

# SECURITIES & EXCHANGE COMMISSION EDGAR FILING

## COFFEE HOLDING CO INC

**Form: 10-K**

**Date Filed: 2020-01-29**

Corporate Issuer CIK: 1007019

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**Form 10-K**

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

**For the fiscal year ended October 31, 2019**

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)

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

Securities registered under Section 12(b) of the Act:

Title of each class:

**Common Stock, Par Value \$0.001 Per Share**

Trading Symbol

**JVA**

Name of each exchange on which registered:

**NASDAQ Capital Market**

Securities registered under Section 12(g) of the Exchange Act: **None**

Indicate by check mark if registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

Indicate by check mark if registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes  No

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 past 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 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 shorter period that the registrant was required to submit such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer

Non-accelerated filer

Accelerated filer

Smaller Reporting Company

Emerging Growth Company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

The aggregate market value of the common equity held by non-affiliates of the registrant, computed by reference to the closing price of the registrant's common stock on the NASDAQ Capital Market on April 30, 2019, was \$24,881,642.

As of January 20, 2020, the registrant had 5,569,349 shares of common stock, par value \$0.001 per share, outstanding.

**Documents incorporated by reference**

Portions of the registrant's proxy statement for the 2019 annual meeting of stockholders to be filed pursuant to Regulation 14A within 120 days after the registrant's fiscal year ended October 31, 2019, are incorporated by reference in Part III of this Form 10-K.



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## PART I

### ITEM 1. BUSINESS

#### General Overview

**Products and Operations.** We are an integrated wholesale coffee roaster and dealer in the United States. Our core products can be divided into three categories:

- **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 our own specifications and packaged and sold under our eight proprietary and licensed brand names in different segments of the market.

Our private label and branded coffee products are sold throughout the United States, Canada and certain countries in Asia to supermarkets, wholesalers, and individually owned and multi-unit retail customers. Our unprocessed green coffee, which includes over 90 specialty coffee offerings, is primarily sold to specialty gourmet roasters.

We conduct our operations in accordance with strict freshness and quality standards. All of our private label and branded coffees are produced from high quality coffee beans that are deep roasted for full flavor using a slow roasting process that has been perfected utilizing our more than 39 years of experience in the coffee industry. In order to ensure freshness, our products are delivered to our customers within 72 hours of roasting. We believe that our long history has enabled us to develop a loyal customer base.

In June 2016, we acquired substantially all of the assets of Coffee Kinetics LLC (doing business as Sonofresco) through our wholly-owned subsidiary Sonofresco, LLC ("Sonofresco" or "SONO"), including equipment, inventory, customer lists, relationships and accounts payable. In addition to our wholesale green coffee, private label coffee and branded coffee product offerings, we currently sell tabletop coffee roasting equipment to our customers through Sonofresco.

On April 24, 2018, pursuant to an Asset Purchase Agreement, by and among Generations Coffee Company, LLC ("GCC") the entity formed as a result of the Company's joint venture with Caruso's Coffee, Inc. and Steep & Brew, Inc. ("the Seller") a Wisconsin corporation and the stockholder of the Seller. GCC purchased substantially all the assets, including equipment, inventory, customer lists and relationships of the Seller.

On February 23, 2017, we purchased all the outstanding common stock of Comfort Foods, Inc. ("CFI"). CFI is a medium sized regional roaster, manufacturing both branded and private label coffee for retail and foodservice customers located predominantly in the northeast United States marketplace.

We were incorporated on October 9, 1995 under the laws of the State of Nevada under the name Transpacific International Group Corp ("Transpacific"). On April 16, 1998, Transpacific completed a merger with Coffee Holding Co., Inc., a New York corporation. Upon the consummation of the merger, Coffee Holding Co., Inc. was merged into Transpacific and Transpacific changed its name to Coffee Holding Co., Inc.

Our corporate offices are located at 3475 Victory Boulevard, Staten Island, New York 10314. Our telephone number is (718) 832-0800 and our website address is [www.coffeeholding.com](http://www.coffeeholding.com). The information on our website is not incorporated by reference into this Annual Report on Form 10-K.

## Our Competitive Strengths

To achieve our growth objectives described below, we intend to leverage the following competitive strengths:

**Positioned to Profitably Grow Through Varying Cycles of the Coffee Market.** We believe that we are one of the few coffee companies to offer a broad array of branded and private label roasted ground coffees and wholesale green coffee across the spectrum of consumer tastes, preferences and price points. While many of our competitors engage in distinct segments of the coffee business, we sell products in each of the following areas:

- Retail branded coffee;
- Mainstream retail private label coffee;
- Specialty retail coffees both private label and branded;
- Wholesale specialty green and gourmet whole bean coffees;
- Single cup coffee pods;
- Food service;
- Instant coffees;
- Tea; and
- Tabletop coffee roasting equipment.

Our branded and private label roasted ground coffees are sold at competitive and value price levels while some of our other branded and specialty coffees are sold predominantly at premium price levels. Premium price level coffee is high-quality gourmet coffee, such as AA Arabica coffee, which sell at a substantial premium over traditional retail canned coffee, while competitive and value price level coffee is mainstream or traditional canned coffee. Because of this diversification, we believe that our profitability is not dependent on any one area of the coffee industry and, therefore, is less sensitive than our competition to potential coffee commodity price and overall economic volatility.

**Wholesale Green Coffee Market Presence.** As a large roaster-dealer of green coffee, we believe that we are favorably positioned to increase our specialty coffee sales. Since 1998, we have increased the number of our wholesale green coffee customers, including coffee houses, single store operators, mall coffee stores and mail order sellers, by 739% from 150 to 1,259. We are a charter member of the Specialty Coffee Association of America and one of the largest distributors of Swiss Water Processed Decaffeinated Coffees and Datteral specialty Brazil coffees along the east coast of the United States. Our over 40 years of experience as a roaster and a dealer of green coffee allows us to provide our roasting experience as a value added service to our gourmet roaster customers. The assistance we provide to our customers includes training, coffee blending and market identification. We believe that our relationships with wholesale green coffee customers and our focus on selling green coffee as a wholesaler has enabled us to participate in the growth of the specialty coffee market while mitigating the risks associated with the competitive retail specialty coffee environment.

**Diverse Portfolio of Differentiated Branded Coffees.** We have amassed a portfolio of eight proprietary name brands sold to supermarkets, wholesalers and individually owned stores in the United States, including brands for specialty espresso, Latin espresso, Italian espresso, 100% Colombian coffee and blended and flavored coffees. In addition, we have entered into a licensing agreement with Del Monte Corporation for the exclusive right to use the S&W trademark in the United States and other countries approved by Del Monte Corporation in connection with the production, manufacture and sale of roasted whole bean and ground coffee for distribution to retail customers. Our existing portfolio of differentiated brands combined with our management expertise serve as a platform to add additional name brands through acquisition or licensing agreements which target product niches and segments that do not compete with our existing brands.

**Management Has Extensive Experience in the Coffee Industry.** We have been a family-operated business for three generations. Throughout this time, we have remained strong through varying cycles in the coffee industry and the economy. Andrew Gordon, our President, Chief Executive Officer, Chief Financial Officer and Treasurer, and David Gordon, our Executive Vice President – Operations, have worked with Coffee Holding for 37 and 39 years, respectively. David Gordon is an original member of the Specialty Coffee Association of America. We believe that our employees and management are dedicated to our vision and mission, which is to produce high quality products, as well as to provide quality and responsive service to our customers.

## **Our Growth Strategy**

We believe that significant growth opportunities exist by selectively pursuing strategic acquisitions and alliances, targeting the rapidly growing Latin market in the United States, increasing penetration with existing customers by adding new products, and developing our food service business. By capitalizing on this strategy, we hope to continue to grow our business with our commitment to quality and personalized service to our customers. We do not intend to compete on price alone nor do we intend to expand sales at the expense of profitability.

**Selectively Pursue Strategic Acquisitions and Alliances.** We have expanded our operations by acquiring coffee companies, entering into strategic alliances and acquiring or licensing brands, which complement our business objectives and we intend to continue to seek such opportunities.

**Grow Our Cafe Caribe and Cafe Supremo Products.** We believe the Latin population in the United States is the fastest growing and now represents the largest minority demographic in the United States. We believe there is significant opportunity for our Café Caribe and Café Supremo brands to gain market share among Latin consumers in the United States. Café Caribe, which has historically been our leading brand by poundage, is a specialty espresso coffee that targets espresso coffee drinkers and, in particular, Latin consumers. Café Supremo is a specialty espresso coffee which is priced for the more price sensitive Latin espresso coffee drinker.

**Further Market Penetration of Our Niche Products.** We intend to capture additional market share through our existing distribution channels by selectively adding or introducing new brand names and products across multiple price points, including:

- New licensing agreements;
- Specialty blends and foodservice opportunities;
- Teton tea;
- Cold brew; and
- Sales of our tabletop coffee roasting equipment.

## Our Core Products

Our core products can be divided into three categories:

- **Wholesale Green Coffee:** unroasted raw beans imported from around the world and sold to large, medium 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 our own specifications and packaged and sold under our eight proprietary and licensed brand names in different segments of the market.

**Wholesale Green Coffee.** The specialty coffee market represents the fastest growing area of our industry. The number of gourmet coffee houses have been increasing in all areas of the United States. The growth in specialty coffee sales has created a marketplace for higher quality and differentiated products, which can be priced at a premium in the marketplace. As a large roaster-dealer of green coffee, we are favorably positioned to increase our specialty coffee sales. We sell green coffee beans to small roasters and coffee shop operators located throughout the United States and carry over approximately 90 different varieties. Specialty green coffee beans are sold unroasted, direct from warehouses to small roasters and gourmet coffee shop operators, which then roast the beans themselves. We sell from as little as one bag (132 pounds) to a full truckload (44,000 pounds) of specialty green coffee beans, depending on the size and need of the customer. We believe that we can increase sales of wholesale green coffee without an increase in infrastructure as well as without venturing into the highly competitive retail specialty coffee environment. We believe that by utilizing our current strategy we can be as profitable or more profitable than our competitors in this segment by selling “one bag at a time” rather than “one cup at a time.”

**Private Label Coffee.** We roast, blend, package and sell coffee under private labels for companies throughout the United States and Canada. Our private label coffee is sold in cans, brick packages and instants in a variety of sizes. As of October 31, 2019, we supplied coffee under approximately 19 different labels to wholesalers and retailers. We produce private label coffee for customers who desire to sell coffee under their own name but do not want to engage in the manufacturing process. Our private label customers seek a quality similar to the national brands at a lower cost, which represents a better value for the consumer.

**Branded Coffee.** We roast and blend our branded coffee according to our own recipes and package the coffee at our facilities in La Junta, Colorado, North Andover, Massachusetts and Brecksville, Ohio. We then sell the packaged coffee under our brand labels to supermarkets, wholesalers and individually-owned stores throughout the United States.

We hold trademarks for each of our proprietary name brands and have the exclusive right to use the S&W, IL CLASSICO brand names in the United States in connection with the production, manufacture and sale of roasted whole bean and ground coffee for distribution at the retail level. For further information regarding our trademark rights, see “Business—Trademarks.”

Each of our name brands is directed at a particular segment of the coffee market. Our branded coffees are:

**Cafe Caribe**, a specialty espresso coffee that targets espresso coffee drinkers and, in particular, the Latin consumer market;



**Don Manuel**, is produced from the finest 100% Colombian coffee beans. Don Manuel is an upscale quality product which commands a substantial premium compared to the more traditional brown coffee blends. We also use this known trademark in our food service business because of the high brand quality;

**S&W**, an upscale canned coffee established in 1921 and includes Premium, Premium Decaf, French Roast, Colombian, Colombian Decaf, Swiss Water Decaf, Kona, Mellow'd Roast and IL CLASSICO lines;

**Cafe Supremo**, a specialty espresso that targets espresso drinkers of all backgrounds and tastes. It is designed to introduce coffee drinkers to the tastes of dark roasted coffee;

**Via Roma**, an Italian espresso targeted at the more traditional espresso drinker;

**Premier Roasters**, a line of high quality retail and foodservice products packed in composite cans and poly bags and single serve;

**Harmony Bay**, an upscale line of both flavored beans and bags incorporating an array of unique flavors including hazelnut and winterspice;

**Steep and Brew**, a premium line of specialty coffees with over 30 years brand recognition. These coffees are comprised of Single Origin, Blended and Flavored coffees sold throughout the upper Midwest region of the United States in bulk whole bean, whole bean and ground bags and single serve format compatible with most single serve brewers; and

**Café Fair**, one of the most certified lines of coffee on the market. These coffees are Fair Trade Organic coffees with additional certifications including Kosher, Rainforest Alliance, and Certified Bird Friendly. These coffees are available in bag, bulk whole bean and single serve.

#### **Other Products**

We also offer several niche products, including:

- tea;
- cold brew; and
- table-top coffee roasters.

#### **Raw Materials**

Coffee is a commodity traded on the Commodities and Futures Exchange subject to price fluctuations. Over the past five years, the average price per pound of coffee beans ranged from approximately \$0.92 to \$2.25. The price for coffee beans on the commodities market as of October 31, 2019 and 2018 was \$1.02 and \$1.12 per pound, respectively. Specialty green coffee, unlike most coffee, is not tied directly to the commodities cash markets. Instead, it tends to trade on a negotiated basis at a substantial premium over commodity coffee pricing, depending on the origin, supply and demand at the time of purchase. We are a licensed Fair Trade dealer for Fair Trade certified coffee. Fair Trade certified coffee helps small coffee farmers to increase their incomes and improve the prospects of their communities and families by guaranteeing farmers a minimum price of ten cents above the current market price. Our Ohio Facility operated by Generations Coffee Company, LLC ("GCC") is certified organic by the Organic Crop Improvement Association (OCIA). All of our specialty green coffees, as well as all of the other coffees we import for roasting, are subject to multiple levels of quality control.

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. For the fiscal years ended 2019 and 2018, approximately 26% of all of our green coffee purchases were from five suppliers. One of these suppliers, Rothfos Corporation, accounted for approximately \$8.3 million, or 12%, in 2019, and \$9.1 million, or 13%, in 2018, of our total product purchases. An employee of Rothfos Corporation is one of our directors. We do not have any formalized, material agreements or long-term contracts with any of these suppliers. Rather, our purchases are typically made pursuant to individual purchase orders. We do not believe that the loss of any one supplier, including Rothfos, would have a material adverse effect on our operations due to the availability of alternate suppliers.

The supply and price of coffee beans are subject to volatility and are influenced by numerous factors which are beyond our control. Supply and price can be affected by factors such as weather, politics, currency fluctuations and economics within the countries that export coffee. Increases in the cost of coffee beans can, to a certain extent, be passed on to our customers in the form of higher prices for coffee beans and processed coffee. Drastic or prolonged increases in coffee prices may also adversely impact our business as it could lead to a decline in overall consumption of coffee. Similarly, rapid decreases in the cost of coffee beans may force us to lower our sale prices before realizing cost reductions in our purchases.

We subject all of our private unroasted green coffee to both a pre-shipment sample approval and an additional sample approval upon arrival into the United States. Once the arrival sample is approved, we then bring the coffee to one of our facilities to roast and blend according to our own strict specifications. During the roasting and blending process, samples are pulled off the production line and tested on an hourly basis to ensure that each batch roasted is consistent with the others and meets the strict quality standards demanded by our customers and us.

#### **Our Use of Derivatives**

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, and intend to continue to use in a limited capacity, short-term coffee futures and options contracts primarily for the purpose of partially hedging the effects of changing green coffee prices and to reduce our costs of sales, as further explained in Note 2 of the Notes to the Consolidated Financial Statements in this Report. In addition, we acquired, and expect to continue to acquire, futures contracts with longer terms, generally three to four months, primarily for the purpose of guaranteeing an adequate supply of green coffee. Realized and unrealized gains or losses on options and futures contracts are reflected in our cost of sales. Gains on options and futures contracts reduce our cost of sales and losses on options and futures contracts increase our cost of sales. The use of these derivative financial instruments has generally enabled us to mitigate the effect of changing prices. We believe that, in normal economic times, our hedging policies remain a vital element of our business model not only in controlling our cost of sales, but also giving us the flexibility to obtain the inventory necessary to continue to grow our sales while trying to minimize margin compression during a time of high coffee prices. However, no strategy can entirely eliminate pricing risks and we generally remain exposed to losses on futures contracts when prices decline significantly in a short period of time, and we would generally remain exposed to supply risk in the event of non-performance by the counterparties in any one of our physical contracts. Although we have had net gains on options and futures contracts in the past, we have incurred significant losses on options and futures contracts during some reporting periods. In these cases, our cost of sales has increased, resulting in a decrease in our profitability or increase our losses. Such losses have and could in the future materially increase our cost of sales and materially decrease our profitability and adversely affect our stock price. See "Item 1A – Risk Factors - If our hedging policy is not effective, we may not be able to control our coffee costs, we may be forced to pay greater than market value for green coffee and our profitability may be reduced." Failure to properly design and implement an effective hedging strategy may materially adversely affect our business and operating results. If the hedges that we enter do not adequately offset the risks of coffee bean price volatility or our hedges result in losses, our cost of sales may increase, resulting in a decrease in profitability or increased losses. As previously announced, as a result of the volatile nature of the commodities markets, we have and are continuing to scale back our use of hedging and short-term trading of coffee futures and options contracts, and intend to continue to use these practices in a limited capacity going forward. See "Quantitative and Qualitative Disclosures About Market Risk—Commodity Price Risks."

## Trademarks and Tradename

We hold trademarks, registered with the United States Patent and Trademark Office, for all eight of our proprietary coffee brands and an exclusive license for S&W, IL CLASSICO brands for sale in the United States. Trademark registrations are subject to periodic renewal and we anticipate maintaining our registrations. We believe that our brands are recognizable in the marketplace and that brand recognition is important to the success of our branded coffee business.

## Customers

We sell our private label and our branded coffee to some of the largest retail and wholesale customers in the United States (according to *Supermarket News*).

Although our agreements with wholesale customers generally contain only pricing terms, our contracts with certain customers also contain minimum and maximum purchase obligations at fixed prices. Because our profits on a fixed-price contract could decline if coffee prices increased, 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 generally enabled us to mitigate the effect of changing prices, no strategy can entirely eliminate pricing risks or increased losses and we generally remain exposed to losses on futures contracts when prices decline significantly in a short period of time, and we would generally remain exposed to supply risk in the event of non-performance by the counterparties to any futures contracts. See "Our Use of Derivatives."

## Marketing

We market our private label and wholesale coffee through trade shows, industry publications, face-to-face contact and through the use of our internal sales force and non-exclusive independent food and beverage sales brokers. We also use our web site ([www.coffeeholding.com](http://www.coffeeholding.com)) as a method of marketing our coffee products and ourselves.

For our private label and branded coffees, we will, from time to time in conjunction with retailers and with wholesalers, conduct in-store promotions, such as product demonstrations, coupons, price reductions, two-for-one sales and new product launches to capture changing consumer taste preferences for upscale canned, bagged and single cup coffees.

We evaluate opportunities for growth consistent with our business objectives. In addition, we have established relationships with independent sales brokers to market our products across the United States, in areas of the country where we have not had a high penetration of sales and Canada. We utilize our in-house sales personnel to market our private label brands. We intend to capture additional market share in our existing distribution channels by selectively adding or introducing new brand names and products across multiple price points, including niche specialty blends, private label "value" blends and tea and our own brands, filter packages, and peripheral products.

## Charitable Activities

We are also a supporter of several coffee-oriented charitable organizations and during fiscal 2019 and 2018, we donated approximately \$42,000 and \$51,000, respectively, to charities.

- For over 20 years, we have been members of Coffee Kids, an international non-profit organization that helps to improve the quality of life of children and their families in coffee-growing communities in Mexico, Guatemala, Nicaragua and Costa Rica.

- We are members of Grounds for Health, an organization that educates, screens, and arranges treatment for women who have cancer and live in the rural coffee growing communities of Mexico.
- We are a licensed Fair Trade dealer of Fair Trade certified coffee. Fair Trade certified coffee helps small coffee farmers to increase their incomes and improve the prospects of their communities and families. It guarantees farmers a minimum price of \$1.40 per pound or fifteen cents above the current market price.
- We are the administrative benefactors to a non-profit organization called Cup for Education. After discovering the lack of schools, teachers, and basic fundamental learning supplies in the poor coffee growing communities of Central and Latin America, “Cup” was established by our employee, Karen Gordon, to help build schools, sponsor teachers, and purchase basic supplies such as books, chalk and other necessities for a proper education.

## Competition

The coffee market is highly competitive. We compete in the following areas:

**Wholesale Green Coffee.** There are many green coffee dealers throughout the United States. Many of these dealers have greater financial resources than we do. However, we believe that we have both the knowledge and the capability to assist small specialty gourmet coffee roasters with developing and growing their businesses. Our over 40 years of experience as a roaster and a dealer of green coffee allows us to provide our roasting experience as a value added service to our gourmet roaster customers. While other coffee merchants may be able to offer lower prices for coffee beans, we market ourselves as a value-added supplier to small roasters, with the ability to help them market their specialty coffee products and develop a customer base. The assistance we provide our customers includes training, coffee blending and market identification. Because specialty green coffee beans are sold unroasted to small coffee shops and roasters that market their products to local gourmet customers, we do not believe that our specialty green coffee customers compete with our private label or branded coffee lines of business. We believe that the addition of Organic Products Trading Company, LLC (“OPTCO”), Sonofresco, CFI and Steep & Brew as well as our external green coffee salespeople allows us to compete more effectively throughout the country and Canada.

**Private Label Competition.** There are several major producers of coffee for private label sales in the United States. Many other companies produce coffee for sale on a regional basis. Our main competitor is the Massimo Zanetti Beverage Company. The Massimo Zanetti Beverage Company is larger and has more financial and other resources than we do and, therefore, is able to devote more resources to product development and marketing. We believe that we remain competitive by providing a higher level of quality and customer service. This service includes ensuring that the coffee produced for each label maintains a consistent taste and is delivered on time and in the proper quantities.

**Branded Competition.** Our proprietary brand coffees compete with many other brands that are sold in supermarkets and specialty stores, primarily in the Northeastern United States. The branded coffee market in both the Northeast and elsewhere is dominated by three large companies: Kraft Foods, Inc. (owner of the Maxwell House brand), J.M. Smucker Co. (owner of the Folgers and Café Bustelo brands) and Massimo Zanetti Beverage Group which also markets specialty coffee in addition to non-specialty coffee. Our large competitors have greater access to capital and a greater ability to conduct marketing and promotions. We believe that, while our competitors’ brands may be more nationally recognizable, our Café Caribe and Café Supremo brands are competitive in the fast growing Latin demographic and our S&W brand has been a popular and recognizable brand on the west coast for over 80 years.

## Government Regulation

Our coffee roasting operations are subject to various governmental laws and regulations, which require us to obtain licenses relating to customs, health and safety, building and land use and environmental protection. Our roasting facility is subject to state and local air-quality and emissions regulation. If we encounter difficulties in obtaining any necessary licenses or if we have difficulty complying with these laws and regulations, then we could be subject to fines and penalties, which could have a material adverse effect on our profitability. In addition, our product offerings could be limited, thereby reducing our revenues.

We believe that we are in compliance in all material respects with all such laws and regulations and that we have obtained all material licenses and permits that are required for the operation of our business. We are not aware of any environmental regulations that have or that we believe will have a material adverse effect on our operations.

## Employees

We have 79 full-time employees. None of our employees are represented by unions or collective bargaining agreements. Our management believes that we maintain good working relationships with our employees. To supplement our internal sales staff, we sometimes engage independent national and regional sales brokers as independent contractors who work on a commission basis.

## ITEM 1A. RISK FACTORS

An investment in our common stock is subject to risks inherent in our business. Before making an investment decision, you should carefully consider the risks and uncertainties described below together with all of the other information included in this report. In addition to the risks and uncertainties described below, other risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially and adversely affect our business, financial condition and results of operations. The value or market price of our common stock could decline due to any of these identified or other risks, and you could lose all of your investment.

### Risks affecting our Company

***Because our business is highly dependent upon a single commodity, coffee, any decrease in demand for coffee could materially adversely affect our revenues and profitability.*** Our business is centered on essentially one commodity: coffee. Our operations have primarily focused on the following areas of the coffee industry:

- the roasting, blending, packaging and distribution of private label coffee;
- the roasting, blending, packaging and distribution of proprietary branded coffee; and
- the sale of wholesale specialty green coffee.

Demand for our products is affected by:

- consumer tastes and preferences;
- global economic conditions;
- demographic trends; and
- the type, number and location of competing products.

Because we rely on a single commodity, any decrease in demand for coffee would harm our business more than if we had more diversified product offerings and could materially adversely affect our revenues and operating results.

***If we are unable to geographically expand our branded and private label products, our growth will be impeded which could result in reduced sales and profitability.*** Our business strategy emphasizes, among other things, geographic expansion of our branded and private label products as opportunities arise. We may not be able to implement successfully this portion of our business strategy. Our ability to implement this portion of our business strategy is dependent on our ability to:

- market our products on a national scale;
- increase our brand recognition on a national scale;
- enter into distribution and other strategic arrangements with third party retailers; and
- manage growth in administrative overhead and distribution costs likely to result from the planned expansion of our distribution channels.

Our sales and profitability may be adversely affected if we fail to successfully expand the geographic distribution of our branded and private label products. In addition, our expenses could increase and our profits could decrease as we implement our growth strategy.

***If our hedging policy is not effective, we may not be able to control our coffee costs, we may be forced to pay greater than market value for green coffee and our profitability may be reduced.*** The supply and price of coffee beans are subject to volatility and are influenced by numerous factors which are beyond our control. We have used and expect to continue to use to a lesser extent short-term coffee futures and options contracts for the purpose of hedging the effects of changing green coffee prices. In addition, we have acquired and expect to continue to acquire to a lesser extent futures contracts with longer terms, generally three to four months, for the purpose of guaranteeing an adequate supply of green coffee. Realized and unrealized gains or losses on options and futures contracts are reflected in our cost of sales. Gains on options and futures contracts reduce our cost of sales and losses on options and futures contracts increase our cost of sales.

The use of these derivative financial instruments has generally enabled us to mitigate the effect of changing prices. However, no strategy can entirely eliminate pricing risks and we generally remain exposed to losses on futures contracts when prices decline significantly in a short period of time, and we would generally remain exposed to supply risk in the event of non-performance by the counterparties in any one of our physical contracts. Historically, we generally have been able to pass green coffee price increases through to customers, thereby maintaining our gross profits, however, we may not be able to pass price increases through to our customers in the future. Failure to properly design and implement an effective hedging strategy may materially adversely affect our business and operating results. If the hedges that we enter do not adequately offset the risks of coffee bean price volatility or our hedging results in losses, our cost of sales may increase, resulting in a decrease in profitability or an increase in losses. Although we have had net gains on options and futures contracts in the past, we have incurred losses on options and futures contracts during some reporting periods. In these cases, our cost of sales has increased, resulting in a decrease in our profitability or an increase in losses. Such losses have and could in the future materially increase our cost of sales and materially decrease our profitability or increase losses and adversely affect our stock price.

***Any inability to successfully implement our strategy of growth through selective acquisitions, licensing arrangements and other strategic alliances, including joint ventures, could materially affect our revenues and profitability.*** Part of our growth strategy utilizes the selective acquisition of coffee companies, the selective acquisition or licensing of additional coffee brands and other strategic alliances including joint ventures, presents risks that could result in increased expenditures and could materially adversely affect our revenues and profitability, including:

- such acquisitions, licensing arrangements or other strategic alliances may divert our management's attention from our existing operations;
- we may not be able to successfully integrate any acquired coffee companies or new coffee brands into our existing business;
- we may not be able to manage the contingent risks associated with the past operations of, and other unanticipated problems arising in, any acquired coffee company; and
- we may not be able to control unanticipated costs associated with such acquisitions, licensing arrangements or strategic alliances.

In addition, any such acquisitions, licensing arrangements or strategic alliances may result in:

- potentially dilutive issuances of our equity securities;
- the incurrence of additional debt
- restructuring charges; and
- the recognition of significant charges for depreciation and amortization related to intangible assets.

As has been our practice in the past, we will continuously evaluate any such acquisitions, licensing opportunities or strategic alliances as they arise. However, we have not reached any new agreements or arrangements with respect to any such acquisition, licensing opportunity or strategic alliance (other than those described herein) at this time and we may not be able to consummate any acquisitions, licensing arrangements or strategic alliances on terms favorable to us or at all. The failure to consummate any such acquisitions, licensing arrangements or strategic alliances may reduce our growth and expansion. In addition, if these acquisitions, licensing opportunities or strategic alliances are not successful, our earnings could be materially adversely affected by increased expenses and decreased revenues.

***Our revenues and profitability could be adversely affected if our joint ventures or acquisitions are not successful.*** We have historically utilized joint ventures and acquisitions to grow our business and we intend to continue to seek opportunities for new joint ventures and acquisitions that will be complimentary to our business. While we believe that our joint ventures will be successful, losses in our joint ventures or any future joint ventures would hurt our profitability. In addition, we generally will not be in a position to exercise sole decision-making authority regarding our joint ventures. Investments in joint ventures may under certain circumstances, involve risks not present when a third party is not involved, including the possibility that joint venture partners might become bankrupt or fail to fund their share of the required capital contributions. Joint venture partners may have business interests, strategies or goals that are inconsistent with our business interests, strategies or goals and may be, in cases where we have a minority interest, in a position to take actions contrary to our policies, strategies or objectives. Any disputes that may arise between us and our joint venture partners may result in litigation or arbitration that could increase our expenses and could prevent our officers and/or directors from focusing their time and effort exclusively on our business strategies. In addition, we may in certain circumstances be liable for the actions of our third-party joint venture partners.

Acquisitions including strategic investments or alliances entail numerous risks, which may include:

- difficulties in integrating acquired operations or products, including the loss of key employees from, or customers of, acquired businesses;
- diversion of management's attention from our existing businesses;
- adverse effects on existing business relationships with suppliers and customers;
- adverse impacts of margin and product cost structures different from those of our current mix of business; and
- risks of entering distribution channels, categories or markets in which we have limited or no prior experience.

Our failure to successfully complete the integration of any acquired business, and any adverse consequences associated with our acquisition activities, could have a material adverse effect on our business, financial condition and operating results.

***The loss of any of our key customers, could negatively affect our revenues and decrease our earnings.*** No one customer accounted for greater than 10% of our net sales during our 2019 fiscal year. We generally do not enter long-term contracts with most of our customers, but we do enter into one and two year agreements with most our key customers on our private label business. Accordingly, some of our customers can stop purchasing our products at any time without penalty and are free to purchase products from our competitors. The loss of, or reduction in sales to any of our other customers to which we sell a significant amount of our products or any material adverse change in the financial condition of such customers would negatively affect our revenues and decrease our earnings.

***If we lose our key personnel, including Andrew Gordon and David Gordon, our revenues and profitability could suffer.*** Our success depends to a large degree upon the services of Andrew Gordon, our President, Chief Executive Officer, Chief Financial Officer and Treasurer, and David Gordon, our Executive Vice President – Operations and Secretary. We also depend to a large degree on the expertise of our coffee roasters. We do not have employment contracts with our coffee roasters. Our ability to source and purchase a sufficient supply of high quality coffee beans and to roast coffee beans consistent with our quality standards could suffer if we lose the services of any of these individuals. As a result, our business and operating results would be adversely affected. We may not be successful in obtaining and retaining a replacement for either Andrew Gordon or David Gordon if they elect to stop working for us. In addition, we do not have key-person insurance on the lives of Andrew Gordon or David Gordon.



***Our indebtedness may adversely affect our ability to obtain additional funds and may increase our vulnerability to economic or business downturns.*** From time to time, we utilize borrowings under our credit facility in connection with operations. Outstanding debt could have important negative consequences to the holders of our securities, including the following:

- general domestic and global economic conditions;
- a portion of our cash flow from operations will be needed to pay debt service and will not be available to fund future operations;
- we have increased vulnerability to adverse general economic and coffee industry conditions;
- we may be vulnerable to higher interest rates because interest expense on borrowings under our revolving line of credit is based on variable rates; and
- we may be subject to covenants that could restrict our operations.

Our ability to make payments on our indebtedness and to fund our operations depends on our ability to generate cash in the future. Our future operating performance is subject to market conditions and business factors that are beyond our control. If we are unable to make payments on our debt, we may have to reduce or delay capital expenditures, sell assets, seek additional capital or restructure or refinance our debt.

Our 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. There can be no assurance that we will be in compliance with all covenants in the future or that we will be able to modify the terms of the credit facility should that become necessary. Failure to comply with any of these covenants and restrictions would result in an event of default under the loan agreement.

***Any inability to renew, extend or replace our credit facility on terms favorable to us, or at all, could adversely impact our liquidity and ability to fund our business.*** The maturity date of our credit facility is March 31, 2020 and if our credit facility is not renewed or extended by that date, all principal and interest will be due and payable. There can be no guarantee that we will be able to renew, extend or replace our credit facility upon its maturity date on terms that are favorable to us, if at all. Our ability to renew our credit facility, or to obtain replacement financing at or before the credit facility's expiration date, will be constrained by then-current economic conditions affecting the credit markets. Any inability to renew, extend or replace our credit facility by its maturity date, could have a material adverse effect on our liquidity and ability to fund our business.

***If we fail to promote, enhance and maintain our brands, the value of our brands could decrease and our revenues and profitability could be adversely affected.*** We believe that promoting and enhancing our brands is critical to our success. If our brand-building strategy is unsuccessful, these expenses may never be recovered, and we may be unable to increase awareness of our brands or protect the value of our brands. If we are unable to achieve these goals, our revenues and ability to implement our business strategy could be adversely affected.

Our success in promoting and enhancing our brands will also depend on our ability to provide customers with high quality products and service. Although we take measures to ensure that we sell only fresh roasted coffee, we have no control over our roasted coffee products once they are purchased by our customers. Accordingly, wholesale customers may store our coffee for longer periods of time or resell our coffee without our consent, in each case, potentially affecting the quality of the coffee prepared from our products. Although we believe we are less susceptible to quality control problems than many of our competitors because our products are processed in-house under strict quality control guidelines which have been in place for more than 40 years, if consumers do not perceive our products and service to be of high quality, then the value of our brands may be diminished and, consequently, our operating results and ability to implement our business strategy may be adversely affected.

***Our roasting methods are not proprietary, so competitors may be able to duplicate them, which could harm our competitive position. If our competitive position is weakened, our revenues and profitability could be materially adversely affected.*** We consider our roasting methods essential to the flavor and richness of our roasted coffee and, therefore, essential to our brands of coffee. Because we do not hold any patents for our roasting methods, it may be difficult for us to prevent competitors from copying our roasting methods if such methods become known. If our competitors copy our roasting methods, the value of our coffee brands may be diminished, and we may lose customers to our competitors. In addition, competitors may be able to develop roasting methods that are more advanced than our roasting methods, which may also harm our competitive position.

The success of our brand also depends in part on our intellectual property. We rely on a combination of trademarks, copyrights, service marks, trade secrets and similar rights to protect our intellectual property. The success of our growth strategy depends on our continued ability to use our existing trademarks and service marks in order to increase brand awareness and further develop our brand in both domestic and international markets. If our efforts to protect our intellectual property are not adequate, or if any third party misappropriates or infringes on our intellectual property, the value of our brand may be harmed, which could have a material adverse effect on our business. We may become engaged in litigation to protect our intellectual property, which could result in substantial costs to us as well as diversion of management attention.

***Since we rely heavily on common carriers to ship our coffee on a daily basis, any disruption in their services or increase in shipping costs could adversely affect our relationship with our customers, which could result in reduced revenues, increased operating expenses, a loss of customers or reduced profitability.*** We rely on a number of common carriers to deliver coffee to our customers and to deliver coffee beans to us. We have no control over these common carriers and the services provided by them may be interrupted as a result of labor shortages, contract disputes and other factors. If we experience an interruption in these services, we may be unable to ship our coffee in a timely manner, which could reduce our revenues and adversely affect our relationship with our customers. In addition, a delay in shipping could require us to contract with alternative, and possibly more expensive, common carriers and could cause orders to be cancelled or receipt of goods to be refused. Any significant increase in shipping costs could lower our profit margins or force us to raise prices, which could cause our revenue and profits to suffer.

***If there was a significant interruption in the operation of our Colorado, Ohio or Massachusetts facilities, we may not have the capacity to service all of our customers and we may not be able to service our customers in a timely manner, thereby reducing our revenues and earnings.*** We are dependent on the continued operations of our Colorado, Ohio and Massachusetts coffee roasting and distribution facilities. Our ability to maintain our computer and telecommunications equipment in effective working order and to protect against damage from fire, natural disaster, power loss, telecommunications failure or similar events. In addition, growth of our customer base may strain or exceed the capacity of our systems and lead to degradations in performance or systems failure. Although we continually review and consider upgrades to our order fulfillment infrastructure and provide for system redundancies to limit the likelihood of systems overload or failure, substantial damage to our systems or a systems failure that causes interruptions for a number of days could adversely affect our business. Additionally, if we are unsuccessful in updating and expanding our order fulfillment infrastructure, our ability to grow may be constrained. As a result, our revenues and earnings could be materially adversely affected.

#### **Risks related to the coffee industry**

***Increases in the cost of high quality Arabica or Robusta coffee beans could reduce our gross margin and profit.*** Green coffee is our largest single cost of sales. Coffee is a traded commodity and, in general, its price can fluctuate depending on:

- outside speculative influences such as indexed and algorithmic commodity funds;
- weather patterns in coffee-producing countries;
- economic and political conditions affecting coffee-producing countries, including acts of terrorism in such countries;
- foreign currency fluctuations; and
- trade regulations and restrictions between coffee-producing countries and the United States.

If the cost of wholesale green coffee increases due to any of these factors, our margins could decrease and our profitability could suffer accordingly. It is expected that coffee prices will remain volatile in the coming years. Although we have historically attempted to raise the selling prices of our products in response to increases in the price of wholesale green coffee, when wholesale green coffee prices increase rapidly or to significantly higher than normal levels, we are not always able to pass the price increases through to our customers on a timely basis, if at all, which adversely affects our operating margins and cash flow. We may not be able to recover any future increases in the cost of wholesale green coffee. Even if we are able to recover future increases, our operating margins and results of operations may still be materially and adversely affected by time delays in the implementation of price increases.

***Disruptions in the supply of green coffee could result in a deterioration of our relationship with our customers, decreased revenues or could impair our ability to grow our business.*** Green coffee is a commodity and its supply is subject to volatility beyond our control. Supply is affected by many factors in the coffee growing countries including weather, pest damage, economic conditions, acts of terrorism, as well as efforts by coffee growers to expand or form cartels or associations. In addition, the political situation in many of the Arabica coffee growing regions, including Africa, Indonesia, and Central and South America, can be unstable, and such instability could affect our ability to purchase coffee from those regions. If Arabica coffee beans from a region become unavailable or prohibitively expensive, we could be forced to discontinue particular coffee types and blends or substitute coffee beans from other regions in our blends. Frequent substitutions and changes in our coffee product lines could lead to cost increases, customer alienation and fluctuations in our gross margins.

Some of the Arabica coffee beans of the quality we purchase do not trade directly on the commodity markets. Rather, we purchase the high-end Arabica coffee beans that we use on a negotiated basis. We depend on our relationships with coffee brokers, exporters and growers for the supply of our primary raw material, high quality Arabica coffee beans. If any of our relationships with coffee brokers, exporters or growers deteriorate, we may be unable to procure a sufficient quantity of high quality coffee beans at prices acceptable to us or at all. In such case, we may not be able to fulfill the demand of our existing customers, supply new retail stores or expand other channels of distribution. A raw material shortage could result in a deterioration of our relationship with our customers, decreased revenues or could impair our ability to expand our business.

***The coffee industry is highly competitive and if we cannot compete successfully, we may lose our customers or experience reduced sales and profitability.*** The coffee markets in which we do business are highly competitive and competition in these markets could become increasingly more intense due to the increasing popularity and growth of the coffee industry. The industry in which we compete is particularly sensitive to price pressure, as well as quality, reputation and viability for wholesale and brand loyalty for retail. To the extent that one or more of our competitors becomes more successful with respect to any key competitive factor, our ability to attract and retain customers could be materially adversely affected. Our private label and branded coffee products compete with other manufacturers of private label coffee and branded coffees. These competitors, such as Kraft Foods, Inc. (owner of the Maxwell House brand), J.M. Smucker Co. (owner of the Folgers and Café Bustelo brands), and Massimo Zanetti Beverage Group, have much greater financial, marketing, distribution, management and other resources than we do for marketing, promotions and geographic and market expansion. In addition, there are a growing number of specialty coffee companies who provide specialty green coffee and roasted coffee for retail sale. If we are unable to compete successfully against existing and new competitors, we may lose our customers or experience reduced sales and profitability.

***Besides coffee, we face exposure to other commodity cost fluctuations, which could impair our profitability.*** In addition to the increase in coffee costs discussed in the risk factor above, we are exposed to cost fluctuation in other commodities, including, in particular, steel, natural gas and gasoline. In addition, an increase in the cost of fuel could indirectly lead to higher electricity costs, transportation costs and other commodity costs. Much like coffee costs, the costs of these commodities depend on various factors beyond our control, including economic and political conditions, foreign currency fluctuations, and global weather patterns. To the extent we are unable to pass along such costs to our customers through price increases, our margins and profitability will decrease.

***Adverse public or medical opinion about caffeine may harm our business.*** Coffee contains caffeine and other active compounds, the health effects of some of which are not fully understood. A number of research studies conclude or suggest that excessive consumption of caffeine may lead to increased heart rate, nausea and vomiting, restlessness and anxiety, depression, headaches, tremors, sleeplessness and other adverse health effects. An unfavorable report on the health effects of caffeine or other compounds present in coffee could significantly reduce the demand for coffee, which could harm our business and reduce our sales and profits. In addition, we could become subject to litigation relating to the existence of such compounds in our coffee; litigation that could be costly and could divert management attention.

## Risks related to our common stock

***Our operating results may fluctuate significantly, which makes our results of operations difficult to predict and could cause our results of operations to fall short of expectations.*** Our operating results may fluctuate from quarter to quarter and year to year as a result of a number of factors, many of which are outside of our control. These fluctuations could be caused by a number of factors including:

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

As a result of the foregoing, period-to-period comparisons of our operating results may not necessarily be meaningful and those comparisons should not be relied upon as indicators of future performance. Accordingly, our operating results in future quarters may be below market expectations. In this event, the price of our common stock may decline.

***The Gordon family has the ability to influence action requiring stockholder approval.*** Members of the Gordon family, including Andrew Gordon, our President, Chief Executive Officer, Chief Financial Officer and Treasurer, and David Gordon, our Executive Vice President and Secretary, own, in the aggregate, approximately 15.6% of our outstanding shares of common stock. As a result, the Gordon family is able to influence the actions that require stockholder approval, including:

- the election of a majority of our directors;
- the amendment of our charter documents; and
- the approval of mergers, sales of assets or other corporate transactions or matters submitted for stockholder approval.

As a result, our other stockholders may have reduced influence over matters submitted for stockholder approval. In addition, the Gordon family's influence could preclude any unsolicited acquisition of us and consequently materially adversely affect the price of our common stock.

***The market price of our common stock has been volatile over the year and may continue to be volatile.*** The market price and trading volume of our common stock has been volatile over the past year and it may continue to be volatile. Over the past year, our common stock has traded as low as \$3.53 and as high as \$7.79 per share. We cannot predict the price at which our common stock will trade in the future and it may decline. The price at which our common stock trades may fluctuate significantly and may be influenced by many factors, including our financial results, developments generally affecting the coffee industry, general economic, industry and market conditions, the depth and liquidity of the market for our common stock, fluctuations in coffee prices, investor perceptions of our business, reports by industry analysts, negative announcements by our customers, competitors or suppliers regarding their own performances, and the impact of other "Risk Factors" discussed in this Annual Report.

*Provisions in our articles of incorporation, bylaws and of Nevada law have anti-takeover effects that could prevent a change in control that could be beneficial to our stockholders, which could depress the market price of shares of our common stock.* Our articles of incorporation, bylaws and Nevada corporate law contain provisions that could delay, defer or prevent a change in control of us or our management that could be beneficial to our stockholders. These provisions could also discourage proxy contests and make it more difficult for our stockholders to elect directors and take other corporate actions. These provisions might also discourage a potential acquisition proposal or tender offer, even if the acquisition proposal or tender offer is at a price above the then current market price for shares of our common stock. These provisions:

- provide that directors may only be removed upon a vote of at least eighty percent of the shares outstanding;
- establish advance notice requirements for nominating directors and proposing matters to be voted on by shareholders at shareholder meetings;
- limit the right of our stockholders to call a special meeting of stockholders;
- authorize our board of directors to issue preferred stock and to determine the rights and preferences of those shares, which would be senior to our common stock, without prior stockholder approval;
- require amendments to our articles of incorporation to be approved by the holders of at least eighty percent of our outstanding shares of common stock;
- a classified board of directors with three-year staggered terms, which may delay the ability of stockholders to change the membership of a majority of our board of directors; and
- provide a prohibition on stockholder action by written consent, thereby only permitting stockholder action to be taken at an annual or special meeting of our stockholders.

We are also subject to certain anti-takeover provisions under Nevada law. Under Nevada law, a corporation may not, in general, engage in a business combination with any "interested stockholder" for two (2) years after the date the person first became an interested stockholder, unless the combination meets all of the requirements of our articles of incorporation and (i) the purchase of shares by the interested stockholder is approved by our board of directors before that date or (ii) the combination is approved by our board of directors and, at or after that time, the combination is approved at an annual or special meeting of our stockholders, and not by written consent, by the affirmative vote of the holders of stock representing at least sixty percent (60%) of our outstanding voting power not beneficially owned by the interested stockholder or the affiliates or associates of the interested stockholder.

#### **ITEM 1B. UNRESOLVED STAFF COMMENTS**

Not applicable.

#### **ITEM 2. PROPERTIES**

We are headquartered at 3475 Victory Boulevard, Staten Island, New York, where we lease office and warehouse space. We pay annual rent of \$129,420 under the terms of the lease, which expires on October 31, 2023.

We lease a 50,000 square foot facility located at 27700 Frontage Road in La Junta, Colorado from the City of La Junta. We pay annual rent of \$100,093 under the terms of the lease, which expires in January 2024.

We lease production, warehouse and office space in North Arlington, MA. We pay annual rent of \$168,288 under the terms of a lease, which expires in May 2028.

We lease production, warehouse and office space in Madison, WI. For Steep & Brew, through our joint venture with "GCC". We pay annual rent of \$114,660 under the terms of a lease, which expires in September 2024.

We also use a variety of independent, bonded commercial warehouses to store our green coffee beans. Our management believes that our facilities are adequate for our current operations and for our contemplated operations in the foreseeable future.

#### **ITEM 3. 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.

#### **ITEM 4. MINE SAFETY DISCLOSURES**

Not applicable.

**PART II**

**ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES**

Our common stock trades on the NASDAQ Capital Market under the symbol "JVA." We do not currently pay cash dividends on our common stock. Our board of directors approved a dividend program under which we intended to pay a dividend of 30% of our net profits for our fiscal year ending October 31, 2019 to shareholders of record as of October 31, 2019. However, we did not have net profits for our fiscal year ending October 31, 2019, and therefore no dividend will be paid. Our board of directors does not have any intention of paying a dividend in the future.

As of January 20, 2020, we had 169 holders of record.

**ITEM 6. SELECTED FINANCIAL DATA**

The following table sets forth selected financial data for the last five years from the consolidated financial statements of Coffee Holding Co., Inc. The following information is only a summary, and you should read it in conjunction with our consolidated financial statements and notes beginning on page F-1.

	<b>For the Years Ended October 31,</b>				
	<b>2019</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>
	<b>(Dollars in thousands, except per share data)</b>				
<b>Income Statement Data:</b>					
Net sales	\$ 86,467	\$ 90,655	\$ 77,128	\$ 78,948	\$ 118,154
Cost of sales	70,708	75,041	64,978	67,066	112,437
Gross profit	15,759	15,614	12,150	11,882	5,717
Operating expenses	15,219	13,213	10,927	8,019	7,654
Income (loss) from operations	540	2,401	1,223	3,863	(1,937)
Other income (expense)	(247)	(362)	(246)	(147)	(156)
Income (loss) before income taxes	293	2,039	977	3,716	(2,093)
Provision (benefit) for income taxes	29	505	244	1,366	(764)
Minority interest	(359)	(468)	(266)	(138)	(84)
Net (loss) income	\$ (95)	\$ 1,066	\$ 467	\$ 2,212	\$ (1,413)
Net (loss) income per share – Basic & Diluted	\$ (0.02)	\$ 0.19	\$ 0.08	\$ 0.36	\$ (0.23)
<b>At October 31,</b>					
	<b>2019</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>
	<b>(Dollars in thousands, except per shares data)</b>				
<b>Balance Sheet Data:</b>					
Total assets	\$ 39,687	\$ 38,834	\$ 40,132	\$ 37,023	\$ 35,274
Short-term debt	7,168	6,330	8,408	6,958	5,554
Total liabilities	12,956	12,844	14,408	11,910	10,856
Stockholders' equity	26,731	25,990	25,591	25,113	24,418
Book value per share	\$ 4.80	\$ 4.67	\$ 4.41	\$ 4.28	\$ 3.96
<b>At October 31,</b>					
	<b>2019</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>
<b>Per Common Share Data:</b>					
Basic & Diluted EPS	\$ (.02)	\$ .19	\$ .08	\$ .36	\$ (.23)
Cash dividends declared	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0

## ITEM 7. 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 Operation," "Business," "Risk Factors" and elsewhere in this annual 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-K and management's expectations and projections about future events, including, among other things:

- our dependency on a single commodity could affect our revenues and profitability;
- our success in expanding our market presence in new geographic regions;
- the effectiveness of our hedging policy may impact our profitability;
- the success of our joint ventures;
- our success in implementing our business strategy or introducing new products;
- our ability to attract and retain customers;
- our ability to obtain additional financing;
- our ability to comply with the restrictive covenants we are subject to under our current financing;
- the effects of competition from other coffee manufacturers and other beverage alternatives;
- the impact to the operations of our Colorado facility;
- general economic conditions and conditions which affect the market for coffee;
- the macro global economic environment;
- our ability to maintain and develop our brand recognition;
- the impact of rapid or persistent fluctuations in the price of coffee beans;
- fluctuations in the supply of coffee beans;
- the volatility of our common stock; 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," "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 annual 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 annual 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;
- the roasting, blending, packaging and sale of our eight brands of coffee; and
- sales of our tabletop coffee roasting equipment.

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;
- our hedging policy;
- 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, and will continue to evaluate, strategic decisions to invest in measures that are expected to increase net sales. These transactions include our acquisition of Premier Roasters, LLC, including equipment and a roasting facility in La Junta, Colorado, the addition of a west coast sales manager to increase sales of our private label and branded coffees to new customers, our joint venture with Caruso's Coffee, Inc. of Brecksville, Ohio, the transaction with OPTCO. On June 29, 2016, we purchased substantially all the assets, including equipment, inventory, customer lists and relationships of Coffee Kinetics, LLC. A Washington limited liability company. On June 29, 2016, we purchased through SONO, substantially all the assets, including equipment, inventory, customer list and relationships of Coffee Kinetics, LLC, a Washington limited liability company. On February 24, 2017, we acquired 100% of the capital stock of Comfort Foods, Inc. ("CFI"), a Massachusetts based medium sized coffee roaster, manufacturing both branded and private label coffee for retail and foodservice customers. In April 2018, Generations Coffee Company, the entity formed as a result of our joint venture with Caruso's Coffee, Inc., purchased substantially all the assets of Steep & Brew, Inc. We believe these efforts will allow us to expand our business.

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, irrespective of sales volume.

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, and intend to continue to use in a limited capacity, short-term coffee futures and options contracts primarily for the purpose of partially hedging the effects of changing green coffee prices, as further explained in Note 2 of the Notes to the Consolidated Financial Statements in this Report. In addition, we acquired, and expect to continue to acquire, futures contracts with longer terms, generally three to four months, primarily for the purpose of guaranteeing an adequate supply of green coffee. Realized and unrealized gains or losses on options and futures contracts are reflected in our cost of sales. Gains on options and futures contracts reduce our cost of sales and losses on options and futures contracts increase our cost of sales. The use of these derivative financial instruments has generally enabled us to mitigate the effect of changing prices. We believe that, in normal economic times, our hedging policies remain a vital element to our business model not only in controlling our cost of sales, but also giving us the flexibility to obtain the inventory necessary to continue to grow our sales while trying to minimize margin compression during a time of historically high coffee prices. However, no strategy can entirely eliminate pricing risks and we generally remain exposed to losses on futures contracts when prices decline significantly in a short period of time, and we would generally remain exposed to supply risk in the event of non-performance by the counterparties to any of our futures contracts. Although we have had net gains on options and futures contracts in the past, we have incurred significant losses on options and futures contracts during some recent reporting periods. In these cases, our cost of sales has increased, resulting in a decrease in our profitability or increase our losses. Such losses have and could in the future materially increase our cost of sales and materially decrease our profitability and adversely affect our stock price. See "Item 1A – Risk Factors - If our hedging policy is not effective, we may not be able to control our coffee costs, we may be forced to pay greater than market value for green coffee and our profitability may be reduced." Failure to properly design and implement an effective hedging strategy may materially adversely affect our business and operating results. If the hedges that we enter do not adequately offset the risks of coffee bean price volatility or our hedges result in losses, our cost of sales may increase, resulting in a decrease in profitability or increased losses. As previously announced, as a result of the volatile nature of the commodities markets, we have and are continuing to scale back our use of hedging and short-term trading of coffee futures and options contracts, and intend to continue to use these practices in a limited capacity going forward.



## 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, business combinations, carrying amounts of intangible assets and goodwill, deferred taxes, income taxes, commodities held 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:

- The Company recognizes revenue in accordance with the five-step model as prescribed by ASU 606 in which the Company evaluates the transfer of promised goods or services and recognizes revenue when its customer obtains control of promised goods or services in an amount that reflects the consideration which the Company expects to be entitled to receive in exchange for those goods or services. To determine revenue recognition for the arrangements that the Company determines are within the scope of ASU 606, the Company performs the following five steps: (1) identify the contract(s) with a customer, (2) identify the performance obligations in the contract, (3) determine the transaction price, (4) allocate the transaction price to the performance obligations in the contract and (5) recognize revenue when (or as) the entity satisfies a performance obligation. See Note 11 for revenue disaggregated by product line.
- 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 \$94,000 for the year ended October 31, 2019. 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 us from our 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 write-down would have decreased operating income by approximately \$188,000 for the year ended October 31, 2019.
- The commodities held at broker represent the market value of the Company's trading account, which consists of option and futures contracts for coffee held with a brokerage firm. We use options and futures contracts, which are not designated or qualifying as hedging instruments, to partially hedge the effects of fluctuations in the price of green coffee beans. Options and futures contracts are recognized at fair value in the consolidated financial statements with current recognition of gains and losses on such positions. We classify options and futures contracts as trading securities and accordingly, unrealized holding gains and losses are included in earnings. We record realized and unrealized gains and losses in our cost of sales in the statement of operations/income.
- 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.

- Our goodwill consists of the cost in excess of the fair market value of the acquired net assets of OPTCO, SONO, CFI and Steep & Brew, through GCC, which has been integrated into a structure that does not provide the basis for separate reporting units. Consequently, we are a single reporting unit for goodwill impairment testing purposes. We also have intangible assets consisting of our customer lists and relationships and trademarks acquired from OPTCO and SONO. At October 31, 2019 our balance sheet reflected goodwill and intangible assets as set forth below:

	<b>October 31, 2019</b>
Customer list and relationships, net	\$ 533,373
Non-compete, net	69,300
Goodwill	2,488,785
Trademarks and tradenames	1,488,000
	<u>\$ 4,579,458</u>

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 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. 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.

#### **Year Ended October 31, 2019 (Fiscal Year 2019) Compared to the Year Ended October 31, 2018 (Fiscal Year 2018)**

**Net Sales.** Net sales totaled \$86,467,432 for the fiscal year ended October 31, 2019, a decrease of \$4,187,862, or 4.6%, from \$90,655,294 for the fiscal year ended October 31, 2018. The decrease in net sales reflects the lower selling price of coffee during the year due to the continued depressed price of the green coffee market.

**Cost of Sales.** Cost of sales for the fiscal year ended October 31, 2019 was \$70,708,100, or 81.8% of net sales, as compared to \$75,040,802, or 82.8% of net sales, for the fiscal year ended October 31, 2018. Cost of sales consists primarily of the cost of green coffee and packaging materials and realized and unrealized gains or losses on hedging activity. The decrease in cost of sales was due to our decreased sales.

**Gross Profit.** Gross profit for the fiscal year ended October 31, 2019 was \$15,759,332, an increase of \$144,840 from \$15,614,492 for the fiscal year ended October 31, 2018. Gross profit as a percentage of net sales increased to 18.2% for the fiscal year ended October 31, 2019 from 17.2% for the fiscal year ended October 31, 2018. The increase in gross profits resulted from a reduction in coffee prices.

**Operating Expenses.** Total operating expenses increased by \$2,005,474 to \$15,218,803 for the fiscal year ended October 31, 2019 from \$13,213,329 for the fiscal year ended October 31, 2018. Selling and administrative expenses increased \$1,972,378, or 15.7%, to \$14,504,707 for the fiscal year ended October 31, 2019 from \$12,532,329 for the fiscal year ended October 31, 2018. The primary reasons for this increase was the reflection of a full year of Steep & Brew for fiscal year ended October 31, 2019 as compared to a half year for fiscal year ended October 31, 2018 which accounted for \$1,836,803 and the increase in our freight costs as we increased and expanded our product distribution partially offset by our continued efforts to reduce overhead. Officers' salary increased by \$33,096 or 4.9% to \$714,096 for the fiscal year ended October 31, 2019 from \$681,000 for the fiscal year ended October 31, 2018.

**Other Income (Expense).** Other expense for the fiscal year ended October 31, 2019 was \$247,315, a decrease of \$114,910 from \$362,225 for the fiscal year ended October 31, 2018. The decrease in other expense was attributable to a decrease in interest expense of \$116,113, a decrease in interest income of \$2,301 and a decrease in our loss from our equity investments of \$1,098, during the fiscal year ended October 31, 2019.

**Income (Loss) Before provision for income Taxes and Non-controlling Interest in Subsidiary.** We had income of \$293,214 before income taxes and non-controlling interest in subsidiary for the fiscal year ended October 31, 2019 compared to income of \$2,038,938 for the fiscal year ended October 31, 2018, resulting in a net change of \$1,745,724 for the year ended October 31, 2019. The decrease was primarily attributable to the reasons described above.

**Income Taxes.** Our provision for income taxes for the fiscal year ended October 31, 2019 totaled \$29,208 compared to a provision of \$511,532 for the fiscal year ended October 31, 2018. The change was attributable to the difference in the income for the year ended October 31, 2019 versus fiscal year ended October 31, 2018.

**Net (Loss) Income.** We had a net loss of \$94,598 or \$0.02 per share basic and diluted, for the fiscal year ended October 31, 2019 compared to a net income of \$1,059,276, or \$0.19 per share basic and diluted for the fiscal year ended October 31, 2018. The decrease in net income was due primarily to the reasons described above.

### **Liquidity and Capital Resources**

As of October 31, 2019, we had working capital of \$20,227,944, which represented a \$656,458 increase from our working capital of \$19,571,486 as of October 31, 2018, and total stockholders' equity of \$25,264,077 which increased by \$382,301 from our total stockholders' equity of \$24,881,776 as of October 31, 2018. Our working capital increased primarily due to increases of \$3,570,119 in inventory, 8,765 in prepaid expenses and other current assets, \$2,728 in prepaid and refundable income taxes, a decrease of \$489,533 in accounts payable and accrued expenses, \$1,405 in income taxes payable, a decrease in due to broker of \$123,077, partially offset by decreases of \$2,208,828 in cash, decreases of \$492,870 in accounts receivable, increases in our short term borrowing of \$837,471. As of October 31, 2019, the outstanding balance on our line of credit was \$7,167,740 compared to \$6,260,014 as of October 31, 2018. Total stockholders' equity increased due to our option issuance partially offset by our net loss.

On April 25, 2017, we and OPTCO (collectively referred to herein as the "Borrowers") entered into an Amended and Restated Loan and Security Agreement (the "A&R Loan Agreement") with Sterling, which consolidated the Company Financing Agreement and the OPTCO Financing Agreement.

Pursuant to the A&R Loan Agreement, the terms of each of the Company Financing Agreement and the OPTCO Financing Agreement were amended and restated to, among other things: (i) provide for a new Maturity Date of February 28, 2018; (ii) consolidate the principal amounts of the Company Financing Agreement and the OPTCO Financing Agreement to provide for a maximum principal amount limit of \$12,000,000 for the Borrowers, collectively, *provided that* OPTCO is limited to a \$3,000,000 maximum principal amount sublimit; (iii) expand the borrowing base to include, along with 85% of eligible accounts receivable, up to the lesser of \$2,000,000 as to the Company and \$1,500,000 as to OPTCO; (iv) effective March 1, 2017, converted the interest rate on the average unpaid balance of the A&R Loan Facility from an interest rate per annum equal to the Wall Street Journal Prime Rate to an interest rate per annum equal to the sum of the LIBOR rate plus 2.4%; (v) require the Company and OPTCO to pay, collectively, upon the occurrence of certain termination events, a prepayment premium of 1.0% (as opposed to the 0.5% under the OPTCO Financing Agreement) of the maximum amount of the A&R Loan Facility in effect as of the date of the termination event; (vi) eliminate the over advance fee; and (vii) establish a Letter of Credit Facility (as defined in the A&R Loan Agreement) with a maximum obligation amount of \$1,000,000, and subject to other terms and conditions described therein. Also on April 25, 2017, SONO and CFI (collectively referred to herein as the "Guarantors"), entered into a Guaranty Agreement (the "Guaranty Agreement") in connection with the A&R Loan Agreement. The Guaranty Agreement was provided as an inducement to Sterling to extend credit to Borrowers in exchange for the Guarantors' unconditional guarantee of the payment and performance obligations of the Borrowers under the Loan Agreement, as further defined in the Guaranty Agreement.

On March 23, 2018, we entered into a new loan modification agreement and credit facility with Sterling. The terms of the new agreement among other things: (i) provides for a new maturity date of March 31, 2020; (ii) increases the maximum principal amount to \$14,000,000; and (iii) decreases the interest rate per annum to LIBOR plus 2 percent.

The Company had net income of \$264,006 before non controlling interest in subsidiary and had negative cash flows from operating activities of approximately \$2.1 million for the year ended October 31, 2019. Our working capital amounted to \$20,227,944 at October 31, 2019, which includes approximately \$2,400,000 (\$2,700,000 at January 27, 2020) of cash and cash equivalents and an increased level of inventory purchased at reduced prices, which management believes is a significant source of near term liquidity. We also have outstanding bank borrowings of \$7,167,740 (approximately \$5,200,000 at January 27, 2020) under a line of credit that matures on March 31, 2010. We are currently engaged in discussions with several lenders to either renew or extend the line of credit prior to its expiration; however, no agreement has yet been reached to extend or renew the facility at this time. Management believes that we have substantial excess working capital and the ability to manage expenditures in the near-term to ensure that there is sufficient liquidity available to repay the loan at its stated maturity date in the event of non-renewal. This plan could include deferring certain discretionary spending, extending the payment dates of certain trade liabilities that we have traditionally paid in thirty days or less and taking advantage of the availability of inventory that was sourced at favorable prices. We further believe that should the loan be repaid in the event of a non-renewal, there is substantial liquidity available to fund operations through the remainder of the twelve month period following the issuance date of the financial statements.

There can be no guarantee that we will be able to renew, extend or replace our credit facility with Sterling upon its maturity date on terms that are favorable to us, if at all. Our ability to renew our credit facility, or to obtain replacement financing at or before the credit facility's expiration date, will be constrained by then-current economic conditions affecting the credit markets. Any inability to renew, extend or replace our credit facility by its maturity date, could have a material adverse effect on our liquidity and ability to fund our business.

Each of the A&R Loan Facility and A&R Loan Agreement contains covenants, subject to certain exceptions, that place annual restrictions on the Borrowers' operations, including covenants relating to debt restrictions, capital expenditures, indebtedness, minimum deposit restrictions, tangible net worth, net profit, leverage, employee loan restrictions, dividend and repurchase restrictions (common stock and preferred stock), and restrictions on intercompany transactions.

The A&R Loan Facility also requires that we maintain a minimum working capital at all times, and the A&R Loan Agreement requires that the Borrowers, on a consolidated basis, maintain a minimum working capital at all times and achieve a minimum net profit amount as of fiscal year end during the term of the A&R Loan Agreement.

Each of the A&R Loan Facility and the A&R Loan Agreement is secured by all tangible and intangible assets of the Company. Other than as amended and restated by the A&R Loan Agreement, the Company Financing Agreement and the OPTCO Financing Agreement remains in full force and effect.

As of October 31, 2019 and October 31, 2018, the outstanding balance under the bank line of credit was \$7,167,740 and \$6,260,014, respectively.

For the fiscal year ended October 31, 2019, our operating activities used net cash of \$2,302,889 as compared to the fiscal year ended October 31, 2018 when operating activities provided net cash of \$8,693,403. The decreased cash flow from operations for the fiscal year ended October 31, 2019 was primarily due to our net income, accounts receivable, inventories and accounts payable and accrued expenses.

For the fiscal year ended October 31, 2019, our investing activities used net cash of \$743,410 as compared to the fiscal year ended October 31, 2018 when net cash used by investing activities was \$3,060,851. The decrease in our uses of cash in investing activities was due to our decreased outlays for business purchases, partially offset by our increased purchases of machinery and equipment during the fiscal year ended October 31, 2019.

For the fiscal year ended October 31, 2019, our financing activities provided net cash of \$837,471 compared to net cash used in financing activities of \$3,346,818 for the fiscal year ended October 31, 2018. The change in cash flow from financing activities for the fiscal year ended October 31, 2019 was due to our decreased purchases of treasury stock and our decreased principal reductions on our line of credit.

We expect to fund our operations, including paying our liabilities, funding capital expenditures and making required payments on our indebtedness, through October 31, 2020 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.

#### **Off-Balance Sheet Arrangements**

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

#### **ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

Not applicable.

#### **ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**

See pages F-1 through F-21 following the Exhibit Index of this Annual Report on Form 10-K.

#### **ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE**

None.

## ITEM 9A. CONTROLS AND PROCEDURES

**Evaluation of Disclosure Controls and Procedures.** Management, which includes 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, our President, Chief Executive Officer and Chief Financial Officer concluded that the disclosure controls and procedures were not effective and we have a material weakness related to the accounting for stock-based compensation awards. Despite the existence of the material weakness, we believe the financial information presented herein is materially correct and fairly presents the financial position and operating results of the fiscal year ended October 31, 2019 in accordance with U.S. GAAP.

**Management Report on Internal Control Over Financial Reporting.** Management is responsible for establishing and maintaining adequate internal control over financial reporting. Our internal control system is a process designed to provide reasonable assurance to our management and Board of Directors regarding the preparation and fair presentation of published financial statements.

Our internal control over financial reporting includes policies and procedures that pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect transactions and dispositions of assets, provide reasonable assurances that transactions are recorded as necessary to permit preparation of financial statements in accordance with U.S. GAAP, and that receipts and expenditures are being made only in accordance with authorizations of our management and the directors, and provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on our financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Our management assessed the effectiveness of its internal control over financial reporting as of October 31, 2019. In making this assessment, management used the criteria set forth by the 2013 Committee of Sponsoring Organizations of the Treadway Commission in Internal Control-Integrated Framework. Based upon the assessment, our management concluded that our internal control over financial reporting was not effective as of October 31, 2019 and we have a material weakness related to the accounting for stock-based compensation awards. A material weakness is a control deficiency or combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis.

### **Remediation Plan for the Material Weakness**

To remediate the material weakness identified above, we are initiating controls and procedures in order to:

- Reinforce the importance of a strong control environment, to emphasize the technical requirements for controls that are designed, implemented and operating effectively and to set the appropriate expectations on internal controls through establishing the related policies and procedures; and
- Review the processes for documenting and alerting key personnel, including our board members, officers, auditors and outside accountants, of non-reoccurring events related to stock-based compensation awards to ensure such events are timely and adequately recorded and communicated to the appropriate parties.

The material weakness identified above will not be considered remediated until our remediation efforts have been fully implemented and we have concluded that these controls are operating effectively.

Management does not expect that our internal control over financial reporting will prevent or detect all errors and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control systems are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in a cost-effective control system, no evaluation of internal control over financial reporting can provide absolute assurance that misstatements due to error or fraud will not occur or that all control issues and instances of fraud, if any, have been or will be detected.

**Changes in Control Over Financial Reporting.** During the fiscal year ending October 31, 2019, we continued to implement procedures to review and document all corporate actions related to stock-based compensation awards. There have been no additional 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.

### **Attestation Report of the Registered Public Accounting Firm .**

This annual report does not include an attestation report of our registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by our registered public accounting firm pursuant to section 989G of the Dodd-Frank Wall Street Reform and Consumer Protection Act that permits us to provide only management's report in this annual report.

## ITEM 9B. OTHER INFORMATION

None.

**PART III**

**ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE**

Information required by this item is incorporated by reference to our Proxy Statement for the 2020 Annual Meeting of Stockholders.

**ITEM 11. EXECUTIVE COMPENSATION**

Information required by this item is incorporated by reference to our Proxy Statement for the 2020 Annual Meeting of Stockholders.

**ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS**

Information required by this item is incorporated by reference to our Proxy Statement for the 2020 Annual Meeting of Stockholders.

**ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE**

Information required by this item is incorporated by reference to our Proxy Statement for the 2020 Annual Meeting of Stockholders.

**ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES**

Information required by this item is incorporated by reference to our Proxy Statement for the 2020 Annual Meeting of Stockholders.

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

(a) List of Documents filed as part of this Report

(1) Financial Statements

The financial statements and related notes, together with the report of Marcum LLP appear at pages F-1 through F-24 following the Exhibit List as required by Part II, Item 8 "Financial Statements and Supplementary Data" of this Form 10-K.

(2) Financial Statement Schedules

None.

(3) List of Exhibits

(a) Exhibits

The Company has filed with this report or incorporated by reference herein certain exhibits as specified below pursuant to Rule 12b-32 under the Exchange Act.

<u>Exhibit No.</u>	<u>Description</u>
2.1	Agreement and Plan of Merger, dated October 31, 1997, by and among Transpacific International Group Corp. and Coffee Holding Co., Inc. (incorporated herein by reference to Exhibit 2 to Post-Effective Amendment No. 1 to the Company's Registration Statement on Form SB-2 filed on November 10, 1997 (File No. 333-00588-NY)).
2.2	<a href="#">Asset Purchase Agreement, dated February 4, 2004, by and between Coffee Holding Co., Inc. and Premier Roasters LLC (incorporated herein by reference to Exhibit 2.1 to the Company's Current Report on Form 8-K filed on February 20, 2004 (File No. 333-00588-NY)).</a>
3.1	<a href="#">Amended and Restated Articles of Incorporation of the Company (incorporated herein by reference to Exhibit 3.1 to the Company's Registration Statement on Form 8-A the "2005 Registration Statement" filed on May 2, 2005 (File No. 001-32491)).</a>
3.2	<a href="#">Amended and Restated Bylaws of the Company (incorporated herein by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K filed February 25, 2019).</a>
4.1	<a href="#">Form of Stock Certificate of the Company (incorporated herein by reference to the Company's Registration Statement on Form SB-2 filed on June 24, 2004 (Registration No. 333-116838)).</a>
4.2	<a href="#">Description of Capital Stock.*</a>
10.1	<a href="#">Loan and Security Agreement, dated February 17, 2009, by and between Sterling National Bank and Coffee Holding Co., Inc. (incorporated herein by reference to Exhibit 10.21 to the Company's Current Report on Form 8-K filed on February 23, 2009 (File No. 001-32491)).</a>
10.2	<a href="#">Lease, dated February 4, 2004, by and between Coffee Holding Co., Inc. and the City of La Junta, Colorado (incorporated herein by reference to Exhibit 10.12 to Amendment No. 1 to the Company's Registration Statement on Form SB-2/A filed on August 12, 2004 (Registration No. 333-116838)).</a>
10.3	<a href="#">Trademark License Agreement, dated February 4, 2004, between Del Monte Corporation and Coffee Holding Co., Inc. (incorporated herein by reference to Exhibit 10.13 to the Company's Quarterly Report on Form 10-QSB/A for the quarter ended April 30, 2004 filed on August 26, 2004 (File No. 333-00588-NY)) as amended by that First Amendment to Trademark License Agreement, dated January 4, 2013.</a>

- 10.4 [First Amendment to Trademark License Agreement, dated January 4, 2013, by and between Del Monte Corporation and Coffee Holding Co., Inc. Certain portions of Exhibit 10.4 are omitted based upon approval of the Company's request for confidential treatment through January 28, 2023. The omitted portions were filed separately with the SEC on a confidential basis \(incorporated herein by reference to Exhibit 10.4 to the Company's Annual Report on Form 10-K for the year ended October 31, 2012 filed on January 28, 2013 \(File No. 001-32491\)\).](#)
- 10.5 [Amended and Restated Employment Agreement, dated April 11, 2008, by and between Coffee Holding Co., Inc. and Andrew Gordon \(incorporated herein by reference to Exhibit 10.14 of the Company's Current Report on Form 8-K filed on April 16, 2008 \(File No. 001-32491\)\).](#)
- 10.6 [Amended and Restated Employment Agreement, dated April 11, 2008, by and between Coffee Holding Co., Inc. and David Gordon \(incorporated herein by reference to Exhibit 10.15 of the Company's Current Report on Form 8-K filed on April 16, 2008 \(File No. 001-32491\)\).](#)
- 10.7 [Coffee Holding Co., Inc. Non-Qualified Deferred Compensation Plan \(incorporated herein by reference to Exhibit 10.19 of the Company's Quarterly Report on Form 10-QSB filed on June 14, 2005 \(File No. 001-32491\)\).](#)
- 10.8 [Contract of Sale, dated April 14, 2009, by and between Coffee Holding Co., Inc. and 4401 1st Ave LLC \(incorporated herein by reference to Exhibit 10.7 to the Company's Annual Report on Form 10-K filed on January 28, 2010 \(File No. 001-32491\)\).](#)
- 10.9 [First Amendment to Loan and Security Agreement between Coffee Holding Co., Inc. and Sterling National Bank, dated July 23, 2010 \(incorporated herein by reference to Exhibit 103 to the Company's Annual Report on Form 10-K filed on January 31, 2011 \(File No. 001-32491\)\).](#)
- 10.10 [Placement Agency Agreement, dated as of September 27, 2011, by and among the Company, the selling stockholders named therein, Roth Capital Partners, LLC and Maxim Group, LLC \(incorporated herein by reference to Exhibit 10.1 to the Company's Report on Form 8-K filed on September 27, 2011 \(File No. 001-32491\)\).](#)
- 10.11 [Subscription Agreement, dated as of September 27, 2011, by and between the Company, the selling stockholders named therein and each of the purchasers identified on the signature pages thereto \(incorporated herein by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed on September 27, 2011 \(File No. 001-32491\)\).](#)
- 10.12 [2013 Equity Compensation Plan \(incorporated by reference to Annex A of the Company's Definitive Proxy Statement filed on February 28, 2013 \(File No. 13653320\)\).](#)
- 10.13 [Loan Modification Agreement, dated as of May 10, 2013, by and between Sterling National Bank and Coffee Holding Co., Inc. \(incorporated herein by reference to Exhibit 10.11 to the Company's Annual Report on Form 10-K filed on January 24, 2014 \(File No. 001-32491\)\).](#)
- 10.14 [Loan Modification Agreement, dated March 10, 2015, by and between Sterling National Bank and Coffee Holding Co., Inc. \(incorporated herein by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on March 31, 2015\).](#)
- 10.15 [Loan Agreement, dated March 10, 2015, by and between Sterling National Bank and Organic Products Trading Company LLC \(incorporated herein by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed on March 31, 2015\).](#)
- 10.16 [Security Agreement, dated March 10, 2015, by and between Sterling National Bank and Coffee Holding Co., Inc. \(incorporated herein by reference to Exhibit 10.3 to the Company's Current Report on Form 8-K filed on March 31, 2015\).](#)



- 10.17 [Guarantee, dated March 10, 2015, by Coffee Holding Co., Inc. \(incorporated herein by reference to Exhibit 10.4 to the Company's Current Report on Form 8-K filed on March 31, 2015\).](#)
- 10.18 [Amended and Restated Loan and Security Agreement, dated April 25, 2017, by and among Coffee Holding Co., Inc., Organic Products Trading Company LLC and Sterling National Bank \(incorporated herein by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on April 28, 2017\).](#)
- 10.19 [Guaranty Agreement, dated April 25, 2017, made by each of Sonofresco and Comfort Foods in favor of Sterling National Bank \(incorporated herein by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed on April 28, 2017\).](#)
- 10.20 [Lease, dated December 6, 2000, by and between Comfort Foods, Inc. and One Clark Street North Andover LLC. \(incorporated herein by reference to Exhibit 10.20 to the Company's Annual Report on Form 10-K filed January 29, 2018\).](#)
- 10.21 [Second Amendment to Lease, dated March 23, 2017, by and between Coffee Holding Co., Inc. and 25 COMM NAM, LLC \(incorporated herein by reference to Exhibit 10.21 to the Company's Annual Report on Form 10-K filed January 29, 2018\).](#)
- 10.22 [Loan Modification Agreement and Waiver, dated March 23, 2018, by and by and among Coffee Holding Co., Inc., Organic Products Trading Company LLC and Sterling National Bank \(incorporated herein by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on March 27, 2018\).](#)
- 10.23 [Form of Incentive Stock Option Agreement to the Company's 2013 Equity Compensation Plan \(incorporated herein by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q filed June 29, 2019\).](#)
- 10.24 [Form of Non-Qualified Stock Option Award Agreement to the Company's 2013 Equity Compensation Plan \(incorporated herein by reference to Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q filed June 29, 2019\).](#)
- 21.1 [List of Significant Subsidiaries.\\*](#)
- 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.\\*\\*](#)
- 101.INS XBRL Instance Document.
- 101.SCH XBRL Taxonomy Extension Schema Document.
- 101.CAL XBRL Taxonomy Extension Calculation Linkbase Document.
- 101.LAB XBRL Taxonomy Extension Label Linkbase Document.
- 101.PRE XBRL Taxonomy Extension Presentation Linkbase Document.
- 101.DEF XBRL Taxonomy Extension Definition Linkbase Document.

\* Filed herewith

\*\*Furnished herewith

#### ITEM 16. FORM 10-K SUMMARY

None.

## SIGNATURES

In accordance with Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized on January 29, 2020.

### COFFEE HOLDING CO., INC.

By: /s/ Andrew Gordon

Andrew Gordon  
President, Chief Executive Officer

In accordance with the Exchange Act, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u>/s/ Andrew Gordon</u> Andrew Gordon	President, Chief Executive Officer, Chief Financial Officer, Treasurer and Director (principal executive officer and principal financial and accounting officer)	January 29, 2020
<u>/s/ David Gordon</u> David Gordon	Executive Vice President – Operations, Secretary and Director	January 29, 2020
<u>/s/ Gerard DeCapua</u> Gerard DeCapua	Director	January 29, 2020
<u>/s/ Daniel Dwyer</u> Daniel Dwyer	Director	January 29, 2020
<u>/s/ Barry Knepper</u> Barry Knepper	Director	January 29, 2020
<u>/s/ John Rotelli</u> John Rotelli	Director	January 29, 2020
<u>/s/ George Thomas</u> George Thomas	Director	January 29, 2020

**COFFEE HOLDING CO., INC. AND SUBSIDIARIES**  
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## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Stockholders and Board of Directors of  
Coffee Holding Co., Inc.

### Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Coffee Holding Co., Inc. (the "Company") as of October 31, 2019 and 2018, the related consolidated statements of (loss) / income, changes in stockholders' equity and cash flows for each of the two years in the period ended October 31, 2019, and the related notes (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of October 31, 2019 and 2018, and the results of its operations and its cash flows for each of the two years in the period ended October 31, 2019, in conformity with accounting principles generally accepted in the United States of America.

### Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit s to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provides a reasonable basis for our opinion.

*/s/ Marcum LLP*

Marcum LLP

We have served as the Company's auditor since 2013 .

New York, NY  
January 29, 2020

**COFFEE HOLDING CO., INC. AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS**  
**OCTOBER 31, 2019 AND 2018**

	2019	2018
<b>- ASSETS -</b>		
<b>CURRENT ASSETS:</b>		
Cash	\$ 2,402,556	\$ 4,611,384
Accounts receivable, net of allowances of \$144,000 for 2019 and 2018	9,421,427	9,914,297
Inventories	18,841,225	15,271,106
Due from broker	101,031	
Prepaid expenses and other current assets	587,626	578,861
Prepaid and refundable income taxes	385,934	383,206
<b>TOTAL CURRENT ASSETS</b>	<b>31,739,799</b>	<b>30,758,854</b>
Machinery and equipment, at cost, net of accumulated depreciation of \$6,931,913 and \$6,251,828 for 2019 and 2018, respectively	2,413,533	2,350,208
Customer list and relationships, net of accumulated amortization of \$151,627 and \$108,875 for 2019 and 2018, respectively	533,373	576,125
Trademarks and tradenames	1,488,000	1,488,000
Non-competes, net of accumulated amortization of \$29,700 and \$9,900 for 2019 and 2018, respectively	69,300	89,100
Goodwill	2,488,785	2,488,785
Equity method investments	86,008	89,776
Deferred income tax asset	480,473	440,325
Deposits and other assets	387,453	552,904
<b>TOTAL ASSETS</b>	<b>\$ 39,686,724</b>	<b>\$ 38,834,077</b>
<b>- LIABILITIES AND STOCKHOLDERS' EQUITY -</b>		
<b>CURRENT LIABILITIES:</b>		
Accounts payable and accrued expenses	\$ 4,344,015	\$ 4,833,548
Line of credit	7,167,740	6,260,014
Due to broker		22,046
Note payable		70,255
Income taxes payable	100	1,505
<b>TOTAL CURRENT LIABILITIES</b>	<b>11,511,855</b>	<b>11,187,368</b>
Deferred income tax liabilities	872,232	882,022
Deferred rent payable	193,461	242,143
Deferred compensation payable	378,453	532,726
<b>TOTAL LIABILITIES</b>	<b>12,956,001</b>	<b>12,844,259</b>
Commitments and Contingencies		
<b>STOCKHOLDERS' EQUITY:</b>		
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, 6,494,680 shares issued; 5,569,349 shares outstanding for 2019 and 2018	6,494	6,494
Additional paid-in capital	16,580,974	16,104,075
Retained earnings	13,310,169	13,404,767
Less: Treasury stock, 925,331 common shares, at cost for 2019 and 2018	(4,633,560)	(4,633,560)
Total Coffee Holding Co., Inc. Stockholders' Equity	<b>25,264,077</b>	<b>24,881,776</b>
Noncontrolling interest	1,466,646	1,108,042
<b>TOTAL EQUITY</b>	<b>26,730,723</b>	<b>25,989,818</b>
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b>\$ 39,686,724</b>	<b>\$ 38,834,077</b>

See Notes to Consolidated Financial Statements

**COFFEE HOLDING CO., INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF (LOSS) / INCOME**  
**YEARS ENDED OCTOBER 31, 2019 AND 2018**

	2019	2018
<b>NET SALES</b>	<b>\$ 86,467,432</b>	<b>\$ 90,655,294</b>
<b>COST OF SALES</b> (which includes purchases of approximately \$8.3 million and \$9.1 million in fiscal years 2019 and 2018, respectively, from a related party)	<b>70,708,100</b>	<b>75,040,802</b>
<b>GROSS PROFIT</b>	<b>15,759,332</b>	<b>15,614,492</b>
<b>OPERATING EXPENSES:</b>		
Selling and administrative	14,504,707	12,532,329
Officers' salaries	714,096	681,000
<b>TOTAL</b>	<b>15,218,803</b>	<b>13,213,329</b>
<b>INCOME FROM OPERATIONS</b>	<b>540,529</b>	<b>2,401,163</b>
<b>OTHER INCOME (EXPENSE):</b>		
Interest income	11,046	13,347
Loss from equity method investments	(3,769)	(4,867)
Interest expense	(254,592)	(370,705)
<b>TOTAL</b>	<b>(247,315)</b>	<b>(362,225)</b>
<b>INCOME BEFORE PROVISION FOR INCOME TAXES AND NON-CONTROLLING INTEREST IN SUBSIDIARY</b>	<b>293,214</b>	<b>2,038,938</b>
Provision for income taxes	29,208	511,532
<b>NET INCOME BEFORE NON-CONTROLLING INTEREST IN SUBSIDIARY</b>	<b>264,006</b>	<b>1,527,406</b>
Less: Net income attributable to the non-controlling interest in subsidiary	(358,604)	(468,130)
<b>NET (LOSS) INCOME ATTRIBUTABLE TO COFFEE HOLDING CO., INC.</b>	<b>\$ (94,598)</b>	<b>\$ 1,059,276</b>
Basic and diluted (loss) earnings per share	<b>\$ (.02)</b>	<b>\$ .19</b>
Weighted average common shares outstanding:		
Basic and diluted	<b>5,569,349</b>	<b>5,691,057</b>

See Notes to Consolidated Financial Statements

**COFFEE HOLDING CO., INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY**  
**YEARS ENDED OCTOBER 31, 2019 AND 2018**

	Common Stock		Treasury Stock		Additional Paid-in Capital	Retained Earnings	Non- Controlling Interest	Total
	Shares	Amount	Shares	Amount				
Balance, October 31, 2017	5,805,935	\$ 6,494	688,745	\$ (3,504,510)	\$ 16,104,075	\$ 12,345,490	\$ 639,912	\$ 25,591,461
Treasury Stock	(236,586)		236,586	(1,129,050)				(1,129,050)
Net income						1,059,277		1,059,277
Non-Controlling Interest							468,130	468,130
Balance, October 31, 2018	5,569,349	\$ 6,494	925,331	\$ (4,633,560)	\$ 16,104,075	\$ 13,404,767	\$ 1,108,042	\$ 25,989,818
Stock Compensation					476,899			476,899
Net loss						(94,598)		(94,598)
Non-Controlling Interest							358,604	358,604
Balance, October 31, 2019	5,569,349	\$ 6,494	925,331	\$ (4,633,560)	\$ 16,580,974	\$ 13,310,169	\$ 1,466,646	\$ 26,730,723

See Notes to Consolidated Financial Statements

**COFFEE HOLDING CO., INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**YEARS ENDED OCTOBER 31, 2019 AND 2018**

	2019	2018
<b>OPERATING ACTIVITIES:</b>		
Net income	\$ 264,006	\$ 1,527,406
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Depreciation and amortization	742,637	740,454
Stock-based compensation	476,899	
Unrealized gain on commodities	(123,077)	(188,816)
Loss on equity method investments	3,768	4,867
Deferred rent	(48,682)	1,764
Deferred income taxes	(49,938)	151,765
Changes in operating assets and liabilities:		
Accounts receivable	492,870	3,613,947
Inventories	(3,570,119)	2,155,487
Prepaid expenses and other current assets	(8,765)	43,877
Prepaid green coffee		171,350
Prepaid and refundable income taxes	(2,728)	89,608
Accounts payable and accrued expenses	(489,533)	392,713
Deposits and other assets	165,451	(11,178)
Income taxes payable	(1,405)	159
<b>Net cash (used in) provided by operating activities</b>	<b>(2,148,616)</b>	<b>8,693,403</b>
<b>INVESTING ACTIVITIES:</b>		
Purchase of business net of cash acquired		(2,677,335)
Distribution of funds from deferred compensation plan	(154,273)	
Purchases of machinery and equipment	(743,410)	(383,516)
<b>Net cash used in investing activities</b>	<b>(897,683)</b>	<b>(3,060,851)</b>
<b>FINANCING ACTIVITIES:</b>		
Advances under bank line of credit	1,407,726	3,810,400
Purchase of treasury stock		(1,129,050)
Principal payment on note payable	(70,255)	
Principal payments under bank line of credit	(500,000)	(6,028,168)
<b>Net cash provided by (used in) financing activities</b>	<b>837,471</b>	<b>(3,346,818)</b>
<b>NET (DECREASE) INCREASE IN CASH</b>	<b>(2,208,828)</b>	<b>2,285,734</b>
<b>CASH, BEGINNING OF YEAR</b>	<b>4,611,384</b>	<b>2,325,650</b>
<b>CASH, END OF YEAR</b>	<b>\$ 2,402,556</b>	<b>\$ 4,611,384</b>

See Notes to Consolidated Financial Statements



**COFFEE HOLDING CO., INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**YEARS ENDED OCTOBER 31, 2019 AND 2018**

<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW DATA:</b>	<u>2019</u>	<u>2018</u>
Interest paid	\$ 254,603	\$ 372,228
Income taxes paid	\$ 83,279	\$ 270,000

**SUPPLEMENTAL DISCLOSURE OF NON-CASH INVESTING AND FINANCING ACTIVITIES:**

On April 24, 2018 Generations Coffee Company acquired the assets of Steep & Brew, Inc.:

Accounts receivable		\$ 86,442
Inventory		1,116,021
Equipment		221,283
Prepaid expenses		28,913
Non-compete		99,000
Customer lists		245,000
Tradenname		668,000
Goodwill		363,396
Less: Note Payable		140,510
Less: Liability assumed		10,210
Net cash paid		\$ 2,677,335

See Notes to Consolidated Financial Statements

**COFFEE HOLDING CO., INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**OCTOBER 31, 2019 AND 2018**

**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 eight proprietary and licensed brand names in different segments of the market.

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

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

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:**

**LIQUIDITY AND FINANCIAL CONDITION:**

The Company had net income of \$264,006 before non controlling interest in subsidiary and had negative cash flows from operating activities of approximately \$2.1 million for the year ended October 31, 2019. The Company's working capital amounted to \$20,227,944 at October 31, 2019, which includes approximately \$2,400,000 (\$2,700,000 at January 27, 2020) of cash and cash equivalents and an increased level of inventory purchased at reduced prices, which management believes is a significant source of near term liquidity. The Company also has outstanding bank borrowings of \$7,167,740 (approximately \$5,200,000 at January 27, 2020) under a line of credit that matures on March 31, 2020. The Company is currently engaged in discussions with several lenders to either renew or extend the line of credit prior to its expiration; however, no agreement has yet been reached to extend or renew the facility at this time. Management believes that the Company has substantial excess working capital and the ability to manage expenditures in the near-term to ensure that there is sufficient liquidity available to repay the loan at its stated maturity date in the event of non-renewal. This plan could include deferring certain discretionary spending, extending the payment dates of certain trade liabilities that the Company has traditionally paid in thirty days or less and taking advantage of the availability of inventory that was sourced at favorable prices. The Company further believes that should the loan be repaid in the event of a non-renewal, there is substantial liquidity available to fund operations through the remainder of the twelve month period following the issuance date of the financial statements.

**BASIS OF PRESENTATION:**

The consolidated financial statements include the accounts of the Company, Organic Products Trading Company, LLC ("OPTCO"), Sonofresco LLC ("SONO"), Comfort Foods, Inc. ("CFI") and Generations Coffee Company, LLC ("GCC"). All significant inter-company balances and transactions have been eliminated in consolidation.

**USE OF ESTIMATES:**

The preparation of the Company's financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Significant estimates include allowance for uncollectible accounts receivable and reserves, inventory obsolescence, depreciation, intangible asset valuations and useful lives, taxes, contingencies, and valuation of financial instruments. These estimates may be adjusted as more current information becomes available, and any adjustment could have a significant impact on recorded amounts.

**CASH:**

Cash consists primarily of unrestricted cash on deposit at financial institutions and brokerage firms.

**COFFEE HOLDING CO., INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**OCTOBER 31, 2019 AND 2018**

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd):**

**ACCOUNTS RECEIVABLE:**

Trade accounts receivable are stated at the amount the Company expects to collect. The Company maintains allowances for doubtful accounts for estimated losses resulting from the inability of its customers to make required payments. Management considers the following factors when determining the collectability of specific customer accounts: customer credit-worthiness, past transaction history with the customer, current economic industry trends, and changes in customer payment terms. Past due balances over 60 days and other higher risk amounts are reviewed individually for collectability. If the financial condition of the Company's customers were to deteriorate, adversely affecting their ability to make payments, additional allowances would be required. Based on management's assessment, the Company provides for estimated uncollectible amounts through a charge to earnings and a credit to a valuation allowance. Balances that remain outstanding after the Company has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable.

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

	<u>2019</u>	<u>2018</u>
Allowance for doubtful accounts	\$ 65,000	\$ 65,000
Reserve for other allowances	35,000	35,000
Reserve for sales discounts	44,000	44,000
Totals	<u>\$ 144,000</u>	<u>\$ 144,000</u>

**INVENTORIES:**

Inventories are stated at the lower of cost (first in, first out basis) or net realizable value, including provisions for obsolescence commensurate with known or estimated exposures. There are no reserves for obsolescence as of October 31, 2019 and 2018.

**MACHINERY AND EQUIPMENT:**

Machinery and equipment are recorded at cost and depreciated using the straight-line method over the estimated useful lives of the assets. Purchases of machinery and equipment and additions and betterments which substantially extend the useful life of an asset are capitalized at cost. Expenditures which do not materially prolong the normal useful life of an asset are charged to operations as incurred. The Company also provides for amortization of leasehold improvements.

**COFFEE HOLDING CO., INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**OCTOBER 31, 2019 AND 2018**

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd):**

**COMMODITIES HELD BY BROKER:**

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

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

	<u>2019</u>	<u>2018</u>
Option contracts	\$ (58,856)	\$ (39,926)
Future contracts	159,887	17,880
Commodities due to broker	<u>\$ 101,031</u>	<u>\$ (22,046)</u>

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

At October 31, 2019, the Company held 124 futures contracts (generally with terms of three to four months) for the purchase of 4,650,000 pounds of green coffee at a weighted average price of \$.9860 per pound. The fair market value of coffee applicable to such contracts was \$1.02 per pound at that date.

At October 31, 2018, the Company held 22 futures contracts (generally with terms of three to four months) for the purchase of 825,000 pounds of green coffee at a weighted average price of \$1.11 per pound. The fair market value of coffee applicable to such contracts was \$1.13 per pound at that date. At October 31, 2018, the Company held 65 option covering an aggregate of 2,437,500 pounds of green coffee beans from \$1.125 to \$1.15 per pound. The fair market value of these options, which was obtained from observable market data of similar instruments was \$52,594.

Included in cost of sales for the years ended October 31, 2019 and 2018, the Company recorded realized and unrealized gains and losses respectively, on these contracts as follows:

	<u>Year Ended October 31,</u>	
	<u>2019</u>	<u>2018</u>
Gross realized gains	\$ 1,307,816	\$ 999,540
Gross realized (losses)	(2,642,537)	(2,007,691)
Unrealized gains	123,077	188,816
Total	<u>\$ (1,211,644)</u>	<u>\$ (819,335)</u>

**COFFEE HOLDING CO., INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**OCTOBER 31, 2019 AND 2018**

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd):**

**GOODWILL AND TRADEMARKS:**

The Company has determined that its goodwill and trademarks, which consist of product lines, trade names and packaging designs have an indefinite useful life. The value of the goodwill and trademarks was allocated based on an independent valuation. Goodwill and trademarks are not amortized but are assigned to a specific reporting unit or asset class and tested for impairment at least annually or upon the occurrence of an event or when circumstances indicate that the reporting unit's carrying amount of goodwill and trademarks is greater than its fair value. As of October 31, 2019 and 2018, the Company has determined by using a qualitative assessment that an impairment did not exist. In 2011, the Company adopted Financial Accounting Standard ASB ASU 2011-08 Intangibles – Goodwill and Other – Testing Goodwill for Impairment, which allows an entity to first assess qualitative factors to determine whether it is necessary to perform the two-step quantitative goodwill impairment test. Under this amendment, an entity would not be required to calculate the fair value of a reporting unit unless the entity determines, based on a qualitative assessment, that it is more likely than not that its fair value is less than its carrying amount. The amendment includes a number of events and circumstances for an entity to consider in conducting the qualitative assessment.

**CUSTOMER LIST AND RELATIONSHIPS:**

Customer list and relationships consist of a specific customer lists and customer contracts obtained by the Company in the acquisition of OPTCO, Comfort Foods, Sonofresco and Steep & Brew which are being amortized on the straight-line method over their estimated useful life of twenty years.

**ADVERTISING:**

The Company expenses the cost of advertising and promotion as incurred. Advertising costs charged to operations totaled \$449,678 and \$366,665 for the years ended October 31, 2019 and 2018, respectively.

**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.

**EARNINGS PER SHARE:**

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 company has issued 689,000 options as of October 31, 2019, they have not been included in the calculation of diluted earnings per share because of their anti-dilutive value

The weighted average common shares outstanding used in the computation of basic and diluted earnings per share were 5,569,349 and 5,691,057 for the years ended October 31, 2019 and 2018, respectively.

**COFFEE HOLDING CO., INC. AND SUBSIDIARIES**  
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**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd):**

**FAIR VALUE OF FINANCIAL INSTRUMENTS:**

The carrying amounts of cash, accounts receivable, notes receivable, accounts payable and accrued expenses approximate fair value because of the short-term nature of these instruments. The carrying amount of the bank line of credit borrowings approximates fair value because the debt is based on current rates at which the Company could borrow funds with similar remaining maturities. Fair value estimates are made at a specific point in time, based on relevant market information about the financial instruments when available. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and therefore, cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

**REVENUE RECOGNITION:**

The Company's significant accounting policy for revenue was updated as a result of the adoption of ASU Topic 606. The Company has adopted the new standard on November 1, 2018 and has used the modified retrospective method. The majority of the Company's business is ship and bill. Based on our analysis, the Company did not identify a cumulative effect adjustment to retained earnings at November 1, 2018. The Company recognizes revenue in accordance with the five-step model as prescribed by ASU 606 in which the Company evaluates the transfer of promised goods or services and recognizes revenue when its customer obtains control of promised goods or services in an amount that reflects the consideration which the Company expects to be entitled to receive in exchange for those goods or services. To determine revenue recognition for the arrangements that the Company determines are within the scope of ASU 606, the Company performs the following five steps: (1) identify the contract(s) with a customer, (2) identify the performance obligations in the contract, (3) determine the transaction price, (4) allocate the transaction price to the performance obligations in the contract and (5) recognize revenue when (or as) the entity satisfies a performance obligation. See Note 11 for revenue disaggregated by product line.

**COFFEE HOLDING CO., INC. AND SUBSIDIARIES**  
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**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd):**

**SHIPPING AND HANDLING FEES AND COSTS:**

Revenue earned from shipping and handling fees is reflected in net sales. Costs associated with shipping product to customers aggregating approximately \$3,214,000 and \$3,144,000 for the years ended October 31, 2019 and 2018, respectively, is included in selling and administrative expenses.

**CONCENTRATION OF RISK:**

Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of cash deposits at financial institutions and brokerage firms.

Accounts at each institution are insured by the Federal Deposit Insurance Corporation (FDIC) up to certain limits. At October 31, 2019 and 2018, the Company had approximately \$1,490,000 and \$2,800,000 in excess of FDIC insured limits, respectively.

The accounts at the brokerage firm contain cash and securities. Balances are insured up to \$500,000, with a limit of \$100,000 for cash, by the Securities Investor Protection Corporation (SIPC). At October 31, 2019 and 2018, the Company had approximately \$706,000 and \$355,000 in excess of SIPC insured limits, respectively.

See Note 10 for concentration of risks with respect to trade receivables and purchases from accounts payable vendors.

**COFFEE HOLDING CO., INC. AND SUBSIDIARIES**  
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**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd):**

**RECLASSIFICATION:**

Certain amounts in the prior year financial statements have been reclassified to conform to the current year's presentation. These reclassification adjustments had no effect on the Company's previously reported net income.

**EQUITY METHOD OF ACCOUNTING:**

Investee companies that are not consolidated, but over which the Company exercises significant influence, are accounted for under the equity method of accounting. Whether or not the Company exercises significant influence with respect to an Investee depends on an evaluation of several factors including, among others, representation on the Investee company's board of directors and ownership level, which is generally a 20% to 50% interest in the voting securities of the Investee company. Under the equity method of accounting, an Investee company's accounts are not reflected within the Company's Consolidated Balance Sheets and Consolidated Statements of Income; however, the Company's share of the earnings or losses of the Investee company is reflected in the caption "Loss from equity method investments" in the Consolidated Statements of Income. The Company's carrying value in an equity method Investee company is reflected in the caption "Equity method investments" in the Company's Consolidated Balance Sheets.

The Company's investment in a company that is accounted for on the equity method of accounting consist of the following: (1) 20% interest in Healthwise Gourmet Coffees, LLC, a distributor of low acidity coffees. The investments in this company amounted to \$100,000. The loss recognized amounted to \$3,769 and \$4,867 for the years ended October 31, 2019 and 2018, respectively. The net value of this investment as presented on our consolidated balance sheet at October 31, 2019 and 2018 was \$86,008 and \$89,776, respectively.

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

The FASB issued ASU 2016-02, Leases (Topic 842). ASU 2016-01 requires that a lessee recognize the assets and liabilities that arise from operating leases. A lessee should recognize in the statement of financial position a liability to make lease payments (the lease liability) and a right-of-use asset representing its right to use the underlying asset for the lease term. For leases with a term of 12 months or less, a lessee is permitted to make an accounting policy election by class of underlying asset not to recognize lease assets and lease liabilities. In transition, lessees and lessors are required to recognize and measure leases at the beginning of the earliest period presented using a modified retrospective approach. Public business entities should apply the amendments in ASU 2016-02 for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years (i.e., January 1, 2019, for a calendar year entity). Nonpublic business entities should apply the amendments for fiscal years beginning after December 15, 2019 (i.e., January 1, 2020, for a calendar year entity), and interim periods within fiscal years beginning after December 15, 2020. Early application is permitted for all public business entities and all nonpublic business entities upon issuance. The Company adopted Topic 842 effective November 1, 2019 using a modified retrospective method and will not restate comparative periods. Upon adoption, the Company recorded a right-to-use asset of \$2.5 million and a corresponding lease liability of approximately \$2.7 million on the Company's balance sheet with the difference relating to reclassifications of the deferred rent liability as a reduction to the right-to-use asset for its operating lease. Adoption of the new lease standard will not have a significant impact on the Company's statement of operations.



**COFFEE HOLDING CO., INC. AND SUBSIDIARIES**  
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**NOTE 3 - RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS AFFECTING THE COMPANY (cont'd):**

The FASB issued ASU 2016-09 Compensation-Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting (ASU 2016-09). The amendment simplifies several aspects of the accounting for share-based payments, including immediate recognition of all excess tax benefits and deficiencies in the income statement, changing the threshold to qualify for equity classification up to the employees' maximum statutory tax rates, allowing an entity-wide accounting policy election to either estimate the number of awards that are expected to vest or account for forfeitures as they occur, and clarifying the classification on the statement of cash flows for the excess tax benefit and employee taxes paid when an employer withholds shares for tax-withholding purposes. ASU 2016-09 is effective for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. Early adoption is permitted in any interim or annual period. There was no impact to the consolidated financial statements upon adoption as of November 1, 2018.

In July 2017, the FASB issued ASU 2017-11, "Earnings Per Share (Topic 260), Distinguishing Liabilities from Equity (Topic 480), Derivatives and Hedging (Topic 815): I. Accounting for Certain Financial Instruments with Down Round Features, II. Replacement of the Indefinite Deferral for Mandatorily Redeemable Financial Instruments of Certain Nonpublic Entities and Certain Mandatorily Redeemable Noncontrolling Interests with a Scope Exception" which addresses narrow issues identified as a result of the complexity associated with applying generally accepted accounting principles for certain financial instruments with characteristics of liabilities and equity. These amendments in Part I of this update are effective for annual and interim periods beginning after December 15, 2018, early adoption is permitted, including adoption in an interim period. If an entity early adopts the amendments in an interim period, any adjustments should be reflected as of the beginning of the fiscal year that includes that interim period. The amendments in Part I of this Update should be applied in either of the following ways: (1) Retrospectively to outstanding financial instruments with a down round feature by means of a cumulative-effect adjustment to the statement of financial position as of the beginning of the first fiscal year and interim period(s) in which the pending content that links to this paragraph is effective. (2) Retrospectively to outstanding financial instruments with a down round feature for each prior reporting period presented in accordance with the guidance on accounting changes in paragraphs 250-10-45-5 through 45-10. The amendments in Part I and Part II of this Update do not require any transition guidance because those amendments do not have an accounting effect.

**COFFEE HOLDING CO., INC. AND SUBSIDIARIES**  
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**NOTE 4 - INVENTORIES:**

Inventories at October 31, 2019 and 2018 consisted of the following:

	<u>2019</u>	<u>2018</u>
Packed coffee	\$ 4,044,279	\$ 3,286,450
Green coffee	12,515,124	9,858,495
Roaster parts	419,077	270,188
Packaging supplies	1,862,745	1,855,973
Totals	<u>\$ 18,841,225</u>	<u>\$ 15,271,106</u>

**NOTE 5 – BUSINESS ACQUISITION:**

Pursuant to the terms of an Asset Purchase Agreement dated April 24, 2018 (the "Generations Agreement"), by and among Generations Coffee Company, LLC ("GCC"), the entity formed as a result of the Company's joint venture with Caruso's Coffee, Inc., Steep & Brew, Inc. ("the Seller") a Wisconsin corporation and the stockholder of the Seller. GCC purchased substantially all the assets, including equipment, inventory, customer list and relationships (the "Assets") of the Seller. This was accounted for as a business combination.

As part of the transaction, all of the employees of the Seller will be leased to GCC for a transitional period ending July 31, 2018 (or earlier date as may be agreed in writing between GCC and the Seller). In addition, on April 24, 2018, GCC entered into a three month advisory agreement (the "Advisory Agreement"), with one of the Seller's executives (the "Executive"), on an independent contractor basis, to ensure continuity of the business and to continue to operate the business located in Wisconsin. After completion of the first three month term, the Advisory Agreement will automatically expire, subject to renewal by mutual agreement of the parties. Pursuant to the terms of the Advisory Agreement, the Executive is entitled to cash compensation of \$7,000 per month, as well as reimbursement by GCC of the Executive of up to \$815 per month for health insurance benefits for the Executive paid by the seller.

**COFFEE HOLDING CO., INC. AND SUBSIDIARIES**  
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**NOTE 5 – BUSINESS ACQUISITION (cont'd):**

The following table summarizes the amounts of assets purchased:

Assets acquired:	
Accounts receivable	\$ 86,442
Inventory	1,116,021
Equipment	221,283
Prepaid expenses	28,913
Non-compete	99,000
Customer lists	245,000
Tradename	668,000
Goodwill	363,396
Less: Liability assumed	10,210
Less: Note payable	140,510
Cash paid	<u>\$ 2,677,335</u>

Pro Forma Results of Operations (unaudited)

The following pro forma results of operations for the twelve months ended October 31, 2018 has been prepared as though the business acquisition had occurred as of November 1, 2017 retroactively to the beginning of the period. This pro forma financial information is not indicative of the results of operations that the Company would have attained had the acquisition 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:

	Twelve Months Ended October 31,
	2018
Pro forma sales	\$ 95,900,631
Pro forma net income (loss)	\$ 940,437
Pro forma basic and diluted earnings per share	\$ .17

The operations have been included in the Company's consolidated statement of operations since the date of the acquisition on April 24, 2018. The total revenue and net income included within the Company's results of operations for the year ended October 31, 2018 amounted \$5,512,930 \$186,600, respectively.

**NOTE 6 - MACHINERY AND EQUIPMENT:**

Machinery and equipment at October 31, 2019 and 2018 consisted of the following:

	Estimated Useful Life	2019	2018
Improvements	15-30 years	\$ 228,201	\$ 210,085
Machinery and equipment	7 years	8,035,223	7,363,497
Furniture and fixtures	7 years	1,082,022	1,028,454
		<u>9,345,446</u>	8,602,036
Less, accumulated depreciation		6,931,913	6,251,828
		<u>\$ 2,413,533</u>	<u>\$ 2,350,208</u>

Depreciation expense totaled \$680,085 and \$693,929 for the years ended October 31, 2019 and 2018, respectively.

**COFFEE HOLDING CO., INC. AND SUBSIDIARIES**  
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**NOTE 7 - LINE OF CREDIT:**

On April 25, 2017 the Company and OPTCO (together with the Company, collectively referred to herein as the "Borrowers") entered into an Amended and Restated Loan and Security Agreement (the "A&R Loan Agreement") and Amended and Restated Loan Facility (the "A&R Loan Facility") with Sterling National Bank ("Sterling"), which consolidated (i) the financing agreement between the Company and Sterling, dated February 17, 2009, as modified, (the "Company Financing Agreement") and (ii) the financing agreement between Company, as guarantor, OPTCO and Sterling, dated March 10, 2015 (the "OPTCO Financing Agreement"), amongst other things.

Pursuant to the A&R Loan Agreement, the terms of each of the Company Financing Agreement and the OPTCO Financing Agreement were amended and restated to, among other things: (i) provide for a new Maturity Date of February 28, 2018; (ii) consolidate the principal amounts of the Company Financing Agreement and the OPTCO Financing Agreement to provide for a maximum principal amount limit of \$12,000,000 for the Borrowers, collectively, *provided that* OPTCO is limited to a \$3,000,000 maximum principal amount sublimit; (iii) expand the borrowing base to include, along with 85% of eligible accounts receivable, up to the lesser of \$2,000,000 as to the Company and \$1,500,000 as to OPTCO; (iv) effective March 1, 2017, converted the interest rate on the average unpaid balance of the A&R Loan Facility from an interest rate per annum equal to the Wall Street Journal Prime Rate to an interest rate per annum equal to the sum of the LIBOR rate plus 2.4%; (v) require the Company and OPTCO to pay, collectively, upon the occurrence of certain termination events, a prepayment premium of 1.0% (as opposed to the 0.5% under the OPTCO Financing Agreement) of the maximum amount of the A&R Loan Facility in effect as of the date of the termination event; (vi) eliminate the over advance fee; and (vii) establish a Letter of Credit Facility (as defined in the A&R Loan Agreement) with a maximum obligation amount of \$1,000,000, and subject to other terms and conditions described therein. Also on April 25, 2017, SONO and CFI (collectively referred to herein as the "Guarantors"), entered into a Guaranty Agreement (the "Guaranty Agreement") in connection with the A&R Loan Agreement. The Guaranty Agreement was provided as an inducement to Sterling to extend credit to Borrowers in exchange for the Guarantors' unconditional guarantee of the payment and performance obligations of the Borrowers under the Loan Agreement, as further defined in the Guaranty Agreement.

On March 23, 2018, the Company reached an agreement for a new loan modification agreement and credit facility with Sterling. The terms of the new agreement among other things: (i) provides for a new maturity date of March 31, 2020; (ii) increases the maximum principal amount to \$14,000,000; and (iii) decreases the interest rate per annum to LIBOR plus 2 percent, 3.78 at October 31, 2019.

Each of the A&R Loan Facility and A&R Loan Agreement contains covenants, subject to certain exceptions, that place annual restrictions on the Borrowers' operations, including covenants relating to debt restrictions, capital expenditures, indebtedness, minimum deposit restrictions, tangible net worth, net profit, leverage, employee loan restrictions, dividend and repurchase restrictions (common stock and preferred stock), and restrictions on intercompany transactions. The Company was in compliance with all covenants as of October 31, 2019.

The A&R Loan Facility also requires that we maintain a minimum working capital at all times, and the A&R Loan Agreement requires that the Borrowers, on a consolidated basis, maintain a minimum working capital at all times and achieve a minimum net profit amount as of fiscal year end during the term of the A&R Loan Agreement.

**COFFEE HOLDING CO., INC. AND SUBSIDIARIES**  
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**OCTOBER 31, 2019 AND 2018**

**NOTE 7 - LINE OF CREDIT (cont'd):**

Each of the A&R Loan Facility and the A&R Loan Agreement is secured by all tangible and intangible assets of the Company. Other than as amended and restated by the A&R Loan Agreement, the Company Financing Agreement and the OPTCO Financing Agreement remains in full force and effect.

As of October 31, 2019 and October 31, 2018, the outstanding balance under the bank line of credit was \$7,167,740 and \$6,260,014, respectively.

**NOTE 8 - INCOME TAXES:**

The Company's provision for income taxes in 2019 and 2018 consisted of the following:

	<u>2019</u>	<u>2018</u>
<b>Current</b>		
Federal	\$ 10,172	\$ 219,233
State and local	68,974	140,534
	<u>79,146</u>	<u>359,767</u>
<b>Deferred</b>		
Federal	(45,323)	98,400
State and local	(4,615)	53,365
	<u>(49,938)</u>	<u>151,765</u>
<b>Income tax expense</b>	<b>\$ 29,208</b>	<b>\$ 511,532</b>

A reconciliation of the difference between the expected income tax rate using the statutory U.S. federal tax rate and the Company's effective tax rate is as follows:

	<u>2019</u>	<u>2018</u>
Tax at the federal statutory rate	\$ 61,575	\$ 693,239
Other permanent differences	(45,107)	(59,473)
Effect of tax rate change		(224,283)
State and local tax, net of federal	12,740	102,049
<b>Provision for income taxes</b>	<b>\$ 29,208</b>	<b>\$ 511,532</b>
<b>Effective income tax rate</b>	<b>10%</b>	<b>25%</b>

**COFFEE HOLDING CO., INC. AND SUBSIDIARIES**  
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**NOTE 8 - INCOME TAXES (cont'd):**

The tax effects of the temporary differences that give rise to the deferred tax assets and liabilities as of October 31, 2019 and 2018 are as follows:

	2019	2018
Deferred tax assets:		
Accounts receivable	\$ 36,802	\$ 39,561
Unrealized loss		6,057
Deferred rent	49,442	66,524
Deferred compensation	96,720	146,356
Net operating loss	82,973	96,950
Stock-based compensation	121,880	
Inventory	92,656	84,877
<b>Total deferred tax asset</b>	<b>\$ 480,473</b>	<b>\$ 440,325</b>
Deferred tax liability:		
Intangible assets acquired	484,932	484,932
Unrealized gain	32,656	
Fixed assets	354,644	\$ 397,090
<b>Total deferred tax liabilities</b>	<b>\$ 872,232</b>	<b>\$ 882,022</b>

A valuation allowance was not provided at October 31, 2019 or 2018. In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies in making this assessment. Based upon the level of historical taxable income and projections for future taxable income over the periods in which the deferred tax assets are expected to be deductible, management believes it is more likely than not the Company will realize the benefits of these deductible differences. The amount of the deferred tax asset considered realizable, however, could be reduced in the near term if estimates of future taxable income are reduced.

As of October 31, 2019 and 2018, 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 October 31, 2019 and 2018, the Company had no accrued interest or penalties related to income taxes. The Company currently has no federal or state tax examinations in progress.

The Company files a U.S. federal income tax return and California, Colorado, Connecticut, Idaho, Kansas, Michigan, New Jersey, New York, New York City, Virginia, Texas, Rhode Island, South Carolina, and Oregon state tax returns. The Company's federal income tax return is no longer subject to examination by the federal taxing authority for years before fiscal 2016. The Company's California, Colorado and New Jersey and Texas income tax returns are no longer subject to examination by their respective taxing authorities for the years before fiscal 2015. The Company's Oregon, New York, Kansas, South Carolina, Rhode Island, Connecticut and Michigan income tax returns are no longer subject to examination by their respective taxing authorities for the years before fiscal 2016.

**COFFEE HOLDING CO., INC. AND SUBSIDIARIES**  
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**NOTE 9 - COMMITMENTS AND CONTINGENCIES:**

**OPERATING LEASES:**

In February 2004, the Company entered into a lease for office and warehouse space in La Junta City, Colorado. This lease, which is at a monthly rental of \$8,341 beginning January 2005, expires on January 31, 2024. Rent charged to operations amounted to \$95,504 for the years ended October 31, 2019 and 2018.

In October 2008, the Company entered into a lease for office and warehouse space in Staten Island, NY. This lease, which is at a monthly rental beginning November 2008, expires on October 31, 2023 and includes annual rent increases. Rent charged to operations amounted to \$143,171 for the years ended October 31, 2019 and 2018. The Company also uses a variety of independent, bonded commercial warehouses to store its green coffee beans.

In March 2015, the Company entered into a lease for office space in Vancouver, WA. This lease, which is at a monthly rental beginning April 1, 2015, expired on March 31, 2017. The lease was extended, effective as of April 1, 2017 and expiring on March 31, 2019. The lease was extended, effective as of April 1, 2019 and expiring on March 31, 2021. Rent charged to operations amounted to \$39,960 and \$38,943 for the years ended October 31, 2019 and 2018, respectively.

In December 2016, the Company entered into a lease for office and warehouse space in Burlington, WA. This lease, which is at a monthly rental beginning December 1, 2017, expired on December 31, 2018. The lease was extended, effective January 1, 2019 and expiring on December 31, 2019. Rent charged to operations amounted to \$47,143 and \$46,190 for the years ended October 31, 2019 and 2018, respectively.

In April 2017, the Company entered into a lease for office and warehouse space in North Andover, MA. This lease, which is at a monthly rental beginning April 1, 2017, expires on May 31, 2028 and includes charges for common areas and utilities. Rent charged to operations amounted to \$233,754 and \$233,750 for the years ended October 31, 2019 and 2018, respectively.

In April 2018, the Company through its joint venture Generations Coffee Company, LLC entered into a lease for office and warehouse space in Madison, WI. This lease, which is at a monthly rental beginning April 1, 2018, expires on September 30, 2024 and includes charges for common areas and utilities. Rent charged to operations amounted to \$117,149 and \$57,521 for the years ended October 31, 2019 and 2018, respectively.

The aggregate minimum future lease payments as of October 31, 2019 for each of the next five years and thereafter are as follows:

October 31,

2020	\$	590,745
2021		540,588
2022		522,120
2023		524,607
2024		311,678
Thereafter		603,032
	<u>\$</u>	<u>3,092,770</u>

**401 (K) RETIREMENT PLAN:**

The Company has a 401(k) Retirement Plan, which covers all the full time employees who have completed one year of service and have reached their 21<sup>st</sup> birthday. The Company matches 100% of the aggregate salary reduction contribution up to the first 3% of compensation and 50% of aggregate contribution of the next 2% of compensation. Contributions to the plan aggregated \$89,577 and \$77,341 for the years ended October 31, 2019 and 2018, respectively.

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**NOTE 10 - ECONOMIC DEPENDENCY:**

Approximately 19% of the Company's sales were derived from six customers during the year ended October 31, 2019. These customers also accounted for approximately \$3,109,000 or 33% of the Company's accounts receivable balance at October 31, 2019. Approximately 26% of the Company's sales were derived from four customers during the year ended October 31, 2018. These customers also accounted for approximately \$2,856,000 or 29% of the Company's accounts receivable balance at October 31, 2018. 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 and other allowances that management believes will adequately provide for credit losses.

For the year ended October 31, 2019, approximately 26% of the Company's purchases were from six vendors. These vendors accounted for approximately \$1,005,000 of the Company's accounts payable at October 31, 2019. For the year ended October 31, 2018, approximately 26% of the Company's purchases were from six vendors. These vendors accounted for approximately \$726,000 of the Company's accounts payable at October 31, 2018. 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 following table presents revenues by product line for the years ended October 31, 2019 and 2018.

	2019	2018
Green	\$ 32,849,195	\$ 39,538,059
Packaged	53,618,237	51,117,235
Totals	<u>\$ 86,467,432</u>	<u>\$ 90,655,294</u>

**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, which is a component of cost of sales, are expenses incurred from the Partner during the years ended October 31, 2019 and 2018 of \$401,227 and \$447,140, respectively.

An employee of one of the top two vendors is a director of the Company. Purchases from that vendor totaled approximately \$8,300,000 and \$9,100,000 for the years ended October 31, 2019 and 2018, respectively. The corresponding accounts payable balance to this vendor was approximately \$840,000 and \$215,000 at October 31, 2019 and 2018, 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 CEO. Within the plan guidelines, this employee is deferring a portion of his current salary and bonus. The deferred compensation payable represents the liability due to an officer of the Company. The deferred compensation liability at October 31, 2019 and 2018 was \$378,453 and \$532,726, respectively. Deferred compensation expenses included in officers' salaries were \$0 during the years ended October 31, 2019 and 2018, respectively.



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**NOTE 12 - 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 twelve months ended October 31, 2019. The Company purchased 236,586 shares for \$1,129,050 during the year ended October 31, 2018.
- b. *Share Repurchase Program.* On September 10, 2017, the Company announced that the Board of Directors had approved a share repurchase program (the "2017 Share Repurchase Program") pursuant to which the Company may repurchase up to \$2 million of the outstanding common stock from time to time on the open market and in privately negotiated transactions subject to market conditions, share price and other factors. The timing and amount of any shares repurchased will be determined based on the Company's evaluation of market conditions and other factors. The 2017 Share Repurchase Program may be discontinued or suspended at any time. Pursuant to the terms of the 2017 Share Repurchase Program, the Company purchased 236,586 shares for \$1,129,050 during the year ended October 31, 2018. As of October 31, 2018, the 2017 Share Repurchase Program has been discontinued.

Stock Options. The Company has an incentive stock plan, the 2013 Equity Compensation Plan (the "2013 Plan"), and on April 19, 2019, has granted stock options to employees, officers and non-employee directors from the 2013 Plan. Options granted under the 2013 Plan may be Incentive Stock Options or Nonqualified Stock Options, as determined by the Administrator at the time of grant. As of July 31, 2019, the Board of Directors approved 1,000,000 options.

During the year ended October 31, 2019, the Company granted stock option awards to five board members to purchase an aggregate 59,000 shares of the Company's common stock at \$5.43 per share.

The stock options have an expected term of six years and will vest over a twelve month service period.

The stock options have an aggregate grant date fair value of approximately \$233,050. The Company also granted stock option awards to certain officers and employees to purchase an aggregate of 941,000 shares of the Company's common stock at an exercise price of \$5.43 per share. The stock options have an expected term of six years and will vest over a three year service period. These stock options have an aggregate grant date fair value of approximately \$2,277,220.

The following table represents stock option activity for the year ended October 31, 2019:

	Stock Options		Exercise Price		Contractual Life (Years)	Aggregate Intrinsic Value
	Outstanding	Exercisable	Outstanding	Exercisable		
Balance October 31, 2018	-	-	-	-	-	-
Granted	1,000,000	-	\$ 5.43	-	10	-
Exercised	-	-	-	-	-	-
Cancelled	-	-	-	-	-	-
Balance July 31, 2019	1,000,000	-	\$ 5.43	-	10	-

**COFFEE HOLDING CO., INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**OCTOBER 31, 2019 AND 2018**

**NOTE 12 - STOCKHOLDERS' EQUITY (con'd):**

The Company recorded \$476,899 of stock-based compensation, which is included in selling and administrative costs for the year ended October 31, 2019.

The outstanding stock compensation expense as of October 31, 2019 was approximately \$2,033,371.

**NOTE 13 - FAIR VALUE MEASUREMENTS:**

Fair value is 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.

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 11.

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 and liabilities that are measured at fair value on a recurring basis and are categorized using the fair value hierarchy.

	<b>Fair Value Measurements as of October 31, 2019</b>			
	<b>Total</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
<b>Assets:</b>				
Money market	378,453	378,453	–	–
Commodities – Futures	159,887		159,887	
<b>Total Assets</b>	<b>\$ 538,340</b>	<b>\$ 378,453</b>	<b>\$ 159,887</b>	<b>–</b>
<b>Liabilities:</b>				
Commodities – Options	(58,856)	–	(58,856)	–
<b>Total Liabilities</b>	<b>\$ (58,856)</b>	<b>–</b>	<b>\$ (58,856)</b>	<b>–</b>

COFFEE HOLDING CO., INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
OCTOBER 31, 2019 AND 2018

**NOTE 13 - FAIR VALUE MEASUREMENTS (con't):**

	Total	Fair Value Measurements as of October 31, 2018		
		Level 1	Level 2	Level 3
<b>Assets:</b>				
Money market	532,726	532,726	-	-
Commodities – Futures	17,880		17,880	
<b>Total Assets</b>	<b>\$ 550,606</b>	<b>\$ 532,726</b>	<b>\$ 17,880</b>	<b>-</b>
<b>Liabilities:</b>				
Commodities – Options	(39,926)	-	(39,926)	-
<b>Total Liabilities</b>	<b>\$ (39,926)</b>	<b>-</b>	<b>\$ (39,926)</b>	<b>-</b>

**NOTE 14 - SUBSEQUENT EVENTS:**

The Company evaluates events that have occurred after the balance sheet date but before the financial statements are issued. Based upon the evaluation, the Company did not identify any recognized or non-recognized subsequent events that would have required further adjustment or disclosure in the consolidated financial statements.



## DESCRIPTION OF CAPITAL STOCK

The following is a summary of all material characteristics of our capital stock as set forth in our articles of incorporation and bylaws. The summary does not purport to be complete and is qualified in its entirety by reference to our articles of incorporation and bylaws and applicable provisions of the Nevada Revised Statutes, as amended ("NRS").

### **Common Stock**

We are authorized to issue 30,000,000 shares of common stock with a par value of \$0.001 per share. As of January 25, 2018, there were 5,742,894 shares of common stock issued and outstanding.

The following summary of the terms of our common stock is subject to and qualified in its entirety by reference to our articles of incorporation and bylaws, copies of which are on file with the SEC as exhibits to previous SEC filings.

### ***Voting Rights***

Each outstanding share of common stock is entitled to one vote on all matters submitted to a vote of stockholders. There are no cumulative voting rights. Removal of directors requires the vote, in addition to any vote required by law, of not less than eighty percent (80%) of the total votes eligible to be cast by the holders of all outstanding shares of capital stock entitled to vote generally in the election of directors at a meeting of stockholders expressly called for that purpose. The approval of the holders of at least eighty percent (80%) of the outstanding shares of voting stock of the Corporation is required in connection with certain "Business Combinations" with an Interested Stockholder, as defined in the NRS, after the expiration of three years after the date the person becomes an Interested stockholder, except in cases where the proposed Business Combination has been approved in advance by a majority of those members of the board of directors who are unaffiliated with the Interested Stockholder and who were directors prior to the time when the Interested Stockholder became an Interested Stockholder. Any alteration, amendment, repeal or rescission of any provision of our articles of incorporation must be approved by the affirmative vote of the holders of at least eighty percent (80%) of the total votes eligible to be cast by the holders of all outstanding shares of capital stock entitled to vote thereon; provided, however, if a majority of the board of directors recommends the change, then such change shall only require the affirmative vote of the holders of a majority of the total votes eligible to be cast by the holders of all outstanding shares of Capital Stock entitled to vote thereon. Any bylaw may be altered, amended, rescinded, or repealed by the holders of eighty percent (80%) of the shares of capital stock entitled to vote thereon at any annual meeting or at any special meeting called for that purpose. Notwithstanding the foregoing, any provision of the bylaws that contains a supermajority voting requirement shall only be altered, amended, rescinded, or repealed by a vote of the board of directors or holders of shares of capital stock entitled to vote thereon that is not less than the supermajority specified in such provision.

### ***Dividends***

Each stockholder is entitled to receive the dividends as may be declared by our board of directors out of funds legally available for dividends and, in the event of liquidation, to share pro rata in any distribution of our assets after payment of liabilities. Our board of directors is not obligated to declare a dividend. Any future dividends will be subject to the discretion of our board of directors and will depend upon, among other things, future earnings, the operating and financial condition of our company, its capital requirements, general business conditions and other pertinent factors.

### ***Other Rights***

Upon liquidation, dissolution or winding up of the corporation, the holders of common stock are entitled to share ratably in all net assets available for distribution to stockholders after payment to creditors. Our common stock is not convertible or redeemable and has no preemptive, subscription or conversion rights. There is no conversion, redemption, sinking fund or similar provisions regarding our common stock.

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## **Transfer Agent**

The transfer agent and registrar for our Common Stock is Direct Transfer LLC. Its address is 500 Perimeter Park Drive, Suite D, Morrisville, North Carolina 27560 and its telephone number is (919) 481-4000. The transfer agent and registrar for any series or class of preferred stock will be set forth in the applicable prospectus supplement.

## **Preferred Stock**

We are authorized to issue up to 10,000,000 shares of preferred stock, par value \$0.001 per share, with such designations, rights, and preferences as may be determined from time to time by our board of directors. Accordingly, our board of directors is empowered, without stockholder approval, to issue preferred stock with dividend, liquidation, conversion, voting, or other rights that could adversely affect the voting power or other rights of the holders of our common stock. The issuance of preferred stock could have the effect of restricting dividends on our common stock (if any are declared), diluting the voting power of our common stock, impairing the liquidation rights of our common stock, or delaying or preventing a change in control of our company, all without further action by our stockholders. As of the date of this Annual Report on Form 10-K, no shares of our preferred stock were outstanding.

## **Stock Options**

We had issued and outstanding options to purchase up to 1,000,000 shares of common stock, exercisable at \$5.43 per share.

## **Anti-Takeover Effects of Certain Provisions of Nevada Law and Our Articles of Incorporation and Bylaws**

Our articles of incorporation and bylaws contain a number of provisions that could make our acquisition by means of a tender or exchange offer, a proxy contest or otherwise more difficult. Certain of these provisions are summarized below.

### ***Classified Board of Directors***

Pursuant to our articles of incorporation, the directors constituting our board of directors are classified, with respect to the time for which they severally hold office, into three classes as nearly equal in number as possible. At each annual meeting of stockholders, the successors of the class of directors whose term expires at that meeting are elected to hold office for a term expiring at the annual meeting of stockholders held in the third year following the year of their election. The articles of incorporation do provide, however, that directors may be removed at any time upon the approval of eighty percent (80%) of the total votes eligible to be cast by the holders of all outstanding shares of capital stock entitled to vote at a meeting expressly called by stockholders for such purpose.

Our classified board of directors may have an anti-takeover effect of making more difficult and discouraging a takeover attempt, merger, tender offer, or proxy fight. Additionally, our classified board of directors extends the time it would take for holders of a majority of our shares to remove incumbent management to obtain control of the board of directors. That is, as a general matter a majority shareholder could not obtain control of the board of directors until the second annual shareholder's meeting after it acquired a majority of the voting stock. Our classified board of directors may have the effect of making it more difficult for stockholders to remove our existing management.

### ***Special Meetings***

Our articles of incorporation provide that special meetings of our stockholders may, unless otherwise prescribed by law, be called only by resolution of a majority of the directors of the board then in office, by resolution of a majority of the disinterested directors then in office, or upon written application, by stockholders holding at least 80% of the capital stock entitled to vote at the meeting. Our stockholders are not permitted to act by written consent pursuant to our articles of incorporation.

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## ***Business Combinations Act***

The Business Combinations Act, Sections 78.411 to 78.444 of the NRS, restricts the ability of a Nevada "resident domestic corporation" having at least 200 stockholders of record to engage in any "combination" with an "interested stockholder" for two (2) years after the date that the person first became an interested stockholder, unless the combination meets all of the requirements of the articles of incorporation of the resident domestic corporation and (i) the purchase of shares by the interested stockholder is approved by the board of directors before that date or (ii) the combination is approved by the board of directors of the resident domestic corporation and, at or after that time, the combination is approved at an annual or special meeting of the stockholders of the resident domestic corporation, and not by written consent, by the affirmative vote of the holders of stock representing at least sixty percent (60%) of the outstanding voting power of the resident domestic corporation not beneficially owned by the interested stockholder or the affiliates or associates of the interested stockholder.

If this approval is not obtained, then after the expiration of the two (2) year period, the business combination may still not be consummated unless it is a combination meeting all of the requirements of the articles of incorporation of the resident domestic corporation and either the "fair price" requirements specified in NRS 78.441 to 78.444, inclusive are satisfied or the combination is (a) a combination or transaction by which the person first became an interested stockholder is approved by the board of directors of the resident domestic corporation before the person first became an interested stockholder, or (b) a combination approved by a majority of the outstanding voting power of the resident domestic corporation not beneficially owned by the interested stockholder, or any affiliate or associate of the interested stockholder.

"Interested stockholder" means any person, other than the resident domestic corporation or its subsidiaries, who is (a) the beneficial owner, directly or indirectly, of 10% or more of the voting power of the outstanding voting shares of the resident domestic corporation or (b) an affiliate or associate of the resident domestic corporation and at any time within two years immediately before the date in question was the beneficial owner, directly or indirectly, of 10% or more of the voting power of the then outstanding shares of the resident domestic corporation.

A "combination" is broadly defined and includes, for example, any merger or consolidation of a corporation or any of its subsidiaries with (i) an interested stockholder or (ii) any other entity that after and as a result of the merger or consolidation would be an affiliate or associate of the interested stockholder; or any sale, lease, exchange, pledge, transfer or other disposition of assets of the corporation, in one transaction or a series of transactions, to or with an interested stockholder having: (x) an aggregate market value equal to more than 5% of the aggregate market value of the assets of a corporation, (y) an aggregate market value equal to more than 5% of the aggregate market value of all outstanding voting shares of a corporation, or (z) representing more than 10% of the earning power or net income of a corporation.

The provisions of Nevada law, our articles of incorporation and our bylaws could have the effect of discouraging others from attempting hostile takeovers and, as a consequence, they may also inhibit temporary fluctuations in the market price of our common stock that often result from actual or rumored hostile takeover attempts. These provisions may also have the effect of preventing changes in our management. It is possible that these provisions could make it more difficult to accomplish transactions that stockholders may otherwise deem to be in their best interests.

### **Limitations of Director Liability and Indemnification of Directors, Officers and Employees**

Neither our articles of incorporation nor bylaws prevent us from indemnifying our officers, directors and agents to the extent permitted under the NRS. NRS Section 78.7502, provides that a corporation shall indemnify any director, officer, employee or agent of a corporation against expenses, including attorneys' fees, actually and reasonably incurred by him in connection with any defense to the extent that a director, officer, employee or agent of a corporation has been successful on the merits or otherwise in defense of any action, suit or proceeding referred to Section 78.7502(1) or 78.7502(2), or in defense of any claim, issue or matter therein. NRS 78.7502(1) provides that a corporation may indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative, except an action by or in the right of the corporation, by reason of the fact that he is or was a director, officer, employee or agent of the corporation, or is or was serving at the request of the corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise, against expenses, including attorneys' fees, judgments, fines and amounts paid in settlement actually and reasonably incurred by him in connection with the action, suit or proceeding if he: (a) is not liable pursuant to NRS 78.138; or (b) acted in good faith and in a manner which he reasonably believed to be in or not opposed to the best interests of the corporation, and, with respect to any criminal action or proceeding, had no reasonable cause to believe his conduct was unlawful.

NRS Section 78.7502(2) provides that a corporation may indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action or suit by or in the right of the corporation to procure a judgment in its favor by reason of the fact that he is or was a director, officer, employee or agent of the corporation, or is or was serving at the request of the corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise against expenses, including amounts paid in settlement and attorneys' fees actually and reasonably incurred by him in connection with the defense or settlement of the action or suit if he: (a) is not liable pursuant to NRS 78.138; or (b) acted in good faith and in a manner which he reasonably believed to be in or not opposed to the best interests of the corporation.

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**COFFEE HOLDING CO., INC.**

**Significant Subsidiaries**

**Name of Entity**

**Jurisdiction**

Organic Products Trading Company, LLC

United States, Washington

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**Certification of Principal Executive Officer and Principal Financial Officer  
Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002**

I, Andrew Gordon, certify that:

1. I have reviewed this annual report on Form 10-K for the period ended October 31, 2019 of Coffee Holding Co., Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. I am responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under my supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to me by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal controls over financial reporting, or caused such internal control over financial reporting to be designed under my supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report my conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's fourth fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. I have disclosed, based on my most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: January 29, 2020

*/s/ Andrew Gordon*

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Andrew Gordon  
President, Chief Executive Officer, Chief Financial Officer and Treasurer  
(Principal Executive Officer, Principal Financial Officer, Chief Accounting Officer)

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**Statement Furnished Pursuant to Section 906 of the  
Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350**

The undersigned, Andrew Gordon, is the President, Chief Executive Officer and Chief Financial Officer of Coffee Holding Co., Inc. (the "Company").

This statement is being furnished in connection with the filing by the Company of the Company's Annual Report on Form 10-K for the period ended October 31, 2019 (the "Report").

By execution of this statement, I certify that:

- A) the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m(a) or 78o(d)); and
- B) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company as of the dates and for the periods covered by the Report.

This statement is authorized to be attached as an exhibit to the Report so that this statement will accompany the Report at such time as the Report is filed with the Securities and Exchange Commission, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350. It is not intended that this statement be deemed to be filed for purposes of the Securities Exchange Act of 1934, as amended.

A signed original of this written statement required by Section 906 has been provided to Coffee Holding Co., Inc. and will be retained by Coffee Holding Co., Inc. and furnished to the Securities and Exchange Commission or its staff upon request.

Date: January 29, 2020

*/s/ Andrew Gordon*

Andrew Gordon

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

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