

SECURITIES & EXCHANGE COMMISSION EDGAR FILING

COFFEE HOLDING CO INC

Form: 10-Q

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Corporate Issuer CIK: 1007019

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended: **July 31, 2020**

OR

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

For the transition period from _____ to _____

Commission file number: **001-32491**

Coffee Holding Co., Inc.

(Exact name of registrant as specified in its charter)

Nevada

*(State or other jurisdiction
of incorporation or organization)*

11-2238111

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

3475 Victory Boulevard, Staten Island, New York

(Address of principal executive offices)

10314

(Zip Code)

(718) 832-0800

(Registrant's telephone number including area code)

N/A

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

| Title of each class | Trading Symbol(s) | Name of each exchange on which registered |
|---|-------------------|---|
| Common Stock, par value \$0.001 per share | JVA | The Nasdaq Capital Market |

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such period that the registrant was required to submit 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 emerging growth company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

| | | | |
|-------------------------|-------------------------------------|---------------------------|-------------------------------------|
| Large accelerated filer | <input type="checkbox"/> | Accelerated filer | <input type="checkbox"/> |
| Non-accelerated filer | <input checked="" type="checkbox"/> | Smaller reporting company | <input checked="" type="checkbox"/> |
| | | Emerging growth company | <input type="checkbox"/> |

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 Exchange Act). Yes No

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

5,569,349 shares of common stock, par value \$0.001 per share, are outstanding at September 14, 2020.

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PART I

ITEM 1 – FINANCIAL STATEMENTS.

COFFEE HOLDING CO., INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
JULY 31, 2020 AND OCTOBER 31, 2019

| | July 31, 2020 (Unaudited) | October 31, 2019 |
|---|------------------------------|----------------------|
| - ASSETS - | | |
| CURRENT ASSETS: | | |
| Cash | \$ 2,192,778 | \$ 2,402,556 |
| Accounts receivable, net of allowances of \$144,000 for 2020 and 2019 | 6,833,826 | 9,421,427 |
| Inventories | 18,541,976 | 18,841,225 |
| Due from broker | 456,110 | 101,031 |
| Prepaid expenses and other current assets | 708,189 | 587,626 |
| Prepaid and refundable income taxes | 231,776 | 385,934 |
| TOTAL CURRENT ASSETS | 28,964,655 | 31,739,799 |
| Machinery and equipment, at cost, net of accumulated depreciation of \$7,449,842 and \$6,931,913 for 2020 and 2019, respectively | 2,314,434 | 2,413,533 |
| Customer list and relationships, net of accumulated amortization of \$183,691 and \$151,627 for 2020 and 2019, respectively | 501,309 | 533,373 |
| Trademarks and tradenames | 1,488,000 | 1,488,000 |
| Non-compete, net of accumulated amortization of \$44,550 and \$29,700 for 2020 and 2019, respectively | 54,450 | 69,300 |
| Goodwill | 2,488,785 | 2,488,785 |
| Equity method investments | 81,469 | 86,008 |
| Deferred income tax asset | 487,500 | 480,473 |
| Right of use asset | 2,186,882 | |
| Deposits and other assets | 312,609 | 387,453 |
| TOTAL ASSETS | \$ 38,880,093 | \$ 39,686,724 |
| - LIABILITIES AND STOCKHOLDERS' EQUITY - | | |
| CURRENT LIABILITIES: | | |
| Accounts payable and accrued expenses | \$ 2,906,586 | \$ 4,344,015 |
| Line of credit | | 7,167,740 |
| Note payable – current portion | 2,220 | - |
| Paycheck Protection Program loan | 634,400 | |
| Lease liability – current portion | 464,517 | - |
| Income taxes payable | 317 | 100 |
| TOTAL CURRENT LIABILITIES | 4,008,040 | 11,511,855 |
| Deferred income tax liabilities | 952,732 | 872,232 |
| Line of credit – long term | 3,796,822 | - |
| Deferred rent payable | | 193,461 |
| Lease liability | 1,883,681 | - |
| Note payable – long term | 21,377 | - |
| Deferred compensation payable | 303,609 | 378,453 |
| TOTAL LIABILITIES | 10,966,261 | 12,956,001 |
| Commitments and Contingencies | | |
| STOCKHOLDERS' EQUITY: | | |
| Coffee Holding Co., Inc. stockholders' equity: | | |
| Preferred stock, par value \$.001 per share; 10,000,000 shares authorized; none issued | - | - |
| Common stock, par value \$.001 per share; 30,000,000 shares authorized, 6,494,680 shares issued; 5,569,349 shares outstanding for 2020 and 2019, respectively | 6,494 | 6,494 |
| Additional paid-in capital | 17,259,683 | 16,580,974 |
| Retained earnings | 13,600,163 | 13,310,169 |
| Less: Treasury stock, 925,331 common shares, at cost for 2020 and 2019, respectively | (4,633,560) | (4,633,560) |
| Total Coffee Holding Co., Inc. Stockholders' Equity | 26,232,780 | 25,264,077 |
| Noncontrolling interest | 1,681,052 | 1,466,646 |
| TOTAL EQUITY | 27,913,832 | 26,730,723 |
| TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY | \$ 38,880,093 | \$ 39,686,724 |

See Notes to Condensed Consolidated Financial Statements

COFFEE HOLDING CO., INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
NINE AND THREE MONTHS ENDED JULY 31, 2020 AND 2019
(Unaudited)

| | Nine Months Ended July 31, | | Three Months Ended July 31, | |
|--|-------------------------------|-------------------|--------------------------------|------------------|
| | 2020 | 2019 | 2020 | 2019 |
| NET SALES | \$ 56,725,386 | \$ 65,944,583 | \$ 17,344,009 | \$ 21,594,285 |
| COST OF SALES (including \$4.5 and \$5.9 million of related party costs for the nine months ended July 31, 2020 and 2019, respectively. Including \$1.5 and \$1.8 million for the three months ended July 31, 2020 and 2019, respectively.) | 45,287,198 | 53,705,272 | 13,517,482 | 17,465,685 |
| GROSS PROFIT | 11,438,188 | 12,239,311 | 3,826,527 | 4,128,600 |
| OPERATING EXPENSES: | | | | |
| Selling and administrative | 10,032,993 | 10,853,495 | 3,081,985 | 3,701,112 |
| Officers' salaries | 497,654 | 530,750 | 170,250 | 170,250 |
| TOTAL | 10,530,647 | 11,384,245 | 3,252,235 | 3,871,362 |
| INCOME (LOSS) FROM OPERATIONS | 907,541 | 855,066 | 574,292 | 257,238 |
| OTHER INCOME (EXPENSE) | | | | |
| Interest income | 2,944 | 8,903 | 247 | 3,548 |
| Loss from equity method investment | (4,539) | (2,691) | (1,547) | (2,613) |
| Interest expense | (150,742) | (195,493) | (45,283) | (64,625) |
| TOTAL | (152,337) | (189,281) | (46,583) | (63,690) |
| INCOME BEFORE PROVISION FOR INCOME TAXES AND NON-CONTROLLING INTEREST IN SUBSIDIARY | 755,204 | 665,785 | 527,709 | 193,548 |
| Provision for income taxes | 250,804 | 115,543 | 161,454 | 34,413 |
| NET INCOME BEFORE NON-CONTROLLING INTEREST IN SUBSIDIARY | 504,400 | 550,242 | 366,255 | 159,135 |
| Less: Net (income) loss attributable to the non-controlling interest | (214,406) | (362,501) | 25,069 | (47,641) |
| NET INCOME ATTRIBUTABLE TO COFFEE HOLDING CO., INC. | \$ 289,994 | \$ 187,741 | \$ 391,324 | \$ 111,494 |
| Basic and diluted earnings per share | \$.05 | \$.03 | \$.07 | \$.02 |
| Weighted average common shares outstanding: | | | | |
| Basic and diluted | 5,569,349 | 5,569,349 | 5,569,349 | 5,569,349 |

See Notes to Condensed Consolidated Financial Statements

COFFEE HOLDING CO., INC.
CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
THREE AND NINE MONTHS ENDED JULY 31, 2020 AND 2019
(Unaudited)

| | <u>Common Stock</u> | | <u>Treasury Stock</u> | | <u>Additional Paid-in Capital</u> | <u>Retained Earnings</u> | <u>Non- Controlling Interest</u> | <u>Total</u> |
|---------------------------|---------------------|---------------|-----------------------|---------------|---|------------------------------|--|---------------|
| | <u>Shares</u> | <u>Amount</u> | <u>Shares</u> | <u>Amount</u> | | | | |
| Balance, November 1, 2018 | 5,569,349 | \$ 6,494 | 925,331 | \$(4,633,560) | \$ 16,104,075 | \$ 13,404,767 | \$ 1,108,042 | \$ 25,989,818 |
| Net income | | | | | | 314,715 | | 314,715 |
| Non-Controlling Interest | | | | | | | 185,054 | 185,154 |
| Balance, January 31, 2019 | 5,569,349 | \$ 6,494 | 925,331 | \$(4,633,560) | \$ 16,104,075 | \$ 13,719,482 | \$ 1,293,096 | \$ 26,489,587 |
| Stock Compensation | | | | | 25,000 | | | 25,000 |
| Non-Controlling Interest | | | | | | | 129,806 | 129,806 |
| Net loss | | | | | | (238,468) | | (238,468) |
| Balance, April 30, 2019 | 5,569,349 | \$ 6,494 | 925,331 | \$(4,633,560) | \$ 16,129,075 | \$ 13,481,014 | \$ 1,422,902 | \$ 26,405,925 |
| Stock Compensation | | | | | 203,868 | | | 203,868 |
| Non-Controlling Interest | | | | | | | 47,641 | 47,641 |
| Net income | | | | | | 111,494 | | 111,494 |
| Balance, July 31, 2019 | 5,569,349 | \$ 6,494 | 925,331 | \$(4,633,560) | \$ 16,332,943 | \$ 13,592,508 | \$ 1,470,543 | \$ 26,768,928 |
| Balance, November 1, 2019 | 5,569,349 | \$ 6,494 | 925,331 | \$(4,633,560) | \$ 16,580,974 | \$ 13,310,169 | \$ 1,466,646 | \$ 26,730,723 |
| Stock Compensation | | | | | 248,031 | | | 248,031 |
| Net loss | | | | | | (599,848) | | (599,848) |
| Non-Controlling Interest | | | | | | | 48,664 | 48,664 |
| Balance, January 31, 2020 | 5,569,349 | \$ 6,494 | 925,331 | \$(4,633,560) | \$ 16,829,005 | \$ 12,710,321 | \$ 1,515,310 | \$ 26,427,570 |
| Stock Compensation | | | | | 240,909 | | | 240,909 |
| Non-Controlling Interest | | | | | | | 190,811 | 190,811 |
| Net income | | | | | | 498,518 | | 498,518 |
| Balance, April 30, 2020 | 5,569,349 | \$ 6,494 | 925,331 | \$(4,633,560) | \$ 17,069,914 | \$ 13,208,839 | \$ 1,706,121 | \$ 27,357,808 |
| Stock Compensation | | | | | 189,769 | | | 189,769 |
| Net income | | | | | | 391,324 | | 391,324 |
| Non-Controlling Interest | | | | | | | (25,069) | (25,069) |
| Balance, July 31, 2020 | 5,569,349 | \$ 6,494 | 925,331 | \$(4,633,560) | \$ 17,259,683 | \$ 13,600,163 | \$ 1,681,052 | \$ 27,913,832 |

See Notes to Condensed Consolidated Financial Statements

COFFEE HOLDING CO., INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
NINE MONTHS ENDED JULY 31, 2020 AND 2019
(Unaudited)

| | 2020 | 2019 |
|---|---------------------|---------------------|
| OPERATING ACTIVITIES: | | |
| Net income | \$ 504,400 | \$ 550,242 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 564,843 | 547,483 |
| Stock-based compensation | 678,709 | 228,868 |
| Unrealized (gain) loss on commodities | (355,079) | 74,658 |
| Loss on equity method investments | 4,539 | 2,691 |
| Deferred rent | - | (36,151) |
| Amortization of right to use asset | 325,140 | - |
| Deferred income taxes | 73,473 | (43,988) |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | 2,587,601 | 1,421,655 |
| Inventories | 299,249 | (2,431,050) |
| Prepaid expenses and other current assets | (120,563) | (107,498) |
| Prepaid and refundable income taxes | 154,158 | 94,567 |
| Accounts payable and accrued expenses | (1,437,428) | (1,206,027) |
| Change in lease liability | (357,286) | - |
| Deposits and other assets | | (5,885) |
| Income taxes payable | 217 | (1,305) |
| Net cash provided by (used in) operating activities | 2,921,973 | (911,740) |
| INVESTING ACTIVITIES: | | |
| Purchases of machinery and equipment | (392,023) | (568,235) |
| Net cash used in investing activities | (392,023) | (568,235) |
| FINANCING ACTIVITIES: | | |
| Advances under bank line of credit | 1,141,132 | 7,626 |
| Proceeds from PPP loan | 634,400 | |
| Principal payment on note payable | (3,210) | (70,255) |
| Principal payments under bank line of credit | (4,512,050) | (500,000) |
| Net cash used in financing activities | (2,739,728) | (562,629) |
| NET DECREASE IN CASH | (209,778) | (2,042,604) |
| CASH, BEGINNING OF PERIOD | 2,402,556 | 4,611,384 |
| CASH, END OF PERIOD | \$ 2,192,778 | \$ 2,568,780 |
| | 2020 | 2019 |
| SUPPLEMENTAL DISCLOSURE OF CASH FLOW DATA: | | |
| Interest paid | \$ 159,484 | \$ 197,216 |
| Income taxes paid | \$ 22,956 | \$ 66,269 |
| SUPPLEMENTAL DISCLOSURE OF NON-CASH INVESTING AND FINANCING ACTIVITIES: | | |
| Initial recognition of operating lease right of use asset | \$ 2,512,022 | |
| Initial recognition of operating lease liabilities | \$ 2,705,484 | |
| Machinery and equipment acquired through financing | \$ 26,807 | |

See Notes to Condensed Consolidated Financial Statements

COFFEE HOLDING CO., INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
JULY 31, 2020
(UNAUDITED)

NOTE 1 - BUSINESS ACTIVITIES:

Coffee Holding Co., Inc. (the "Company") conducts wholesale coffee operations, including manufacturing, roasting, packaging, marketing and distributing roasted and blended coffees for private labeled accounts and its own brands, and it sells green coffee. The Company also manufactures and sells coffee roasters. 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 - BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICY:

The following (a) condensed consolidated balance sheet as of October 31, 2019, which has been derived from our audited financial statements, and (b) the unaudited interim condensed financial statements have been prepared by the Company pursuant to the rules and regulations of the Securities and Exchange Commission (the "SEC"). Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles ("U.S. GAAP") have been condensed or omitted pursuant to those rules and regulations, although the Company believes that the disclosures made are adequate to make the information not misleading. It is suggested that these condensed consolidated financial statements be read in conjunction with the consolidated financial statements and the notes thereto included in the Company's latest shareholders' annual report on Form 10-K filed with the SEC on January 29, 2020 for the fiscal year ended October 31, 2019 ("Form 10-K").

In the opinion of management, all adjustments (which include normal and recurring nature adjustments) necessary to present a fair statement of the Company's financial position as of July 31, 2020, and results of operations for the three and nine months ended July 31, 2020 and the cash flows for the nine months ended July 31, 2020 as applicable, have been made.

COFFEE HOLDING CO., INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
JULY 31, 2020
(UNAUDITED)

NOTE 2 - BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICY (cont'd):

The results of operations for the three and nine months ended July 31, 2020 are not necessarily indicative of the operating results for the full fiscal year or any future periods.

The condensed consolidated financial statements include the accounts of the Company, the Company's subsidiaries, Organic Products Trading Company, LLC ("OPTCO"), Sonofresco, LLC ("SONO"), Comfort Foods, Inc. ("CFI") and Generations Coffee Company, LLC ("GCC"), the entity formed as a result of the Company's joint venture with Caruso's Coffee, Inc. The Company owns a 60% equity interest in GCC. All significant inter-company transactions and balances have been eliminated in consolidation.

COVID-19

The global outbreak of COVID-19 was declared a pandemic by the World Health Organization and a national emergency by the U.S. government in March 2020 and has negatively affected the U.S. and global economies, disrupted global supply chains, resulted in significant travel and transport restrictions, mandated closures and stay-at-home orders, and created significant disruption of the financial markets. During the quarter the Company received an unsecured loan in the amount of \$634,400 (the "PPP Loan") under the Paycheck Protection Program (the "PPP") which was established under the Coronavirus Aid, Relief and Economic Security Act ("the CARES Act"). Under the CARES Act, loan forgiveness is available for the sum of documented payroll costs, covered rent payments and covered utilities during the measurement period beginning on the date of first disbursement of the PPP Loans. For purposes of the CARES Act, payroll costs exclude compensation of an individual employee in excess of \$100,000, prorated annually. Not more than 40% of the forgiven amount can be attributable to non-payroll costs. The receipt of these funds, and the forgiveness of the loan attendant to these funds, is dependent on the Company having initially qualified for the PPP Loans and qualifying for the forgiveness of the PPP Loans based on its future adherence to the forgiveness criteria.

The continuing impact on the Company's business, including the decrease in our sales, the length and impact of stay-at-home orders and/or regional quarantines, labor shortages and employment trends, disruptions to supply chains, including its ability to obtain products from global suppliers, higher operating costs, the form and impact of economic stimulus and general overall economic instability, has contributed to and may continue to have a material adverse effect on the Company's business, results of operations, financial condition and cash flows. At this time the full impact could not be determined.

Significant Accounting Policy

Revenue Recognition

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 10 for revenue disaggregated by product line.

Share-Based Payment

The Company accounts for share-based payments using the fair value method. For employees and directors, the fair value of the award is measured, as discussed below, on the grant date. The Company has granted stock options at an exercise price equal to the closing price of the Company's common stock as reported by Nasdaq. Upon exercise of an option, the Company issues new shares of common stock out of its authorized shares.

COFFEE HOLDING CO., INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
JULY 31, 2020
(UNAUDITED)

NOTE 2 - BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICY (cont'd):

The weighted-average fair value of options has been estimated on the grant date using the Black-Scholes pricing model. The fair value of each instrument is estimated on the grant date utilizing certain assumptions for a risk-free interest rate, volatility and expected remaining lives of the awards. The risk-free interest rate used is the United States Treasury rate for the day of the grant having a term equal to the life of the equity instrument. Beginning with the current year quarter, the fair value of stock-based payment awards issued was estimated using a volatility derived from comparable companies share price. The assumptions used in calculating the fair value of share-based payment awards represents management's best estimates, but these estimates involve inherent uncertainties and the application of management judgement. As a result, if factors change and the Company uses different assumptions, the Company's stock-based compensation expense could be materially different in the future.

The following assumptions were used as inputs to the Black Scholes option pricing model to estimate the fair value of option granted during the quarter ended July 31 2019 which are currently being expensed over the requisite service period:

| | |
|-------------------------|---------------|
| Expected Life | 10 years |
| Risk free interest rate | 2.42% - 2.57% |
| Expected volatility | 43.0% - 64.2% |
| Expected dividend yield | 0% |
| Forfeiture rate | 0% |

Recently Adopted Accounting Pronouncements

Effective November 1, 2019, the Company adopted ASC Topic 842, Leases ("ASC 842"). The new guidance increases transparency by requiring the recognition of right to use assets and lease liabilities on the statement of financial condition. The recognition of these lease assets and lease liabilities represents a change from previous US GAAP requirement, which did not require lease assets and lease liabilities to be recognized for most operating leases.

The recognition, measurement and presentation of expenses and cash flows arising from a lease, have not significantly changed from previous US GAAP requirements.

On November 1, 2019, the effective date of ASC 842, existing leases of the Company were required to be recognized and measured. Additionally any leases entered into during the year were also required to be recognized and measured. In applying ASC 842, the Company made an accounting policy election not to recognize the right of use assets and lease liabilities relating to short-term leases. Implementation of ASC 842 included an analysis of contracts, including real estate leases and service contracts to identify embedded leases, to determine the initial recognition of the right to use assets and lease liabilities, which required subjective assessment over the determination of the associated discount rates to apply in determining the lease liabilities.

The new standard provides a number of transition practical expedients, which the Company has elected, including:

- A "package of three" expedients that must be taken together and allow entities to (1) not reassess whether existing contracts contain leases, (2) carryforward the existing lease classification, and (3) not reassess initial direct costs associated with existing leases, and
- An implementation expedient which allows the requirements of the standard in the period of adoption with no restatement of prior periods.

The adoption of ASC 842 resulted in the recording of operating lease right of use assets of \$2,512,022 and operating lease liabilities of \$2,705,484 at November 1, 2019.

The Company implemented ASC 842 using the modified retrospective approach. In addition, at November 1, 2019, there was no impact to stockholder's equity upon adoption.

The Company determines if an arrangement is or contains a lease at inception. The Company's operating lease arrangement are comprised of real estate and facility leases. Right of use assets represent the Company's right to use the underlying asset for the lease term and lease liabilities represent the Company's obligation to make lease payments arising from the lease. Right of use assets and lease liabilities are recognized at the commencement date based on the present value of the lease payments over the lease term. As the Company's leases do not provide an implicit rate and the implicit rate is not readily determinable, the Company estimates its incremental borrowing rate based on the information available at the measurement date in determining the present value of the lease payments. The present value of the lease payments was determined using a 4.75% incremental borrowing rate. Right of use assets also exclude lease incentives.

The Company presents the amortization of its right to use assets and payments of related lease liabilities originating in connection with operating leases as an adjustment to reconcile net income or loss to net cash generated or used in operating activities and an operating cash outflow, respectively within the operating section of the statement of cash flows.

COFFEE HOLDING CO., INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
JULY 31, 2020
(UNAUDITED)

NOTE 2 - BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICY (cont'd):

Operating lease assets and liabilities are recognized at the lease commencement date. Operating lease liabilities represent the present value of lease payments not yet paid. Operating lease assets represent our right to use an underlying asset and are based upon the operating lease liabilities adjusted for prepayments or accrued lease payments, initial direct costs, lease incentives, and impairment of operating lease assets. To determine the present value of lease payments not yet paid, we use the Company's cost of capital based on existing debt instruments. Our material leases typically contain rent escalations over the lease term. We recognize expense for these leases on a straight-line basis over the lease term. Total expense for operating leases for the three months and nine months ended July 31, 2020 was \$138,682 and \$416,045, respectively of which, \$35,369 and \$106,106 was included within cost of goods sold and \$103,313 and \$309,939 was recorded in the selling and administrative expenses. The aggregate cash payments under these leasing agreements was \$149,556 and \$448,190 for the three and nine months ended July 31, 2020.

The following summarizes the Company's operating leases:

| | July 31, 2020 |
|-------------------------------------|---------------|
| Right-of-use operating lease assets | \$ 2,186,882 |
| Current lease liability | \$ 464,517 |
| Non-current lease liability | \$ 1,883,681 |
| | July 31, 2020 |
| Average remaining lease term | 3.6 |
| Discount rate | 4.75% |

Maturities of lease liabilities by year for our operating leases are as follows:

| | |
|--|--------------|
| 2020 | \$ 149,756 |
| 2021 | 547,788 |
| 2022 | 529,320 |
| 2023 | 531,807 |
| 2024 | 316,477 |
| Thereafter | 603,034 |
| Total lease payments | \$ 2,678,182 |
| Less: imputed interest | (329,984) |
| Present value of operating lease liabilities | \$ 2,348,198 |

COFFEE HOLDING CO., INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 3 - 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:

| | July 31, 2020 | October 31, 2019 |
|---------------------------------|----------------------|-------------------|
| 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> |

NOTE 4 - INVENTORIES:

Inventories at July 31, 2020 and October 31, 2019 consisted of the following:

| | July 31, 2020 | October 31, 2019 |
|--------------------|----------------------|----------------------|
| Packed coffee | \$ 4,221,207 | \$ 4,044,279 |
| Green coffee | 11,783,830 | 12,515,124 |
| Roasters and parts | 408,592 | 419,077 |
| Packaging supplies | 2,128,347 | 1,862,745 |
| Totals | <u>\$ 18,541,976</u> | <u>\$ 18,841,225</u> |

NOTE 5 - COMMODITIES HELD BY BROKER:

The Company has used, and intends to continue to use in a limited capacity, short term coffee futures and options contracts primarily for the purpose of partially hedging and minimizing the effects of changing green coffee prices and to reduce our cost of sales. The commodities held at broker represent the market value of the Company's trading account, which consists of options 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 condensed 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.

COFFEE HOLDING CO., INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 5 - COMMODITIES HELD BY BROKER (cont'd):

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

| | July 31, 2020 | October 31, 2019 |
|--------------------------|----------------------|-------------------|
| Option Contracts | \$ 374,874 | \$ (58,856) |
| Future Contracts | 81,236 | 159,887 |
| Total Commodities | \$ 456,110 | \$ 101,031 |

The Company classifies its options and future contracts as trading securities and accordingly, unrealized holding gains and losses are included in earnings and not reflected as a net amount as a separate component of stockholders' equity.

At July 31, 2020, the Company held 35 options covering an aggregate of 1,312,500 pounds of green coffee beans. The fair market value of these options, which was obtained from observable market data of similar instruments was \$207,938.

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.

The Company recorded realized and unrealized gains and losses respectively, on these contracts as follows:

| | Three Months Ended July 31, | |
|------------------------|------------------------------------|-------------------|
| | 2020 | 2019 |
| Gross realized gains | \$ 150,972 | \$ 364,076 |
| Gross realized losses | (525,155) | (450,602) |
| Unrealized gain (loss) | 674,015 | 529,730 |
| Total | \$ 299,832 | \$ 443,204 |

| | Nine Months Ended July 31, | |
|------------------------|-----------------------------------|-----------------------|
| | 2020 | 2019 |
| Gross realized gains | \$ 992,875 | \$ 1,078,627 |
| Gross realized losses | (1,320,080) | (2,422,128) |
| Unrealized gain (loss) | 355,079 | (74,658) |
| Total | \$ 27,874 | \$ (1,418,159) |

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NOTE 6 – DEBT:

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.

On March 13, 2020, 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, 2022 and (ii) decreases the interest rate per annum to LIBOR plus 1.75% (with such interest rate not to be lower than 3.50%). All other terms of the A7R Loan Agreement and A&R Loan Facility remain the same.

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 July 31, 2020 and October 31, 2019.

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 July 31, 2020 and October 31, 2019, the outstanding balance under the bank line of credit was \$3,796,822 and \$7,167,740, respectively.

Payroll Protection Program Loan

During July 2020, the Company received the \$634,400 unsecured Payroll Protection Program Loan (“PPP”) from Newtek Small Business Finance, under the PPP which was established under the CARES Act and is administered by the U.S. Small Business Administration. Loans obtained through the PPP are eligible to be forgiven as long as the proceeds are used for qualifying purposes and certain other conditions are met. The receipt of the funds, and the forgiveness of the loan is dependent on the Company having initially qualified for the loan and qualifying for the forgiveness of such loan based on its adherence to the forgiveness criteria. In June 2020, the United States Congress passed the Payroll Protection Program Flexibility Act that made several significant changes to PPP loan provisions, including providing greater flexibility for loan forgiveness. The Company is using the proceeds from the PPP Loan to fund payroll costs in accordance with the relevant terms and conditions of the CARES Act. The Company is following the government guidelines and tracking costs to be eligible for 100% forgiveness of the loan. To the extent it is not forgiven, the Company would be required to repay that portion at an interest rate of 1% over a period of two years.

COFFEE HOLDING CO., INC.
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NOTE 7 - 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.

As of July 31, 2020 and October 31, 2019, 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 July 31, 2020 and October 31, 2019, 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, Louisiana, Montana, Massachusetts, Michigan, New Jersey, New York, New York City, Oregon, Rhode Island, South Carolina, Tennessee, Virginia, and Texas state tax returns. The Company's federal income tax return is no longer subject to examination by the federal taxing authority for the years before fiscal 2017. The Company's California, Colorado and New Jersey income tax returns are no longer subject to examination by their respective taxing authorities for the years before fiscal 2016. The Company's Oregon and New York income tax returns are no longer subject to examination by their respective taxing authorities for the years before fiscal 2016.

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NOTE 8 - EARNINGS PER SHARE:

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

The weighted average common shares outstanding used in the computation of basic and diluted earnings per share were 5,569,349 for the nine and three months ended July 31, 2020 and 2019. The Company has granted 1,000,000 options which have not been included in the calculation of diluted earnings per share due to their anti-dilutive nature.

NOTE 9 - ECONOMIC DEPENDENCY:

Approximately 23% of the Company's sales were derived from six customers during the nine months ended July 31, 2020. These customers also accounted for approximately \$1,907,000 of the Company's accounts receivable balance at July 31, 2020. Approximately 19% of the Company's sales were derived from five customers during the nine months ended July 31, 2019. These customers also accounted for approximately \$1,813,000 of the Company's accounts receivable balance at July 31, 2019. Concentration of credit risk with respect to other trade receivables is limited due to the short payment terms generally extended by the Company, by ongoing credit evaluations of customers, and by maintaining an allowance for doubtful accounts that management believes will adequately provide for credit losses.

For the nine months ended July 31, 2020, approximately 26% of the Company's purchases were from six vendors. These vendors accounted for approximately \$508,000 of the Company's accounts payable at July 31, 2020. For the nine months ended July 31, 2019, approximately 25% of the Company's purchases were from five vendors. These vendors accounted for approximately \$496,000 of the Company's accounts payable at July 31, 2019. 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.

For the three months ended July 31, 2020, approximately 21% of the Company's sales were derived from six customers. Approximately 17% of the Company's sales were derived from six customers during the three months ended July 31, 2019.

For the three months ended July 31, 2020, approximately 23% of the Company's purchases were from six vendors. For the three months ended July 31, 2019, approximately 18% of the Company's purchases were from six vendors.

The following table presents revenues by product line in the nine and three months ended July 31, 2020 and 2019.

| | Nine Months Ended July 31, 2020 | Three Months Ended July 31, 2020 | Nine Months Ended July 31, 2019 | Three Months Ended July 31, 2019 |
|---------------|--|---|--|---|
| Green | \$ 18,453,377 | \$ 5,765,246 | \$ 25,573,649 | \$ 8,394,907 |
| Packaged | \$ 38,272,009 | \$ 11,578,763 | \$ 40,370,934 | \$ 13,199,378 |
| Totals | \$ 56,725,386 | \$ 17,344,009 | \$ 65,944,583 | \$ 21,594,285 |

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 10 - RELATED PARTY TRANSACTIONS:

The Company has engaged its 40% partner in GCC as an outside contractor (the "Partner"). Included in contract labor expense are expenses incurred from the Partner during the three and nine months ended July 31, 2020 of \$110,369 and \$307,569, respectively and \$102,524 and \$309,898, respectively, for the three and nine months ended July 31, 2019, for the processing of finished goods.

An employee of one of the top five vendors is a director of the Company. Purchases from that vendor totaled approximately \$1,461,000 and \$4,466,000 for the three and nine months ended July 31, 2020, respectively, and \$1,782,000 and \$5,877,000 for the three and nine months ended July 31, 2019, respectively. The corresponding accounts payable balance to this vendor was approximately \$204,000 and \$231,000 at July 31, 2020 and 2019, 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: the Company's Chief Executive Officer. Within the plan guidelines, this employee is deferring a portion of his current salary and bonus. The assets are held in a separate trust. The deferred compensation payable represents the liability due to an officer of the Company. The assets are included in the Deposits and other assets in the accompanying balance sheets. The deferred compensation asset and liability at July 31, 2020 and October 31, 2019 were \$303,609 and \$378,453, respectively.

NOTE 11 - STOCKHOLDERS' EQUITY:

- a. *Treasury Stock.* The Company utilizes the cost method of accounting for treasury stock. The cost of reissued shares is determined under the last-in, first-out method. The Company did not purchase any shares during the three and nine months ended July 31, 2020 and the year ended October 31, 2019.
- b. *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 January 31, 2020, 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.

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NOTE 11 - STOCKHOLDERS' EQUITY (cont'd):

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 nine months ended July 31, 2020:

| | Stock Options | | Exercise Price | | Contractual Life (Years) | Aggregate Intrinsic Value |
|--------------------------|---------------|-------------|----------------|-------------|--------------------------------|---------------------------------|
| | Outstanding | Exercisable | Outstanding | Exercisable | | |
| Balance October 31, 2019 | 1,000,000 | - | \$ 5.43 | - | 10 | - |
| Exercised | - | - | - | - | - | - |
| Cancelled | - | - | - | - | - | - |
| Balance July 31, 2020 | 1,000,000 | - | \$ 5.43 | - | 10 | - |

The Company recorded \$678,709 and \$476,899 of stock-based compensation in the nine months ended July 31, 2020 and the year ended October 31, 2019, respectively.

The unrecognized stock compensation expense as of July 31, 2020 was approximately \$1,354,663.

NOTE 12 - 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 condensed consolidated financial statements.

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

Cautionary Note on Forward-Looking Statements

Some of the matters discussed under the caption "Management's Discussion and Analysis of Financial Condition and Results of 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-Q 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 potential adverse impact of the COVID-19 pandemic on our operations and results, including as a result of the loss of adequate labor, any prolonged closures, or series of temporary closures, of our supply chain, or changes in consumer behaviors, when stay-at-home restriction orders are lifted and/or as a result of the COVID-19 pandemic's impact on financial markets and economic conditions;
- our expectations regarding, and the stability of, our supply chain, including potential shortages or interruptions in the supply or delivery of green coffee, as a result of COVID-19 or otherwise;
- 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 quarterly report and in any other public statements we make may turn out to be wrong. They can be affected by inaccurate assumptions we might make or by known or unknown risks and uncertainties. Consequently, no forward-looking statement can be guaranteed. In addition we undertake no responsibility to update any forward-looking statement to reflect events or circumstances that occur after the date of this quarterly report.

Overview

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

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

- the sale of wholesale specialty green coffee;
- the roasting, blending, packaging and sale of private label coffee;
- 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 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 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 and our licensing arrangement with DTS8 Coffee Company, Ltd. On June 23, 2016, we formed our wholly owned subsidiary, Sonofresco, LLC ("SONO"), a Delaware 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 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. 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. 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.

The global outbreak of COVID-19 was declared a pandemic by the World Health Organization and a national emergency by the U.S. government in March 2020 and has negatively affected the U.S. and global economies, disrupted global supply chains, resulted in significant travel and transport restrictions, mandated closures and stay-at-home orders, and created significant disruption of the financial markets. However, we are classified as an essential business and its factories continued to operate with little to no impact from the pandemic-related closures.

To date, we have experienced minimal disruption to our supply chain or distribution network, including the supply of green coffee beans, though it is possible that more significant disruptions could occur if the COVID-19 pandemic continues to impact markets around the world. We are also working closely with all of our business partners. As a food producer, we are an essential service and almost all of our employees continue to work within our production and distribution facilities.

The COVID-19 pandemic has had a material adverse impact on our consolidated financial statements for the nine months ended July 31, 2020, and it has resulted, and is expected to continue to result for at least the near and immediate term, in significant economic disruptions and changes to consumer behaviors in the United States, which, has impacted and is expected to continue to negatively impact our business. Many of our customers who purchase green coffee from us for use in cafés, restaurants and food service operations, were forced to temporarily suspend or close operations, adversely impacting our sales to customers in that segment. However, as sales to the café, restaurant and food service segment decreased in the quarter, sales to large wholesaler and retail customers increased, as there was a shift in buying and consumption of coffee products to this segment. Due to this offsetting increase in the wholesale and retail segment, sales were only down by 3.0% compared to the second quarter of 2019, even as green coffee prices were 10.0% lower.

The continuing impact on our business, including the length and impact of stay-at-home orders and/or regional quarantines, labor shortages and employment trends, disruptions to supply chains, including our ability to obtain products from global suppliers, higher operating costs, the form and impact of economic stimulus and general overall economic instability, is uncertain at this time and could have a material adverse effect on our business, results of operations, and financial condition.

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 has adopted the new revenue recognition standard ASC 606 on November 1, 2018 using the modified retrospective method. The majority of the Company's business is ship and bill. The Company recognizes revenue in accordance with the five-step model 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, 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.

- 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 net accounts receivable that becomes uncollectible, would decrease our operating income by approximately \$68,000 for the three months ended July 31, 2020. 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 \$185,000 for the three months ended July 31, 2020.
- 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 July 31, 2020 our balance sheet reflected goodwill and intangible assets as set forth below:

| | July 31, 2020 |
|--------------------------------------|----------------------|
| Customer list and relationships, net | \$ 501,309 |
| Non-compete, net | 54,450 |
| Trademarks and tradenames | 1,488,000 |
| Goodwill | 2,488,785 |
| | <u>\$ 4,532,544</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. The value assigned to non-compete is being amortized over a five year period.

Goodwill and the intangible assets will be tested annually at the end of each fiscal year to determine whether they have been impaired. Upon completion of each annual review, there can be no assurance that a material charge will not be recorded. Impairment testing is required more often than annually if an event or circumstance indicates that an impairment or decline in value may have occurred.

Three Months Ended July 31, 2020 Compared to the Three Months Ended July 31, 2019

Net Sales. Net sales totaled \$17,344,009 for the three months ended July 31, 2020, a decrease of \$4,250,276, or 19.7%, from \$21,594,285 for the three months ended July 31, 2019. The decrease in net sales was due to the COVID-19 pandemic which caused many of our green coffee customers who service the restaurant and food service industry to either close or suspend their business operations during the period resulting in lost revenues from that segment of our customer base. Also, supermarket sales returned to more traditional levels, as the stockpiling in the second quarter did not repeat in the summer months.

Cost of Sales. Cost of sales for the three months ended July 31, 2020 was \$13,517,482, or 77.9% of net sales, as compared to \$17,465,685, or 80.9% of net sales, for the three months July 31, 2019. 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 partially offset by our favorable green coffee position.

Gross Profit. Gross profit for the three months ended July 31, 2020 amounted to \$3,826,527 or 22.1% of net sales, as compared to \$4,128,600 or 19.1% of net sales, for the three months ended July 31, 2019. The increase in gross profits is attributable to a change in our product mix for the quarter where we sold a higher percentage of branded and private label roasted coffee.

Operating Expenses. Total operating expenses decreased by \$619,127 to \$3,252,235 for the three months ended July 31, 2020 from \$3,871,362 for the three months ended July 31, 2019. Selling and administrative expenses decreased by \$619,127 and officers' salaries remained constant. Our efforts to control costs through the elimination of redundancy in our operations and the elimination of certain unnecessary variable costs were the primary reasons for this decrease.

Other Income (Expense). Other expense for the three months ended July 31, 2020 was \$46,583, a decrease of \$17,107 from \$63,690 for the three months ended July 31, 2019. The decrease in other expense was attributable to a decrease in interest expense of \$19,342, partially offset by a reduction in our loss from our equity investments of \$1,066 and a decrease in our interest income of \$3,301, during the three months ended July 31, 2020.

Income Taxes. Our provision for income taxes for the three months ended July 31, 2020 totaled \$161,454 compared to a provision of \$34,413 for the three months ended July 31, 2019. The change was primarily attributable to the difference in the income for the quarter ended July 31, 2020 versus the income in the quarter ended July 31, 2019.

Net Income. We had a net income of \$391,324 or \$0.07 per share basic and diluted, for the three months ended July 31, 2020 compared to net income of \$111,494, or \$0.02 per share basic and diluted for the three months ended July 31, 2019. The increase in net income was due primarily to the reasons described above.

Nine Months Ended July 31, 2020 Compared to the Nine Months Ended July 31, 2019

Net Sales. Net sales totaled \$56,725,386 for the nine months ended July 31, 2020, a decrease of \$9,219,197, or 14%, from \$65,944,583 for the nine months ended July 31, 2019. The decrease in net sales was initially due to lower sales of green coffee during the first six months as customers slowed purchases due to the volatility in the green coffee market. Subsequently, the COVID-19 pandemic caused many of our green coffee customers who distribute to the food service and restaurant industries to either close or suspend their business operations during these months resulting in lost revenues from that segment of our customer base. Also, supermarket sales returned to more traditional levels, as the stockpiling in the second quarter did not repeat in the summer months.

Cost of Sales. Cost of sales for the nine months ended July 31, 2020 was \$45,287,198, or 79.8% of net sales, as compared to \$53,705,272, or 81.4% of net sales, for the nine months July 31, 2019. 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 partially offset by favorable green coffee position.

Gross Profit. Gross profit for the nine months ended July 31, 2020 amounted to \$11,438,188 or 20.2% of net sales, as compared to \$12,239,311 or 18.6% of net sales, for the nine months ended July 31, 2019. The increase in gross profits as a percentage of sales is attributable to a change in our product mix where we sold a higher percentage of branded and private label roasted coffee for the nine months combined with an improvement in our hedging operations as compared to 2019.

Operating Expenses. Total operating expenses decreased by \$853,598 to \$10,530,647 for the nine months ended July 31, 2020 from \$11,384,245 for the nine months ended July 31, 2019. Selling and administrative expenses decreased by \$820,502 and officers' salaries decreased by \$33,096. Our efforts to control costs through the elimination of redundancy in our operations and the elimination of certain unnecessary variable costs were the primary reasons for this decrease. These efforts were offset by the stock compensation expense of \$678,709 for the nine months ended July 31, 2020, an increase of \$449,841 over our stock compensation expense for the nine months ended July 31, 2019, and the increase in our freight costs as we increased and expanded our product distribution.

Other Income (Expense). Other expense for the nine months ended July 31, 2020 was \$152,337, a decrease of \$36,944 from \$189,281 for the nine months ended July 31, 2019. The decrease in other expense was attributable to a decrease in interest expense of \$44,751, partially offset by a reduction in our gain from our equity investments of \$1,848 and a decrease in our interest income of \$5,959, during the nine months ended July 31, 2020.

Income Taxes. Our provision for income taxes for the nine months ended July 31, 2020 totaled \$250,804 compared to a provision of \$115,543 for the nine months ended July 31, 2019. The change was primarily attributable to the difference in the income for the nine months ended July 31, 2020 versus the income in the nine months ended July 31, 2019.

Net Income. We had net income of \$289,994 or \$0.05 per share basic and diluted, for the nine months ended July 31, 2020 compared to net income of \$187,741, or \$0.03 per share basic and diluted for the nine months ended July 31, 2019. The increase in net income was due primarily to the reasons described above.

Liquidity and Capital Resources

As of July 31, 2020, we had working capital of \$24,956,615, which represented a \$4,728,671 increase from our working capital of \$20,227,944 as of October 31, 2019, and total stockholders' equity of the Company of \$26,232,780 which increased by \$968,703 from our total stockholders' equity of \$25,264,077 as of October 31, 2019. Our working capital increased primarily due to an increase of \$355,079 in due from broker, an increase of \$120,563 in prepaid expenses and other current assets, our two year extension on our line of credit decreased the current portion by \$7,167,740 in our line of credit and our, decrease of \$1,437,428 in accounts payable and accrued expenses partially offset by decreases of \$209,778 in cash, \$2,587,601 in accounts receivable, \$299,249 in inventories, \$154,158 in prepaid and refundable income taxes, increases of \$2,220 in note payable – current portion, \$464,517 in lease liability – current portion, \$634,400 in paycheck protection loan, \$217 in income taxes payable. As of July 31, 2020, the outstanding balance on our line of credit was \$3,796,822 compared to \$7,167,740 as of October 31, 2019. Total stockholders' equity increased due to our net income.

During July 2020, we received a \$634,400 unsecured loan from Newtek Small Business Finance (the "PPP Loan"), under the Paycheck Protection Program (the "PPP") which was established under the Coronavirus Aid, Relief, and Economic Security Act (the "CARES Act") and is administered by the U.S. Small Business Administration. Loans obtained through the PPP are eligible to be forgiven as long as the proceeds are used for qualifying purposes and certain other conditions are met. The receipt of the funds, and the forgiveness of the loan is dependent on the Company having initially qualified for the loan and qualifying for the forgiveness of such loan based on its adherence to the forgiveness criteria. In June 2020, the United States Congress passed the Payroll Protection Program Flexibility Act that made several significant changes to PPP loan provisions, including providing greater flexibility for loan forgiveness. We are using the proceeds from the PPP Loan to fund payroll costs in accordance with the relevant terms and conditions of the CARES Act. We are following the government guidelines and tracking costs to insure 100% forgiveness of the loan. To the extent it is not forgiven, we would be required to repay that portion at an interest rate of 1% over a period of two years.

On April 25, 2017, us and OPTCO (collectively, 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 us, as guarantor, OPTCO and Sterling, dated March 10, 2015 (the "OPTCO Financing Agreement"), amongst other things.

On March 13, 2020, we 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, 2022 and (ii) decreases the interest rate per annum to LIBOR plus 1.75% (with such interest rate not to be lower than 3.50%).

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. We were in compliance with all covenants as of July 31, 2020 and October 31, 2019.

Each of the A&R Loan Facility and the A&R Loan Agreement is secured by all of our tangible and intangible assets. 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.

For the nine months ended July 31, 2020, our operating activities provided net cash of \$2,921,973 as compared to the nine months ended July 31, 2019 when operating activities used net cash of \$911,740. The increased cash flow from operations for the nine months ended July 31, 2020 was primarily due to our inventories usage during the nine months and our accounts receivable reduction.

For the nine months ended July 31, 2020, our investing activities used net cash of \$392,023, compared to net cash used by investing activities of \$568,235 for the nine months ended July 31, 2019. The decrease in our uses of cash in investing activities was due to our reduced purchases of machinery and equipment during the nine months ended July 31, 2020.

For the nine months ended July 31, 2020, our financing activities used net cash of \$2,739,728, compared to net cash used by financing activities of \$562,629 for the nine months ended July 31, 2019. The change in cash flow from financing activities for the nine months ended July 31, 2020 was due to our increased principal payments on our credit line, partially offset by our increased advances from our line of credit and the receipt of the PPP Loan.

We expect to fund our operations, including paying our liabilities, funding capital expenditures and making required payments on our indebtedness, through September 14, 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 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not Applicable.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Under the supervision of and with the participation of our management, including the Company's President, Chief Executive Officer and Chief Financial Officer, we evaluated the effectiveness of our disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the 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 as of July 31, 2020 our disclosure controls and procedures are 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 quarter ended July 31, 2020 in accordance with U.S. GAAP.

As previously disclosed in Item 9A of our Quarterly Report on Form 10-Q for the fiscal period ended April 30, 2019, management identified a material weakness as of that date. The identified material weakness related to the accounting for stock-based compensation awards. A "material weakness" is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the company's annual or interim financial statements will not be prevented or detected on a timely basis. To remediate the material weakness, 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 Internal Control over Financial Reporting

We have made progress towards remediation of the material weakness identified above. Since the quarter ended April 30, 2019, we have implemented further procedures to review and document all corporate actions related to stock-based compensation awards.

There have been no additional changes in our internal controls over financial reporting during the nine months ended July 31, 2020 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS.

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

ITEM 1A. RISK FACTORS.

Our operations and financial results are subject to various risks and uncertainties, including those described in Part I, Item 1A, "Risk Factors" in our Annual Report on Form 10-K for the year ended October 31, 2019 filed with the Securities and Exchange Commission on January 29, 2020, and in our Quarterly Report for the period ending January 31, 2020 filed with the Securities and Exchange Commission on March 16, 2020. Except as set forth below, there have been no other material changes to our risk factors since the Company's Annual Report on Form 10-K for the year ended October 31, 2019:

We received a loan under the Paycheck Protection Program of the CARES Act, and all or a portion of the loan may not be forgivable.

In July, 2020, we received a \$634,400 loan (the "PPP Loan") pursuant to the Paycheck Protection Program of the CARES Act. The receipt of the funds, and the forgiveness of the PPP Loan is dependent on us having initially qualified for the loan and qualifying for the forgiveness of such loan based on our adherence to the forgiveness criteria. In June 2020, the United States Congress passed the Payroll Protection Program Flexibility Act that made several significant changes to PPP Loan provisions, including providing greater flexibility for loan forgiveness. We are using the proceeds from the PPP Loan to fund payroll costs in accordance with the relevant terms and conditions of the CARES Act. We are following the government guidelines and tracking costs to insure 100% forgiveness of the PPP Loan. To the extent the PPP Loan is not forgiven, we will be required to repay that portion at an interest rate of 1% over a period of two years. If the conditions outlined in the loan program are adhered to by us, all or part of such loan could be forgiven. However, we cannot provide any assurance that we will be eligible for loan forgiveness or that any amount of the PPP Loan will ultimately be forgiven.

The COVID-19 pandemic has, and may continue to have, an adverse impact on our business, financial condition and results of operations.

The World Health Organization declared the novel coronavirus (COVID-19), first identified in Wuhan, China, a pandemic in March 2020. Our business, financial condition and results of operations have been and are expected to continue to be adversely affected by the COVID-19 pandemic. The COVID-19 pandemic has affected nearly all regions of the world, and preventative measures taken to contain or mitigate the outbreak have caused, and are continuing to cause, business slowdown or shutdown in affected areas. This has and could continue to negatively affect the global economy, including reduced consumer spending and disruption of global supply chains. We cannot predict the degree to which our business, financial condition and results of operations will be affected by the COVID-19 pandemic, but the effects could be material.

In addition to the factors above, the COVID-19 pandemic has subjected our business to additional risk, including, but not limited to:

- Disruption to our green coffee supplier partners and vendors, including through the effects of facility closures, reductions in operating hours, labor shortages, and changes in operating procedures;
- Disruption to our own distribution and general office facilities and operations, including through the effects of facility closures, reductions in operating hours, labor shortages, and changes in operating procedures, including for additional cleaning and disinfection procedures;
- Closure or reduced operations of cafes, restaurants and food service stores and reductions in consumer traffic, which may adversely affect our Private Label Coffee and Branded Coffee channels;
- Lower performance of customers in our wholesale channel, which may result in reduction or cancellation of future orders;
- Reductions in consumer spending due to macroeconomic conditions caused by the COVID-19 pandemic, including decreased disposable income and increased unemployment, which may result in decreased sales in all of our channels.

At this time, we cannot assess the ultimate economic impact of the COVID-19 pandemic on our business, operations or financial performance, which will be determined by, among other things, the duration, severity and magnitude of such circumstances and governmental responses and requirements relating to the pandemic, nor can we predict the long-term effects of governmental and public responses to changing conditions. The extent to which the COVID-19 pandemic will impact our operations, liquidity or financial results in subsequent periods is uncertain, but such impact could be material. If the COVID-19 pandemic becomes prolonged, and/or more severe, it could exacerbate the negative impacts on our business and results of operations and may also heighten many of the other risks described in the "Risk Factors" section of our Form 10-K for the period ended October 31, 2019.

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

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES.

None.

ITEM 4. MINE SAFETY DISCLOSURES.

None.

ITEM 5. OTHER INFORMATION.

None.

ITEM 6. EXHIBITS.

31.1 [Principal Executive Officer and Principal Financial Officer's Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.*](#)

32.1 [Principal Executive Officer and Principal Financial Officer's Certification furnished pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.**](#)

101.INS XBRL Instance Document *
101.SCH XBRL Taxonomy Extension Schema Document *
101.CAL XBRL Taxonomy Extension Calculation Linkbase Document *
101.DEF XBRL Taxonomy Extension Definition Linkbase Document *
101.LAB XBRL Taxonomy Extension Label Linkbase Document *
101.PRE XBRL Taxonomy Extension Presentation Linkbase Document *

* Filed herewith

** Furnished herewith

Signatures

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Coffee Holding Co., Inc.

Date: September 14, 2020

By: /s/ Andrew Gordon

Andrew Gordon President

Chief Executive Officer and Chief Financial Officer

CERTIFICATION

I, Andrew Gordon, certify that:

1. I have reviewed this quarterly report on Form 10-Q for the period ended July 31, 2020 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 15-15(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 control 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 most recent fiscal quarter (the registrant's fourth quarter in the case of an annual report) 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: September 14, 2020

By: /s/ Andrew Gordon

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

**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 Quarterly Report on Form 10-Q for the period ended July 31, 2020 (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: September 14, 2020

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