,518 |
| Packaging supplies | 789,761 | 927,078 |
| Totals | \$ 5,158,328 | \$ 4,800,143 |

COFFEE HOLDING CO., INC. AND SUBSIDIARY
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
APRIL 30, 2010 AND 2009
(Unaudited)

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 \$904,428 and \$482,746, at April 30, 2010 and October 31, 2009, respectively, net of unrealized gains of \$115,409 and \$77,306 at April 30, 2010 and October 31, 2009, respectively. The Company classifies its options and future contracts as trading securities and accordingly, unrealized holding gains and losses are included in earnings and not reflected as a net amount as a separate component of stockholders' equity.

At April 30, 2010, the Company held 55 options (generally with terms of two months or less) covering an aggregate of 2,062,500 pounds of green coffee beans at a price of \$1.32 per pound. The fair value of these options was \$84,400 at April 30, 2010. At April 30, 2009, the Company did not hold any options. At October 31, 2009, the Company held 30 options covering an aggregate of 1,125,000 pounds of green coffee beans at a price of \$1.35 per pound. The fair market value of these options was \$38,363 at October 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 April 30, 2010, the Company held 88 futures contracts for the purchase of 3,300,000 pounds of green coffee at an average price of \$1.31 per pound. The market price of coffee applicable to such contracts was \$1.35 per pound at that date. At April 30, 2009, the Company held 130 futures contracts for the purchase of 4,875,500 pounds of green coffee at an average price of \$1.134 per pound. The market price of green coffee applicable to such contracts was \$1.16 per pound at that date. At October 31, 2009, the Company held 50 futures contracts for the purchase of 1,875,000 pounds of green coffee at an average price of \$1.35 per pound. The market price of green coffee applicable to such contracts was \$1.36 per pound at that date.

Included in cost of sales for the three and six months ended April 30, 2010 and 2009, the Company recorded realized and unrealized gains and losses, respectively, on these contracts as follows:

| | Three Months Ended April | |
|-------------------------|--------------------------|------------|
| | 2010 | 2009 |
| | unaudited | unaudited |
| Gross realized gains | \$ 251,096 | \$ 179,239 |
| Gross realized (losses) | (125,498) | (168,317) |
| Unrealized gains | 300,975 | 138,782 |
| Total | \$ 426,573 | \$ 149,704 |

COFFEE HOLDING CO., INC. AND SUBSIDIARY
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
APRIL 30, 2010 AND 2009
(Unaudited)

NOTE 6 -

COMMODITIES (cont'd):

| | Six Months Ended April 30, | |
|-------------------------|----------------------------|------------|
| | 2010 | 2009 |
| | unaudited | unaudited |
| Gross realized gains | \$ 652,015 | \$ 390,514 |
| Gross realized (losses) | (128,866) | (227,217) |
| Unrealized gains | 38,103 | 269,417 |
| Total | \$ 561,252 | \$ 432,714 |

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 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 were 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 April 30, 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.

COFFEE HOLDING CO., INC. AND SUBSIDIARY
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(Unaudited)

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 result in taxable or deductible amounts in the future based on enacted tax laws and rates applicable to the periods in which the differences are expected to affect taxable income. Valuation allowances are established when necessary to reduce deferred tax assets to the amount expected to be realized. The income tax provision or benefit is the tax incurred for the period plus or minus the change during the period in deferred tax assets and liabilities.

The Company adopted FASB authoritative guidance for accounting for uncertainty in income taxes. As of April 30, 2010 and October 31, 2009, the Company did not have any unrecognized tax benefits or open tax positions. The Company's practice is to recognize interest and/or penalties related to income tax matters in income tax expense. As of April 30, 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.

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NOTE 10 -ECONOMIC DEPENDENCY:

Approximately 48% of the Company's sales were derived from one customer during the six months ended April 30, 2010. This customer also accounted for approximately \$2,120,000 of the Company's accounts receivable balance at April 30, 2010. Approximately 36% of the Company's sales were derived from one customer during the six months ended April 30, 2009. This customer also accounted for approximately \$954,000 of the Company's accounts receivable balance at April 30, 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 six months ended April 30, 2010, approximately 54% of the Company's purchases were from three vendors. These vendors accounted for approximately \$1,218,900 of the Company's accounts payable at April 30, 2010. For the six months ended April 30, 2009, approximately 37% of the Company's purchases were from two vendors. These vendors accounted for approximately \$1,076,000 of the Company's accounts payable at April 30, 2009.

Approximately 54% of the Company's sales were derived from one customer during the three months ended April 30, 2010. This customer also accounted for approximately \$2,120,000 of the Company's accounts receivable balance at April 30, 2010. Approximately 38% of the Company's sales were derived from one customer during the three months ended April 30, 2009. This customer also accounted for approximately \$954,000 of the Company's accounts receivable balance at April 30, 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 April 30, 2010, approximately 54% of the Company's purchases were from three vendors. These vendors accounted for approximately \$1,218,900 of the Company's accounts payable at April 30, 2010. For the three months ended April 30, 2009, approximately 44% of the Company's purchases were from two vendors. These vendors accounted for approximately \$1,076,000 of the Company's accounts payable at April 30, 2009.

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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 six months ended April 30, 2010 of \$290,736 and \$139,466 for three months ended April 30, 2010 for the processing of finished goods. There were no contract labor expenses incurred from the Partner during the six or three months ended April 30, 2009. As of April 30, 2010, accounts payable to the Partner were \$796.

An employee of one of the top two vendors is a director of the Company. Purchases from that vendor totaled approximately \$11,645,000 and \$5,030,000 for the six and three months ended April 30, 2010 and \$14,200,000 and \$6,800,000 for the six and three months ended April 30, 2009. The corresponding accounts payable balance to this vendor was approximately \$811,000 at April 30, 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 \$13,462 and \$6,731 during the six and three months ended April 30, 2010 and \$74,038 and \$33,654 for the six and three months ended April 30, 2009.

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 was 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 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 six and three months ended April 30, 2010. The Company purchased 1,393 and 4,693 shares for \$1,394 and \$5,526 for the three and six months ended April 30, 2009, respectively.

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NOTE 13 -FAIR VALUE MEASUREMENTS:

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

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

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

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

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

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.

| | Total | Unaudited Fair Value Measurements as of April 30, 2010 | | |
|-----------------------------------|------------------|--|----------|----------|
| | | Level 1 | Level 2 | Level 3 |
| Assets: | | | | |
| Commodities – Options and Futures | \$904,428 | \$904,428 | – | – |
| Total Assets | \$904,428 | \$904,428 | – | – |

| | Total | Audited Fair Value Measurements as of October 31, 2009 | | |
|-----------------------------------|-------------------|---|----------|----------|
| | | Level 1 | Level 2 | Level 3 |
| Assets: | | | | |
| Commodities – Options and Futures | \$ 482,746 | \$ 482,746 | – | – |
| Total Assets | \$ 482,746 | \$ 482,746 | – | – |

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NOTE 14 - SUBSEQUENT EVENTS:

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

On May 17, 2010 (the "Closing"), the Company and Coffee Holding Acquisition LLC (collectively the "Buyer") purchased substantially all of the assets, including fixed assets, inventory, trademarks, customer list and supply-chain relationships (the "Assets") of Organic Products Trading Company, Inc., a Washington corporation (the "Seller") pursuant to the terms of an Asset Purchase Agreement dated April 22, 2010 (the "Agreement"). The Buyer purchased the Assets for a purchase price consisting of: a) \$450,000 in cash at Closing, b) an additional \$50,000 in cash if Buyer generates a pre-tax net profit of \$300,000 or more during the period from May 1, 2010 to April 30, 2011, which payment will be made on or before June 15, 2011, c) 50,000 shares of the Company's common stock at Closing, d) up to an additional 10,000 shares of the Company's common stock if Buyer generates a pre-tax net profit of \$300,000 or more during the period from May 1, 2010 to April 30, 2011, which issuance of up to 5,000 shares each will be made on June 15, 2011 and June 15, 2012, and e) an additional cash payment of \$1,809,924 based on the cost of inventory transferred to Buyer at Closing. The Agreement also indicates that commencing no sooner than six months from the Closing that the Company has agreed to repurchase the common stock shares issued to the Seller for \$4.00 per share regardless of the market value of the common stock at that time not to exceed the repurchase of 10,000 shares in any given year. At closing, Coffee Holding Acquisition LLC changed its name to Organic Products Trading Company LLC.

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

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

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

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 entered into a licensing agreement with Del Monte to market our S&W brand globally 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. As a result of these efforts, net sales increased in our specialty green coffee, private label and branded coffee business lines in both dollars and pounds sold. In addition, the number of our customers in all three areas increased.

On May 17, 2010, through a wholly-owned subsidiary, we completed the purchase of substantially all of the assets, including fixed assets, inventory, trademarks, customer list and supply-chain relationships of Organic Products Trading Company, a Washington corporation. The subsidiary will operate under the Organic Products Trading Company ("OPTCO") name from the seller's Vancouver, Washington location. OPTCO works directly with coffee farmers in South America and Central America to develop and import high quality certified organic green specialty coffee which is sold directly to small and medium-sized roasters throughout the United States and Canada. We believe that OPTCO's core business, the contracting and selling of high-end quality Organic and Fair Trade Arabica coffees to roasters located throughout North America, is highly complementary to our existing current business strategy. In addition, OPTCO's current customer base of approximately 200 roasters will now be able to purchase the traditional gourmet Arabica coffees from our current inventories and our customer base will have immediate access to a consistent supply of the highest quality Organic and Fair Trade Arabica coffees from a premier organization whose specialty has been procuring these coffees from around the world over the past twenty plus years. Our mutual

customer bases will now be merged into one enhancing our already solid position as one of the largest purveyors of specialty green coffee in the United States today.

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 \$81,500 for the quarter ended April 30, 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 \$51,500 for the quarter ended April 30, 2010.

We account for income taxes in accordance with the relevant authoritative guidance. Deferred tax assets and liabilities are computed for temporary differences between the financial statement and tax basis of assets and liabilities that will result in taxable or deductible amounts in the future based on enacted tax laws and rates applicable to the periods in which the differences are expected to affect taxable income. Deferred tax assets are reflected on the balance sheet when it is determined that it is more likely than not that the asset will be realized. Accordingly, our net deferred tax asset as of April 30, 2010 of \$310,000 may require a valuation allowance if we do not generate taxable income.

Three Months Ended April 30, 2010 Compared to the Three Months Ended April 30, 2009

Net Income. We had net income of \$800,448, or \$0.15 per share (basic and diluted), for the three months ended April 30, 2010 compared to net income of \$400,650, or \$0.07 per share (basic and diluted), for the three months ended April 30, 2009. The increase in net income primarily reflects increased net sales, which resulted in an increase in gross profit and an improvement in gross margins.

Net Sales. Net sales totaled \$19,917,308 for the three months ended April 30, 2010, an increase of \$2,045,243, or 11.4%, from \$17,872,065 for the three months ended April 30, 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 April 30, 2010 was \$17,068,938, or 85.7% of net sales, as compared to \$15,667,758, or 87.7%, of net sales for the three months ended April 30, 2009. The decrease in cost of sales as a percentage of net sales reflects an increase in net gains on options and futures contracts, the lower cost basis of our operations, and a more favorable green coffee inventory position. Net gains on options and futures contracts, a component of cost of sales, increased \$276,869 from \$149,704 for the three months ended April 30, 2009 to \$426,573 for the three months ended April 30, 2010.

Gross Profit. Gross profit increased \$644,063 to \$2,848,370 for the three months ended April 30, 2010 as compared to gross profit of \$2,204,307 for the three months ended April 30, 2009. Gross profit as a percentage of net sales increased by 2.0% to 14.3% for the three months ended April 30, 2010 as compared to 12.3% for the three months ended April 30, 2009. The increase in our margins primarily reflects the decreased cost of sales as a percentage of net sales due to better selling prices in relation to green coffee costs.

Operating Expenses. Total operating expenses increased by \$90,567, or 6.1%, to \$1,576,426 for the three months ended April 30, 2010 compared to operating expenses of \$1,485,859 for the three months ended April 30, 2009. The increase in operating expenses was due to increased selling and administrative expense due mainly to increases of approximately \$140,000 in contract labor expense, \$55,000 in professional services, \$17,000 in freight expense, partially offset by decreases of approximately \$15,000 in insurance expense, \$41,000 in payroll costs, \$25,000 in licenses, \$28,000 in utilities and \$13,000 in packaging development. The added expenses were justified due to the high level of business during this period.

Other Expense. Other expense decreased by \$16,838 to \$39,883 for the three months ended April 30, 2010 compared to other expense of \$56,721 for the three months ended April 30, 2009. Interest income decreased by \$2,518 and interest expense decreased \$19,356 during the quarter compared to the same period in 2009. The decrease in interest income resulted from lower interest rates. The decrease in interest expense resulted from a decrease in the average balance outstanding on our line of credit.

Income Taxes. Our provision for income taxes for the three months ended April 30, 2010 totaled \$436,668 compared to a provision of \$256,867 for the three months ended April 30, 2009. The increase reflects higher pre-tax income for the 2010 quarter.

Six Months Ended April 30, 2010 Compared to the Six Months Ended April 30, 2009

Net Income. We had net income of \$1,358,426, or \$0.25 per share (basic and diluted), for the six months ended April 30, 2010 compared to net income of \$792,451, or \$0.15 per share (basic and diluted), for the six months ended April 30, 2009. The increase in net income primarily reflects increased net sales, which resulted in an increase in gross profit and an improvement in gross margins.

Net Sales. Net sales totaled \$41,276,459 for the six months ended April 30, 2010, an increase of \$4,545,720, or 12.4%, from \$36,730,739 for the six months ended April 30, 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 six months ended April 30, 2010 was \$35,790,325, or 86.7% of net sales, as compared to \$32,411,343, or 88.2%, of net sales for the six months ended April 30, 2009. The decrease in cost of sales as a percentage of net sales reflects an increase in net gains on options and futures contracts, the lower cost basis of our operations, and a more favorable green coffee inventory position. Net gains on options and futures contracts, a component of cost of sales, increased \$128,538 from \$432,714 for the six months ended April 30, 2009 to \$561,252 for the six months ended April 30, 2010.

Gross Profit. Gross profit increased \$1,166,738 to \$5,486,134 for the six months ended April 30, 2010 as compared to gross profit of \$4,319,396 for the six months ended April 30, 2009. Gross profit as a percentage of net sales increased by 1.5% to 13.3% for the six months ended April 30, 2010 compared to 11.8% for the six months ended April 30, 2009. The increase in our margins primarily reflects the decreased cost of sales as a percentage of net sales due to better selling prices in relation to green coffee costs.

Operating Expenses. Total operating expenses increased by \$272,799, or 9.4%, to \$3,165,334 for the six months ended April 30, 2010 as compared to operating expenses of \$2,892,535 for the six months ended April 30, 2009. The increase in operating expenses was due to increased selling and administrative expense due mainly to increases of approximately \$318,000 in contract labor expense, \$24,000 in Entenmann's setup expenses, \$45,000 in freight expense, \$37,000 in travel and entertainment expense, \$65,000 in professional services expense and \$13,000 in advertising expense, partially offset by decreases of approximately \$74,000 in insurance expense, \$47,000 in payroll costs, \$33,000 in commission expense, \$41,000 in utilities expense, \$15,000 in cleaning and sanitation costs, \$11,000

in licenses and \$9,000 in security costs. The added expenses were justified due to the high level of business during this period.

Other Expense. Other expense decreased by \$3,270 to \$91,979 for the six months ended April 30, 2010 compared to other expense of \$95,249 for the six months ended April 30, 2009. Interest income decreased by \$3,464 and interest expense decreased \$6,734 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 six months ended April 30, 2010 totaled \$877,930 compared to a provision of \$533,503 for the six months ended April 30, 2009. The increase reflects higher pre-tax income for the 2010 period.

Liquidity and Capital Resources

As of April 30, 2010, we had working capital of \$11,214,663 which represented a \$1,669,868 increase from our working capital of \$9,544,795 as of October 31, 2009, and total stockholders' equity of \$12,529,124 which increased by \$1,350,891 from our total stockholders' equity of \$11,178,233 as of October 31, 2009. Our working capital increased primarily due to increases in commodities held at broker, inventories and deferred income tax assets, a \$2,313,692 decrease in accounts payable and a \$791,628 decrease in the outstanding balance of our line of credit, partially offset by a \$532,369 decrease in cash and cash equivalents and a \$2,023,823 decrease in accounts receivable. At April 30, 2010, the outstanding balance on our line of credit was zero 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 period ended April 30, 2010.

For the six months ended April 30, 2010, our operating activities provided net cash of \$401,619 as compared to the six months ended April 30, 2009 when net cash used by operating activities was \$1,097,616. The increased cash flow from operations for the six months ended April 30, 2010 was primarily due to our net income of \$1,350,891, a decrease of \$139,570 in commodities held at broker, a decrease of \$2,010,423 in accounts receivable, partially offset by a \$2,313,692 decrease in accounts payable and accrued expenses, gains on commodities of \$561,252 and a decrease of \$191,931 in income taxes payable.

For the six months ended April 30, 2010, our investing activities used net cash of \$142,360, as compared to the six months ended April 30, 2009 when net cash used in investing activities was \$107,301. The increase in net cash used in investing activities for the six months ended April 30, 2010 was due to the increase in purchases of property and equipment.

For the six months ended April 30, 2010, our financing activities used net cash of \$791,628 compared to net cash provided in financing activities of \$1,338,663 for the six months ended April 30, 2009. The change in cash flow from financing activities for the six months ended April 30, 2010 was primarily due to increased net principal payments under the line of credit.

We have a Loan and Security Agreement with Sterling National Bank ("Sterling") for a credit facility to provide for our working capital requirements. 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. 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/shareholders were 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.

On May 17, 2010, we purchased the assets of OPTCO for a purchase price consisting of: a) \$450,000 in cash at Closing, b) an additional \$50,000 in cash if OPTCO generates a pre-tax net profit of \$300,000 or more during the period from May 1, 2010 to April 30, 2011, which payment will be made on or before June 15, 2011, c) 50,000 shares of our common stock at Closing, d) up to an additional 10,000 shares of our common stock if OPTCO generates a pre-tax net profit of \$300,000 or more during the period from May 1, 2010 to April 30, 2011, which issuance of up to 5,000 shares each will be made on June 15, 2011 and June 15, 2012, and e) an additional cash payment of \$1,809,924 based on the cost of inventory transferred to OPTCO at Closing. In addition, OPTCO has agreed to lease certain premises located in Vancouver, Washington from the seller for annual rental of \$31,800 plus certain common area charges for a two-year period commencing June 1, 2010. We expect to be able to fund future cash expenditures associated with the acquisition and OPTCO's operations going forward with cash provided by operating activities and the use of our credit facility.

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 April 30, 2010, we did not have an outstanding balance on our variable rate 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 April 30, 2010, we held 55 options covering an aggregate of 2,062,500 pounds of green coffee beans at \$1.32 per pound. The fair value of these options was \$84,400 at April 30, 2010. At April 30, 2009, we did not hold any options.

At April 30, 2010, we held 88 futures contracts for the purchase of 3,300,000 pounds of coffee at a weighted average price of \$1.31 per pound. The fair value of coffee applicable to such contracts was \$1.35 per pound at that date. At April 30, 2009, we held 130 futures contracts for the purchase of 4,875,500 pounds of green coffee beans at an average price of \$1.14 per pound. The fair value of these options was \$1.16 per pound on that date.

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 April 30, 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.

In connection with the purchase of the assets of Organic Products Trading Company, we issued 50,000 shares of our common stock to the sole stockholder of Organic Products Trading Company on May 17, 2010, the closing date of the acquisition. We may issue up to an additional 10,000 shares of our common stock to such stockholder in the future. We relied upon Section 4(2) of the Securities Act of 1933, as amended (the “Securities Act”), for the offer and sale of our common stock to such stockholder, based on the offer and sale not being a public offering of the common stock and because there was not a general solicitation or general advertising involved in the transaction. Accordingly, the shares of common stock issued are restricted, and the shares that may be issued to the stockholder in the future will be restricted, within the meaning of Rule 144 of the Securities Act.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES.

None.

ITEM 4. REMOVED AND RESERVED.

ITEM 5. OTHER INFORMATION.

None.

ITEM 6. EXHIBITS.

10.1 Agreement for Purchase and Sale of Assets, dated April 22, 2010, among Organic Products Trading Company, the Garth William Smith and Gaylene Louise Smith Revocable Living Trust, Garth Smith and Gaylene Smith, Organic Products Trading Company LLC (formerly Coffee Holding Acquisition LLC) and Coffee Holding Co., Inc.

10.2 Amendment to Agreement for Purchase and Sale of Assets, dated April 22, 2010, among Organic Products Trading Company, the Garth William Smith and Gaylene Louise Smith Revocable Living Trust, Garth Smith and Gaylene Smith, Organic Products Trading Company LLC (formerly Coffee Holding Acquisition LLC) and Coffee Holding Co., Inc.

10.3 Employment Agreement, dated May 17, 2010, among Organic Products Trading Company LLC and Garth Smith.

10.4 Employment Agreement, dated May 17, 2010, among Organic Products Trading Company LLC and Gaylene Smith.

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

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

Signatures

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized and in the capacities indicated on June 11, 2010.

Coffee Holding Co., Inc.

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