

COFFEE HOLDING CO INC
Form 10-Q
June 09, 2011

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, 2011

OR

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

For the transition period from _____ to _____

Commission file number: 001-32491

Coffee Holding Co., Inc.
(Exact name of registrant as specified in its charter)

Nevada
(State or other jurisdiction of
incorporation or organization)

11-2238111
(I.R.S. Employer Identification No.)

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

10314
(Zip Code)

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

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

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

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="radio"/>	Accelerated filer	<input type="radio"/>
Non-accelerated filer	<input type="radio"/>	Smaller reporting company	<input type="radio"/>

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, 2011.

PART		PAGE
I		
ITEM		
1	FINANCIAL STATEMENTS	3
ITEM	MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND	
2	RESULTS OF OPERATIONS	21
ITEM		
3	QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK	29
ITEM		
4	CONTROLS AND PROCEDURES	30
PART		
II		
ITEM		
1	LEGAL PROCEEDINGS	31
ITEM		
1A	RISK FACTORS	31
ITEM		
2	UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS	31
ITEM		
3	DEFAULTS UPON SENIOR SECURITIES	31
ITEM		
4	(Removed and Reserved)	31
ITEM		
5	OTHER INFORMATION	31
ITEM		
6	EXHIBITS	32

ITEM 1. FINANCIAL STATEMENTS

COFFEE HOLDING CO., INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
APRIL 30, 2011 AND OCTOBER 31, 2010

	April 30, 2011 (unaudited)	October 31, 2010
- ASSETS -		
CURRENT ASSETS:		
Cash and cash equivalents	\$1,908,627	\$1,672,921
Commodities held at broker	323,385	275,499
Accounts receivable, net of allowances of \$197,078 for 2011 and 2010	11,625,259	8,852,372
Inventories	9,413,405	8,190,420
Prepaid green coffee	429,137	1,335,676
Prepaid expenses and other current assets	276,543	502,852
Prepaid and refundable income taxes	110,245	9,521
Deferred income tax asset	128,970	128,959
TOTAL CURRENT ASSETS	24,215,571	20,968,220
Machinery and equipment, at cost, net of accumulated depreciation of \$5,363,476 and \$5,147,593 for 2011 and 2010, respectively	1,628,637	1,560,940
Customer list and relationships, net of accumulated amortization of \$7,500 and \$3,750 for 2011 and 2010, respectively	142,500	146,250
Trademarks	180,000	180,000
Goodwill	440,000	440,000
Deferred income tax asset	266,530	199,041
Deposits and other assets	766,445	699,029
TOTAL ASSETS	\$27,639,683	\$24,193,480
- LIABILITIES AND STOCKHOLDERS' EQUITY -		
CURRENT LIABILITIES:		
Accounts payable and accrued expenses	\$9,225,841	\$7,124,072
Line of credit	1,521,223	2,306,749
Income taxes payable	417,873	234,744
Contingent liability	50,000	41,000
Deferred income tax liabilities	34,617	73,300
TOTAL CURRENT LIABILITIES	11,249,554	9,779,865
Deferred income tax liabilities	199,883	216,700
Deferred rent payable	135,839	124,756
Deferred compensation payable	617,802	540,642
TOTAL LIABILITIES	12,203,078	10,661,963
STOCKHOLDERS' EQUITY:		
Coffee Holding Co., Inc. stockholders' equity:		
Preferred stock, par value \$.001 per share; 10,000,000 shares authorized; 0 issued	-	-
Common stock, par value \$.001 per share; 30,000,000 shares authorized, 5,579,830 shares issued; 5,490,823 shares outstanding for 2011 and 2010	5,580	5,580
Additional paid-in capital	7,581,973	7,581,973
Contingent consideration	39,000	39,000
Retained earnings	8,046,105	6,151,054

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Less: Treasury stock, 89,007 common shares, at cost for 2011 and 2010	(295,261)	(295,261)
Total Coffee Holding Co., Inc. Stockholders' Equity	15,377,397	13,482,346
Noncontrolling interest	59,208	49,171
TOTAL EQUITY	15,436,605	13,531,517
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$27,639,683	\$24,193,480

See notes to Condensed Consolidated Financial Statements.

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

	Six Months Ended April 30,		Three Months Ended April 30,	
	2011	2010	2011	2010
NET SALES	\$62,973,110	\$41,276,459	\$37,332,017	\$19,917,308
COST OF SALES (including \$11.7 and \$11.6 million of related party costs for the six months ended April 30, 2011 and 2010, respectively. Including \$6.8 and \$5.0 million for the three months ended April 30, 2011 and 2010, respectively.)	56,292,992	35,790,325	33,732,594	17,068,938
GROSS PROFIT	6,680,118	5,486,134	3,599,423	2,848,370
OPERATING EXPENSES:				
Selling and administrative	3,145,367	2,865,634	1,637,363	1,426,576
Officers' salaries	329,700	299,700	149,850	149,850
TOTALS	3,475,067	3,165,334	1,787,213	1,576,426
INCOME FROM OPERATIONS	3,205,051	2,320,800	1,812,210	1,271,944
OTHER INCOME (EXPENSE)				
Interest income	111,331	2,651	6,316	1,332
Interest expense	(118,660)	(94,630)	(61,595)	(41,215)
TOTALS	(7,329)	(91,979)	(55,279)	(39,883)
INCOME BEFORE INCOME TAXES AND NONCONTROLLING INTEREST IN SUBSIDIARIES	3,197,722	2,228,821	1,756,931	1,232,061
Provision for income taxes	958,656	877,930	568,996	436,668
NET INCOME	2,239,066	1,350,891	1,187,935	795,393
Less: Net (income) loss attributable to the noncontrolling interest	(10,037)	7,535	22	5,055
NET INCOME ATTRIBUTABLE TO COFFEE HOLDING CO., INC.	\$2,229,029	\$1,358,426	\$1,187,957	\$800,448
Basic and diluted earnings per share	\$.41	\$.25	\$.22	\$.15
Dividends declared per share	\$.06	\$-	\$.03	\$-
Weighted average common shares outstanding:				
Basic	5,490,823	5,440,823	5,490,823	5,440,823
Diluted	5,500,823	5,440,823	5,500,823	5,440,823

See notes to Condensed Consolidated Financial Statements.

COFFEE HOLDING CO., INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
SIX MONTHS ENDED APRIL 30, 2011 AND 2010
(Unaudited)

	2011	2010
OPERATING ACTIVITIES:		
Net income	\$2,239,066	\$1,350,891
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	219,633	225,333
Unrealized gain on commodities	(47,886)	(38,103)
Bad debt expense	-	13,400
Deferred rent	11,083	12,845
Deferred income taxes	(123,000)	47,500
Changes in operating assets and liabilities:		
Accounts receivable	(2,772,887)	2,010,423
Inventories	(1,222,985)	(358,185)
Prepaid expenses and other current assets	226,309	17,768
Prepaid green coffee	906,539	-
Prepaid and refundable income taxes	(100,724)	(21,710)
Accounts payable and accrued expenses	2,110,769	(2,313,692)
Deposits and other assets	9,744	30,659
Income taxes payable	183,129	(191,931)
Net cash provided by operating activities	1,638,790	785,198
INVESTING ACTIVITIES:		
Purchases of machinery and equipment	(283,580)	(142,360)
Net cash used in investing activities	(283,580)	(142,360)
FINANCING ACTIVITIES:		
Advances under bank line of credit	58,006,191	43,336,049
Principal payments under bank line of credit	(58,791,717)	(44,127,677)
Payment of dividend	(333,978)	-
Net cash used in financing activities	(1,119,504)	(791,628)
NET INCREASE IN CASH AND CASH EQUIVALENTS	235,706	(148,790)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	1,672,921	984,354
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$1,908,627	\$835,564
SUPPLEMENTAL DISCLOSURE OF CASH FLOW DATA:		
Interest paid	\$93,446	\$112,915
Income taxes paid	\$991,698	\$944,284

See notes to Condensed Consolidated Financial Statements.

COFFEE HOLDING CO., INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
APRIL 30, 2011 AND 2010

NOTE 1 - BUSINESS ACTIVITIES:

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

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

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

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

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

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

COFFEE HOLDING CO., INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
APRIL 30, 2011 AND 2010

NOTE 1 - BUSINESS ACTIVITIES (cont'd):

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

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

NOTE 2 - BASIS OF PRESENTATION:

The following (a) condensed consolidated balance sheet as of April 30, 2011, which has been derived from audited financial statements, and (b) the unaudited interim condensed financial statements have been prepared by the Company pursuant to the rules and regulations of the Securities and Exchange Commission (the "SEC"). Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles ("U.S. GAAP") have been condensed or omitted pursuant to those rules and regulations, although the Company believes that the disclosures made are adequate to make the information not misleading. It is suggested that these condensed consolidated financial statements be read in conjunction with the consolidated financial statements and the notes thereto included in the Company's latest shareholders' annual report on Form 10-K filed with the SEC on January 31, 2011 for the fiscal year ended October 31, 2010 ("Form 10-K").

In the opinion of management, all adjustments (which include normal and recurring nature adjustments) necessary to present a fair statement of the Company's financial position as of April 30, 2011, and results of operations for the three and six months ended April 30, 2011 and 2010 and the cash flows for the six months ended April 30, 2011 and 2010, as applicable, have been made.

The results of operations for the three and six months ended April 30, 2011 and 2010 are not necessarily indicative of the operating results for the full fiscal year or any future periods.

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

COFFEE HOLDING CO., INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
APRIL 30, 2011 AND 2010

NOTE 3 - RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS AFFECTING THE COMPANY:

Fair Value Measurements

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 adopted the guidance for Level 3 fair-value measurements for the second fiscal quarter beginning February 1, 2011, as required. The adoption of this standard did not have a material impact on the disclosures for fair-value measurements.

Intangibles – Goodwill and Other

In December 2010, the FASB amended the existing guidance to modify Step 1 of the goodwill impairment test for reporting units with zero or negative carrying amounts. Upon adoption of the amendments, an entity with reporting units that have carrying amounts that are zero or negative is required to assess whether it is more likely than not that the reporting units' goodwill is impaired. If the entity determines that it is more likely than not that the goodwill of one or more of its reporting units is impaired, the entity should perform Step 2 of the goodwill impairment test for those reporting unit(s).

Any resulting goodwill impairment should be recorded as a cumulative-effect adjustment to beginning retained earnings in the period of adoption. Any goodwill impairments occurring after the initial adoption of the amendments should be included in earnings. This guidance will be effective for the Company beginning on November 1, 2011. The Company indicated that this guidance would only impact the consolidated financial statements if an acquisition occurs subsequent to November 1, 2011.

Broad Transactions

In December 2010, the FASB amended the existing guidance to specify that if a public entity presents comparative financial statements, the entity should disclose revenue and earnings of the combined entity as though the business combination(s) that occurred during the current year had occurred as of the beginning of the comparable prior annual reporting period only.

The amendments in this guidance also expand the supplemental pro forma disclosures under the guidance to include a description of the nature and amount of material, nonrecurring pro forma adjustments directly attributable to the business combination included in the reported pro forma revenue and earnings. The amendments in this guidance are effective for the Company prospectively for business combinations for which an acquisition date is on or after the beginning of the first annual reporting period beginning on November 1, 2011. The Company noted that this guidance would only impact the consolidated financial statements if an acquisition occurs subsequent to November 1, 2011.

COFFEE HOLDING CO., INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
APRIL 30, 2011 AND 2010

NOTE 4 - FORMATION OF SUBSIDIARY:

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 Date"), 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 the 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 on the Closing Date, d) up to an additional 10,000 shares of the Company's common stock if the Buyer generates a pre-tax net profit of \$300,000 or more during the period from May 1, 2010 to April 30, 2011, which issuance of up to 5,000 shares each will be made on June 15, 2011 and June 15, 2012 (the "Supplemental Common Stock Payments"), and e) an additional cash payment of \$1,809,924 based on the cost of inventory transferred to the Buyer on the Closing Date. Since the Buyer met the pre-tax net profit target, the Supplemental Common Stock Payment will be paid on June 15, 2011. The Agreement also indicated that commencing no sooner than six months from the Closing Date, the Company agreed, at the Seller's request, to repurchase the common stock shares issued to the Seller for \$4.00 per share regardless of the market value of the common stock at that time not to exceed the repurchase of 10,000 shares in any given year. This provision was subsequently waived by the Seller for the fiscal year, commencing on October 22, 2010 through October 21, 2011. On the Closing Date, the Buyer changed its name to Organic Products Trading Company LLC ("OPTCO").

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 operations of the business located in Vancouver, Washington. The employment agreements include base pay for each executive of \$150,000 and each executive is eligible for a bonus. The Buyer shall have the right to terminate the employment of each executive at any time with or without cause and each executive shall have the right to resign at any time with or without good reason.

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

COFFEE HOLDING CO., INC.
 NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
 APRIL 30, 2011 AND 2010

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

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

The following table summarizes the preliminary allocation of the \$2,615,924 purchase price utilizing the fair values of the assets acquired at May 17, 2010.

Purchase price – cash	\$ 2,309,924
Purchase price share consideration	306,000
Total purchase price	\$ 2,615,924
Property and equipment	\$ 15,000
Inventory	\$ 1,809,924
Goodwill and other intangible assets	791,000
Total assets acquired	\$ 2,615,924

COFFEE HOLDING CO., INC.
 NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
 APRIL 30, 2011 AND 2010

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

The \$440,000 of goodwill and \$330,000 of intangible assets, consisting of trademarks and customer relationships, are expected to be fully deductible for income tax reporting purposes. The value assigned to the customer list and customer relationships is being amortized over a twenty year period. Amortization expense was \$3,750 and \$1,875 for the six and three months ended April 30, 2011, respectively. The future amortization on the customer list and customer relationships will be \$7,500 per year. Goodwill and trademark intangible assets were recorded at their fair value on the date of the acquisition and will be evaluated at least on an annual basis for impairment. Any future adjustments to the contingent liability for fair value will be recorded in the statement of operations. The contingent consideration will not be remeasured for each reporting period and any subsequent settlement will be accounted for in equity.

Pro Forma Results of Operations (unaudited)

The following pro forma results of operations for the three and six months ended April 30, 2010 have been prepared as though the acquisition of OPTCO had occurred as of the beginning of the earliest period presented. This pro forma financial information is not indicative of the results of operations that the Company would have attained had the acquisition of OPTCO occurred at the beginning of the periods presented, nor is the pro forma financial information indicative of the results of operations that may occur in the future:

	Six Months Ended April 30,		Three Months Ended April 30,	
	2011	2010	2011	2010
Pro forma sales	\$ 62,973,110	\$ 46,273,519	\$ 37,332,017	\$ 22,132,876
Pro forma net income	\$ 2,229,029	\$ 1,596,744	\$ 1,187,957	\$ 887,838
Pro forma basic and diluted earnings per share	\$.41	\$.29	\$.22	\$.16

The operations of OPTCO have been included in the Company's consolidated statement of operations since the date of the acquisition on May 17, 2010.

COFFEE HOLDING CO., INC.
 NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
 APRIL 30, 2011 AND 2010

NOTE 5 - PREPAID GREEN COFFEE:

Prepaid coffee is an item that emanates from OPTCO. The balance represents advance payments made by OPTCO to several coffee growing cooperatives for the purchase of green coffee. Interest is charged to the cooperatives for these advances. Interest earned was \$5,529 and \$80,879 for the three and six months ended April 2011 and 2010, respectively. The prepaid coffee balance was \$429,137 at April 30, 2011 and \$1,335,676 at October 31, 2010.

NOTE 6 - 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 write-offs and collections and current credit considerations. The reserve for sales discounts represents the estimated discount that customers will take upon payment. The reserve for other allowances represents the estimated amount of returns and slotting fees expected to be incurred by the Company from its customers. The allowances are summarized as follows:

	April 30, 2011 (unaudited)	October 31, 2010
Allowance for doubtful accounts	\$ 90,078	\$ 90,078
Reserve for other allowances	47,000	47,000
Reserve for sales discounts	60,000	60,000
Totals	\$ 197,078	\$ 197,078

NOTE 7 - INVENTORIES:

Inventories consisted of the following:

	April 30, 2011 (unaudited)	October 31, 2010
Packed coffee	\$ 1,281,144	\$ 1,566,678
Green coffee	7,470,170	5,952,225
Packaging supplies	662,091	671,517
Totals	\$ 9,413,405	\$ 8,190,420

COFFEE HOLDING CO., INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

APRIL 30, 2011 AND 2010

NOTE 8 - COMMODITIES HELD AT BROKER:

The commodities held at the broker represent the market value of the Company's trading account, which consists of future contracts for coffee held with Morgan Stanley Smith Barney. The Company uses options and futures contracts, which are not designated or qualifying as hedging instruments, to partially hedge the effects of fluctuations in the price of green coffee beans. Options and futures contracts are marked to market based on market data of similar instruments that are in observable markets 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 acquires options and futures contracts primarily for the purpose of guaranteeing an adequate supply of green coffee. The Company has open position contracts held by the broker, which includes cash and commodities for futures and options summarized as follows:

	April 30, 2011 unaudited	October 31, 2010
Option Contracts	338,801	(323,002)
Future Contracts	(15,416)	598,501
Total Commodities	323,385	275,499

The Company classifies its options and future contracts as trading securities and accordingly, unrealized holding gains and losses are included in earnings.

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

COFFEE HOLDING CO., INC.
 NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
 APRIL 30, 2011 AND 2010

NOTE 8 - COMMODITIES (cont'd):

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 \$1.32 per pound. The fair market value of these options, which was obtained from observable market data of similar instruments was \$84,400 at April 30, 2010. At April 30, 2010, the Company held 88 futures contracts for the purchase of 3,300,000 pounds of green coffee at a weighted average price of \$1.31 per pound. The fair market value of coffee applicable to such contracts was \$1.35 per pound at that date.

Included in cost of sales for the three and six months ended April 30, 2011 and 2010, the Company recorded realized and unrealized gains and losses respectively, on these contracts as follows:

	Three Months Ended April 30, 2011	
	unaudited	2010 unaudited
Gross realized gains	\$1,017,311	\$ 251,096
Gross realized losses	(2,814)	(125,498)
Unrealized gains	202,323	300,975
Total	\$1,216,820	\$ 426,573
	Six Months Ended April 30, 2011	
	unaudited	2010 unaudited
Gross realized gains	\$1,852,571	\$ 652,015
Gross realized losses	(5,233)	(128,866)
Unrealized gains	47,886	38,103
Total	\$1,895,224	\$ 561,252

COFFEE HOLDING CO., INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
APRIL 30, 2011 AND 2010

NOTE 9 - LINE OF CREDIT:

On February 17, 2009, the Company entered into a financing agreement with Sterling National Bank (“Sterling”) for a \$5,000,000 credit facility. The credit facility is a revolving \$5,000,000 line of credit and the Company can draw on the line at an amount up to 85% of eligible accounts receivable and 25% of eligible inventory consisting of green coffee beans and finished coffee not to exceed \$1,000,000. Sterling 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 (5.00% and 4.25% at April 30, 2011 and April 30, 2010, respectively) 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 then current term. The credit facility is secured by all tangible and intangible assets of the Company.

The credit facility contains covenants that place annual restrictions on the Company’s operations, including covenants relating to debt restrictions, capital expenditures, minimum deposit restrictions, tangible net worth, net profit, leverage, employee loan restrictions, distribution restrictions (common stock and preferred stock), dividend restrictions, and restrictions on intercompany transactions. The credit facility also requires that the Company maintain a minimum working capital at all times. The Company was in compliance with all required financial covenants at April 30, 2011 and October 31, 2010. 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.

On July 22, 2010, the credit facility was increased to \$7,000,000. In addition, OPTCO was added as a co-borrower and the inventory sublimit was raised from \$1,000,000 to \$2,000,000. The term of the credit facility was extended to February 17, 2013. Subsequent to July 31, 2010, \$1,800,000 of the credit facility was allocated to OPTCO. Additionally, the Company received a guarantee of \$1,800,000 from the not-for-profit entity CORDAID.

CORDAID, a non-profit organization that supports development projects in developing countries, registered under the laws of the Netherlands, has agreed to make available \$1,800,000 to be used as collateral for a loan facility from Sterling to the Company under a Guarantee Agreement. The Company has agreed to pre-finance coffee from small coffee producer groups. The Company pays a guarantee fee of 1.5% per year in advance. In addition, the Company has a corporate guarantee as security to CORDAID as to the first loss guarantee of 25% of the outstanding amount of the guarantee from CORDAID, up to a maximum of \$350,000. The initial term of the Guarantee Agreement expired on March 31, 2011 and was extended to June 30, 2011 and reduced to \$1,500,000.

COFFEE HOLDING CO., INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
APRIL 30, 2011 AND 2010

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

As of April 30, 2011 and October 31, 2010, the outstanding balance under the bank line of credit was \$1,521,223 and \$2,306,749, respectively.

On July 23, 2010, the Company amended their credit facility regarding the payment of dividends by the Company. The credit facility agreement was changed to allow the payment of quarterly dividends of not more than \$0.03 per share.

Triodos Bank is one of the world's leading sustainable banks, with a mission to make money work for positive social, environmental and cultural change. Triodos has offices in the Netherlands, Germany, Spain, UK and Belgium.

Subsequent to April 30, 2011 the Company has initiated a corporate guarantee to Triodos Sustainable Trade Fund ("TSTF") up to a maximum amount of \$250,000. TSTF, provided financing to two coffee growing cooperatives for \$1,000,000 based upon relationships established with OPTCO.

NOTE 10 - INCOME TAXES:

The Company accounts for income taxes pursuant to the asset and liability method which requires deferred income tax assets and liabilities to be computed for temporary differences between the financial statement and tax basis of assets and liabilities that will result in taxable or deductible amounts in the future based on enacted tax laws and rates applicable to the periods in which the differences are expected to affect taxable income. Valuation allowances are established when necessary to reduce deferred tax assets to the amount expected to be realized. The income tax provision or benefit is the tax incurred for the period plus or minus the change during the period in deferred tax assets and liabilities.

The Company adopted FASB authoritative guidance for accounting for uncertainty in income taxes. As of April 30, 2011 and October 31, 2010, 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, 2011 and October 31, 2010, the Company had no accrued interest or penalties related to income taxes. The Company currently has no federal or state tax examinations in progress.

COFFEE HOLDING CO., INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
APRIL 30, 2011 AND 2010

NOTE 10 - INCOME TAXES (cont'd):

The Company files a U.S. federal income tax return and state income tax returns in California, Colorado, New Jersey, New York, Kansas, Texas and Oregon. The Company's federal income tax return is no longer subject to examination by the federal taxing authority for years prior to the fiscal year ended 2007. The Company's California, Colorado and New Jersey income tax returns are no longer subject to examination by their respective taxing authorities for the years prior to the fiscal year ended 2006. The Company's Oregon and New York income tax returns are no longer subject to examination by their respective taxing authorities for the years prior to the fiscal year ended 2007.

NOTE 11 - EARNINGS PER SHARE:

The Company presents "basic" and "diluted" earnings per common share pursuant to the provisions included in the authoritative guidance issued by FASB, "Earnings per Share" and certain other financial accounting pronouncements. Basic earnings per common share were computed by dividing net income by the sum of the weighted-average number of common shares outstanding. Diluted earnings per common share is computed by dividing the net income by the weighted-average number of common shares outstanding plus the dilutive effect of common shares issuable upon exercise of potential sources of dilution.

The weighted average common shares outstanding used in the computation of basic earnings per share were 5,490,823 and 5,440,823 at April 30, 2011 and 2010, respectively. The weighted average common shares outstanding used in the computation of diluted earnings per share were 5,500,823 and 5,440,823 for the three and six months ended April 30, 2011 and 2010, respectively. The additional 10,000 contingent shares as disclosed have been included in the diluted earnings per share calculation because of their dilutive impact.

NOTE 12 - ECONOMIC DEPENDENCY:

Approximately 53% of the Company's sales were derived from one customer during the six months ended April 30, 2011. This customer also accounted for approximately \$3,600,000 of the Company's accounts receivable balance at April 30, 2011. 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. 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, 2011, approximately 56% of the Company's purchases were from four vendors. These vendors accounted for approximately \$2,600,000 of the Company's accounts payable at April 30, 2011. 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. Management does not believe the loss of any one vendor would have a material adverse effect on the Company's operations due to the availability of many alternate suppliers.

COFFEE HOLDING CO., INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
APRIL 30, 2011 AND 2010

NOTE 12 - ECONOMIC DEPENDENCY (cont'd):

Approximately 59% of the Company's sales were derived from one customer during the three months ended April 30, 2011. This customer also accounted for approximately \$3,600,000 of the Company's accounts receivable balance at April 30, 2011. 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.

For the three months ended April 30, 2011, approximately 61% of the Company's purchases were from four vendors. These vendors accounted for approximately \$2,600,000 of the Company's accounts payable at April 30, 2011. 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. Management does not believe the loss of any one vendor would have a material adverse effect on the Company's operations due to the availability of many alternate suppliers.

NOTE 13 - RELATED PARTY TRANSACTIONS:

The Company has engaged its 40% partner in GCC as an outside contractor (the "Partner"). Included in contract labor expense are expenses incurred from the Partner during the three and six months ended April 30, 2011 and 2010 of \$178,677 and \$288,840, respectively for the processing of finished goods.

An employee of one of the top four vendors is a director of the Company. Purchases from that vendor totaled approximately \$11,675,000 and \$6,900,000 for the six and three months ended April 30, 2011 and \$11,645,000 and \$5,030,000 for the six and three months ended April 30, 2010. The corresponding accounts payable balance to this vendor was approximately \$770,000 and \$811,000 at April 30, 2011 and 2010, respectively.

In January 2005, the Company established the "Coffee Holding Co., Inc. Non-Qualified Deferred Compensation Plan." Currently, there is only one participant in the plan: Andrew Gordon, the Company's Chief Executive Officer. Within the plan guidelines, this employee is deferring a portion of his current salary and bonus. The assets are held in a separate trust. The deferred compensation payable represents the liability due to an officer of the Company. The assets are included in the Deposits and other assets in the accompanying balance sheets. Additional information related to the Company's deferred compensation plan is disclosed in Note 15 to the consolidated financial statements. The deferred compensation asset and liability at April 30, 2011 and October 31, 2010 were \$617,802 and \$540,642, respectively. Deferred compensation expenses included in officers' salaries were approximately \$0 for the three and six months ended April 30, 2011 and \$6,731 and \$13,462 during the three and six months ended April 30, 2010, respectively.

COFFEE HOLDING CO., INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

APRIL 30, 2011 AND 2010

NOTE 14 - STOCKHOLDERS' EQUITY:

a. Treasury Stock. The Company utilizes the cost method of accounting for treasury stock. The cost of reissued shares is determined under the last-in, first-out method. The Company did not purchase any shares during the three and six months ended April 30, 2011 and 2010.

b. Dividends: On May 2, 2011 and January 31, 2011, the Company paid a cash dividend of \$166,989 (\$0.03 per share) to all stockholders of record as of April 29, and January 17, 2011.

NOTE 15 - FAIR VALUE MEASUREMENTS:

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

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

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

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

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

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

COFFEE HOLDING CO., INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
APRIL 30, 2011 AND 2010

NOTE 15 - FAIR VALUE MEASUREMENTS (cont'd):

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

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

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

	Total	(Unaudited) Fair Value Measurements as of April 30, 2011		
		Level 1	Level 2	Level 3
Assets:				
Deferred compensation plan assets:				
Money market	\$274,863	\$274,863	–	–
Equities	342,939	342,939	–	–
Commodities – Futures	(15,416)	–	(15,416)	–
Commodities – Options	338,801	–	338,801	–
Total Assets	\$941,187	617,802	\$323,385	–
	Total	Fair Value Measurements as of October 31, 2010		
		Level 1	Level 2	Level 3
Assets:				
Deferred compensation plan assets:				
Money market	\$216,903	\$216,903	–	–
Equities	323,739	323,739	–	–
Commodities – Futures	\$598,501	–	\$598,501	–
Commodities – Options	(323,002)	–	(323,002)	–
Total Assets	\$816,141	540,642	\$275,499	–

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

Cautionary Note on Forward-Looking Statements

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

- 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 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 negative of such expressions). Any or all of our forward-looking statements in this quarterly report and in any other public statements we make may turn out to be wrong. They can be affected by inaccurate assumptions we might make or by known or unknown risks and uncertainties. Consequently, no forward-looking statement can be guaranteed. In addition, we undertake no responsibility to update any forward-looking statement to reflect events or circumstances that occur after the date of this quarterly report.

Overview

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

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

- the sale of wholesale specialty green coffee;
- the roasting, blending, packaging and sale of private label coffee; and
- the roasting, blending, packaging and sale of our seven brands of coffee.

Our operating results are affected by a number of factors including:

- the level of marketing and pricing competition from existing or new competitors in the coffee industry;
- our ability to retain existing customers and attract new customers;
- fluctuations in purchase prices and supply of green coffee and in the selling prices of our products; and
- our ability to manage inventory and fulfillment operations and maintain gross margins.

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

We closed our manufacturing operations at our Brooklyn, New York location in May 2009. The majority of our processing has been moved to our Colorado facility which enables our GCC facility in Brecksville, Ohio to be more involved with our everyday coffee production. We have leased office and warehouse space located in Staten Island, New York to house our corporate offices and serve as temporary storage for our branded product.

On May 17, 2010, we completed the acquisition of OPTCO for a purchase price consisting of: a) \$450,000 in cash on the Closing Date, b) an additional \$50,000 in cash if the Buyer generates a pre-tax net profit of \$300,000 or more within a certain period, which will be paid on or before June 15, 2011, c) 50,000 shares of Company common stock on the Closing Date (the "Common Stock Payment"), d) up to an additional 10,000 shares of Company common stock if the Buyer generates a pre-tax net profit of \$300,000 or more within certain periods, which payments of up to 5,000 shares each will be made on June 15, 2011 and June 15, 2012 (the "Supplemental Common Stock Payments"), and e) on the Closing Date, \$1,809,924.24, which amount was based on the cost of inventory transferred to the Buyer. Since the Buyer met the pre-tax net profit target, the Supplemental Common Stock Payment will be paid on June 15, 2011. All of the employees of the Seller became employees of the Buyer on the Closing Date and the Buyer entered into two-year employment agreements with each of the Seller's principals, Garth Smith and Gaylene Smith, to ensure continuity of the business. The Buyer will operate under the "Organic Products Trading Company" name from the Seller's Vancouver, Washington location.

In July 2007, we entered into a three-year licensing agreement with Entenmann's Products, Inc., a subsidiary of Entenmanns, Inc., (which was subsequently amended) which is one of the nation's oldest baking companies. The agreement gave us the exclusive rights to manufacture, market and distribute a full line of Entenmann's brand coffee products throughout the United States. As previously disclosed, the license agreement expired in March 2011. We are permitted to sell our remaining product through the end of June after which time we will dispose of any remaining packaging liability at our own cost.

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 counterparties to any futures contracts. If the hedges that we enter into do not adequately offset the risks of coffee bean price volatility or our hedges result in losses, our cost of sales may increase, resulting in a decrease in profitability.

Critical Accounting Policies and Estimates

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

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

We recognize revenue in accordance with the relevant authoritative guidance. Revenue is recognized at the point title and risk of ownership transfers to its customers which is upon the shippers taking possession of the goods because a) title passes in accordance with the terms of the purchase orders and with its agreements with its customers, b) any risk of loss is covered by the customers' insurance, c) there is persuasive evidence of a sales arrangement, d) the sales price is determinable and e) collection of the resulting receivable is reasonably assured. Thus, revenue is recognized at the point of shipment.

Our allowance for doubtful accounts is maintained to provide for losses arising from customers' inability to make required payments. If there is deterioration of our customers' credit worthiness and/or there is an increase in the length of time that the receivables are past due greater than the historical assumptions used, additional allowances may be required. For example, every additional one percent of our accounts receivable that becomes uncollectible, would decrease our operating income by approximately \$116,000 for the quarter ended April 30, 2011. The reserve for sales discounts represents the estimated discount that customers will take upon payment. The reserve for other allowances represents the estimated amount of returns, slotting fees and volume based discounts estimated to be incurred by the Company from its customers.

Inventories are stated at lower of cost (determined on a first-in, first-out basis) or market. Based on our assumptions about future demand and market conditions, inventories are subject to be written-down to market value. If our assumptions about future demand change and/or actual market conditions are less favorable than those projected, additional write-downs of inventories may be required. Each additional one percent of potential inventory writedown would have decreased operating income by approximately \$94,000 for the quarter ended April 30, 2011.

We account for income taxes in accordance with the relevant authoritative guidance. Deferred tax assets and liabilities are computed for temporary differences between the financial statement and tax basis of assets and liabilities that will result in taxable or deductible amounts in the future based on enacted tax rates in effect for the year in which the differences are expected to reverse. Deferred tax assets are reflected on the balance sheet when it is determined that it is more likely than not that the asset will be realized. Accordingly, our net deferred tax asset as of April 30, 2011 of \$395,500 may require a valuation allowance if we do not generate taxable income.

Our goodwill consists of the cost in excess of the fair market value of the acquired net assets of OPTCO. This company has been integrated into a structure which does not provide the basis for separate reporting units. Consequently, the Company is a single reporting unit for goodwill impairment testing purposes. We also have intangible assets consisting of customer list and customer relationships and trademarks acquired from OPTCO. At April 30, 2011, our balance sheet reflected goodwill and intangible assets as set forth below:

	April 30, 2011
Customer list and relationships, net	\$ 142,500
Trademarks	180,000
Goodwill	440,000
	\$ 762,500

Goodwill and the trademarks which are deemed to have indefinite lives are subject to annual impairment tests. Goodwill impairment tests require the comparison of the fair value and carrying value of reporting units. We assess the potential impairment of goodwill and intangible assets annually and on an interim basis whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Upon completion of such review, if impairment is found to have occurred, a corresponding charge will be recorded. The value assigned to the customer list and customer relationships is being amortized over a twenty year period.

Because the Company is a single reporting unit, the closing NASDAQ Capital Market price of our common stock as of the acquisition date was used as a basis to measure the fair value of goodwill. In addition, the Company retained a third party outside valuation firm to assist it in acquisition valuation as of May 17, 2010. Goodwill and the intangible assets will be tested annually at the end of each fiscal year to determine whether they have been impaired. Upon completion of each annual review, there can be no assurance that a material charge will not be recorded. Impairment testing is required more often than annually if an event or circumstance indicates that an impairment or decline in value may have occurred.

Three Months Ended April 30, 2011 Compared to the Three Months Ended April 30, 2010

Net Income. We had net income of \$1,187,957, or \$0.22 per share (basic and diluted), for the three months ended April 30, 2011 compared to net income of \$800,448 or \$0.15 per share (basic and diluted), for the three months ended April 30, 2010. The increase in net income primarily reflects increased gross profit.

Net Sales. Net sales totaled \$37,332,017 for the three months ended April 30, 2011, an increase of \$17,414,709, or 87%, from \$19,917,308 for the three months ended April 30, 2010. The increase in net sales reflects higher sales prices compared to the second quarter of fiscal 2010 as well as additional poundage sold due to the addition of our subsidiary, OPTCO, and growth in our green coffee customer base.

Cost of Sales. Cost of sales for the three months ended April 30, 2011 was \$33,732,594 or 90.3% of net sales, as compared to \$17,068,938 or 85.7% of net sales for the three months ended April 30, 2010. The increase in cost of sales reflects the increased cost of green coffee, the addition of our subsidiary, OPTCO, as well as a greater shift in the percentage of sales of green coffee from roasted coffee sales.

Gross Profit. Gross profit increased \$751,053 to \$3,599,423 for the three months ended April 30, 2011 as compared to gross profit of \$2,848,370 for the three months ended April 30, 2010. Gross profit as a percentage of net sales decreased by 4.7% for the three months ended April 30, 2011 as compared to gross profit as a percentage of net sales for the three months ended April 30, 2010. The decrease in our margins reflects the increased cost of sales as well as the shift to a higher percentage of sales from roasted to green coffee.

Operating Expenses. Total operating expenses increased by \$210,787, or 13.37%, to \$1,787,213 for the three months ended April 30, 2011 as compared to operating expenses of \$1,576,426 for the three months ended April 30, 2010. The increase in operating expenses was due to increases in selling and administrative expense due to a higher level of business during this period.

Other Expense. Other expenses increased by \$15,396 to \$55,279 for the three months ended April 30, 2011 compared to other expenses of \$39,883 for the three months ended April 30, 2010. Interest income increased by \$4,984 and interest expense increased \$20,380 for the three months ended April 30, 2011 compared to the three months ended April 30, 2010. The increase in interest income resulted from the increase in pre-finance agreements with the coffee growing cooperatives. 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 April 30, 2011 totaled \$568,996 compared to a provision of \$436,668 for the three months ended April 30, 2010. The increase reflects higher pre-tax income for the quarter.

Six Months Ended April 30, 2011 Compared to the Six Months Ended April 30, 2010

Net Income. We had net income of \$2,229,029, or \$0.41 per share (basic and diluted), for the six months ended April 30, 2011 compared to net income of \$1,358,426 or \$0.25 per share (basic and diluted), for the six months ended April 30, 2010. The increase in net income primarily reflects increased gross profit.

Net Sales. Net sales totaled \$62,973,110 for the six months ended April 30, 2011, an increase of \$21,696,651, or 52%, from \$41,276,459 for the six months ended April 30, 2010. The increase in net sales reflects higher sales prices compared to the second quarter of fiscal 2010 as well as additional poundage sold due to the addition of our subsidiary, OPTCO, as well as additional sales of green coffee to new customers.

Cost of Sales. Cost of sales for the six months ended April 30, 2011 was \$56,292,992 or 89.4% of net sales, as compared to \$35,790,325 or 86.7% of net sales for the six months ended April 30, 2010. The increase in cost of sales reflects the increased cost of green coffee, the addition of our subsidiary, OPTCO, as well as a greater percentage of sales of green coffee versus roasted coffee sales.

Gross Profit. Gross profit increased \$1,193,984 to \$6,680,118 for the six months ended April 30, 2011 as compared to gross profit of \$5,486,134 for the six months ended April 30, 2010. Gross profit as a percentage of net sales decreased by 2.7% for the six months ended April 30, 2011 as compared to gross profit as a percentage of net sales for the three months ended April 30, 2010. The decrease in our margins reflects the increased cost of sales.

Operating Expenses. Total operating expenses increased by \$309,733, or 9.78%, to \$3,475,067 for the six months ended April 30, 2011 as compared to operating expenses of \$3,165,334 for the six months ended April 30, 2010. The increase in operating expenses was due to increases in selling and administrative expense of \$279,733 and an increase in officers' salaries of \$30,000.

Other Expense. Other expenses decreased by \$84,650 to \$7,329 for the six months ended April 30, 2011 compared to other expenses of \$91,979 for the six months ended April 30, 2010. Interest income increased by \$108,680 and interest expense increased by \$24,030 for the six months ended April 30, 2011 compared to the six months ended April 30, 2010. The increase in interest income resulted from the increase in pre-finance agreements with the coffee growing cooperatives. 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, 2011 totaled \$958,656 compared to a provision of \$877,930 for the six months ended April 30, 2010. The increase reflects higher pre-tax income for the quarter.

Liquidity and Capital Resources

As of April 30, 2011, we had working capital of \$12,966,017 which represented a \$1,777,662 increase from our working capital of \$11,188,355 as of October 31, 2010, and total stockholders' equity of \$15,436,605 which increased by \$1,905,088 from our total stockholders' equity of \$13,531,517 as of October 31, 2010. Our working capital increased primarily due to an increase of \$235,706 in cash, \$2,772,887 in accounts receivable, \$1,222,985 in inventory and a decrease in our credit facility of \$785,526, partially offset by a decrease of \$906,539 in prepaid green coffee and an increase in accounts payable and accrued expenses of \$2,101,769. As of April 30, 2011, the outstanding balance on our line of credit was \$1,521,223 compared to \$2,306,749 as of October 31, 2010. Total stockholders' equity increased primarily due to an increase in retained earnings as a result of our net income for quarter, partially offset by the payment of our quarterly dividend.

For the six months ended April 30, 2011, our operating activities provided net cash of \$1,638,790 as compared to the six months ended April 30, 2010 when operating activities provided net cash of \$785,198. The increased cash flow from operations for the six months ended April 30, 2011 was primarily due to our increased net income of \$888,175, decreases in prepaid green coffee of \$906,539 and accounts payable and accrued expenses of \$2,110,769, partially offset by increases in accounts receivable of \$2,772,887.

For the six months ended April 30, 2011, our investing activities used net cash of \$283,580 as compared to the six months ended April 30, 2010 when net cash used by investing activities was \$142,360. The increase in our uses of cash in investing activities was primarily due to the purchase of equipment.

For the six months ended April 30, 2011, our financing activities used net cash of \$1,119,504 compared to the six months ended April 30, 2010 when net cash used in financing activities was \$791,628. The increase in cash flow from financing activities for the six months ended April 30, 2011 was primarily due to the reduced need for borrowing from our credit facility and by the payment of dividends of \$333,978 during the six months ended April 30, 2011.

Our credit facility with Sterling provides for a \$5,000,000 revolving line of credit and the Company can draw on the line at an amount up to 85% of eligible accounts receivable and 25% of eligible inventory consisting of green coffee beans and finished coffee not to exceed \$1,000,000. Sterling has the right to adjust the foregoing percentages based upon, among other things, dilution, its sole determination of the value or likelihood of collection of eligible accounts receivables owed to us, considerations regarding inventory. The credit facility is payable monthly in arrears on the average unpaid balance of the line of credit at an interest rate equal to a per annum reference rate (5.00% and 4.25% at April 30, 2011 and 2010, respectively) 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 then current term. The credit facility is secured by all of our tangible and intangible assets.

The credit facility contains covenants that place annual restrictions on our operations, including covenants relating to debt restrictions, capital expenditures, minimum deposit restrictions, tangible net worth, net profit, leverage, employee loan restrictions, distribution restrictions (common stock and preferred stock), dividend restrictions, and restrictions on intercompany transactions. The credit facility also requires that we maintain a minimum working capital at all times. 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.

On July 22, 2010, the credit facility was increased to \$7,000,000. In addition, OPTCO was added as a co-borrower and the inventory sublimit was raised from \$1,000,000 to \$2,000,000. The term of the credit facility was extended to February 17, 2013. Additionally, we received a limited credit guarantee of \$1,800,000 from the not-for-profit entity CORDAID that is available to be used as collateral for the loan facility to Sterling.

CORDAID, a non-profit organization that supports development projects in developing countries, registered under the laws of the Netherlands, agreed to make available \$1,800,000 to be used as collateral by OPTCO for a loan facility from Sterling to us pursuant to a Guarantee Agreement, whereby OPTCO agreed to pre-finance coffee from small coffee producer groups. We pay a guarantee fee of 1.5% per year in advance. The initial term of the Guarantee Agreement expired on March 31, 2011 and was extended to June 30, 2011. In connection with the extended term, the amount available under the Guarantee Agreement was reduced to \$1,500,000. In addition, we have a corporate guarantee as security to CORDAID as the first loss guarantee of 25% of the outstanding amount of the guarantee from CORDAID, up to a maximum of \$350,000.

Triodos Bank is one of the world's leading sustainable banks, with a mission to make money work for positive social, environmental and cultural change. Triodos has offices in the Netherlands, Germany, Spain, UK and Belgium.

Subsequent to April 30, 2011 the Company has initiated a corporate guarantee to Triodos Sustainable Trade Fund ("TSTF") up to a maximum amount of \$250,000. TSTF, provided financing to two coffee growing cooperatives for \$1,000,000 based upon relationships established with OPTCO.

On July 23, 2010, we amended our credit facility regarding the payment of dividends by us. The amendment permits us to make payments of quarterly dividends of not more than \$0.03 per share.

As of April 30, 2011, the outstanding balance under the bank line of credit was \$1,521,223. We were in compliance with all required financial covenants at April 30, 2011.

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 enabling our GCC facility in Brecksville, Ohio to be more involved with our everyday coffee production. We have leased office and warehouse space located in Staten Island, New York to house our corporate offices and serve as temporary storage for our branded product.

We expect to fund our operations, including paying our liabilities, funding capital expenditures and making required payments on our debts, through October 31, 2011 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.

Balance Sheet Arrangements

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

Recent Accounting Pronouncements

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

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market risks relating to our operations result primarily from changes in interest rates and commodity prices as further described below.

Interest Rate Risks. We are subject to market risk from exposure to fluctuations in interest rates. As of April 30, 2011, our debt consisted of \$1,521,223 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 8 of the 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.

As of April 30, 2011, we held 231 options covering an aggregate of 8,662,500 pounds of green coffee beans at \$2.87 per pound. As of April 30, 2010 the Company held 55 options covering an aggregate of 2,062,500 pounds of green coffee beans at \$1.32 per pound. As of April 30, 2011, the Company did not hold any future contracts. As of April 30, 2010, the Company held 88 futures contracts for the purchase of 3,300,000 pounds of green coffee at a weighted average price of \$1.31 per pound.

ITEM 4. CONTROLS AND PROCEDURES.

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

There have been no changes in our internal control over financial reporting identified in connection with the evaluation that occurred during our last fiscal quarter that has materially affected, or that is reasonably likely to materially affect, our internal control over financial reporting.

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS.

We are not a party to, and none of our property is the subject of, any pending legal proceedings other than routine litigation that is incidental to our business. To our knowledge, no governmental authority is contemplating initiating any such proceedings.

ITEM 1A. RISK FACTORS.

There were no material changes during the quarter ended April 30, 2011 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, 2010.

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

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES.

None.

ITEM 4 (Removed and Reserved).

Not Applicable.

ITEM 5. OTHER INFORMATION.

None.

ITEM 6. EXHIBITS.

- 10.1 Amendment, dated March 24, 2011 to the Guarantee Agreement, dated May 20, 2010, between CORDAID and Coffee Holding Co., Inc.
- 10.2 Letter of Guarantee, dated April 15, 2011, in favor of OPTCO.
- 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 9, 2011.

Coffee Holding Co., Inc.

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