

# SECURITIES & EXCHANGE COMMISSION EDGAR FILING

## COFFEE HOLDING CO INC

**Form: 10-K**

**Date Filed: 2019-01-29**

Corporate Issuer CIK: 1007019

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**Form 10-K**

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

For the fiscal year ended **October 31, 2018**

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)

**3475 Victory Boulevard, Staten Island, New York**

(Address of principal executive offices)

**11-2238111**

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

**10314**

(Zip Code)

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

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

Title of each class:

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

Name of each exchange on which registered:

**NASDAQ Capital Market**

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

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

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained in, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

Large accelerated filer

Non-accelerated filer

Accelerated filer

Smaller Reporting Company

Emerging Growth Company

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

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

The aggregate market value of the common equity held by non-affiliates of the registrant, computed by reference to the closing price of the registrant's common stock on the NASDAQ Capital Market on April 30, 2018, was \$23,836,166.

As of January 20, 2019, the registrant had 5,569,349 shares of common stock, par value \$0.001 per share, outstanding.

**Documents incorporated by reference**

Portions of the registrant's proxy statement for the 2018 annual meeting of stockholders to be filed pursuant to Regulation 14A within 120 days after the registrant's fiscal year ended October 31, 2018, are incorporated by reference in Part III of this Form 10-K.

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## PART I

### ITEM 1. BUSINESS

#### General Overview

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

- **Wholesale Green Coffee:** unroasted raw beans imported from around the world and sold to large and small roasters and coffee shop operators;
- **Private Label Coffee:** coffee roasted, blended, packaged and sold under the specifications and names of others, including supermarkets that want to have their own brand name on coffee to compete with national brands; and
- **Branded Coffee:** coffee roasted and blended to our own specifications and packaged and sold under our seven proprietary and licensed brand names in different segments of the market.

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

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

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

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

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

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

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

#### Our Competitive Strengths

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

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

- Retail branded coffee;
- Mainstream retail private label coffee;

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

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

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

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

**Management Has Extensive Experience in the Coffee Industry.** We have been a family-operated business for three generations. Throughout this time, we have remained strong through varying cycles in the coffee industry and the economy. Andrew Gordon, our President, Chief Executive Officer, Chief Financial Officer and Treasurer, and David Gordon, our Executive Vice President – Operations, have worked with Coffee Holding for 36 and 38 years, respectively. David Gordon is an original member of the Specialty Coffee Association of America. We believe that our employees and management are dedicated to our vision and mission, which is to produce high quality products, as well as to provide quality and responsive service to our customers.

## **Our Growth Strategy**

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

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

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

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

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

### **Our Core Products**

Our core products can be divided into three categories:

- **Wholesale Green Coffee:** unroasted raw beans imported from around the world and sold to large, medium and small roasters and coffee shop operators;
- **Private Label Coffee:** coffee roasted, blended, packaged and sold under the specifications and names of others, including supermarkets that want to have their own brand name on coffee to compete with national brands; and
- **Branded Coffee:** coffee roasted and blended to our own specifications and packaged and sold under our eight proprietary and licensed brand names in different segments of the market.

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

**Private Label Coffee.** We roast, blend, package and sell coffee under private labels for companies throughout the United States and Canada. Our private label coffee is sold in cans, brick packages and instants in a variety of sizes. As of October 31, 2018, we supplied coffee under approximately 29 different labels to wholesalers and retailers. We produce private label coffee for customers who desire to sell coffee under their own name but do not want to engage in the manufacturing process. Our private label customers seek a quality similar to the national brands at a lower cost, which represents a better value for the consumer.

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

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

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

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

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

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

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

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

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

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

## Other Products

We also offer several niche products, including:

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

## Raw Materials

Coffee is a commodity traded on the Commodities and Futures Exchange subject to price fluctuations. Over the past five years, the average price per pound of coffee beans ranged from approximately \$0.92 to \$2.25. The price for coffee beans on the commodities market as of October 31, 2018 and 2017 was \$1.12 and \$1.25 per pound, respectively. Specialty green coffee, unlike most coffee, is not tied directly to the commodities cash markets. Instead, it tends to trade on a negotiated basis at a substantial premium over commodity coffee pricing, depending on the origin, supply and demand at the time of purchase. We are a licensed Fair Trade dealer for Fair Trade certified coffee. Fair Trade certified coffee helps small coffee farmers to increase their incomes and improve the prospects of their communities and families by guaranteeing farmers a minimum price of ten cents above the current market price. Our Ohio Facility operated by Generations Coffee Company, LLC ("GCC") is certified organic by the Organic Crop Improvement Association (OCIA). All of our specialty green coffees, as well as all of the other coffees we import for roasting, are subject to multiple levels of quality control.



We purchase our green coffee from dealers located primarily within the United States. The dealers supply us with coffee beans from many countries, including Colombia, Mexico, Kenya, Indonesia, Brazil and Uganda. For the fiscal years ended 2018 and 2017, approximately 26% and 50%, respectively of all of our green coffee purchases were from five suppliers. One of these suppliers, Rothfos Corporation, accounted for approximately \$9.1 million, or 13%, in 2018, and \$6.7 million, or 10%, in 2017, of our total product purchases. An employee of Rothfos Corporation is one of our directors. We do not have any formalized, material agreements or long-term contracts with any of these suppliers. Rather, our purchases are typically made pursuant to individual purchase orders. We do not believe that the loss of any one supplier, including Rothfos, would have a material adverse effect on our operations due to the availability of alternate suppliers.

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

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

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

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

## **Trademarks and Tradename**

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

## **Customers**

We sell our private label and our branded coffee to some of the largest retail and wholesale customers in the United States (according to *Supermarket News*). We sell wholesale green coffee to Keurig Green Mountain, Inc. "GMCR". Sales to GMCR accounted for approximately \$8.9 million or approximately 10% of our net sales for the fiscal year ended October 31, 2018, and \$5.9 million or 8% for the fiscal year ended October 31, 2017.

Although our agreements with wholesale customers generally contain only pricing terms, our contracts with certain customers also contain minimum and maximum purchase obligations at fixed prices. Because our profits on a fixed-price contract could decline if coffee prices increased, we acquire futures contracts with longer terms (generally three to four months) primarily for the purpose of guaranteeing an adequate supply of green coffee at favorable prices. Although the use of these derivative financial instruments has generally enabled us to mitigate the effect of changing prices, no strategy can entirely eliminate pricing risks or increased losses and we generally remain exposed to losses on futures contracts when prices decline significantly in a short period of time, and we would generally remain exposed to supply risk in the event of non-performance by the counterparties to any futures contracts. See "Our Use of Derivatives."

## **Marketing**

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

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

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

## **Charitable Activities**

We are also a supporter of several coffee-oriented charitable organizations and during fiscal 2018 and 2017, we donated approximately \$51,000 and \$49,000, respectively, to charities.

- For over 20 years, we have been members of Coffee Kids, an international non-profit organization that helps to improve the quality of life of children and their families in coffee-growing communities in Mexico, Guatemala, Nicaragua and Costa Rica.
- We are members of Grounds for Health, an organization that educates, screens, and arranges treatment for women who have cancer and live in the rural coffee growing communities of Mexico.
- We are a licensed Fair Trade dealer of Fair Trade certified coffee. Fair Trade certified coffee helps small coffee farmers to increase their incomes and improve the prospects of their communities and families. It guarantees farmers a minimum price of \$1.40 per pound or fifteen cents above the current market price.
- We are the administrative benefactors to a non-profit organization called Cup for Education. After discovering the lack of schools, teachers, and basic fundamental learning supplies in the poor coffee growing communities of Central and Latin America, "Cup" was established by our employee, Karen Gordon, to help build schools, sponsor teachers, and purchase basic supplies such as books, chalk and other necessities for a proper education.

## Competition

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

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

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

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

## Government Regulation

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

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

## Employees

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

## ITEM 1A. RISK FACTORS

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

### Risks affecting our Company

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

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

Demand for our products is affected by:

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

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

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

- market our products on a national scale;
- increase our brand recognition on a national scale;

- enter into distribution and other strategic arrangements with third party retailers; and
- manage growth in administrative overhead and distribution costs likely to result from the planned expansion of our distribution channels.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

***The loss of any of our key customers, could negatively affect our revenues and decrease our earnings.*** We are dependent upon sales of our products to our key customers, including GMCR, which accounted for approximately 10% and 8% of our net sales for the fiscal years ended October 31, 2018 and 2017, respectively. No other customer accounted for greater than 10% of our net sales during our 2018 and 2017 fiscal years. We generally do not enter long-term contracts with our customers that are material to our business. Accordingly, some of our customers can stop purchasing our products at any time without penalty and are free to purchase products from our competitors. The loss of, or reduction in sales to any of our other customers to which we sell a significant amount of our products or any material adverse change in the financial condition of such customers would negatively affect our revenues and decrease our earnings.

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

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

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

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

Our credit facility contains covenants that place annual restrictions on our operations, including covenants relating to debt restrictions, capital expenditures, minimum deposit restrictions, tangible net worth, net profit, leverage, employee loan restrictions, distribution restrictions (common stock and preferred stock), dividend restrictions and restrictions on intercompany transactions. The credit facility also requires that we maintain a minimum working capital at all times. There can be no assurance that we will be in compliance with all covenants in the future or that we will be able to modify the terms of the credit facility should that become necessary. Failure to comply with any of these covenants and restrictions would result in an event of default under the loan agreement.

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

Our success in promoting and enhancing our brands will also depend on our ability to provide customers with high quality products and service. Although we take measures to ensure that we sell only fresh roasted coffee, we have no control over our roasted coffee products once they are purchased by our customers. Accordingly, wholesale customers may store our coffee for longer periods of time or resell our coffee without our consent, in each case, potentially affecting the quality of the coffee prepared from our products. Although we believe we are less susceptible to quality control problems than many of our competitors because our products are processed in-house under strict quality control guidelines which have been in place for more than 30 years, if consumers do not perceive our products and service to be of high quality, then the value of our brands may be diminished and, consequently, our operating results and ability to implement our business strategy may be adversely affected.



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

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

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

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

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

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

- weather patterns in coffee-producing countries;
- economic and political conditions affecting coffee-producing countries, including acts of terrorism in such countries;
- foreign currency fluctuations; and
- trade regulations and restrictions between coffee-producing countries and the United States.

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

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

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

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

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

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

## Risks related to our common stock

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

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

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

***The Gordon family has the ability to influence action requiring stockholder approval.*** Members of the Gordon family, including Andrew Gordon, our President, Chief Executive Officer, Chief Financial Officer and Treasurer, and David Gordon, our Executive Vice President and Secretary, own, in the aggregate, approximately 12.3% of our outstanding shares of common stock. As a result, the Gordon family is able to influence the actions that require stockholder approval, including:

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

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

***The market price of our common stock has been volatile over the year and may continue to be volatile.*** The market price and trading volume of our common stock has been volatile over the past year and it may continue to be volatile. Over the past year, our common stock has traded as low as \$3.65 and as high as \$5.75 per share. We cannot predict the price at which our common stock will trade in the future and it may decline. The price at which our common stock trades may fluctuate significantly and may be influenced by many factors, including our financial results, developments generally affecting the coffee industry, general economic, industry and market conditions, the depth and liquidity of the market for our common stock, fluctuations in coffee prices, investor perceptions of our business, reports by industry analysts, negative announcements by our customers, competitors or suppliers regarding their own performances, and the impact of other "Risk Factors" discussed in this Annual Report.

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

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

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

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

Not applicable.

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

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

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

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

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

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

#### **ITEM 3. LEGAL PROCEEDINGS**

We are not a party to, and none of our property is the subject of, any pending legal proceedings other than routine litigation that is incidental to our business.

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

Not applicable.

**PART II**

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

Our common stock trades on the NASDAQ Capital Market under the symbol “JVA.” We do not currently pay cash dividends on our common stock. However, our board of directors has approved a dividend program under which we intend to pay a dividend of 30% of our net profits for our fiscal year ending October 31, 2019 to shareholders of record as of October 31, 2019. We expect such dividend to be paid in our second fiscal quarter of 2020. There can be no assurance that we will have net profits in fiscal 2019.

As of January 20, 2019, we had 174 holders of record.

We repurchased 236,586 shares of our common stock during the year ended October 31, 2018.

We repurchased 57,367 shares of our common stock during the year ended October 31, 2017.

ISSUER PURCHASES OF EQUITY SECURITIES (1)

Period	(a) Total Number of Shares (or Unites) Purchased	(b) Average Price Paid per Share (or Unit)	(c) Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs	(d) Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs
August 1, 2018 to August 31, 2018	-	-	-	\$ 866,541
September 1, 2018 to September 30, 2018	25,918	\$ 4.60	25,918	\$ 747,385
October 1, 2018 to October 31, 2018	25,500	\$ 4.53	25,500	\$ 631,858
Total	51,418	-	51,418	\$ 631,858

(1) On September 13, 2017, we announced that the Board of Directors had approved a share repurchase program (the “2017 Share Repurchase Program”) pursuant to which we may repurchase up to \$2 million of our outstanding common stock from time to time on the open market and in privately negotiated transactions subject to market conditions, share price and other factors. The 2017 Share Repurchase Program may be discontinued or suspended at any time.

The following table sets forth the high and low sales prices of our common stock for each quarter of the last two fiscal years.

	High		Low	
	2018			
1st Quarter	\$ 4.55	\$ 3.82		
2nd Quarter	\$ 4.51	\$ 3.65		
3rd Quarter	\$ 5.75	\$ 3.87		
4th Quarter	\$ 5.50	\$ 4.30		
	2017			
1st Quarter	\$ 5.68	\$ 4.35		
2nd Quarter	\$ 5.09	\$ 4.32		
3rd Quarter	\$ 4.99	\$ 4.15		
4th Quarter	\$ 4.65	\$ 3.76		

**ITEM 6. SELECTED FINANCIAL DATA**

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

	<b>For the Years Ended October 31,</b>				
	<b>2018</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>
	<b>(Dollars in thousands, except per share data)</b>				
<b>Income Statement Data:</b>					
Net sales	\$ 90,655	\$ 77,128	\$ 78,948	\$ 118,154	\$ 108,863
Cost of sales	75,041	64,978	67,066	112,437	93,334
Gross profit	15,614	12,150	11,882	5,717	15,529
Operating expenses	13,213	10,927	8,019	7,654	7,527
Income (loss) from operations	2,401	1,223	3,863	(1,937)	8,002
Other income (expense)	(362)	(246)	(147)	(156)	(37)
Income (loss) before income taxes	2,039	977	3,716	(2,093)	7,965
Provision (benefit) for income taxes	505	244	1,366	(764)	2,947
Minority interest	(468)	(266)	(138)	(84)	(51)
Net income (loss)	\$ 1,066	\$ 467	\$ 2,212	\$ (1,413)	\$ 4,967
Net income (loss) per share – Basic & Diluted	\$ 0.19	\$ 0.08	\$ 0.36	\$ (0.23)	\$ 0.78
	<b>At October 31,</b>				
	<b>2018</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>
	<b>(Dollars in thousands, except per shares data)</b>				
<b>Balance Sheet Data:</b>					
Total assets	\$ 38,841	\$ 40,132	\$ 37,023	\$ 35,274	\$ 38,952
Short-term debt	6,330	8,408	6,958	5,554	2,498
Total liabilities	12,844	14,408	11,910	10,856	12,898
Stockholders' equity	25,997	25,591	25,113	24,418	26,055
Book value per share	\$ 4.67	\$ 4.41	\$ 4.28	\$ 3.96	\$ 4.19
	<b>At October 31,</b>				
	<b>2018</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>
<b>Per Common Share Data:</b>					
Basic & Diluted EPS	\$ .19	\$ .08	\$ .36	\$ (.23)	\$ .78
Cash dividends declared	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0

## ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

### Cautionary Note on Forward-Looking Statements

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

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

In some cases, you can identify forward-looking statements by terminology such as "may," "should," "could," "predict," "potential," "continue," "expect," "anticipate," "future," "intend," "plan," "believe," "estimate" and similar expressions (or the negative of such expressions). Any or all of our forward looking statements in this annual report and in any other public statements we make may turn out to be wrong. They can be affected by inaccurate assumptions we might make or by known or unknown risks and uncertainties. Consequently, no forward-looking statement can be guaranteed. In addition, we undertake no responsibility to update any forward-looking statement to reflect events or circumstances, that occur after the date of this annual report.

## Overview

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

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

- the sale of wholesale specialty green coffee;
- the roasting, blending, packaging and sale of private label coffee;
- the roasting, blending, packaging and sale of our eight brands of coffee; and
- sales of our tabletop coffee roasting equipment.

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

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

Our net sales are driven primarily by the success of our sales and marketing efforts and our ability to retain existing customers and attract new customers. For this reason, we have made, and will continue to evaluate, strategic decisions to invest in measures that are expected to increase net sales. These transactions include our acquisition of Premier Roasters, LLC, including equipment and a roasting facility in La Junta, Colorado, the addition of a west coast sales manager to increase sales of our private label and branded coffees to new customers, our joint venture with Caruso's Coffee, Inc. of Brecksville, Ohio, the transaction with OPTCO and our licensing arrangement with DTS8 Coffee Company, Ltd. On June 29, 2016, we purchased substantially all the assets, including equipment, inventory, customer lists and relationships of Coffee Kinetics, LLC. A Washington limited liability company. On June 29, 2016, we purchased through SONO, substantially all the assets, including equipment, inventory, customer list and relationships of Coffee Kinetics, LLC, a Washington limited liability company. On February 24, 2017, we acquired 100% of the capital stock of Comfort Foods, Inc. ("CFI"), a Massachusetts based medium sized coffee roaster, manufacturing both branded and private label coffee for retail and foodservice customers. In April 2018, Generations Coffee Company, the entity formed as a result of our joint venture with Caruso's Coffee, Inc., purchased substantially all the assets of Steep & Brew, Inc. We believe these efforts will allow us to expand our business.

Our net sales are affected by the price of green coffee. We purchase our green coffee from dealers located primarily within the United States. The dealers supply us with coffee beans from many countries, including Colombia, Mexico, Kenya, Indonesia, Brazil and Uganda. The supply and price of coffee beans are subject to volatility and are influenced by numerous factors which are beyond our control. For example, in Brazil, which produces approximately 40% of the world's green coffee, the coffee crops are historically susceptible to frost in June and July and drought in September, October and November. However, because we purchase coffee from a number of countries and are able to freely substitute one country's coffee for another in our products, price fluctuations in one country generally have not had a material impact on the price we pay for coffee. Accordingly, price fluctuations in one country generally have not had a material effect on our results of operations, liquidity and capital resources. Historically, because we generally have been able to pass green coffee price increases through to customers, increased prices of green coffee generally result in increased net sales, irrespective of sales volume.

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



## Critical Accounting Policies and Estimates

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

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

- We recognize revenue in accordance with the relevant authoritative guidance. Revenue is recognized at the point title and risk of ownership transfers to its customers which is upon the shippers taking possession of the goods because i) title passes in accordance with the terms of the purchase orders and with our agreements with our customers, ii) any risk of loss is covered by the customers' insurance, iii) there is persuasive evidence of a sales arrangement, iv) the sales price is determinable and v) collection of the resulting receivable is reasonably assured. Thus, revenue is recognized at the point of shipment.
- Our allowance for doubtful accounts is maintained to provide for losses arising from customers' inability to make required payments. If there is deterioration of our customers' credit worthiness and/or there is an increase in the length of time that the receivables are past due greater than the historical assumptions used, additional allowances may be required. For example, every additional one percent of our accounts receivable that becomes uncollectible, would decrease our operating income by approximately \$99,000 for the year ended October 31, 2018. 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 \$153,000 for the year ended October 31, 2018.
- The commodities held at broker represent the market value of the Company's trading account, which consists of option and futures contracts for coffee held with a brokerage firm. We use options and futures contracts, which are not designated or qualifying as hedging instruments, to partially hedge the effects of fluctuations in the price of green coffee beans. Options and futures contracts are recognized at fair value in the consolidated financial statements with current recognition of gains and losses on such positions. We classify options and futures contracts as trading securities and accordingly, unrealized holding gains and losses are included in earnings. We record realized and unrealized gains and losses in our cost of sales in the statement of operations/income.
- We account for income taxes in accordance with the relevant authoritative guidance. Deferred tax assets and liabilities are computed for temporary differences between the financial statement and tax basis of assets and liabilities that will result in taxable or deductible amounts in the future based on enacted tax rates in effect for the year in which the differences are expected to reverse. Deferred tax assets are reflected on the balance sheet when it is determined that it is more likely than not that the asset will be realized.
- Our goodwill consists of the cost in excess of the fair market value of the acquired net assets of OPTCO, SONO, CFI and Steep & Brew, through GCC, which has been integrated into a structure that does not provide the basis for separate reporting units. Consequently, we are a single reporting unit for goodwill impairment testing purposes. We also have intangible assets consisting of our customer lists and relationships and trademarks acquired from OPTCO and SONO. At October 31, 2018 our balance sheet reflected goodwill and intangible assets as set forth below:

	<b>October 31, 2018</b>
Customer list and relationships, net	\$ 576,125
Other intangible assets	331,124
Non-compete, net	89,100
Goodwill	2,157,661
Trademarks and tradenames	1,488,000
	<u>\$ 4,642,010</u>

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

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

#### **Year Ended October 31, 2018 (Fiscal Year 2018) Compared to the Year Ended October 31, 2017 (Fiscal Year 2017)**

**Net Sales.** Net sales totaled \$90,655,294 for the fiscal year ended October 31, 2018, an increase of \$13,527,699, or 17.5%, from \$77,127,595 for the fiscal year ended October 31, 2017. This increase includes approximately \$5,512,930 of net sales from the operations of Steep & Brew, which was acquired in April 2018 by Generations Coffee Company, the entity formed as a result of our joint venture with Caruso's Coffee, Inc. Therefore, organic sales growth was \$8,014,769 or 10.4%. The increase in our net sales reflects our continued increased sales of branded and private label coffee and wholesale green beans to both new and existing customers.

**Cost of Sales.** Cost of sales for the fiscal year ended October 31, 2018 was \$75,040,802, or 82.8% of net sales, as compared to \$64,977,632, or 84.3% of net sales, for the fiscal year ended October 31, 2017. 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 increase in cost of sales was due to our increased sales and sales generated by the Steep & Brew acquisition which results were not included in the year ended October 31, 2017.

**Gross Profit.** Gross profit for the fiscal year ended October 31, 2018 was \$15,614,492, an increase of \$3,464,529 from \$12,149,963 for the fiscal year ended October 31, 2017. Gross profit as a percentage of net sales increased to 17.2% for the fiscal year ended October 31, 2018 from 15.8% for the fiscal year ended October 31, 2017. The integration of Steep & Brew accounted for approximately \$2,111,000 of the increase. We experienced improved margins on our wholesale and roasted business during the year despite the increased freight and shipping costs.

**Operating Expenses.** Total operating expenses increased by \$2,286,083 to \$13,213,329 for the fiscal year ended October 31, 2018 from \$10,927,246 for the fiscal year ended October 31, 2017. Selling and administrative expenses increased \$2,303,823, or 22.5%, to \$12,532,329 for the fiscal year ended October 31, 2018 from \$10,228,506 for the fiscal year ended October 31, 2017. The primary reasons for this increase were the acquisition of Steep & Brew which accounted for \$1,800,677 and the increase in our freight costs as we increased and expanded our product distribution. Officers' salary decreased by \$17,740 or 2.5% to \$681,000 for the fiscal year ended October 31, 2018 from \$698,740 for the fiscal year ended October 31, 2017.

**Other Income (Expense).** Other expense for the fiscal year ended October 31, 2018 was \$362,225, an increase of \$116,444 from \$245,781 for the fiscal year ended October 31, 2017. The increase in other expense was attributable to an increase in interest expense of \$106,444, a decrease in interest income of \$6,089 and an increase in our loss from our equity investments of \$3,911, during the fiscal year ended October 31, 2018.

**Income (Loss) Before provision for income Taxes and Non-controlling Interest in Subsidiary.** We had income of \$2,038,938 before income taxes and non-controlling interest in subsidiary for the fiscal year ended October 31, 2018 compared to income of \$976,936 for the fiscal year ended October 31, 2017, resulting in a net change of \$1,062,002 for the year ended October 31, 2018. The increase was primarily attributable to the reasons described above.

**Income Taxes.** Our provision for income taxes for the fiscal year ended October 31, 2018 totaled \$511,532 compared to a provision of \$244,096 for the fiscal year ended October 31, 2017. The change was attributable to the difference in the gain for the year ended October 31, 2018 versus fiscal year ended October 31, 2017, also the change in the tax rate.

**Net Income (Loss).** We had net income of \$1,059,276 or \$0.19 per share basic and diluted, for the fiscal year ended October 31, 2018 compared to a net income of \$467,262, or \$0.08 per share basic and diluted for the fiscal year ended October 31, 2017. The increase in net income was due primarily to the reasons described above.

### Liquidity and Capital Resources

As of October 31, 2018, we had working capital of \$19,571,486, which represented a \$694,166 decrease from our working capital of \$20,265,652 as of October 31, 2017, and total stockholders' equity of \$24,881,776 which decreased by \$69,773 from our total stockholders' equity of \$24,951,549 as of October 31, 2017. Our working capital decreased primarily due to decreases of \$3,527,505 in accounts receivable, \$1,039,466 in inventory, \$171,350 in prepaid green coffee, \$14,964 in prepaid expenses and other current assets, \$89,608 in prepaid and refundable income taxes, an increase of \$402,922 in accounts payable and accrued expenses, \$159 in income taxes payable, partially offset by increases of \$2,285,734 in cash, decreases of \$2,077,258 in our short term borrowing and \$188,816 in due to broker. As of October 31, 2018, the outstanding balance on our line of credit was \$6,260,014 compared to \$8,407,527 as of October 31, 2017. Total stockholders' equity decreased due to our net income, partially offset by our Share Repurchase Program.

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

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

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

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

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

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

As of October 31, 2018 and October 31, 2017, the outstanding balance under the bank line of credit was \$6,260,014 and \$8,407,527, respectively.

For the fiscal year ended October 31, 2018, our operating activities provided net cash of \$8,693,403 as compared to the fiscal year ended October 31, 2017 when operating activities provided net cash of \$1,476,633. The increased cash flow from operations for the fiscal year ended October 31, 2018 was primarily due to our net income, unrealized gain, accounts receivable, inventories and accounts payable and accrued expenses.

For the fiscal year ended October 31, 2018, our investing activities used net cash of \$3,060,851 as compared to the fiscal year ended October 31, 2017 when net cash used by investing activities was \$3,573,196. The decrease in our uses of cash in investing activities was due to our decreased outlays for the acquisition of our subsidiary and the decrease in outlays for equipment during the fiscal year ended October 31, 2018.

For the fiscal year ended October 31, 2018, our financing activities used net cash of \$3,346,818 compared to net cash provided by financing activities of \$1,194,232 for the fiscal year ended October 31, 2017. The change in cash flow from financing activities for the fiscal year ended October 31, 2018 was due to our increased purchases of treasury stock and our increased principal reductions on our line of credit.

We expect to fund our operations, including paying our liabilities, funding capital expenditures and making required payments on our indebtedness, through October 31, 2019 with cash provided by operating activities we should realize an increased cash flow from operations due to the inclusion of Steep & Brew for an entire year and the use of our credit facility. In addition, an increase in eligible accounts receivable and inventory would permit us to make additional borrowings under our line of credit.

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

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

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

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

**Interest Rate Risks.** We are subject to market risk from exposure to fluctuations in interest rates. As of October 31, 2018, our debt consisted of \$6,260,014 of variable rate debt under our revolving line of credit. Our line of credit provides for a maximum of \$14,000,000 and is payable monthly in arrears on the average unpaid balance of the line of credit at an interest rate equal to a per annum reference rate (currently 3.9%). This loan is secured by all tangible and intangible assets of the Company.

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

As of October 31, 2018, we held 22 futures contracts for the purchase of 825,000 pounds of green coffee at a weighted average price of \$1.11 per pound compared to 145 futures contracts for the purchase of 5,437,500 pounds of green coffee at a weighted average price of \$1.31 per pound for the fiscal year ended October 31, 2017. The fair market value of coffee applicable to such contracts was \$1.13 and \$1.25 per pound, respectively. As of October 31, 2018, we held 65 options covering an aggregate of 2,437,500 pounds of green coffee beans from \$1.125 to \$1.15 per pound as compared to October 31, 2017 when the Company did not hold any options. The fair market value of these options was \$52,594 at October 31, 2018.

## ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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

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

None.

## ITEM 9A. CONTROLS AND PROCEDURES

***Evaluation of Disclosure Controls and Procedures.*** Management, which includes our President, Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, as amended (the "Exchange Act")) as of the end of the period covered by this report. Based upon that evaluation, our President, Chief Executive Officer and Chief Financial Officer concluded that the disclosure controls and procedures were effective to ensure that information required to be disclosed in the reports that we file and submit under the Exchange Act is (i) recorded, processed, summarized and reported as and when required and (ii) accumulated and communicated, as is appropriate, to our management, including its principal executive officer and financial officer to allow timely decisions regarding disclosure.

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

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

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

Our management assessed the effectiveness of its internal control over financial reporting as of October 31, 2018. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in Internal Control-Integrated Framework. Based on our assessment our management believes that, as of October 31, 2018, our internal control over financial reporting was effective based on those criteria.

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

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

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

## ITEM 9B. OTHER INFORMATION

None.

**PART III**

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

Information required by this item is incorporated by reference to our Proxy Statement for the 2018 Annual Meeting of Stockholders.

**ITEM 11. EXECUTIVE COMPENSATION**

Information required by this item is incorporated by reference to our Proxy Statement for the 2018 Annual Meeting of Stockholders.

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

Information required by this item is incorporated by reference to our Proxy Statement for the 2018 Annual Meeting of Stockholders.

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

Information required by this item is incorporated by reference to our Proxy Statement for the 2018 Annual Meeting of Stockholders.

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

Information required by this item is incorporated by reference to our Proxy Statement for the 2018 Annual Meeting of Stockholders.

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

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

(1) Financial Statements

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

(2) Financial Statement Schedules

None.

(3) List of Exhibits

(a) Exhibits

The Company has filed with this report or incorporated by reference herein certain exhibits as specified below pursuant to Rule 12b-32 under the Exchange Act. See Exhibit Index following the signature page to this report for a complete list of documents filed with this report.

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



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

- 10.17 [Guarantee, dated March 10, 2015, by Coffee Holding Co., Inc. \(incorporated herein by reference to Exhibit 10.4 to the Company's Current Report on Form 8-K filed on March 31, 2015\).](#)
- 10.18 [Amended and Restated Loan and Security Agreement, dated April 25, 2017, by and among Coffee Holding Co., Inc., Organic Products Trading Company LLC and Sterling National Bank \(incorporated herein by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on April 28, 2017\).](#)
- 10.19 [Guaranty Agreement, dated April 25, 2017, made by each of Sonofresco and Comfort Foods in favor of Sterling National Bank \(incorporated herein by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed on April 28, 2017\).](#)
- 10.20 [Lease, dated December 6, 2000, by and between Comfort Foods, Inc. and One Clark Street North Andover LLC.\\*](#)
- 10.21 [Second Amendment to Lease, dated March 23, 2017, by and between Coffee Holding Co., Inc. and 25 COMM NAM, LLC.\\*](#)
- 10.22 [Loan Modification Agreement and Waiver, dated March 23, 2018, by and by and among Coffee Holding Co., Inc., Organic Products Trading Company LLC and Sterling National Bank \(incorporated herein by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on March 27, 2018\).](#)
- 21.1 [List of Significant Subsidiaries.\\*](#)
- 31.1 [Principal Executive Officer and Principal Financial Officer's Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.\\*](#)
- 32.1 [Principal Executive Officer and Principal Financial Officer's Certification furnished pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.\\*\\*](#)
- 101.INS XBRL Instance Document.
- 101.SCH XBRL Taxonomy Extension Schema Document.
- 101.CAL XBRL Taxonomy Extension Calculation Linkbase Document.
- 101.LAB XBRL Taxonomy Extension Label Linkbase Document.
- 101.PRE XBRL Taxonomy Extension Presentation Linkbase Document.
- 101.DEF XBRL Taxonomy Extension Definition Linkbase Document.

\* Filed herewith

\*\*Furnished herewith



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

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

### Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Coffee Holding Co., Inc. (the "Company") as of October 31, 2018 and 2017, the related consolidated statements of income, stockholders' equity and cash flows for each of the two years in the period ended October 31, 2018, and the related notes (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of October 31, 2018 and 2017, and the results of its operations and its cash flows for each of the two years in the period ended October 31, 2018, in conformity with accounting principles generally accepted in the United States of America.

### Basis for Opinion

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

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

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

*/s/ Marcum LLP*

Marcum LLP

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

New York, NY  
January 28, 2019

**COFFEE HOLDING CO., INC. AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS**  
**OCTOBER 31, 2018 AND 2017**

	<u>2018</u>	<u>2017</u>
<b>- ASSETS -</b>		
<b>CURRENT ASSETS:</b>		
Cash	\$ 4,611,384	\$ 2,325,650
Accounts receivable, net of allowances of \$144,000 for 2018 and 2017	9,914,297	13,441,802
Inventories	15,271,106	16,310,572
Prepaid green coffee	-	171,350
Prepaid expenses and other current assets	578,861	593,825
Prepaid and refundable income taxes	383,206	472,814
<b>TOTAL CURRENT ASSETS</b>	<b>30,758,854</b>	<b>33,316,013</b>
Machinery and equipment, at cost, net of accumulated depreciation of \$6,251,828 and \$5,557,899 for 2018 and 2017, respectively	2,350,208	2,439,338
Customer list and relationships, net of accumulated amortization of \$108,875 and \$72,250 for 2018 and 2017, respectively	576,125	367,750
Trademarks and tradenames	1,488,000	820,000
Other intangible assets	331,124	331,124
Non-compete, net of accumulated amortization of \$9,900 and \$0 for 2018 and 2017, respectively	89,100	-
Goodwill	2,157,661	1,794,265
Equity method investments	89,776	94,643
Deferred income tax asset	440,325	339,748
Deposits and other assets	552,904	497,529
<b>TOTAL ASSETS</b>	<b>\$ 38,834,077</b>	<b>\$ 40,000,410</b>
<b>- LIABILITIES AND STOCKHOLDERS' EQUITY -</b>		
<b>CURRENT LIABILITIES:</b>		
Accounts payable and accrued expenses	\$ 4,833,548	\$ 4,430,626
Line of credit	6,260,014	8,407,527
Due to broker	22,046	210,862
Note payable	70,255	-
Income taxes payable	1,505	1,346
<b>TOTAL CURRENT LIABILITIES</b>	<b>11,187,368</b>	<b>13,050,361</b>
Deferred income tax liabilities	882,022	629,680
Deferred rent payable	242,143	240,379
Deferred compensation payable	532,726	488,529
<b>TOTAL LIABILITIES</b>	<b>12,844,259</b>	<b>14,408,949</b>
<b>Commitments and Contingencies</b>		
<b>STOCKHOLDERS' EQUITY:</b>		
Coffee Holding Co., Inc. stockholders' equity:		
Preferred stock, par value \$.001 per share; 10,000,000 shares authorized; none issued	-	-
Common stock, par value \$.001 per share; 30,000,000 shares authorized, 6,494,680 shares issued; 5,569,349 and 5,805,935 shares outstanding for 2018 and 2017	6,494	6,494
Additional paid-in capital	16,104,075	16,104,075
Retained earnings	13,404,767	12,345,490
Less: Treasury stock, 925,331 and 688,745 common shares, at cost for 2018 and 2017	(4,633,560)	(3,504,510)
Total Coffee Holding Co., Inc. Stockholders' Equity	24,881,776	24,951,549
Noncontrolling interest	1,108,042	639,912
<b>TOTAL EQUITY</b>	<b>25,989,818</b>	<b>25,591,461</b>
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b>\$ 38,834,077</b>	<b>\$ 40,000,410</b>

See Notes to Consolidated Financial Statements

**COFFEE HOLDING CO., INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF INCOME**  
**YEARS ENDED OCTOBER 31, 2018 AND 2017**

	2018	2017
<b>NET SALES</b>	<b>\$ 90,655,294</b>	<b>\$ 77,127,595</b>
<b>COST OF SALES</b> (which include purchases of approximately \$9.1 million and \$6.7 million in fiscal years 2018 and 2017, respectively, from a related party)	<b>75,040,802</b>	<b>64,977,632</b>
<b>GROSS PROFIT</b>	<b>15,614,492</b>	<b>12,149,963</b>
<b>OPERATING EXPENSES:</b>		
Selling and administrative	12,532,329	10,228,506
Officers' salaries	681,000	698,740
<b>TOTAL</b>	<b>13,213,329</b>	<b>10,927,246</b>
<b>INCOME FROM OPERATIONS</b>	<b>2,401,163</b>	<b>1,222,717</b>
<b>OTHER INCOME (EXPENSE):</b>		
Interest income	13,347	19,436
Loss from equity method investments	(4,867)	(956)
Interest expense	(370,705)	(264,261)
<b>TOTAL</b>	<b>(362,225)</b>	<b>(245,781)</b>
<b>INCOME BEFORE PROVISION FOR INCOME TAXES AND NON-CONTROLLING INTEREST IN SUBSIDIARY</b>	<b>2,038,938</b>	<b>976,936</b>
Provision for income taxes	511,532	244,096
<b>NET INCOME BEFORE NON-CONTROLLING INTEREST IN SUBSIDIARY</b>	<b>1,527,406</b>	<b>732,840</b>
Less: Net income attributable to the non-controlling interest in subsidiary	(468,130)	(265,578)
<b>NET INCOME ATTRIBUTABLE TO COFFEE HOLDING CO., INC.</b>	<b>\$ 1,059,276</b>	<b>\$ 467,262</b>
Basic and diluted earnings per share	<b>\$ .19</b>	<b>\$ .08</b>
Weighted average common shares outstanding:		
Basic and diluted	<b>5,691,057</b>	<b>5,858,376</b>

See Notes to Consolidated Financial Statements

**COFFEE HOLDING CO., INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY**  
**YEARS ENDED OCTOBER 31, 2018 AND 2017**

	Redeemable Common Stock		Common Stock		Treasury Stock		Additional Paid-in Capital	Retained Earnings	Non- Controlling Interest	Total
	Number of Shares	Amount	\$.001 Par Value		Number of Shares	Amount				
Balance, October 31, 2016	38,364	\$ 200,004	5,824,938	\$ 6,456	631,378	\$ (3,249,590)	\$ 15,904,109	\$ 11,878,228	\$ 374,334	\$ 24,913,537
Treasury Stock			(57,367)		57,367	(254,920)				(254,920)
Net income								467,262		467,262
Stock issued in connection with Acquisition	(38,364)	(200,004)	38,364	38			199,966			200,004
Non-Controlling Interest	-	-	-	-	-	-	-	-	265,578	265,578
Balance, October 31, 2017			5,805,935	\$ 6,494	688,745	\$ (3,504,510)	\$ 16,104,075	\$ 12,345,490	\$ 639,912	\$ 25,591,461
Treasury Stock			(236,586)		236,586	(1,129,050)				(1,129,050)
Net income								1,059,277		1,059,277
Non-Controlling Interest			-	-	-	-	-	-	468,130	468,130
Balance, October 31, 2018			5,569,349	\$ 6,494	925,331	\$ (4,633,560)	\$ 16,104,075	\$ 13,404,767	\$ 1,108,042	\$ 25,989,818

See Notes to Consolidated Financial Statements



**COFFEE HOLDING CO., INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**YEARS ENDED OCTOBER 31, 2018 AND 2017**

	2018	2017
<b>OPERATING ACTIVITIES:</b>		
Net income	\$ 1,527,406	\$ 732,840
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	740,454	762,043
Unrealized loss (gain) on commodities	(188,816)	345,584
Loss on equity method investments	4,867	955
Deferred rent	1,764	9,163
Deferred income taxes	151,765	(183,975)
Changes in operating assets and liabilities:		
Accounts receivable	3,613,947	661,008
Inventories	2,155,487	(917,376)
Prepaid expenses and other current assets	43,877	(25,688)
Prepaid green coffee	171,350	264,227
Prepaid and refundable income taxes	89,608	9,163
Accounts payable and accrued expenses	392,713	(258,827)
Deposits and other assets	(11,178)	77,220
Income taxes payable	159	296
<b>Net cash provided by operating activities</b>	<b>8,693,403</b>	<b>1,476,633</b>
<b>INVESTING ACTIVITIES:</b>		
Purchase of business net of cash acquired	(2,677,335)	(2,893,275)
Purchases of machinery and equipment	(383,516)	(679,921)
<b>Net cash used in investing activities</b>	<b>(3,060,851)</b>	<b>(3,573,196)</b>
<b>FINANCING ACTIVITIES:</b>		
Advances under bank line of credit	3,810,400	6,314,152
Purchase of treasury stock	(1,129,050)	(254,920)
Principal payments under bank line of credit	(6,028,168)	(4,865,000)
<b>Net cash (used in) provided by financing activities</b>	<b>(3,346,818)</b>	<b>1,194,232</b>
<b>NET INCREASE (DECREASE) IN CASH</b>	<b>2,285,734</b>	<b>(902,331)</b>
<b>CASH, BEGINNING OF YEAR</b>	<b>2,325,650</b>	<b>3,227,981</b>
<b>CASH, END OF YEAR</b>	<b>\$ 4,611,384</b>	<b>\$ 2,325,650</b>

See Notes to Consolidated Financial Statements

**COFFEE HOLDING CO., INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**YEARS ENDED OCTOBER 31, 2018 AND 2017**

	2018	2017
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW DATA:</b>		
Interest paid	\$ 372,228	\$ 261,485
Income taxes paid	\$ 270,000	\$ 391,933

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

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

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

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

On February 23, 2017 Coffee Holding Co., Inc. acquired the assets of Comfort Foods, Inc.:

Accounts receivable	\$ 584,918	
Inventory	1,116,906	
Equipment	229,597	
Prepaid expenses	32,681	
Customer lists	170,000	
Other intangible assets	971,124	
Goodwill	388,378	
Other asset	26,551	
Less: liabilities	626,880	
Net cash paid	\$ 2,893,275	

See Notes to Consolidated Financial Statements

**COFFEE HOLDING CO., INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**OCTOBER 31, 2018 AND 2017**

**NOTE 1 - BUSINESS ACTIVITIES:**

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

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

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

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

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

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

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

**BASIS OF PRESENTATION:**

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

**USE OF ESTIMATES:**

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

**CASH:**

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

**COFFEE HOLDING CO., INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**OCTOBER 31, 2018 AND 2017**

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

**PREPAID GREEN COFFEE:**

Prepaid coffee is an item that emanates from OPTCO. The balance represents advance payments made by OPTCO to several coffee growing cooperatives for the purchase of green coffee. Interest is charged to the cooperatives for these advances. Interest earned was \$6,868 and \$19,430 for the years ended October 31, 2018 and 2017, respectively. The prepaid coffee balance was \$0 and \$171,350 as of October 31, 2018 and 2017, respectively.

**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:

	2018	2017
Allowance for doubtful accounts	\$ 65,000	\$ 65,000
Reserve for other allowances	35,000	35,000
Reserve for sales discounts	44,000	44,000
<b>Totals</b>	<b>\$ 144,000</b>	<b>\$ 144,000</b>

**INVENTORIES:**

Inventories are stated at the lower of cost (First in, first out basis) or net realizable value, including provisions for obsolescence commensurate with known or estimated exposures. There are no reserves for obsolescence as of October 31, 2018 and 2017.

**MACHINERY AND EQUIPMENT:**

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

**COFFEE HOLDING CO., INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**OCTOBER 31, 2018 AND 2017**

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

**COMMODITIES HELD BY BROKER:**

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

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

	<u>2018</u>	<u>2017</u>
Option contracts	\$ (39,926)	\$ 166,945
Future contracts	17,880	(377,807)
Commodities due to broker	<u>\$ (22,046)</u>	<u>\$ (210,862)</u>

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

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

At October 31, 2017, the Company held 145 futures contracts (generally with terms of three to four months) for the purchase of 5,437,500 pounds of green coffee at a weighted average price of \$1.31 per pound. The fair market value of coffee applicable to such contracts was \$1.25 per pound at that date. At October 31, 2017, the Company did not have any options.

Included in cost of sales for the years ended October 31, 2018 and 2017, the Company recorded realized and unrealized gains and losses respectively, on these contracts as follows:

	<u>Year Ended October 31,</u>	
	<u>2018</u>	<u>2017</u>
Gross realized gains	\$ 999,540	\$ 1,655,269
Gross realized (losses)	(2,007,691)	(1,636,487)
Unrealized gains (losses)	188,816	(345,584)
Total	<u>\$ (819,335)</u>	<u>\$ (326,802)</u>

**COFFEE HOLDING CO., INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**OCTOBER 31, 2018 AND 2017**

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

**GOODWILL AND TRADEMARKS:**

The Company has determined that its goodwill and trademarks, which consist of product lines, trade names and packaging designs have an indefinite useful life. The value of the goodwill and trademarks was allocated based on an independent valuation. Goodwill and trademarks are not amortized but are assigned to a specific reporting unit or asset class and tested for impairment at least annually or upon the occurrence of an event or when circumstances indicate that the reporting unit's carrying amount of goodwill and trademarks is greater than its fair value. As of October 31, 2018 and 2017, the Company has determined by using a qualitative assessment that an impairment did not exist. In 2011, the Company adopted Financial Accounting Standard ASB ASU 2011-08 Intangibles – Goodwill and Other – Testing Goodwill for Impairment, which allows an entity to first assess qualitative factors to determine whether it is necessary to perform the two-step quantitative goodwill impairment test. Under this amendment, an entity would not be required to calculate the fair value of a reporting unit unless the entity determines, based on a qualitative assessment, that it is more likely than not that its fair value is less than its carrying amount. The amendment includes a number of events and circumstances for an entity to consider in conducting the qualitative assessment.

**CUSTOMER LIST AND RELATIONSHIPS:**

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

**ADVERTISING:**

The Company expenses the cost of advertising and promotion as incurred. Advertising costs charged to operations totaled \$366,665 and \$243,658 for the years ended October 31, 2018 and 2017, respectively.

**INCOME TAXES:**

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

**EARNINGS PER SHARE:**

Basic earnings per common share were computed by dividing net income by the sum of the weighted-average number of common shares outstanding. Diluted earnings per common share is computed by dividing the net income by the weighted-average number of common shares outstanding plus the dilutive effect of common shares issuable upon exercise of potential sources of dilution.

The weighted average common shares outstanding used in the computation of basic and diluted earnings per share were 5,691,057 and 5,858,376 for the years ended October 31, 2018 and 2017, respectively.

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

**FAIR VALUE OF FINANCIAL INSTRUMENTS:**

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

**REVENUE RECOGNITION:**

The Company recognizes revenue in accordance with the authoritative guidance. Revenue is recognized at the point title and risk of ownership transfers to its customers upon the Company's shippers taking possession of the goods at the time of shipment because i) title passes in accordance with the terms of the Company's purchase orders and with its agreements with its customers, ii) any risk of loss is covered by the Company's customers' insurance, iii) there is persuasive evidence of a sales arrangement, iv) the sales price is determinable and v) collection of the resulting receivable is reasonably assured. Thus, revenue is recognized at the point of shipment to its customers.

Returns: The Company does not accept returns for damaged goods on packaged coffee and usable green coffee, as the customer takes possession of our product at the point of shipment. In the event a customer claims receipt of damaged goods, the Company, acting as an agent on behalf of the customer, may file a claim for reimbursement with the shipper. The Company is not obligated or required to act as an agent on behalf of its customers, but may make the business decision to do so as a convenience to its customers. The shipper keeps the damaged product. The Company will then ship a completely new order to the customer once a claim has been filed and the Company receives reimbursement or credit from the shipper for the initial shipment. The Company does evaluate the need, if any, of an accrual for returns for damaged goods. To date, returns for damaged goods have been immaterial. The Company estimates that, based on historical trends, that future returns for damaged goods should also be immaterial.

In the event that the Company ships an incorrect order or has returns for short dated product, the Company will accept those two types of items back as returns. The amount for these two types of returns are estimated, accrued and recognized at the date of sale. These amounts are included in the determination of net sales.

Slotting fees: Certain retailers require the payment of slotting fees in order to obtain space for the Company's products on the retailer's store shelves. The cost of these fees are estimated, accrued and recognized at the earlier of the date cash is paid or a liability to the retailer is created. The amounts are included in the determination of net sales.

Sales discounts: The amount of sales discounts are estimated, accrued and recognized at the date of the sale. These amounts are included in the determination of net sales.

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

**REVENUE RECOGNITION (cont'd):**

Volume-based incentives: These incentives typically involve rebates or refunds of a specific amount of cash consideration that are redeemable only if the reseller completes a specified cumulative level of sales transactions. Under incentive programs of this nature, the Company estimates and accrues the cost of the rebate when it is taken by the reseller. These amounts are included in the determination of net sales.

Cooperative advertising: Under these arrangements, the Company will agree to reimburse the reseller for a portion of the costs incurred by the reseller to advertise and promote certain of the Company's products. The Company estimates, accrues and recognizes the cost of cooperative advertising programs in the period in which the advertising and promotional activity first takes place. The costs of these incentives are included in advertising expense.

**SHIPPING AND HANDLING FEES AND COSTS:**

Revenue earned from shipping and handling fees is reflected in net sales. Costs associated with shipping product to customers aggregating approximately \$3,144,000 and \$2,412,000 for the years ended October 31, 2018 and 2017, respectively, is included in selling and administrative expenses.

**CONCENTRATION OF RISK:**

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

Accounts at each institution are insured by the Federal Deposit Insurance Corporation (FDIC) up to certain limits. At October 31, 2018 and 2017, the Company had approximately \$2,800,000 and \$176,000 in excess of FDIC insured limits, respectively.

The accounts at the brokerage firm contain cash and securities. Balances are insured up to \$500,000, with a limit of \$100,000 for cash, by the Securities Investor Protection Corporation (SIPC). At October 31, 2018 and 2017, the Company had approximately \$355,000 and \$1,122,000 in excess of SIPC insured limits, respectively.

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

**OPERATING LEASES:**

The Company has operating lease agreements for its corporate office and warehouses, some of which contain provisions for future rent increases or periods in which rent payments are abated. Operating leases which provide for lease payments that vary materially from the straight-line basis are adjusted for financial accounting purposes to reflect rental income or expense on the straight-line basis in accordance with the authoritative guidance issued by the FASB. The excess of straight-line rent over actual payments by the Company of \$242,143 and \$240,379 is presented as deferred rent payable as of October 31, 2018 and 2017, respectively.



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

**RECLASSIFICATION:**

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

**EQUITY METHOD OF ACCOUNTING:**

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

The Company's investment in a company that is accounted for on the equity method of accounting consist of the following: (1) 20% interest in Healthwise Gourmet Coffees, LLC, a distributor of low acidity coffees. The investments in this company amounted to \$100,000. The loss recognized amounted to \$4,867 and \$956 for the years ended October 31, 2018 and 2017, respectively. The net value of this investment as presented on our consolidated balance sheet at October 31, 2018 and 2017 was \$89,776 and \$94,643, respectively.

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

The FASB issued ASU 2016-02, Leases (Topic 842). ASU 2016-01 requires that a lessee recognize the assets and liabilities that arise from operating leases. A lessee should recognize in the statement of financial position a liability to make lease payments (the lease liability) and a right-of-use asset representing its right to use the underlying asset for the lease term. For leases with a term of 12 months or less, a lessee is permitted to make an accounting policy election by class of underlying asset not to recognize lease assets and lease liabilities. In transition, lessees and lessors are required to recognize and measure leases at the beginning of the earliest period presented using a modified retrospective approach. Public business entities should apply the amendments in ASU 2016-02 for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years (i.e., January 1, 2019, for a calendar year entity). Nonpublic business entities should apply the amendments for fiscal years beginning after December 15, 2019 (i.e., January 1, 2020, for a calendar year entity), and interim periods within fiscal years beginning after December 15, 2020. Early application is permitted for all public business entities and all nonpublic business entities upon issuance. The Company is currently evaluating the impact of adopting this guidance.

In May 2014 the FASB issued ASU 2014-09, *Revenue from Contracts with Customers*, which is a new standard related to revenue recognition. Under the new standard, recognition of revenue occurs when a customer obtains control of promised services or goods in an amount that reflects the consideration to which the entity expects to receive in exchange for those goods or services. In addition, the standard requires disclosure of the nature, amount, timing, and uncertainty of revenue and cash flows arising from customer contracts. The standard must be adopted using either a full retrospective approach for all periods presented in the period of adoption or a modified retrospective approach. In July 2015, the FASB issued ASU 2015-14, *Revenue from Contracts with Customers - Deferral of the Effective Date*, which defers the implementation of this new standard to be effective for fiscal years beginning after December 15, 2017. Early adoption is permitted effective January 1, 2017. In March 2016, the FASB issued ASU 2016-08, *Principal versus Agent Considerations*, which clarifies the implementation guidance on principal versus agent considerations in the new revenue recognition standard pursuant to ASU 2014-09. In April 2016, the FASB issued ASU 2016-10, *Identifying Performance Obligations and Licensing*, and in May 2016, the FASB issued ASU 2016-12, *Narrow-Scope Improvements and Practical Expedients*, which amend certain aspects of the new revenue recognition standard pursuant to ASU 2014-09. The Company will adopt the new standard on November 1, 2018 and currently plans to use the modified retrospective method. The majority of the Company's business is ship and bill and, on that primary revenue stream, the Company does not expect significant differences. The Company has completed its assessment of multiple arrangements and certain discount and trade promotion programs and does not expect any material adjustments.

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

In July 2017, the FASB issued ASU 2017-11, "Earnings Per Share (Topic 260), Distinguishing Liabilities from Equity (Topic 480), Derivatives and Hedging (Topic 815): I. Accounting for Certain Financial Instruments with Down Round Features, II. Replacement of the Indefinite Deferral for Mandatorily Redeemable Financial Instruments of Certain Nonpublic Entities and Certain Mandatorily Redeemable Noncontrolling Interests with a Scope Exception" which addresses narrow issues identified as a result of the complexity associated with applying generally accepted accounting principles for certain financial instruments with characteristics of liabilities and equity. Part I of this Update addresses the complexity of accounting for certain financial instruments with down round features. Current accounting guidance creates cost and complexity for entities that issue financial instruments (such as warrants and convertible instruments) with down round features that require fair value measurement of the entire instrument or conversion option. Part II of this Update addresses the difficulty of navigating Topic 480, Distinguishing Liabilities from Equity, because of the existence of extensive pending content in the FASB Accounting Standards Codification. This pending content is the result of the indefinite deferral of accounting requirements about mandatorily redeemable financial instruments of certain nonpublic entities and certain mandatorily redeemable noncontrolling interests. The amendments in Part I of this Update change the classification analysis of certain equity-linked financial instruments (or embedded features) with down round features. When determining whether certain financial instruments should be classified as liabilities or equity instruments, a down round feature no longer precludes equity classification when assessing whether the instrument is indexed to an entity's own stock. The amendments also clarify existing disclosure requirements for equity-classified instruments. The amendments in Part II of this Update recharacterize the indefinite deferral of certain provisions of Topic 480 that now are presented as pending content in the Codification, to a scope exception. These amendments in Part I of this update are effective for annual and interim periods beginning after December 15, 2018, early adoption is permitted, including adoption in an interim period. If an entity early adopts the amendments in an interim period, any adjustments should be reflected as of the beginning of the fiscal year that includes that interim period. The amendments in Part I of this Update should be applied in either of the following ways: (1) Retrospectively to outstanding financial instruments with a down round feature by means of a cumulative-effect adjustment to the statement of financial position as of the beginning of the first fiscal year and interim period(s) in which the pending content that links to this paragraph is effective. (2) Retrospectively to outstanding financial instruments with a down round feature for each prior reporting period presented in accordance with the guidance on accounting changes in paragraphs 250-10-45-5 through 45-10. The amendments in Part II of this Update do not require any transition guidance because those amendments do not have an accounting effect.

The FASB has issued ASU No. 2015-17, Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes, which changes how deferred taxes are classified on organizations' balance sheets. The ASU eliminates the current requirement for organizations to present deferred tax liabilities and assets as current and noncurrent in a classified balance sheet. Instead, organizations will be required to classify all deferred tax assets and liabilities as noncurrent. The amendments apply to all organizations that present a classified balance sheet. For public companies, the amendments are effective for financial statements issued for annual periods beginning after December 15, 2016, and interim periods within those annual periods. For private companies, not - for - profit organizations, and employee benefit plans, the amendments are effective for financial statements issued for annual periods beginning after December 15, 2017, and interim periods within annual periods beginning after December 15, 2018. The Company adopted ASU 2015-17 during the quarter ended January 31, 2018, which did not have a material impact on its consolidated financial statements.

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

In July 2015, the FASB issued ASU 2015-11, "Inventory (Topic 330): Simplifying the Measurement of Inventory," which applies to inventory that is measured using first-in, first-out ("FIFO") or average cost. Under the updated guidance, an entity should measure inventory that is within scope at the lower of cost and net realizable value, which is the estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal and transportation. Subsequent measurement is unchanged for inventory that is measured using last-in, last-out ("LIFO"). This ASU is effective for annual and interim periods beginning after December 15, 2016, and should be applied prospectively with early adoption permitted at the beginning of an interim or annual reporting period. The Company adopted ASU 2015-11 during the fiscal year ended October 31, 2018, which did not have a material impact on its consolidated financial statements

**NOTE 4 - INVENTORIES:**

Inventories at October 31, 2018 and 2017 consisted of the following:

	2018	2017
Packed coffee	\$ 3,286,450	\$ 2,242,714
Green coffee	9,858,495	12,317,394
Roaster parts	270,188	286,515
Packaging supplies	1,855,973	1,463,949
Totals	<u>\$ 15,271,106</u>	<u>\$ 16,310,572</u>

**NOTE 5 – BUSINESS ACQUISITION:**

Pursuant to the terms of an Asset Purchase Agreement dated April 24, 2018 (the "Generations Agreement"), by and among Generations Coffee Company, LLC ("GCC"), the entity formed as a result of the Company's joint venture with Caruso's Coffee, Inc., Steep & Brew, Inc. ("the Seller") a Wisconsin corporation and the stockholder of the Seller. GCC purchased substantially all the assets, including equipment, inventory, customer list and relationships (the "Assets") of the Seller. This was accounted for as a business combination. GCC purchased the Assets for a purchase price consisting of \$2,677,335 in cash and a Seller held promissory note for \$140,510 plus assumed liabilities of \$10,210. The Seller held promissory note calls for two payments of \$75,000 each of principle and interest. The first payment of principal only is due October 24, 2018 and the final payment is due April 24, 2019.

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

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

The Company has not yet completed its full analysis of the fair value of tangible assets acquired and liabilities assumed and the allocation of any excess acquisition cost over the fair value of the net tangible net assets acquired to any separately identifiable intangible assets. Pursuant to ASC No. 805-10-25, if the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, but during the allowed measurement period (which is not to exceed one year from the acquisition date), the Company retrospectively adjusts the provisional amounts recognized at the acquisition date by means of adjusting the amount recognized for goodwill.

The following table summarizes the amounts of assets purchased:

<b>Assets acquired:</b>	
Accounts receivable	\$ 86,442
Inventory	1,116,021
Equipment	221,283
Prepaid expenses	28,913
Non-compete	99,000
Customer lists	245,000
Tradename	668,000
Goodwill	363,396
<b>Assets acquired:</b>	<b>\$ 2,828,055</b>
<b>Purchase of assets funded by:</b>	
Cash paid	\$ 2,677,335
Liability assumed	10,210
Note payable to seller	140,510
	<b>\$ 2,828,055</b>

Pro Forma Results of Operations (unaudited)

The following pro forma results of operations for the twelve months ended October 31, 2018 and 2017 have been prepared as though the business acquisition had occurred as of October 31, 2017. This pro forma financial information is not indicative of the results of operations that the Company would have attained had the acquisition occurred at the beginning of the periods presented, nor is the pro forma financial information indicative of the results of operations that may occur in the future:

	Twelve Months Ended October 31,	
	2018	2017
Pro forma sales	\$ 95,900,631	\$ 88,923,392
Pro forma net income (loss)	\$ 940,437	\$ 523,577
Pro forma basic and diluted earnings per share	\$ .17	\$ .09

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

**COFFEE HOLDING CO., INC. AND SUBSIDIARIES**  
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**NOTE 6 - PURCHASE OF BUSINESS:**

Pursuant to the terms of a Stock Purchase Agreement dated February 23, 2017, by and among the Company, Comfort Foods, Inc., a Massachusetts corporation ("CFI"), Stephen J. Beattie (the "Trustee"), as trustee of the Stephen J. Beattie Revocable Trust of 2013 (the "Trust") and Victor Janovich (together, with the Trustee on behalf of the Trust, the "Sellers"), the Company, acquired all of the outstanding capital stock of CFI. The transaction was accounted for as a business combination and was not a significant acquisition for the Company. The purpose of the transaction was to expand the Company's presence in the northeast. The Company purchased the shares of capital stock for a purchase price of \$2,300,000 in cash, subject to the holdback of \$25,000 for a six month period following the consummation of the transaction to secure the Sellers' indemnification obligations. In addition, immediately following consummation of the transaction, the Company also paid all of the existing bank debt of CFI, totaling approximately \$605,173.

As part of the transaction, the employees of CFI remained employees of CFI, with the exception of Stephen Beattie, CFI's then Chief Executive Officer. Mr. Beattie entered into an advisory agreement (the "Advisory Agreement") with CFI, dated as of February 23, 2017, pursuant to which Mr. Beattie agreed to provide services to CFI on an independent contractor basis, to ensure continuity of the business and its operations in Massachusetts. The initial term of the Advisory Agreement commenced on April 1, 2017 and was set to expire on December 31, 2017, unless terminated earlier in accordance with the terms and conditions of the Advisory Agreement. On September 6, 2017, the Company terminated the Advisory Agreement. Pursuant to the terms of the Advisory Agreement, Mr. Beattie was paid \$5,000 per month.

The following table summarizes the assets purchased and liabilities assumed:

<b>Assets acquired:</b>	
Accounts receivable	\$ 584,918
Inventory	1,116,906
Prepaid expenses	32,681
Equipment	229,597
Customer List	170,000
Tradename	640,000
Other intangible assets	331,124
Goodwill	388,378
Security deposit	26,551
Less: liabilities assumed	<u>(626,880)</u>
Net assets acquired:	<u>\$ 2,893,275</u>
<b>Purchase of assets funded by:</b>	
Cash paid	<u>\$ 2,893,275</u>

The operations of CFI have been included in the Company's consolidated statement of operations since the date of the acquisition on February 23, 2017. Goodwill generated from the acquisition is not deductible for tax purposes. Proforma information is not required due to immateriality of the amounts. Amortization expense to be charged to operations will be \$17,000 per year.

**NOTE 7 - MACHINERY AND EQUIPMENT:**

Machinery and equipment at October 31, 2018 and 2017 consisted of the following:

	Estimated Useful Life	2018	2017
Improvements	15-30 years	\$ 210,085	\$ 202,285
Machinery and equipment	7 years	7,363,497	6,809,944
Furniture and fixtures	7 years	1,028,454	985,008
		<u>8,602,036</u>	<u>7,997,237</u>
Less, accumulated depreciation		<u>6,251,828</u>	<u>5,557,899</u>
		<u>\$ 2,350,208</u>	<u>\$ 2,439,338</u>

Depreciation expense totaled \$693,929 and \$740,043 for the years ended October 31, 2018 and 2017, respectively.

**COFFEE HOLDING CO., INC. AND SUBSIDIARIES**  
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**NOTE 8 - LINE OF CREDIT:**

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

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

On March 23, 2018, the Company reached an agreement for a new loan modification agreement and credit facility with Sterling. The terms of the new agreement among other things: (i) provides for a new maturity date of March 31, 2020; (ii) increases the maximum principal amount to \$14,000,000; and (iii) decreases the interest rate per annum to LIBOR plus 2 percent, 4.3% at October 31, 2018.

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

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

**COFFEE HOLDING CO., INC. AND SUBSIDIARIES**  
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**NOTE 8 - LINE OF CREDIT (cont'd):**

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

As of October 31, 2018 and October 31, 2017, the outstanding balance under the bank line of credit was \$6,260,014 and \$8,407,527, respectively.

**NOTE 9 - INCOME TAXES:**

The Company's provision for income taxes in 2018 and 2017 consisted of the following:

	<u>2018</u>	<u>2017</u>
<b>Current</b>		
Federal	\$ 219,233	\$ 392,354
State and local	140,534	35,717
	<u>359,767</u>	<u>428,071</u>
<b>Deferred</b>		
Federal	98,400	(199,550)
State and local	53,365	15,575
	<u>151,765</u>	<u>(183,975)</u>
<b>Income tax expense</b>	<u>\$ 511,532</u>	<u>\$ 244,096</u>

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

	<u>2018</u>	<u>2017</u>
Tax at the federal statutory rate	\$ 693,239	\$ 241,862
Other permanent differences	(59,473)	(21,289)
Effect of tax rate change	(224,283)	
State and local tax, net of federal	<u>102,049</u>	<u>23,523</u>
Provision for income taxes	<u>\$ 511,532</u>	<u>\$ 244,096</u>
Effective income tax rate	<u>25%</u>	<u>25%</u>

**COFFEE HOLDING CO., INC. AND SUBSIDIARIES**  
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**NOTE 9 - INCOME TAXES (cont'd):**

The tax effects of the temporary differences that give rise to the deferred tax assets and liabilities as of October 31, 2018 and 2017 are as follows:

	<u>2018</u>	<u>2017</u>
<b>Deferred tax assets:</b>		
Accounts receivable	\$ 39,561	\$ 57,904
Unrealized loss	6,057	138,963
Deferred rent	66,524	
Deferred compensation	146,356	
Net operating loss	96,950	
Inventory	84,877	142,881
<b>Total deferred tax asset</b>	<b>\$ 440,325</b>	<b>\$ 339,748</b>
<b>Deferred tax liability:</b>		
Intangible assets acquired	484,932	387,982
Deferred compensation		(196,443)
Deferred rent		(96,659)
Fixed assets	397,090	\$ 534,800
<b>Total deferred tax liabilities</b>	<b>\$ 882,022</b>	<b>\$ 629,680</b>

A valuation allowance was not provided at October 31, 2018 or 2017. In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies in making this assessment. Based upon the level of historical taxable income and projections for future taxable income over the periods in which the deferred tax assets are expected to be deductible, management believes it is more likely than not the Company will realize the benefits of these deductible differences. The amount of the deferred tax asset considered realizable, however, could be reduced in the near term if estimates of future taxable income are reduced.

On December 22, 2017, H.R.1, or the Tax Cuts and Jobs Act (the "Act" or "Tax Reform") was signed into law. The Act made significant changes to the Internal Revenue Code including, but not limited to, reducing the corporate federal tax rate from 35% to 21% effective January 1, 2018. The Company calculated its provision for current federal income tax in fiscal 2017 using a rate of 23.2%, which reflects a blend of the former federal tax rate and the new federal tax rate of 21%. As a result of the new federal tax rate, the Company remeasured its deferred tax assets and liabilities. The remeasurement resulted in a provision for income taxes of \$10,786.

As of October 31, 2018 and 2017, the Company did not have any unrecognized tax benefits or open tax positions. The Company's practice is to recognize interest and/or penalties related to income tax matters in income tax expense. As of October 31, 2018 and 2017, the Company had no accrued interest or penalties related to income taxes. The Company currently has no federal or state tax examinations in progress.



**COFFEE HOLDING CO., INC. AND SUBSIDIARIES**  
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**NOTE 9 - INCOME TAXES (cont'd):**

The Company files a U.S. federal income tax return and California, Colorado, Connecticut, Idaho, Kansas, Michigan, New Jersey, New York, New York City, Virginia, Texas, Rhode Island, South Carolina, and Oregon state tax returns. The Company's federal income tax return is no longer subject to examination by the federal taxing authority for years before fiscal 2015. 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 2012. The Company's Oregon, New York, Kansas, South Carolina, Rhode Island, Connecticut and Michigan and Texas income tax returns are no longer subject to examination by their respective taxing authorities for the years before fiscal 2013.

**COFFEE HOLDING CO., INC. AND SUBSIDIARIES**  
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**NOTE 10 - COMMITMENTS AND CONTINGENCIES:**

**OPERATING LEASES:**

In February 2004, the Company entered into a lease for office and warehouse space in La Junta City, Colorado. This lease, which is at a monthly rental of \$8,341 beginning January 2005, expires on January 31, 2024. Rent charged to operations amounted to \$95,504 for the years ended October 31, 2018 and 2017.

In October 2008, the Company entered into a lease for office and warehouse space in Staten Island, NY. This lease, which is at a monthly rental beginning November 2008, expires on October 31, 2023 and includes annual rent increases. Rent charged to operations amounted to \$143,171 for the years ended October 31, 2018 and 2017. The Company also uses a variety of independent, bonded commercial warehouses to store its green coffee beans.

In March 2015, the Company entered into a lease for office space in Vancouver, WA. This lease, which is at a monthly rental beginning April 1, 2015, expired on March 31, 2017. The lease was extended, effective as of April 1, 2017 and expiring on March 31, 2019. Rent charged to operations amounted to \$38,943 and \$37,130 for the years ended October 31, 2018 and 2017, respectively.

In December 2016, the Company entered into a lease for office and warehouse space in Burlington, WA. This lease, which is at a monthly rental beginning December 1, 2017, expired on December 31, 2018. The lease was extended, effective January 1, 2019 and expiring on December 31, 2019. Rent charged to operations amounted to \$46,190 and \$43,988 for the years ended October 31, 2018 and 2017, respectively.

In April 2017, the Company entered into a lease for office and warehouse space in North Andover, MA. This lease, which is at a monthly rental beginning April 1, 2017, expires on March 31, 2027 and includes charges for common areas and utilities. Rent charged to operations amounted to \$233,750 and \$172,627 for the years ended October 31, 2018 and 2017, respectively.

The aggregate minimum future lease payments as of October 31, 2018 for each of the next five years and thereafter are as follows:

<u>October 31,</u>		
2019	\$	450,454
2020		438,820
2021		447,342
2022		456,290
2023		465,685
Thereafter		600,016
	<u>\$</u>	<u>2,858,607</u>

**401 (K) RETIREMENT PLAN:**

The Company has a 401(k) Retirement Plan, which covers all the full time employees who have completed one year of service and have reached their 21<sup>st</sup> birthday. The Company matches 100% of the aggregate salary reduction contribution up to the first 3% of compensation and 50% of aggregate contribution of the next 2% of compensation. Contributions to the plan aggregated \$77,341 and \$71,701 for the years ended October 31, 2018 and 2017, respectively.

**COFFEE HOLDING CO., INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
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**NOTE 11 - ECONOMIC DEPENDENCY:**

Approximately 26% of the Company's sales were derived from five customers during the year ended October 31, 2018. These customers also accounted for approximately \$2,856,000 or 29% of the Company's accounts receivable balance at October 31, 2018. Approximately 25% of the Company's sales were derived from four customers during the year ended October 31, 2017. These customers also accounted for approximately \$6,175,000 or 46% of the Company's accounts receivable balance at October 31, 2017. Concentration of credit risk with respect to other trade receivables is limited due to the short payment terms generally extended by the Company, by ongoing credit evaluations of customers, and by maintaining an allowance for doubtful accounts and other allowances that management believes will adequately provide for credit losses.

For the year ended October 31, 2018, approximately 26% of the Company's purchases were from six vendors. These vendors accounted for approximately \$726,000 of the Company's accounts payable at October 31, 2018. For the year ended October 31, 2017, approximately 28% of the Company's purchases were from five vendors. These vendors accounted for approximately \$145,000 of the Company's accounts payable at October 31, 2017. 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.

**NOTE 12 - RELATED PARTY TRANSACTIONS:**

The Company has engaged its 40% partner in Generation Coffee Company, LLC as an outside contractor (the "Partner"). Included in contract labor expense, which is a component of cost of sales, are expenses incurred from the Partner during the years ended October 31, 2018 and 2017 of \$447,140 and \$427,931, respectively.

An employee of one of the top two vendors is a director of the Company. Purchases from that vendor totaled approximately \$9,100,000 and \$6,700,000 for the years ended October 31, 2018 and 2017, respectively. The corresponding accounts payable balance to this vendor was approximately \$215,000 and \$72,000 at October 31, 2018 and 2017, respectively.

In January 2005, the Company established the "Coffee Holding Co., Inc. Non-Qualified Deferred Compensation Plan." Currently, there is only one participant in the plan: Andrew Gordon, the CEO. Within the plan guidelines, this employee is deferring a portion of his current salary and bonus. The deferred compensation payable represents the liability due to an officer of the Company. The deferred compensation liability at October 31, 2018 and 2017 was \$532,726 and \$488,529, respectively. Deferred compensation expenses included in officers' salaries were \$0 during the years ended October 31, 2018 and 2017, respectively.

**COFFEE HOLDING CO., INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
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**NOTE 13 - 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 purchased 236,586 shares for \$1,129,050 during the year ended October 31, 2018 and 57,367 shares for \$254,920 during the year ended October 31, 2017.
  
- b. *Share Repurchase Program.* On September 29, 2015, the Company announced that the Board of Directors had approved a share repurchase program (the "2015 Share Repurchase Program") pursuant to which the Company may repurchase up to \$2 million of the outstanding common stock from time to time on the open market and in privately negotiated transactions subject to market conditions, share price and other factors. The timing and amount of any shares repurchased will be determined based on the Company's evaluation of market conditions and other factors. The 2015 Share Repurchase Program may be discontinued or suspended at any time. Pursuant to the terms of the 2015 Share Repurchase Program, the Company purchased 3,384 shares for \$15,829 during the year ended October 31, 2017. On September 10, 2017, the Company announced that the Board of Directors had approved a share repurchase program (the "2017 Share Repurchase Program") pursuant to which the Company may repurchase up to \$2 million of the outstanding common stock from time to time on the open market and in privately negotiated transactions subject to market conditions, share price and other factors. The timing and amount of any shares repurchased will be determined based on the Company's evaluation of market conditions and other factors. The 2017 Share Repurchase Program may be discontinued or suspended at any time. Pursuant to the terms of the 2017 Share Repurchase Program, the Company purchased 236,586 and 53,983 shares respectively for \$1,129,050 and \$239,091, respectively during the years ended October 31, 2018 and 2017.

**COFFEE HOLDING CO., INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
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**NOTE 14 - FAIR VALUE MEASUREMENTS:**

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

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

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

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

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

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

The Company maintains a deferred compensation plan. The fair value of the plan assets are classified within Level 1 as the assets are valued using quoted prices in active markets. The assets are included with Deposits and other assets in the accompanying balance sheets. Additional information related to the Company's deferred compensation plan is disclosed in Note 11.

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

The following tables present the Company's assets and liabilities that are measured at fair value on a recurring basis and are categorized using the fair value hierarchy.

	<b>Fair Value Measurements as of October 31, 2018</b>			
	<b>Total</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
<b>Assets:</b>				
Money market	532,726	532,726	–	–
Commodities – Futures	17,880		17,880	
<b>Total Assets</b>	<b>\$ 550,606</b>	<b>\$ 532,726</b>	<b>\$ 17,880</b>	<b>–</b>
<b>Liabilities:</b>				
Commodities – Options	(39,926)	–	(39,926)	–
<b>Total Liabilities</b>	<b>\$ (39,926)</b>	<b>–</b>	<b>\$ (39,926)</b>	<b>–</b>
	<b>Fair Value Measurements as of October 31, 2017</b>			
	<b>Total</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
<b>Assets:</b>				
Money market	488,529	488,529	–	–
Commodities – Options	166,945		166,945	
<b>Total Assets</b>	<b>\$ 655,474</b>	<b>\$ 488,529</b>	<b>\$ 166,945</b>	<b>–</b>
<b>Liabilities:</b>				
Commodities – Futures	(377,804)	–	(377,807)	–
<b>Total Liabilities</b>	<b>\$ (377,807)</b>	<b>–</b>	<b>\$ (377,807)</b>	<b>–</b>

**COFFEE HOLDING CO., INC. AND SUBSIDIARIES**  
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**NOTE 15 - SUBSEQUENT EVENTS:**

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



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## LEASE

THIS INDENTURE OF LEASE dated as of the 6th day of December 2000, is made by and between One Clark Street North Andover LLC, a Massachusetts limited liability company with offices c/o Aries Property Company, LLC, 121 Middle Street, Portland, Maine 04101 (hereinafter called the "Landlord") and Comfort Foods, Inc., a Massachusetts corporation with a place of business at 844 Woburn Street, Wilmington, MA 01887 (hereinafter called the "Tenant").

WITNESSETH that for and in consideration of the rents herein reserved and the covenants and agreements herein contained and expressed and to be kept, performed and fulfilled, the parties agree as follows:

Section 1 - Premises. Landlord hereby demises and lets unto Tenant, and Tenant hereby leases from Landlord a portion of the building at TWENTY FIVE COMMERCE WAY, North Andover, Massachusetts (the "Building"), the leased premises is deemed to contain 49,018 square feet of space and being designated as Unit 5, and shown as the building space highlighted on Exhibit A annexed hereto (the "Premises") and use, in common with others of such easements and appurtenances, necessary for access to the Premises (as defined herein). All of the land, buildings and improvements owned by Landlord in the vicinity of the Premises, including any additional buildings which may be hereafter constructed and all rights of way and easements appurtenant thereto are herein referred to as the "Property".

(a) Landlord shall, at Landlord's cost and expense, construct approximately 5,200 square feet of office space in the Premises in accordance with the floor plan attached hereto as Exhibit B-I. The office space shall be fully air conditioned. The Landlord's work shall also include floor sealant in the manufacturing area and electric/gas upgrades for production equipment. The Landlord's work shall be in accordance with the specifications on the attached **Exhibit B** (the "Landlord's Work") as long as the hard and soft cost of the Landlord's Work does not exceed \$334,349.00 based on \$6.83 per square foot (as adjusted by Landlord's architect's measurements of the actual square footage). If such costs exceed \$334,349.00, (based on a \$6.83 per square foot allowance and a Premises of 49,018 square feet) Tenant shall pay the Landlord overage (the "Excess Cost") within ten (10) days of being invoiced for the Excess Cost by Landlord. Landlord shall provide Tenant with the contractor's proposed construction schedule including the proposed date of substantial completion and shall keep Tenant updated with respect to any changes in such construction schedule. Landlord presently expects that such proposed date of substantial completion will be on or before February 1, 2001. The date of substantial completion shall be the date upon which a temporary or permanent certificate of occupancy is issued with respect to the Premises (the "Commencement Date"). In the event that the Commencement Date is extended beyond March 15, 2001, for a reason other than the fault of or delay caused in whole or in part by the Tenant (or its agents, employees, or contractors) or Force Majeure (as defined in Section 37 below), the Landlord agrees to provide Tenant with one day of free base Rent for every 3 days of delay.

(b) During the course of the construction the Tenant shall have the right to request changes to the Project Plans relating to the interior of the Premises provided that (i) such changes do not adversely affect the portions of the Property other than the Premises, (ii) in the event that such changes shall increase the total cost of the Premises or the Property, the Tenant shall pay to Landlord any increased costs (direct or indirect) attributable to such changes and (iii) in the event that such changes delay the substantial completion of the Premises or the Property Landlord's increased cost attributable to such changes shall include any lost rent caused by such delay. In addition, fifteen days prior to the Commencement Date, the Tenant shall have the right to concurrently perform Tenant's Work provided that (i) Tenant shall coordinate the performance of Tenant's Work with Landlord's construction manager and heed the construction manager's scheduling decisions and (ii) the performance of Tenant's Work shall not adversely impact the performance of Landlord's Work or the construction schedule for Landlord's Work. In the event that conditions (i) or (ii) above are not met, Landlord shall have the right to revoke Tenant's right to perform Tenant's Work prior to substantial completion of Landlord's Work

(c) Within thirty (30) days after the Commencement Date of this Lease the Tenant shall provide the Landlord with a "punch list" of any items of incomplete work or work that does not conform with the Project Plans relating to the Premises and Landlord shall cause its contractor to complete or correct such items within a reasonable time after receipt of such notice. Other than completion of such punch list items the Landlord shall not be responsible for any further work or improvements with respect to the Project except that Landlord shall, upon Tenant's request, cause any items of defective work covered by contractor's or manufacturer's warranties or guaranties to be corrected pursuant to the terms of the applicable warranty or guaranty. Landlord shall only be responsible for performing the fit-up work described in the Project Plans, and all additional work necessary to make the Premises suitable for Tenant's intended use thereof shall be performed by Tenant at its sole cost and expense and in accordance with Section 12 hereof.

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**Section 2 - Term.** The term of this Lease shall be for a period of ten (10) years two months commencing on the earlier of (i) the date that Tenant enters into occupancy of the Premises or (ii) the date of substantial completion of the Premises and expiring on the last day of the month which includes the one hundred twenty second (122<sup>nd</sup>) month anniversary of said term Commencement Date.

**Section 3 - Rent.** During the original term Tenant shall pay to Landlord rent for the Premises monthly, in advance, on or before the first day of each month (prorated for any partial month) as follows (assuming the Commencement Date is February 1, 2001):

<b>Period</b>	<b>Rent per square foot</b>		<b>Annual Rent</b>		<b>Monthly Rent</b>	
Lease Year 1	\$	6.50 NNN	\$	318,617.04*	\$	26,551.42
Lease Years 2 & 3	\$	6.85 NNN	\$	335,773.32	\$	27,981.11
Lease Years 4, 5, 6 & 7	\$	7.10 NNN	\$	348,027.84	\$	29,002.32
Lease Year 8, 9 & 10 plus the additional two months after the end of the 10 <sup>th</sup> Lease Year	\$	7.35 NNN	\$	360,282.36	\$	30,023.53

The Annual Rent and Monthly Rent shall be adjusted as applicable, based on Landlord's architect's as built measurement. Landlord shall advise Tenant in writing of substantial completion, which writing shall also set forth the square footage of the Premises, the rent, and the Commencement Date. Said writing shall be binding on the parties, absent bad faith.

The foregoing rent amounts include \$184,797.86 (\$3.77 per square foot) in tenant improvement amortization over the standard tenant allowance of \$2.00 per square foot (the "Excess Tenant Improvement Amortization Amount") assuming these costs are amortized over years 2 through 10 at an interest rate of 10% per annum. Tenant will have the option, at any time during the lease, to prepay the remaining Excess Tenant Improvement Amortization Amount. After Tenant has made such payment, the rent shall be prospectively adjusted as follows: a) if payment is made in years 1 through 5, the annual Rent per Square Foot shall be prospectively adjusted to \$6.50 per square foot, NNN, for the period beginning as of the first month after the payment and continuing through year 5 then increasing to \$7.10 per square foot, NNN, for years 6 through 10, and, b) if payment is made in years 6 through 10, the annual Rent per Square Foot shall be prospectively adjusted to \$7.10 per square foot, NNN for the period beginning as of the first month after the payment and continuing thereafter through year 10.

\* The first three (3) months of base rent shall be forgiven in the first Lease Year. In addition, if and only if the Tenant has not then been released from its current Leasehold obligations in Wilmington, Massachusetts, for the five (5) months beginning on May 1, 2001 and ending on September 30, 2001, the Monthly Rent shall be reduced by \$10,000 per month in each of said five (5) months during which the Tenant remains obligated to pay its full rent at the Wilmington, Massachusetts facility. Beginning on October 2001, no reductions in the Rent shall be permitted or in effect.

Section 4 - Additional Rent. Tenant shall pay to Landlord, as additional rent, Tenant's Proportionate Share (as hereinafter defined) of all of the costs of the Property, which costs may include but shall not be limited to i) cleaning and maintenance of the common areas, ii) clearing and snow removal from parking area and access drives, iii) trash removal, iv) insurance carried by Landlord with respect to the Property, v) real estate taxes, vi) landscaping, vii) management fees, viii) repairs and maintenance of the buildings and improvements on the Property, ix) maintenance and other costs related to water, sewer, storm drainage and other utility service provided to the Property to the extent such utilities are not separately metered to the Premises and other tenant premises in the Property and x) other expenses as deemed necessary by Landlord. This lease is a triple net lease. The term "real estate taxes" as used in the paragraph shall be deemed to include all assessments, impositions and other governmental charges, ordinary and extraordinary, which may be levied, assessed or otherwise become a lien upon or charge against the Property. Additional rent will be in monthly installments, due with the monthly payments of the base rent, based on the budget provided by Landlord to Tenant. During calendar year 2000 such budgeted monthly installments shall be at the annual rate of \$1.80 per square foot. Landlord shall reconcile actual costs and expenses with the budget figures at least annually and make appropriate adjustments with Tenant. As part of such annual reconciliation, the Landlord shall provide Tenant with a statement of actual costs and expenses, which statement shall be deemed accurate by Tenant unless Landlord receives written objection from Tenant within sixty (60) days of receipt by Tenant of such statement.

For the purposes of this Lease, Tenant's Proportionate Share is the product of the area of the Premises divided by the leasable area of all buildings on the Property. At the time of signing of this Lease, such Tenant's Proportionate Share is expected to be twenty seven and seventy one hundredths percent (27.71%), based on 49,018 square feet divided by 176,916 square feet.

Section 5 - Payment of Rent and Late Charges. Payments due under Sections 3 and 4 above shall be made at Landlord's office at the address set forth in Section 30, or such other place as Landlord may designate in writing, on or before the first of each month. If the payment is not received by Landlord on the first day of each month, Landlord shall be entitled to, and Tenant shall pay to Landlord a late fee equal to five percent (5%) of the late payments and if payment is not received by the 10th of the month, it shall bear interest from the first of the month at the prime rate published in the Wall Street Journal, as it may be adjusted from time to time, plus 4% per annum, but in no event more than the highest rate of interest allowed by applicable law. All payments under this Lease shall be paid to Landlord without notice or demand, and without abatement, deduction, counterclaim or set-off.

Section 6 - Security Deposit. Simultaneously with the execution of this Lease, Tenant has deposited the sum of Twenty Six Thousand Five Hundred Fifty One and 42/100 Dollars (\$26,551.42) (the "Deposit") with Landlord as security for the full and faithful performance by Tenant of all of the terms and conditions of this Lease required to be paid or performed by Tenant. Landlord may apply any portion of the Deposit for the payment of any payments of rent, additional rent or sums due to Landlord hereunder for which Tenant is in default, to discharge any liens which Tenant fails to discharge as required by Section 12 and Section 17 and for any damages to the Premises (excluding reasonable wear and tear) caused by any affirmative or negligent act by Tenant, its employees, servants or invitees. Promptly following any application of the Deposit, Tenant shall pay to Landlord an amount needed to restore the Deposit to its original amount. Upon the expiration of this Lease and Tenant's vacating of the Premises, Landlord shall return the Deposit to Tenant less any amounts applied by Landlord to said rent or damages within 60 days.

Section 7 - Taxes and Assessments. Landlord shall pay and discharge all real estate taxes and levies, and charges and governmental impositions, duties and charges of like kind and nature, which shall or may during the term of this Lease be charged, laid, levied or imposed upon or become a lien or liens upon the Building and the Property, subject to Tenant making the payments of Additional Rent as required in Section 4 above. Landlord shall, upon written request by Tenant, provide the Tenant with a copy of the Landlord's latest real estate tax bill on the Property. If the Landlord contests real estate tax bills with the municipality and obtains an abatement, the Tenant shall be entitled to receive its pro-rata share of the abatement after Landlord deducts from such abatement all costs and expenses incurred by Landlord, including its attorneys' fees, in obtaining the abatement. Tenant shall pay all personal property taxes and other governmental impositions on its personal property and fixtures located at the Premises.

Section 8 - Quiet Enjoyment. Landlord shall put Tenant in possession of the Premises at the Commencement of the term hereof, and Tenant, upon paying the rent and observing the other covenants and conditions herein upon its part to be observed, shall peaceably and quietly hold and enjoy the Premises without hindrance by, from or through Landlord, subject to the terms of this Lease.

Section 9 - Signs. Tenant shall not install or alter any exterior signs on the Premises without the prior written approval of Landlord. Any signs shall be in compliance with all federal, state and local laws and ordinances and shall conform with a uniform sign policy which Landlord may establish with respect to the Property. Tenant shall maintain a sign identifying the name of its business in a location designated by Landlord at the Premises.

Section 10 - Repairs. (a) Tenant shall, at its own expense, be responsible for all maintenance and repairs to the Premises, including, without limitation, light bulbs, ballasts, the heating, ventilating and air conditioning systems, electrical systems and lighting, plumbing fixtures, windows and doors, loading docks and doors, sprinkler and alarm systems exclusively serving the Premises, and for all interior painting desired by Tenant and for the replacement of broken glass within the Premises (which includes the exterior windows). Tenant shall employ suitable contractors (approved by Landlord) to perform maintenance of all such systems, including without limitation, said heating, ventilating and air conditioning systems, sprinkler system and alarm system. Tenant shall also promptly make any repairs lawfully required by any public authority as a result of changes in statutes or regulations which become effective subsequent to the beginning of the term of this Lease and which repairs are required because of the nature of the occupancy of the Premises by Tenant or the manner in which it conducts its business therein. At the expiration of this Lease or earlier termination hereof for any cause herein provided for, Tenant shall deliver up the Premises to Landlord broom clean and in the same sanitary and attractive condition and state of repair as at the beginning of the term hereof, reasonable wear and tear, taking by eminent domain and damage due to fire or other casualty insured against excepted.

(b) Landlord shall perform the following items, which items shall be included as additional rent as operating expenses: roof repairs, inspection and testing of the fire protection system, repairs to common plumbing lines and common area electrical systems.

(c) The following will be performed by Landlord at its cost and expense and not included as additional rent: roof replacements, HVAC replacements and structural repairs (unless such costs are incurred because of the act or negligence of Tenant.)

In the event Tenant fails to make promptly any repairs required of Tenant hereunder, or fails to perform any of its other obligations, Landlord may, at its option, if such failure continues for more than five (5) days after Landlord has provided notice to Tenant, make such repairs or perform such obligations to Tenant's account and the cost thereof will become an obligation of Tenant under this Lease, payable within thirty (30) days of demand and any such amount shall bear interest at the prime rate published in the Wall Street Journal plus 10% per annum, as may from time to time be determined, from the date of demand.

Section 11 - Landlord's Maintenance. Landlord shall be responsible for structural maintenance (roof replacement, foundation repair and exterior wall repair) of the Building. Non-capital expenditures relating to such maintenance may be included in the costs described in clause (viii) of Section 4. The parties acknowledge that it is their intention that this Lease shall otherwise be an absolute net lease, so-called, and that Tenant has responsibility for all non-structural maintenance and repair to the Premises, together with payment of all reasonable costs and expense associated with the Premises excepting only any responsibility specifically accepted by Landlord hereunder.

Section 12 - Alterations and Additions. Tenant shall not make structural alterations or additions to the Premises, but may make non-structural alterations provided Landlord consents thereto in writing, which consent shall not be unreasonably withheld or delayed. Tenant shall not make any penetrations of the roof or exterior wall except for roof penetrations at a location approved by Landlord and performed by a contractor approved by Landlord. Landlord may require satisfactory evidence of available financing for any such alterations or additions. All such allowed alterations shall be at Tenant's expense and shall be in quality at least equal to the present construction. Tenant shall not permit any mechanics' liens, or similar liens, to remain upon the Premises for labor and material furnished to Tenant or claimed to have been furnished to Tenant in connection with work of any character performed or claimed to have been performed at the direction of Tenant and shall cause any such lien to be released of record forthwith without cost to Landlord. Any alterations or improvements made by Tenant shall become the property of Landlord at the termination of occupancy as provided herein. Landlord reserves the right to require that Tenant demolish and remove, at Tenant's sole expense, any alterations or improvements made by Tenant. Such demolition and removal will be completed prior to Tenant vacating the premises upon the expiration or termination of this Lease. Tenant shall provide the Landlord with plans and specifications for all alterations and will provide Landlord with bi-weekly lien waivers from all materialmen, contractors and subcontractors.

Section 13 - Machinery, Equipment and Trade Fixtures. Tenant agrees that it shall not install any machinery, equipment, trade fixtures or appurtenances thereto in the Premises which cannot be removed from the Premises without damage to the Premises. Tenant agrees that (a) all machinery and equipment, and appurtenances thereto, installed in the Premises by Tenant, or by any employee, agent or subcontractor of Tenant, or by any subtenant of Tenant, which may be removed from the Premises without substantial damage to the Premises, and (b) all furniture, furnishings and movable trade fixtures installed in the Premises, shall be deemed to remain personal property of Tenant and that all such machinery, equipment, appurtenances, furniture and movable trade fixtures of Tenant or of any employee, agent or subcontractor or subtenant of Tenant, must be removed, prior to the expiration of this Lease or its earlier termination for any cause herein provided for. Tenant shall repair any damage occasioned by such removal and shall restore the Premises to its condition as at the beginning of the term hereof, reasonable wear and tear, taking by eminent domain and damage due to fire or other casualty insured against excepted. Any such property which is required to be removed pursuant to the provisions hereof and which is not so removed prior to the expiration or earlier termination of this Lease may be removed from the Premises by Landlord and stored for the account of Tenant: and if Tenant shall fail to reclaim such property within sixty (60) days following such expiration or earlier termination of this Lease, such property shall be deemed to have been abandoned by Tenant and may be appropriated, sold, destroyed, or otherwise disposed of by Landlord without notice to Tenant and without obligation to account therefor. Tenant shall pay to Landlord all reasonable costs incurred by Landlord in removing, storing, selling, destroying or otherwise disposing of any such property.

Section 14 - Utilities, Cleaning and Trash Removal. Tenant shall make arrangements for, and shall pay when due all charges for (i) all utilities, including but not limited to gas, electricity, heat, power, telephone (ii) cleaning and janitorial services for the interior of the Premises, (iii) trash removal services for all wastes from the Premises and (iv) any other services supplied to Tenant at the Premises, and shall hold and save Landlord harmless from any expense or liability connected therewith. Landlord shall be under no responsibility to supply either heat or hot water to the Premises at any time whatsoever. Landlord will provide utility connections up to the premises. In no event shall Landlord be responsible or liable to Tenant or anyone claiming under Tenant for failure or cessation of supply of any utilities.

Section 15 - Use of the Premises.

(a) The Premises shall be used for roasting, flavoring, packaging, warehousing and distribution of coffee, cocoa, and tea and the warehousing and distribution of other food products and food product equipment and related administrative uses, and for no other purposes. In its use of the Premises, Tenant shall comply with all statutes, ordinances and regulations applicable to the use thereof, including, without limiting the generality of the foregoing, the Zoning Ordinance of the Town of North Andover, Massachusetts, as now in effect or as hereafter amended.

(b) Tenant shall not injure or deface, or commit waste with respect to the Premises, nor occupy or use the Premises in such manner as to constitute a nuisance of any kind, nor for any purpose nor in any manner in violation of any present or future laws, rules, requirements, orders, directions, ordinances or regulations of any governmental or lawful authority including Boards of Fire Underwriters. Tenant shall, immediately upon the discovery of any unlawful, illegal, disreputable or extra hazardous use, take all necessary steps to discontinue such use. Without limiting the foregoing, Tenant acknowledges that the operation or storage of motor vehicles within the Premises is an extra hazardous use and is therefore prohibited. Tenant shall pay all extra insurance premiums which may be caused by the use which Tenant may make of the Premises. Tenant shall not operate any roasting machines in the Premises unless "after burners" have been installed and are in use on such machines and are functioning such that the emissions from the roasting machines are not an annoyance or nuisance to other tenants or occupants on the Property, in the industrial park of which the Property is a part or the neighborhoods adjacent to such industrial park.

(c) Tenant shall procure all licenses or permits required by any use of the Premises by Tenant.

(d) Tenant's use of the access roads, parking areas and loading areas on the Property shall be subject to any reasonable rules or regulations which may be established from time to time by Landlord. Tenant shall not park storage trailers or store any items of its property on said exterior common areas.

(e) Tenant shall not permit any employee, servant, invitee or visitor of Tenant to violate the covenants or obligations of Tenant hereunder.

Section 16- Subleasing - Assignment

(a) Tenant shall not, without the prior written consent of Landlord, assign this Lease in whole or in part, sublet the Premises or any portion thereof or mortgage, pledge or encumber its leasehold interest hereunder. With respect to a sublet, the Landlord's consent will not be unreasonably withheld. Any request for such consent shall be accompanied with reasonably detailed information regarding the creditworthiness and business experience of the proposed assignee or subtenant. Tenant shall reimburse Landlord for its reasonable legal fees incurred in connection with any such consent requested by Tenant. In the event of such assignment or sublease, Tenant shall remain liable to Landlord for all the rentals called for under the terms of this Lease and for the performance of all covenants herein to be performed by Tenant.

(b) It is agreed that if Landlord shall consent to such assignment or subletting, and Tenant shall thereupon assign this Lease or sublet all or any portion of the Premises, then and in that event Tenant shall pay to Landlord, as additional rent, (i) in the event of an assignment, the amount fifty percent (50%) of all monies, if any, which the assignee has agreed to and does pay to Tenant in consideration of the making of such assignment less however all out of pocket costs actually incurred by Tenant in connection with the making of such assignment, including but not limited to any brokerage fees, advertising and alteration costs; and (ii) in the event of a subletting, fifty percent (50%) the amount, if any, by which the fixed base rent plus additional rent payable by the subtenant to Tenant shall exceed the fixed base rent plus additional rent allocable to that part of the Premises affected by such sublease pursuant to the provisions of this Lease, plus the amounts, if any, payable by such subtenant to Tenant pursuant to any side agreement as consideration (partial or otherwise) for Tenant making such subletting.

(c) Notwithstanding anything in this section 16 to the contrary, Tenant shall have the right to assign or sublet this Lease to any entity controlled by, or under common control with, Tenant, after notice to Landlord but without the consent of Landlord, provided that Tenant shall remain fully liable for all obligations hereunder.

Landlord shall have the right to assign this Lease or any of the rights and benefits accruing to it thereunder.

Section 17 - Mechanic's Liens. In the event of the filing in the Essex North District Registry of Deeds of any notice of a builder's, supplier's or mechanic's lien on the Premises arising out of any work performed by or on behalf of Tenant, Tenant shall cause said lien to be released and discharged without delay.

Section 18 - Liability. (a) Subject to the provisions of Subsections 18(b) and 18 (c) below, and except for injury or damage caused by the willful or negligent act of Landlord, its servants or agents. Landlord shall not be liable for any injury or damage to any person happening on or about the Premises or for any injury or damage to the Premises or to any property of Tenant or to any property of any third person, firm, association or corporation on or about the Premises. Tenant shall, except for injury or damage caused as aforesaid, indemnify and save Landlord harmless from and against any and all liability and damages, costs and expenses, including reasonable counsel fees, and from and against any and all suits, claims and demands of any kind or nature, by and on behalf of any person, firm, association or corporation, arising out of or based upon any incident, occurrence, injury or damage which shall or may happen on or about the Premises and from and against any matter or thing growing out of the condition, maintenance, repair, alteration, use, occupation or operation of the Premises or the installation of any property therein or the removal of any property therefrom.

(b) Tenant agrees to look solely to Landlord's interest in the Property for recovering of any judgment or claim against Landlord. It is understood and agreed that all covenants of Landlord contained in this Lease shall be binding upon Landlord and Landlord's successors only with respect to breaches during Landlord's and Landlord's successors' respective ownership of Landlord's interest hereunder. In no event shall Landlord ever be liable to Tenant for any indirect, special, or consequential damages suffered by Tenant or any other party from whatever cause.

(c) To the extent that such event is a covered event by Landlord's comprehensive liability insurance on the Property, as such policy is described in Section 33(g) below, and limited to any award obtained from such insurance policy. Landlord shall, except for injury or damage caused in whole or in part by the willful or negligent act of Tenant, its servants, agents, employees, or contractors, indemnify and save Tenant harmless from and against any and all liability and damages, costs and expenses, including reasonable counsel fees, and from suits, claims and demands of any kind or nature, by and behalf of any person, firm, association, corporation, arising out of or based on any incident, occurrence, injury or damage caused by Landlord's willful or negligent act.

Section 19 - Liability Insurance. Tenant shall throughout the term hereof procure and carry, at its expense, comprehensive liability insurance on the Premises with an insurance company authorized to do business in Massachusetts and acceptable to Landlord. Such insurance shall be carried in the name of and for the benefit of Tenant and Landlord; shall be written on an "occurrence" basis; and shall provide coverage of at least \$2,000,000.00 in case of death of or injury to one person; at least \$3,000,000.00 in case of death of or injury to more than one person in the same occurrence; and at least \$ 1,000,000.00 in case of loss, destruction or damage to property. Tenant shall also maintain workers' compensation insurance and commercial automobile insurance as required by applicable law. Tenant shall furnish to Landlord a certificate of such insurance which shall provide that the insurance indicated therein shall not be canceled without at least thirty (30) days' written notice to Landlord.

Section 20 - Fire and Extended Coverage Insurance. Landlord shall procure and continue in force during the term hereof fire and extended coverage insurance on the building containing the Premises. Tenant shall procure and continue in force during the term hereof, fire and extended coverage insurance on any and all personal property and fixtures of Tenant which are situated in the Premises.

All insurance policies carried by either party covering the demised premises, including but not limited to contents, fire and casualty insurance, shall expressly waive any right on the part of the insurer against the other party. The parties hereto agree that their policies will include such waiver clause or endorsement so long as the same shall be obtainable without extra cost, or if extra cost shall be charged therefor, so long as the other party pays such extra cost. If extra cost shall be chargeable therefor, each party shall advise the other thereof and of the amount of the extra cost, and the other party, at its election, may pay the same, but shall not be obligated to do so. Each of the parties hereby waives all claims for recovery from the other party for any loss or damage to any of its property insured under such insurance policies not containing such subrogation waivers.

Section 21 - Condemnation, Destruction or Damage.

(a) If the Premises, or any material portion thereof, are taken by eminent domain, or condemned for public use, this Lease may be terminated by either party, and any and all awards for such taking shall be the exclusive property of Landlord. Nothing contained herein shall be construed to preclude Tenant from prosecuting any claim directly against the condemning authority in such condemnation proceedings for loss of business or depreciation to, damage to, or cost of removal of, equipment and other personal property belonging to Tenant, provided, however, that no such claim shall diminish or otherwise adversely affect Landlord's award or the award to any mortgagee.

(b) In the event that the building of which the Premises are a part shall be totally destroyed by fire or other casualty insured against, or shall be so damaged that repairs and restoration cannot be accomplished within a period of sixty (60) days from the date of such destruction or damage, this Lease shall terminate at the election of Landlord and each party shall be relieved of any further obligation to the other, except that Tenant shall be liable for and shall promptly pay Landlord any rent then in arrears or Landlord shall promptly rebate to Tenant a pro rata portion of any rent paid in advance. In the event the premises shall be so damaged that repairs and restoration can be accomplished within a period of sixty (60) days from the date of such destruction or damage or if Landlord does not elect to terminate this Lease, this Lease shall continue in effect in accordance with its terms; such repairs and restoration shall, unless otherwise agreed by Landlord and Tenant, be performed promptly by Landlord as closely as practicable to the condition which existed as of the date of the damage (utilizing therefor the proceeds of the insurance applicable thereto), and until such repairs and restoration have been accomplished, a portion of the rent shall abate equal to the proportion of the Premises rendered unusable by the damage. Landlord's obligation to restore shall not extend to any of Tenant's personal property or trade fixtures or to any alterations, improvements or additions made by Tenant, the restoration of which will be Tenant's obligation. It is understood that Landlord's obligation to restore, replace or rebuild shall not exceed in amount the sum of the insurance proceeds paid to it and/or released to it by any mortgagee with which settlement was made. Tenant agrees to execute and deliver to Landlord all instruments and documents necessary to evidence the fact that the right to such insurance proceeds is vested in Landlord by the damage.

(c) If the destruction or damage to the Premises has not been substantially restored or repaired within one hundred eighty (180) days after the Landlord has received its insurance award, the Tenant may elect to terminate this Lease upon notice to the Landlord: provided that the Tenant shall not have the right to terminate if the destruction or damage has been substantially restored or repaired prior to the date of Tenant's notification.

Section 22 - Repossession by Landlord. At the expiration of this Lease or upon the earlier termination of this Lease for any cause herein provided for, Tenant shall peaceably and quietly quit the Premises and deliver possession of the same to Landlord.

Section 23 - Mortgage Lien. Tenant agrees that this Lease and all rights of Tenant hereunder are and shall be subject and subordinate to the lien of (1) any mortgage constituting a lien of the Property, or any part thereof, at the date hereof, (2) the lien of any mortgage hereafter executed to a bank, trust company or other recognized lending institution to provide permanent financing or refinancing of the land and improvements containing the Premises, and (3) any renewal, modification, consolidation or extension of any mortgage referred to in clause (1) and (2). Tenant shall, upon demand at any time or times, execute, acknowledge and deliver to Landlord without any expense to Tenant, any and all instruments that may be necessary or proper to subordinate this Lease and all rights of Tenant hereunder to the lien of a mortgage referred to in (2) or (3) of the preceding sentence as a condition precedent to the effectiveness of this Lease. Landlord agrees to provide Tenant with a Non Disturbance Agreement from its lender.

Section 24 - Environmental Matters.

(a) Tenant represents and warrants that it shall not use the Premises for the Storage, Treatment or Disposal of Hazardous Wastes, except in full compliance with all applicable laws, regulations and requirements of Governmental Authorities (as hereinafter defined). For the purposes of this Lease, the terms Hazardous Waste, Storage, Treatment and Disposal are defined by cumulative reference to the following sources, as amended from time to time: (1) The Resource Conservation and Recovery Act of 1976, 42 USC §6901 et seq (RCRA); (2) EPA Federal Regulations promulgated thereunder and codified in 40 C.F.R. Parts 260-265 and Parts 122-124; (3) Chapter 21C and 21E of the Massachusetts General Laws; and regulations promulgated thereunder by any agency or department of the Commonwealth of Massachusetts. Promptly, upon the request of Landlord, Tenant shall provide Landlord with a list of all Hazardous Materials generated, stored, treated, or used on the Premises.

(b) As used in this Section, the term "Hazardous Material" shall mean any substance, water or material which has been determined by any state, federal or local government authority to be capable of posing a risk of injury to health, safety and property, including, but not limited to, all of those materials, wastes and substances designated as hazardous or toxic by the U.S. Environmental Protection Agency, the U.S. Department of Labor, the U.S. Department of Transportation, and/or any other governmental agency, federal, state, or local, now or hereafter authorized to regulate materials and substances in the environment (collectively "Governmental Authority(ies)").

(c) Tenant agrees to take responsibility for any remedial action required by Government Authorities having jurisdiction regarding any Hazardous Material or Hazardous Waste owned, controlled, used or manufactured by Tenant, or for which Tenant is otherwise legally responsible. Tenant shall pay all costs in connection with any such investigation or remedial activity including, without limitation, all installation, operation, maintenance, testing, and monitoring costs, all power and utility costs and any and all pumping taxes or fees that may be applicable to Tenant's activities. Tenant shall perform all such work in a good, safe and workmanlike manner, in compliance with all laws and regulations thereto, and shall diligently pursue any required investigation and remedial activity until Tenant is allowed to terminate these activities by those Government Authorities having jurisdiction.

(d) Tenant shall conduct any testing, monitoring, reporting and remedial activities in connection with the Premises in a good, safe and workmanlike manner, and in compliance with all laws and regulations applicable thereto. Tenant shall promptly provide Landlord with copies of any testing results and reports that are generated in connection with Tenant's activities and that are submitted to any Government Authority.



(e) Tenant shall indemnify, hold harmless, and defend Landlord, its officers, members, employees and agents (collectively "Indemnitees") against all claims, demands, losses, liabilities, costs and expenses, including attorneys' fees, (collectively "Liabilities") imposed upon or accruing against Indemnitees as actual and direct costs of investigatory or remedial action required by any Government Authority having jurisdiction or as damages to third persons for personal injury or property damage arising from the existence of Hazardous Material or Hazardous Waste referred to in subparagraph (c). Such Liabilities shall include, without limitation: (i) injury or death to any person, (ii) damage to or loss of use of any other property, (iii) the cost of any demolition and rebuilding of the improvements containing the Premises, repair, or remediation and the preparation of any closure or other activity required by any Governmental Authority, (iv) any lawsuit brought or threatened, good faith settlement reached, or governmental order relating to the presence, disposal, release or threatened release of any Hazardous Material or Hazardous Waste referred to in subparagraph (c), on, from or under the land and building containing the Premises and (v) the imposition of any liens on the land and building containing the Premises arising from Tenant's activities on or about the Premises or from the existence of Hazardous Material or Hazardous Waste referred to in subparagraph (c).

(f) Tenant shall have no responsibility for Hazardous Waste or Hazardous Materials existing on the Premises on the date that Tenant first takes occupancy of the Premises or for such Hazardous Waste or Hazardous materials deposited by Landlord or any other tenant; except that Tenant shall be responsible for any costs and expenses incurred by or assessed against Landlord which result from Tenant's activities or from aggravation of such preexisting or future conditions during the tenancy of Tenant.

(g) Tenant shall use its best efforts (including payment of money) not to cause or suffer any lien to be recorded against the land and building containing the Premises as a consequence of, or in any way related to, the presence, remediation or disposal of Hazardous Material or Hazardous Waste in or about the Premises, including any mechanics' liens and any so-called state, federal or local "superfund" lien relating to such matters.

Section 25 - Americans With Disabilities Act. Landlord warrants that upon the Commencement Date, the Premises will comply with all applicable codes, including the ADA (as defined below) and OSHA. After the Commencement Date, Tenant shall comply with all applicable provisions of the Americans with Disabilities Act of 1990 ("ADA") and the regulations promulgated thereunder. Tenant hereby expressly assumes all responsibility for compliance with the ADA relating to the Premises and the activities conducted by Tenant within the Premises. Any alterations to the Premises made by Tenant for the purpose of complying with the ADA or which otherwise require compliance with the ADA shall be done in accordance with this Lease; provided, that Landlord's consent to such alterations shall not constitute either Landlord's assumption in whole or in part, of Tenant's responsibility for compliance with the ADA, or representation or confirmation by Landlord that such alterations comply with the provisions of the ADA.

Section 26 - Default. In the event (i) any installment of rent or additional rent shall not be paid within five (5) days after notice to the Tenant that the same is due and payable: or (ii) Tenant defaults in the performance or observance of any other covenant or condition in this Lease and such default remains unremedied for ten (10) days, after written notice thereof has been given to Tenant by Landlord; provided, however, the Tenant shall not be in terminable default if such non monetary default is incapable of being remedied within the ten (10) day period, and, if Tenant has commenced a cure within said ten (10) day period and thereafter prosecutes the cure diligently to completion, or (iii) Tenant makes an assignment for the benefit of creditors, files a voluntary petition in bankruptcy, is adjudicated insolvent or bankrupt, petitions or applies to any tribunal for any receiver or any trustee of or for Tenant of any substantial part of its property, commences any proceeding relating to Tenant or any substantial part of its property under any reorganization, arrangement, readjustment of debt, dissolution or liquidation law or statute of any jurisdiction, whether now or hereafter in effect, or there is commenced against Tenant any such proceeding which remains undismissed for a period of sixty (60) days, or any order approving the petition in any such proceeding is entered, or Tenant by any act indicates its consent to, or acquiescence in any such proceeding or the appointment of any receiver of or trustee for Tenant of any substantial part of its property, or suffers any such receivership or trusteeship to continue undischarged for a period of sixty (60) days, then in any of such events. Landlord may immediately or at any time thereafter and without demand terminate this Lease by written notice to Tenant thereof or, without demand or notice enter upon the Premises or any part thereof in the name of the whole and repossess the same as of Landlord's former estate and expel Tenant and those claiming through or under Tenant and remove their effects forcibly, if necessary, without being deemed guilty of any manner of trespass and without prejudice to any remedies which might otherwise be used for arrears of rent or preceding breach of covenant. Upon such termination notice or entry this Lease shall terminate, and Tenant covenants that, in case of such termination by reason of the default of Tenant, Tenant shall remain and continue liable to Landlord in an amount equal to the total rent reserved for the balance of the term hereof plus all additional rent reserved for the balance of the term hereof less the net amounts (after deducting the expenses of repair, renovation or demolition and attorneys fees and leasing commissions) which Landlord realizes from the reletting of the Premises. As used in this Section, the term "additional rent" means the obligations of Tenant under Section 4 and the value of all considerations other than rent agreed to be paid or performed by Tenant hereunder, including, without limiting the generality of the foregoing, taxes, assessments and insurance premiums. Landlord shall have the right from time to time to relet the Premises upon such terms as it may deem fit, and if a sufficient sum shall not be thus realized to yield the net rent required under this Lease, Tenant agrees to satisfy and pay all deficiencies as they may become due during each month of the remaining term of this Lease. Nothing herein contained shall be deemed to require Landlord to await the date whereon this Lease, or the term hereof, would have expired had there been no default by Tenant, or no such termination or cancellation. Tenant expressly waives service of any notice of intention to reenter and waives any and all right to recover or regain possession of the Premises, or to reinstate or redeem this Lease as may be permitted or provided for by or under any statute or law now or hereafter in force and effect. The rights and remedies given to Landlord in this Lease are distinct, separate and cumulative remedies, and no one of them, whether or not exercised by Landlord, shall be deemed to be in exclusion of any of the others herein or by law or equity provided. Nothing contained in this Section shall limit or prejudice the right of Landlord to prove and obtain, in proceedings involving the bankruptcy or insolvency of, or a composition with creditors by. Tenant the maximum allowed by any statute or rule of law at the time in effect. The Landlord agrees to use reasonable efforts to mitigate the Tenant's damages in the event that the Tenant defaults in its monetary obligations hereunder.

Section 27 - Expense Reimbursement. In addition to any other remedies Landlord may have at law or equity and/or under the Lease, Tenant shall pay upon demand all of Landlord's costs, charges and reasonable expenses, including reasonable attorney fees and court costs, incurred in connection with the successful recovery of sums due under this Lease, or the successful enforcement of any provisions of this Lease.

Section 28 - Access to Premises. Landlord or its representatives shall have free access to the Premises at reasonable intervals during normal business hours for the purpose of inspection, or for the purpose of showing the Premises to prospective purchasers or Tenants, or for the purpose of making repairs which Landlord is obligated to make hereunder or which Tenant is obligated to make hereunder but has failed or refused to make. The preceding sentence does not impose upon Landlord any obligation to make repairs. Landlord also reserves the right to alter, change, close or limit access to any portion of the common areas on the Property or to designate portions of such common areas for use by a single Tenant of the Property.

Section 29 - Holding Over. Except for mutual consent by Landlord and Tenant, any holding over by Tenant after the expiration of the term of this Lease shall be treated as a daily tenancy at sufferance at a rate equal to one hundred fifty percent (150%) of the rent and additional rent herein provided (prorated on a daily basis) and shall otherwise be on the terms and conditions set forth in this Lease as far as applicable.

Section 30 - Notices. Any written notice, request or demand required or permitted by this Lease shall, until either party shall notify the other in writing of a different address, be properly given if sent by certified or registered first class mail, postage prepaid, return receipt requested, or by prepaid overnight delivery service, telecopy, or telegram (with messenger delivery specified) and shall be deemed given on the day that such writing is received by the party to whom it is sent, and addressed (if notice is given by mail) as follows:

If to Landlord:

One Clark Street North Andover LLC  
c/o Aries Property Company, LLC  
121 Middle Street, Suite 200  
Portland, Maine 04101  
Attn.: Mr. Brian A. Gagne

With a Copy to:

Bernstein, Shur, Sawyer & Nelson  
100 Middle Street  
P.O. Box 9729  
Portland, Maine 04104-5029  
Attn: Charles E. Miller, Esquire

If to Tenant:

Comfort Foods. Inc.  
25 Commerce Way, Unit 5  
North Andover, MA 01845  
Attn: Michael Sullivan, CEO

With a Facsimile Copy only to:

Law Offices of John M. Cunningham, Esq  
2 Kent street  
Concord, NH 03301

Section 31 - Succession. This Lease shall be binding upon and inure to the benefit of the heirs, executors, administrators, successors and assigns of the parties hereto. This section shall not be construed to give Tenant the right to assign this Lease which shall be governed by section 16.

Section 32 - Waiver. Any consent, expressed or implied, by either party to any breach by the other party of any covenant or condition of this Lease shall not constitute a waiver of any prior or succeeding breach of the same or any other covenant or condition of this Lease. Acceptance by Landlord of rent or other payment with knowledge of a breach of or default under any term hereof by Tenant shall not constitute a waiver by Landlord of such breach or default. This Lease shall not be modified or canceled except by writing executed by Landlord and Tenant.

Section 33 - Representations. Except as specifically set forth below, no representations of any kind or nature concerning the Premises or any part thereof not contained herein have been made to Tenant either before or at the time of the execution of this Lease. The Landlord represents and warrants the following:

- (a) The Landlord is a Massachusetts Limited Liability Company, and duly formed and existing under the laws of Massachusetts;
- (b) Brian L. Gagne, the Manager of Aries Property Company, LLC is duly authorized to execute the Lease on behalf of the Landlord, and, upon his execution, the Lease will be binding on the Landlord in accordance with its terms, subject to applicable laws and ordinances.
- (c) Once the Lease has been approved by Landlord's lender(s), the Landlord shall not be prevented from entering into or performing its obligations under the Lease by agreement with any third party or judicial decree.
- (d) The Landlord holds fee title to the Property subject to mortgages and other encumbrances of record.
- (e) Upon commencement of the Lease, the Landlord shall be in substantial compliance with applicable federal, state and local laws, regulations, and ordinances relating to the Property.
- (f) Upon commencement of the Lease, the Landlord shall be current on such governmental property taxes and assessments then due and payable.
- (g) Throughout the term of the Lease, the Landlord shall maintain comprehensive liability insurance on the Property with an insurance company authorized to do business in Massachusetts providing coverage of at least \$2,(MX),000 in case of death or injury to one person; at least \$2,000,000 in case of death or injury to more than one person in the same occurrence: and at least \$500,000 in case of loss, destruction or damage to property.

Section 34 - Brokerage. The parties represent and warrant to each other that they had no contact with any real estate broker, salesman or finder in connection with the transaction resulting in this Lease other than Cushman & Wakefield, whose commission will be paid by Landlord pursuant to a separate agreement among the Parties. Tenant shall indemnify and hold Landlord and Cushman & Wakefield harmless from any claims by parties other than Cushman & Wakefield for commissions due with respect to this Lease, such indemnification to include attorneys' fees and incurred in connection with defending any such claims.

Section 35 - Governing Law. This Lease shall be construed and interpreted in accordance with the laws of the Commonwealth of Massachusetts.

Section 36 - Jury Trial Waiver. NOTWITHSTANDING ANYTHING IN THIS LEASE TO THE CONTRARY, TENANT, FOR ITSELF AND ITS SUCCESSORS AND ASSIGNS HEREBY KNOWINGLY, WILLINGLY, AND VOLUNTARILY WAIVES ANY AND ALL RIGHTS TENANT MAY HAVE TO A TRIAL BY JURY IN ANY EVICTION ACTION OR ANY OTHER PROCEEDING BROUGHT BY LANDLORD, OR LANDLORD'S SUCCESSORS AND/OR ASSIGNS BASED UPON OR RELATED TO THE PROVISIONS OF THIS LEASE.

Section 37 - Force Majeure. With respect to any services, including, without limitation, electric current or water to be furnished by Landlord to Tenant, or obligations to be performed by Landlord hereunder, Landlord shall in no event be liable for failure to furnish or perform the same when ( and the date for performance of the same shall be postponed so long as Landlord is) prevented from doing so by strike, lockout, breakdown, accident, order or regulation of or by any governmental authority, or failure of supply, or inability by the exercise of reasonable diligence to obtain supplies, parts or employees necessary to furnish such services, or perform such obligations or because of war or other emergency, or for any cause beyond Landlord's obligations or because of war or other emergency, or for any cause beyond Landlord's reasonable control, or for any cause due to any act or neglect of Tenant or Tenant's servants, agents, employees, licensees, invitees or any perform claiming by, through or under Tenant.

Section 38 - Invalidity of Particular Provisions. If any term or provisions of this Lease or the application thereof to any person or circumstance shall, to any extent, be held to be invalid or unenforceable, the remainder of this Lease, or the application of such terms or provisions to persons or circumstances other than those as to which it is held invalid or unenforceable, shall not be affected thereby, and each term and provision of this Lease shall be valid and enforceable to the fullest extent permitted by law.

Section 39 - Recording. Tenant agrees not to record the within Lease, but each party hereto agrees, on the request of the other, to execute a so-called memorandum of lease or short form lease. In no event shall such document set forth the rent or other charges payable by Tenant under this Lease; and any such document shall expressly state that it is executed pursuant to the provisions contained in this Lease and is not intended to vary the terms and conditions of this Lease.

Section 40 - Status Report. Recognizing that Landlord may find it necessary to establish to third parties, such as accountants, banks, mortgagees or the like, the then current status of performance hereunder, Tenant, on the request of Landlord made from time to time, will within ten (10) days furnish to Landlord, or the holder of any mortgage encumbering the Premises, as the case may be, a statement of the status of any matter pertaining to this Lease, including without limitation, acknowledgments that (or the extent to which) each party is in compliance with its obligations under the terms of this Lease.

Section 41 - Option to Extend. Subject to the terms and conditions in this Section 41, Tenant shall have the option to extend the term of this Lease for a period of five (5) years commencing on the expiration of the original term, upon all the terms and conditions of this Lease except for this provision relating to extension of the term, which may only be exercised once. Base Rent during the extended term shall be at the then current market rate, as determined below but in no event lower than the highest annual rent per square foot rate scheduled to be in effect during the last year of the original term. Tenant may exercise its option to extend only if Tenant (i) is not then in default in performance or observance of any term or condition of this Lease, and (ii) is occupying the entire Premises subject to this Lease, and (iii) has neither sublet nor assigned any interest in this Lease or in the Premises to any party. Tenant may exercise its said option only by delivering notice of its intent to extend the term hereof to Landlord at least one (1) year in advance of the expiration of the original term, but no more than eighteen (18) months prior to the expiration of the original term, failing which said option shall utterly expire, time being of the essence. Within thirty (30) days after the Tenant's exercise of its option. Landlord shall furnish Tenant in writing with notice of Landlord's determination of the amount of Base Rent for the extended term. Within thirty (30) days after the date of Landlord's said notice of the amount of Base Rent Tenant may either accept Landlord's determination or elect to determine the current market rate by appraisal. If Tenant elects appraisal, each of the parties shall, within thirty (30) days thereafter, select an appraiser, each of whom shall have at least five (5) years of experience in appraising commercial properties in the greater Boston area, and the two appraisers shall together select a third appraiser similarly qualified. The three appraisers together shall attempt to agree on the current market rate of Base Rent for the extended term, failing a unanimous decision, may determine such figure by majority vote. Landlord and Tenant shall share equally the charges for the appraisers for their work performed pursuant to this paragraph unless the current market rate so determined by appraisal is equal to or greater than the Base Rent originally determined by Landlord, in which case all appraisal costs shall be paid by Tenant. Following the exercise by Tenant of its option to extend the term hereof, all references in this Lease to the term hereof, or expressions of similar import, shall be deemed to refer to the term as so extended.

Section 42 - Miscellaneous Matters. The submission of this document for examination and negotiation does not constitute an offer to lease, or a reservation of, or option for, the Premises, and this document shall become effective and binding only upon the execution and delivery hereof by both Landlord and Tenant. Employees or agents of Landlord or Tenant have no authority to make or agree to make a Lease or any other agreement or undertaking in connection herewith. All negotiations, considerations, representations and understandings between Landlord and Tenant are incorporated herein and supersede all written and oral agreements relating to this Lease and may be modified or altered only by agreement in writing between Landlord and Tenant, and no act or omission of any employee or agent of Landlord shall alter, change, or modify any of the provisions hereof. All rights, obligations and liabilities herein given to, or imposed upon, the respective parties hereto shall extend to and bind the several respective heirs, executors, administrators, trustees, receivers, legal representatives, successors and assigns of the said parties; and if there shall be more than one tenant or landlord, they shall all be bound jointly and severally by the terms, covenants and agreements herein. No rights, however, shall insure to the benefit of any assignee, legal representative, trustee, receiver, legatee or other personal representative of Tenant unless the assignment to any such party has been approved by Landlord in writing. All Exhibits are integral to this Lease. Captions of sections and subsections are for convenience only and shall be deemed irrelevant in construing this Lease.

IN WITNESS WHEREOF, the parties hereto have caused this Lease to be executed and delivered as of the day and year first above written.

WITNESS:

ONE CLARK STREET NORTH ANDOVER LLC

By: ARIES CLARK STREET LLC, its Manager  
By: ARIES PROPERTY COMPANY, LLC  
Its Sole Member



By: /s/ Brian A. Gagne  
Name: Brian A. Gagne  
Its Manager, thereunto duly authorized



By: /s/ Michael J. Sullivan  
Name: Michael J. Sullivan  
Its: CEO, thereunto duly authorized

GUARANTY OF LEASE

For value received, and in consideration for, and as an inducement to Landlord to enter into the foregoing Lease with Tenant, the undersigned ("Guarantor") does unconditionally guaranty to Landlord the complete and due performance of each and every agreement, covenant, term and condition of the Lease to be performed by Tenant, including without limitation the full and punctual payment of all sums of money stated in the Lease to be payable by Tenant. The validity of this guaranty and the obligations of Guarantor shall not be terminated, affected, or impaired by reason of the granting by Landlord of any indulgences to Tenant. This guaranty shall remain and continue in full force and effect as to any renewal, amendment, modification, or extension of the Lease, whether or not Guarantor shall have received any notice of or consented to such renewal, amendment, modification or extension, consent or notice of and to Guarantor not being required in any event. The liability of Guarantor under this guaranty shall be primary, and in any right of action which shall accrue to Landlord under the Lease, Landlord may proceed against Guarantor and Tenant, jointly and severally, and may proceed against Guarantor without having commenced any action against or having obtained any judgment against Tenant. Guarantor hereby waives notice of acceptance of this Guaranty by Landlord, notice of default by Tenant under the Lease, and all suretyship and guarantorship defenses generally. Failure of Landlord to insist upon strict performance or observance of any of the terms, provisions or covenants of the Lease and/or this Guaranty or to exercise any right therein contained shall not be construed as a waiver or relinquishment or the failure of any such term, provisions, covenant, or rights, and the same shall continue and remain in full force and effect. Receipt by Landlord of rent with knowledge of the breach of any provision of the Lease and/or this Guaranty shall not be deemed a waiver of such breach. Further Guarantor covenants and agree that it shall not be released from the obligations of this Guaranty, nor shall said obligations be diminished or otherwise affected (a) by the acceptance by Landlord of any security for the punctual and full payment of said rent or the punctual and full performance and observance of said Tenant obligations, or the release, surrender, substitution or modification of any security from time to time held by Landlord, or by any act or omission to act by Landlord with respect to any such security, or (b) by any other matter whatsoever whereby Guarantor would or might be released, it being the intent hereof that Guarantor shall at all times be and remain jointly and severally liable with Tenant to Landlord for the performance of all the terms, conditions and provisions in the Lease contained on the part of the Tenant to be performed. The liability of Guarantor hereunder shall in no way be affected by: (a) the release or discharge of Tenant or any creditors' receivership, bankruptcy, or other proceedings; (b) the impairment, limitation, or modification of the liability of Tenant, or the estate of the Tenant in bankruptcy, or any remedy for the enforcement of Tenant's liability under the Lease, resulting from the operation of any present or future provision of any bankruptcy or insolvency law, or other statute, or from the decision of any court; (c) the rejection or disaffirmance of the Lease in any such proceedings; (d) the assignment or the transfer of the Lease or any interest therein by Tenant; (e) any disability or other defense of Tenant; or (e) the cessation from any cause whatsoever of the liability of Tenant. Guarantor further agrees to pay all costs, legal expenses and attorneys' fees incurred or paid by Landlord in the enforcement of this Guaranty. Guarantor hereby agrees that if any of its obligations hereunder shall be held to be unenforceable, the remainder of this Guaranty and its application to all obligations other than those held unenforceable, shall not be affected thereby and shall remain in full force and effect. All of the terms and provisions of this Guaranty shall inure to the benefit of the successors and assigns of Landlord and shall be binding upon the successors and assigns of Guarantor. Guarantor agrees that guarantor shall not have and hereby waives, (i) any right to subrogation or indemnification, any other right to payment from or reimbursement by Tenant, in connection with or as a consequence of any payment made by Guarantor hereunder; (ii) any right to enforce any right or remedy which guarantor has or may hereafter have against; and (iii) any benefits of. and any right to participate in, (a) any collateral now or hereafter held by Tenant or any other Guarantor of Tenant and (b) any payment to Landlord by, or collection by Landlord from Tenant or any other Guarantor.

Notwithstanding anything herein to the contrary, at the end of the third full Lease Year after the Commencement Date, the Landlord will release the Guarantor from his personal liability under this Guaranty of Lease by notifying the Guarantor in writing if, after a review of the Tenant's financial records by Landlord, which records the Tenant agrees to provide to the Landlord and Landlord's lender(s) on a confidential basis in such detail as is reasonably requested by Landlord, the Tenant's financial strength and profitability has not deteriorated and is equal to or better than the Tenant's financial condition on the commencement date.

Dated as of 12/5, 2000

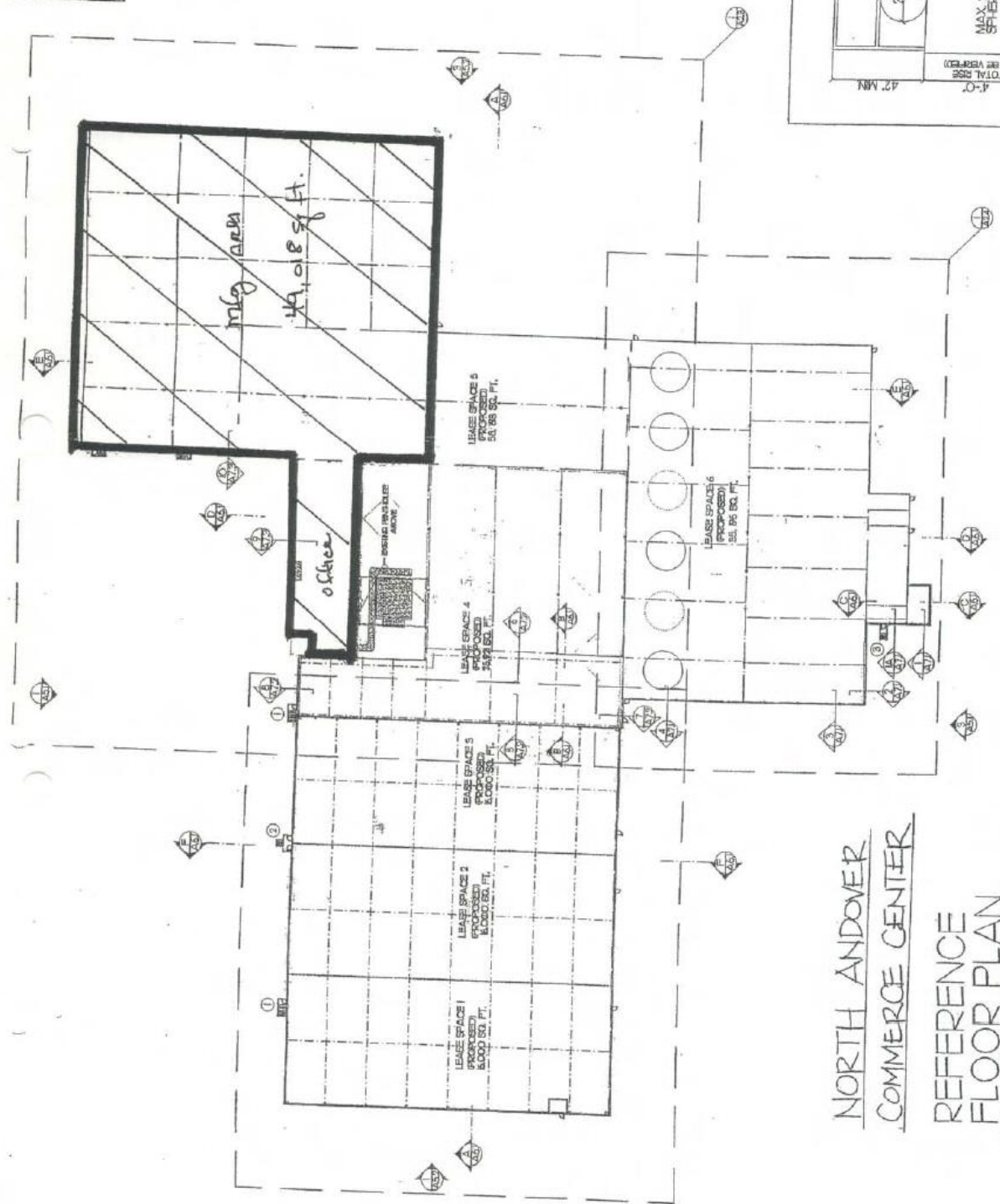
GUARANTOR:

/s/ Michael J. Sullivan  
Michael J. Sullivan

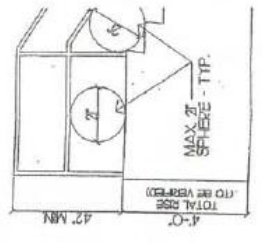
**EXHIBIT A**

DEPICTION OF PREMISES

- NOTES**
1. SHEET TOP OF COLUMN
  2. REFER TO DRAWING
  3. REFER TO DRAWING
  4. REFER TO DRAWING
  5. REFER TO DRAWING
  6. REFER TO DRAWING



NORTH ANDOVER  
COMMERCE CENTER  
REFERENCE  
FLOOR PLAN  
 1/32"=1'-0"



PRE-CAST CONCR



**EXHIBIT B**

SPECIFICATIONS FOR LANDLORD'S WORK

Project name  
Comfort Foods  
Commerce Way  
Andover  
Ma 01810

Estimator  
Tom Roy

Job size  
49000 sq f

Duration  
8 wk

Bid date  
11/7/00

Audit  
Dimensional

Report format  
Sorted by 'Group phase/Phase'  
'Detail' summary  
Print item notes

Item	Description	Location	Takeoff Qty	W%	Conversion	Order Qty	Unit Price	Amount
<b>01000 GENERAL CONDITIONS</b>								
01005	Field Superintendent							
7	Field Superintendent (Weekly)		8.00 week		4.30000 week/mnth	8.00 week	1,050.00	8,400
	Field Superintendent		320.00 Labor hours			1.86 mnth	375.00	698
								9,098
01050	Project Manager							
5	Project Manager (Hourly)		128.00 hour		1.00000 hour/mnth	128.00 hour	30.00	3,840
	Project Manager		128.00 Labor hours		172.00000	0.74 mnth	375.00	279
								4,119
01200	Travel Expenses							
2	Field Superintendent Mileage		3,800.00 mile			3,800.00 mile	0.22	836
6	Project Manager Mileage		1,175.00 mile			1,175.00 mile	0.22	259
8	General Personnel Mileage		1,450.00 mile			1,450.00 mile	0.22	319
	Travel Expenses							1,414
01250	Misc. Office Expenses							
5	Miscellaneous Office Expenses		2.00 mnth			2.00 mnth	75.00	150
	Misc. Office Expenses							150
01252	Overnight Mail, USPS Etc.							
5	Overnight Mail, USPS		2.00 mnth			2.00 mnth	85.00	170
	Overnight Mail, USPS Etc.							170
01310	Temporary Water							
25	Portable Water / Cooler Rental		2.00 mnth		12.00000	2.00 mnth	15.00	30
	Temporary Water		346.66 Equipment hours			24.00 botl	6.00	144
								174
01350	Project Telephone Charges							
5	Project Telephone Charges		2.00 mnth			2.00 mnth	425.00	850
	Project Telephone Charges							850
01360	Portable Toilets							
5	Portable Toilets		2.00 mnth			2.00 mnth	90.00	180
	Portable Toilets							180
<b>GENERAL CONDITIONS</b>								
								16,754
01700	PROJ. MAINT./SEC./SAFETY							
01701	Daily Cleanup							
5	Daily Cleanup		128.00 hour			128.00 hour	12.00	1,536
								64



Item	Description	Location	Takeoff Qty	W%	Conversion	Order Qty	Unit Price	Amount
	Selective Demolition							6,538
	16.00 Labor hours							
	16.00 Equipment hours							
01970	5 Cutting & Patching		24.00 hour	0		24.00 hour	15.00	360
	Miscellaneous Cutting & Patching			0		24.00 hour	5.00	120
	Equipment			0		24.00 hour	2.00	48
	Cutting & Patching							528
	24.00 Labor hours							
	24.00 Equipment hours							
	<b>SELECTIVE DEMOLITION</b>							<b>7,066</b>
	40.00 Labor hours							
	40.00 Equipment hours							
<b>03000</b>	<b>CONCRETE</b>							
03050	5 General Concrete Work	Slab Repair		0				
	General Concrete Work			0				
	General Concrete Work			0				
	General Concrete Work			0				950
	General Concrete Work			0				950
	<b>CONCRETE</b>							<b>950</b>
<b>06000</b>	<b>WOODS &amp; PLASTICS</b>							
06022	5 Door & Window Blocking		350.00 lf	0		17.50 hour	15.00	263
	Door & Window Blocking			0		262.50 bdft	0.60	158
	20.00000 lf/hour							420
	0.75000 bdft/lf							
06024	5 Misc. Blocking & Carp.		400.00 lf	0		26.67 hour	15.00	400
	Miscellaneous Blocking			0		300.00 bdft	0.60	180
e601	Electrical Panel Back Board		2.00 loc	0		3.00 hour	16.00	48
	1.50000 hour/loc					2.00 sht	45.00	90
	Misc. Blocking & Carp.			0				718
	29.657 Labor hours							
06200	501 Finish Carpentry	Allowance	1.00 ls	0		1.00 ls		
	Finish Carpentry			0		1.00 ls		
	Finish Carpentry			0		1.00 ls	6,000.000	6,000
	Finish Carpentry			0				6,000
	<b>WOODS &amp; PLASTICS</b>							<b>7,138</b>
	47.167 Labor hours							
<b>07000</b>	<b>THERMAL / MOISTURE PROT.</b>							
07505	General Roofing							



Item	Description	Location	Takeoff Qty	W%	Conversion	Order Qty	Unit Price	Amount
09650	Resilient Flooring Resilient Flooring							15,412
09680	Carpeting Carpeting Subcontractor Carpeting		1.00 Is Sub	0		1.00 Is	4,620.00	4,620 4,620
09900	Painting Painting Subcontractor Paint Division Walls		1.00 Is Sub 1.00 Is Lab 1.00 Is Mat 1.00 Is Sub	0		1.00 Is 1.00 Is 1.00 Is 1.00 Is	6,600.000	6,600
	Painting						1,000.000	1,000 7,600
<b>FINISHES 76,232</b>								
<b>10000 SPECIALTIES</b>								
10160	Toilet/Shower Partitions Install Toilet & Shower Partitions		6.00 loc	0	5.00000 hour/foc	30.00 hour 6.00 loc 1.00 Is	18.00 5.00 2,745.00	540 30 2,745 3,315
10520	Fire Exting. & Cabinets Install Fire Extinguisher Cabinets		4.00 loc	0	2.50000 hour/foc	10.00 hour 4.00 loc 1.00 Is 1.00 Is	16.00 10.00 400.000	160 40 400 600
10800	Toilet & Bath Accessories Install Toilet & Bathroom Accessories Toilet & Bath Accessory Supplier Toilet & Bath Accessories		6.00 hour 1.00 Is Mat	0		6.00 hour 1.00 Is	16.00 1,000.000	96 1,000 1,096
<b>SPECIALTIES 46.00 Labor hours</b>								
<b>15000 MECHANICAL SYSTEMS</b>								
15400	Plumbing Systems Plumbing Subcontractor Roaster Gas Piping		1.00 Is Sub 1.00 Is Lab 1.00 Is Mat 1.00 Is Sub	0		1.00 Is 1.00 Is 1.00 Is 1.00 Is	19,300.000	19,300
15500	Plumbing Systems Fire Protection Systems Fire Protection System Subcontractor		1.00 Is Sub	0		1.00 Is	6,200.000	6,400 25,700 6,200

Estimate Details Report  
Comfort Foods

Item	Description	Location	Takeoff Qty	W%	Conversion	Order Qty	Unit Price	Amount
15500	Fire Protection Systems							
	Fire Protection Systems							
15600	HVAC							6,200
sub	HVAC Subcontractor		1.00 Is	0		1.00 Is	24,726.00	24,726
	HVAC							24,726
<b>MECHANICAL SYSTEMS</b>								
<b>16000</b>	<b>ELECTRICAL SYSTEMS</b>							
16100	Electrical - General Req.							
sub	Electrical Subcontractor		1.00 Is	0		1.00 Is	39,982.00	39,982
	Warehouse Services		1.00 Is	0		1.00 Is		
						1.00 Is		
						1.00 Is		
	Electrical - General Req.							52,957
								92,939
<b>ELECTRICAL SYSTEMS</b>								
<b>20000</b>	<b>PROFESSIONAL SERVICES</b>							
20100	Reprographics							
0005	Reprographic Costs		1.00 Is	0		1.00 Is	1,200.000	1,200
	Reprographics							1,200
<b>PROFESSIONAL SERVICES</b>								
<b>21000</b>	<b>STATE/LOCAL REQUIREMENTS</b>							
21100	Building Permit							
bp01	General Building Permit		1.00 Is	0		1.00 Is	2,200.000	2,200
	Building Permit							2,200
<b>STATE/LOCAL REQUIREMENTS</b>								
								<b>2,200</b>



Estimate Details Report  
Comfort Foods

Estimate Totals

Labor	18,223	
Material	12,269	
Subcontract	252,227	
Equipment	1,342	
Other	6,534	
	<u>290,595</u>	
Insur. & Taxes on Direct Labor	10,022	
Comp. Projects/Umb./Liab. Ins.	23	
Overhead & Profit (%)	25,554	
<b>Total</b>		<b>326,194</b>

	847.167	hrs
	706.660	hrs
	55.000 %	
	0.008 %	
	8.500 %	
	<b>6.657 /sq f</b>	

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LANDLORD COSTS: DEMISING WALLS: 25,996.<sup>00</sup>  
 TENANT BUILD OUT COSTS: 300,298.<sup>00</sup>

PROJECT MANAGEMENT FEE (RAM) 8,155.<sup>00</sup>

334,349.<sup>00</sup>

ALLOCATION:

LANDLORD'S PORTION: 26,530.<sup>00</sup>  
 TENANT'S PORTION: 307,819.<sup>00</sup>

**EXHIBIT B-1**

CONCEPTUAL FLOOR PLAN

LEASE SUBORDINATION, NON-DISTURBANCE  
OF POSSESSION AND ATTORNMENT AGREEMENT

This Lease Subordination, Non-Disturbance of Possession and Attornment Agreement (hereinafter, the "Subordination, Non-Disturbance and Attornment Agreement" or "Agreement") is made as of the 5<sup>th</sup> day of December, 2000, among Fleet National Bank, a national banking association, having a place of business at One Federal Street, Boston, Massachusetts 02110 (hereinafter, the "Lender"), One Clark Street North Andover LLC, a Massachusetts limited liability company with offices c/o Aries Property Company, LLC, 121 Middle Street, Portland, Maine 04101 (hereinafter, the "Landlord" or "Borrower"), and Comfort Foods, Inc., a Massachusetts corporation with a place of business at (hereinafter, the "Tenant").

Introductory Provisions

A. Lender is relying on this Agreement as an inducement to Lender in making and maintaining a loan (hereinafter, the "Loan") secured by, among other things, a Construction Mortgage and Security Agreement dated as of \_\_\_\_\_, 2000 (hereinafter, the "Mortgage") given by Borrower covering property commonly known as and numbered One Clark Street, North Andover, Massachusetts (hereinafter, the "Property"). Lender is also the "Assignee" under a Collateral Assignment of Leases and Rents (hereinafter, the "Assignment") dated as of \_\_\_\_\_, 2000, from Borrower with respect to the Property.

B. Tenant is the tenant under that certain lease (hereinafter, the "Lease") dated 12/06/2000, made with Landlord, covering certain premises (hereinafter, the "Premises") at the Property as more particularly described in the Lease.

C. Lender requires, as a condition to the making and maintaining of the Loan, that the Mortgage be and remain superior to the Lease and that Lender's rights under the Assignment be recognized.

D. Tenant requires as a condition to the Lease being subordinate to the Mortgage that its rights under the Lease be recognized.

E. Lender, Landlord, and Tenant desire to confirm their understanding with respect to the Mortgage and the Lease.

NOW, THEREFORE, in consideration of the foregoing, the mutual covenants and agreements contained herein, and other valuable consideration, the receipt and adequacy of which are hereby acknowledged, and with the understanding by Tenant that Lender shall rely hereon in making and maintaining the Loan, Lender, Landlord, and Tenant agree as follows:

1. Subordination. The Lease and the rights of Tenant thereunder are subordinate and inferior to the lien of the mortgage and any amendment, renewal, substitution, extension or replacement thereof and each advance made thereunder as though the Mortgage, and each such amendment, renewal, substitution, extension or replacement were executed and recorded, and the advance made, before the execution of the Lease.
2. Non-Disturbance. So long as Tenant is not in default (beyond any period expressed in the Lease within which Tenant may cure such default) in the payment of rent or in the performance or observance of any of the terms, covenants or conditions of the Lease on Tenant's part to be performed or observed, (i) Tenant's occupancy of the Premises shall not be disturbed by Lender in the exercise of any of its rights under the Mortgage during the term of the Lease, or any extension or renewal thereof made in accordance with the terms of the Lease, and (ii) Lender will not join Tenant as a party defendant in any action or proceeding for the purpose of terminating Tenant's interest and estate under the Lease because of any default under the Mortgage.

3. Attornment and Certificates. In the event Lender succeeds to the interest of Borrower as Landlord under the Lease, or if the Property or the Premises are sold pursuant to the power of sale under the Mortgage, Tenant shall attorn to Lender, or a purchaser upon any such foreclosure sale, and shall recognize Lender, or such purchaser, thereafter as the Landlord under the Lease. Such attornment shall be effective and self operative without the execution of any further instrument. Tenant agrees, however, to execute and deliver at any time and from time to time, upon the request of any holder(s) of any of the indebtedness or other obligations secured by the Mortgage, or upon request of any such purchaser, (a) any instrument or certificate which, in the reasonable judgment of such holder(s), or such purchaser, may be necessary or appropriate in any such foreclosure proceeding or otherwise to evidence such attornment, and (b) an instrument or certificate regarding the status of the Lease, consisting of statements, if true (and if not true, specifying in what respect), (i) that the Lease is in full force and effect, (ii) the date through which rentals have been paid, (iii) the duration and date of the commencement of the term of the Lease, (iv) the nature of any amendments or modifications to the Lease, (v) that no default, or state of facts, which with the passage of time, or notice, or both, would constitute a default, exists on the part of either party to the Lease, and (vi) the dates on which payments of additional rent, if any, are due under the Lease.
4. Limitations. If Lender exercises any of its rights under the Assignment or the Mortgage, or if Lender shall succeed to the interest of Landlord under the Lease in any manner, or if any purchaser acquires the Property, or the Premises, upon or after any foreclosure of the Mortgage, or any deed in lieu thereof, Lender or such purchaser, as the case may be, shall have the same remedies by entry, action or otherwise in the event of any default by Tenant (beyond any period expressed in the Lease within which Tenant may cure such default) in the payment of rent or in the performance or observance of any of the terms, covenants and conditions of the Lease on Tenant's part to be paid, performed or observed that the Landlord had or would have had if Lender or such purchaser had not succeeded to the interest of the present Landlord. From and after any such attornment, Lender or such purchaser shall be bound to Tenant under all the terms, covenants and conditions of the Lease, and Tenant shall, from and after such attornment to Lender, or to such purchaser, have the same remedies against Lender, or such purchaser, for the breach of an agreement contained in the Lease that Tenant might have had under the Lease against Landlord, if Lender or such purchaser had not succeeded to the interest of Landlord. Provided, however, that Lender or such purchaser shall only be bound during the period of its ownership, and that in the case of the exercise by Lender of its rights under the Mortgage, or the Assignment, or any combination thereof, or a foreclosure, or deed in lieu of foreclosure, all Tenant claims shall be satisfied only out of the interest, if any, of Lender, or such purchaser, in the Property, and Lender and such purchaser shall not be (a) liable for any act or omission of any prior landlord (including the Landlord); or (b) liable for or incur any obligation with respect to the construction of the Property or any improvements of the Premises or the Property; or (c) subject to any offsets or defenses which Tenant might have against any prior landlord (including the Landlord); or (d) bound by any rent or additional rent which Tenant might have paid for more than the then current rental period to any prior landlord (including the Landlord); or (e) bound by any amendment or modification of the Lease, or (f) except for any assignment or sublet permitted under the Lease as to which Landlord's consent is not required, bound by any assignment or sublet, made without Lender's prior written consent; or (g) bound by or responsible for any security deposit not actually received by Lender; or (h) liable for or incur any obligation with respect to any breach of warranties or representations of any nature under the Lease or otherwise including without limitation any warranties or representations respecting use, compliance with zoning, landlord's title, landlord's authority, habitability and/or fitness for any purpose, or possession; or (j) liable for consequential damages.
5. Rights Reserved. Nothing herein contained is intended, nor shall it be construed, to abridge or adversely affect any right or remedy of: (a) the Landlord under the Lease, or any subsequent Landlord, against the Tenant in the event of any default by Tenant (beyond any period expressed in the Lease within which Tenant may cure such default) in the payment of rent or in the performance or observance of any of the terms, covenants or conditions of the Lease on Tenant's part to be performed or observed; or (b) the Tenant under the Lease against the original or any prior Landlord in the event of any default by the original Landlord to pursue claims against such original or prior Landlord whether or not such claim is barred against Lender or a subsequent purchaser.

6. Notice and Right to Cure. Tenant agrees to provide Lender with a copy of each notice of default under the Lease or failure of Landlord to satisfy a condition precedent to Tenant's obligations under the Lease, at the same time as Tenant provides Landlord with such notice, and that in the event of any default or failure by the Landlord under the Lease, Tenant will take no action to terminate the Lease (a) if the default or failure is not curable by Lender (so long as the default does not interfere with Tenant's use and occupation of the Premises), or (b) if the default or failure is curable by Lender, unless the default or failure remains uncured for a period of thirty (30) days after written notice thereof shall have been given, postage prepaid, to Landlord at Landlord's address, and to Lender at the address provided in Section 7 below; provided, however, that if any such default or failure is such that it reasonably cannot be cured within such thirty (30) day period, such period shall be extended for such additional period of time as shall be reasonably necessary (including, without limitation, a reasonable period of time to obtain possession of the Property and to foreclose the Mortgage), if Lender gives Tenant written notice within such thirty (30) day period of Lender's election to undertake the cure of the default or failure and if curative action (including, without limitation, action to obtain possession and foreclose) is instituted within a reasonable period of time and is thereafter diligently pursued. Lender shall have no obligation to cure any default or failure under the Lease.
7. Notices. Any notice or communication required or permitted hereunder shall be in writing, and shall be given or delivered: (i) by United States mail, registered or certified, postage fully prepaid, return receipt requested, or (ii) by recognized courier service or recognized overnight delivery service; and in any event addressed to the party for which it is intended at its address set forth below:

To Lender:

Fleet National Bank  
One Federal Street  
Boston, Massachusetts 02109  
FAX Number: (617) 346-4670  
Attention: Commercial Real Estate Loan Administration Manager

with copies by regular mail or such hand delivery or facsimile transmission to:

Riemer & Braunstein LLP  
Three Center Plaza  
Boston, Massachusetts 02108  
FAX Number: (617) 723-6831  
Attention: Steven J. Weinstein, Esquire

To Landlord:

One Clarke Street North Andover LLC  
C/o Aries Property Company, LLC  
121 Middle Street. Suite 200  
FAX Number: 207-774-0264  
Attention: Brian Gagne

with copies by regular mail or such hand delivery or facsimile transmission to:

Bernstein, Shur, Sawyer & Nelson  
100 Middle Street, PO Box 9729  
Portland, ME 04104-029  
FAX Number: 207-774-1127  
Attention: Charlie Miller, Esq.

To Tenant:

Comfort Foods, Inc.  
844 Woburn Street  
Wilmington, MA 01887  
FAX Number: 978-988-1228  
Attention: Michael J. Sullivan, Chief Executive Officer

with a copy to:

Law Offices of John M. Cunningham, Esq  
2 Kent Street  
Concord, NH 03301

or such other address as such party may have previously specified by notice given or delivered in accordance with the foregoing. Any such notice shall be deemed to have been given and received on the date delivered or tendered for delivery during normal business hours as herein provided.

8. Construction Obligations.

- a. The Tenant agrees that the Lender shall have no obligation to complete the construction obligations of the Landlord under the Lease, unless within thirty (30) days of the earlier of the Lender (i) giving notice to the Tenant of the Lender's assumption of the Landlord's obligations under the Lease or (ii) taking possession of, or acquiring title to, the Premises, the Lender elects in writing to complete such construction obligations.

9. No Oral Change. This Agreement may not be modified orally or in any manner than by an agreement in writing signed by the parties hereto or their respective successors in interest.

10. Successors and Assigns. This Agreement shall inure to the benefit of and be binding upon the parties hereto, their respective heirs, personal representatives, successors and assigns, and any purchaser or purchasers at foreclosure of the Property or any portion thereof, and their respective heirs, personal representatives, successors and assigns.

11. Payment of Rent To Lender. Tenant acknowledges that it has notice that the Lease and the rent and all sums due thereunder have been assigned to Lender as part of the security for the obligations secured by the mortgage. In the event Lender notifies Tenant of a default under the Loan and demands that Tenant pay its rent and all other sums due under the Lease to Lender, Tenant agrees that it will honor such demand and pay its rent and all other sums due under the Lease to Lender, or Lender's designated agent, until otherwise notified in writing by Lender. Borrower unconditionally authorizes and directs Tenant to make rental payments directly to Lender following receipt of such notice and further agrees that Tenant may rely upon such notice without any obligation to further inquire as to whether or not any default exists under the Mortgage or the Assignment, and that Borrower shall have no right or claim against Tenant for or by reason of any payments of rent or other charges made by Tenant to Lender following receipt of such notice.

12. No Amendment or Cancellation of Lease. So long as the Mortgage remains undischarged of record, Tenant shall not amend, modify, cancel or terminate the Lease, or consent to an amendment, modification, cancellation or termination of the Lease, or agree to subordinate the Lease to any other mortgage, without Lender's prior written consent in each instance.
13. Option. With respect to any options for additional space provided to Tenant under the Lease, Lender agrees to recognize the same if Tenant is entitled thereto under the Lease after the date on which Lender succeeds as Landlord under the Lease by virtue of foreclosure or deed in lieu of foreclosure or Lender takes possession of the Premises; provided, however, Lender shall not be responsible for any acts of any prior landlord under the lease, or the act of any tenant, subtenant or other party which prevents Lender from complying with the provisions hereof and Tenant shall have no right to cancel the Lease or to make any claims against Lender on account thereof.
14. Captions. Captions and headings of sections are not parts of this Agreement and shall not be deemed to affect the meaning or construction of any of the provisions of this Agreement.
15. Counterparts. This Agreement may be executed in several counterparts each of which when executed and delivered is an original, but all of which together shall constitute one instrument.
16. Governing Law. This Agreement shall be governed by and construed in accordance with the laws of the Commonwealth of Massachusetts.
17. Parties Bound. The provisions of this Agreement shall be binding upon and inure to the benefit of Tenant, Lender and Borrower and their respective successors and assigns; provided, however, reference to successors and assigns of Tenant shall not constitute a consent by Landlord or Borrower to an assignment or sublet by Tenant, but has reference only to those instances in which such consent is not required pursuant to the Lease or for which such consent has been given.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed as of the date first above written.

LENDER:

FLEET NATIONAL BANK

BY: /s/ Kristin A Clark

Name: Kristin A Clark

Title: Senior Vice President

Date executed by Lender: 1/8/01

TENANT:

COMFORT FOODS, INC

BY: /s/ Michael Sullivan

Name: Michael Sullivan

Title: C.E.O

Date executed by Lender: 12/5/00

ATTEST:

\_\_\_\_\_  
Name:

Title:

COMMONWEALTH OF MASSACHUSETTS

, ss. , 20

Then personally appeared before me \_\_\_\_\_, a Vice-President of Fleet National Bank and acknowledged the foregoing to be (his) (her) free act and deed and the free act and deed of said Fleet National Bank.

\_\_\_\_\_  
, Notary Public  
My Commission Expires:

Kathleen L. Whalen  
NOTARY PUBLIC  
My commission expires Mar. 4, 2005

STATE OF \_\_\_\_\_

, ss. , 20

Then personally appeared the above-named \_\_\_\_\_, \_\_\_\_\_ of \_\_\_\_\_ and acknowledged the foregoing to be his (her) free act and deed as the \_\_\_\_\_ of \_\_\_\_\_ and the free act and deed of said \_\_\_\_\_.

\_\_\_\_\_  
, Notary Public  
My Commission Expires: \_\_\_\_\_

*My Commission Expires  
May 31, 2007*



One Clark Street North Andover LLC, as Landlord under the Lease, and Borrower under the Mortgage, the Loan Agreement and the other Loan Documents, agrees for itself and its successors and assigns that:

1. The above agreement does not:
  - a. constitute a waiver by Lender of any of its rights under the Mortgage or any of the other Loan Documents; or
  - b. in any way release Borrower from its obligations to comply with the terms, provisions, conditions, covenants and agreements and clauses of the Mortgage and Security Agreement and other Loan Documents;
2. The provisions of the Mortgage remain in full force and effect and must be complied with by Borrower;
3. Tenant shall have the right to rely on any notice or request from Lender which directs Tenant to pay rent to Lender without any obligation to inquire as to whether or not a default exists and notwithstanding any notice from or claim of Borrower to the contrary. Borrower shall have no right or claim against Tenant for rent paid to Lender after Lender so notifies Tenant to make payment of rent to Lender; and
4. The Borrower shall be bound by all of the terms, conditions and provisions of the foregoing Agreement in all respects.

Executed and delivered as a sealed instrument as of the 6<sup>th</sup> day of December, 2000.

**BORROWER:**

**ONE CLARK STRET NORTH ANDOVER LLC**

BY: /s/ Brian Gagne

Name: Brian Gagne

Title: Manager

Date executed by Borrower: 12/6/00

STATE OF \_\_\_\_\_

, ss. \_\_\_\_\_, 20

Then personally appeared the above-named \_\_\_\_\_, \_\_\_\_\_ of \_\_\_\_\_ and acknowledged the foregoing to be his (her) free act and deed as the \_\_\_\_\_ of \_\_\_\_\_ and the free act and deed of said \_\_\_\_\_.

\_\_\_\_\_  
, Notary Public

My Commission Expires: \_\_\_\_\_



**SECOND AMENDMENT TO LEASE**

WHEREAS, One Clark Street North Andover, LLC, a Massachusetts limited liability company ("Landlord") and Comfort Foods, Inc., a Massachusetts corporation ("Tenant") are parties to that certain lease dated December 6, 2000, as amended by that certain First Amendment to Lease dated April 30, 2010 (hereinafter called the "Lease"), which Lease relates to 49,018 square feet of space in the building at 25 Commerce Way, Unit 5, North Andover, Massachusetts (the "Premises");

WHEREAS, Coffee Holding Company, Inc., a publicly traded company, has acquired all of the lessee's interest in the Lease from Comfort Foods, Inc. and is now the Tenant;

WHEREAS, 25 COMM NAM, LLC, a Massachusetts limited liability company, has succeeded to the interest of One Clark Street North Andover, LLC as Landlord;

WHEREAS, the amended term of the Lease is scheduled to expire on May 31, 2018 and Landlord and Tenant have agreed to: extend the term of the Lease so that it will expire on May 31, 2028, reduce the size of the Premises, modify the rent, and make certain other changes to the Lease as set forth herein and the parties therefore desire to enter into this Second Amendment to confirm the foregoing;

NOW, THEREFORE, in consideration of the mutual covenants and agreements contained in the Lease and contained herein, Landlord and Tenant hereby agree to amend the Lease as follows:

1. Section 1 of the Lease is hereby amended and restated as follows:

"Section 1 - Premises. The Premises shall be reduced from 49,018 square feet to 30,879 square feet and designated as Unit 5-B as shown on the attached plan ("**Exhibit A**")."

Except for the definition of "Commencement Date," paragraphs (a) (b) and (c) of Section 1 of the Lease shall be deleted in their entirety and replaced by the following:

"Landlord shall, at Landlord's cost and expense, construct approximately 400 square feet of air conditioned office space in the Premises as shown on Exhibit A. The Landlord's work shall be in accordance with the specifications on the attached Exhibit B (the "Landlord's Work"). Landlord shall use reasonable efforts to substantially complete Landlord's Work in a good and workmanlike manner. Landlord shall not be responsible for any further work or improvements with respect to the Premises.

Tenant shall have up to 45 days after notice by Landlord of completion of Landlord's Work to vacate the space designated as Suite 5 on Exhibit A; however if Landlord has a prospective tenant for Suite 5, Tenant shall use best efforts to vacate that space as quickly as possible after Landlord gives notice of such prospective tenant interest."

2. Numbered paragraph 1 of the First Amendment to Lease is hereby amended and restated as follows :

"Section 2 - Term. The current term of the Lease is hereby extended for ten (10) additional years and instead of expiring on May 31, 2018, shall now expire on May 31, 2028 (the "Extension Term")."

3. Numbered paragraph 2 of the First Amendment to Lease is hereby deleted and restated as follows:

"Section 3 - Rent. Commencing on April 1, 2017, and continuing through the expiration of the Extension Term, Tenant shall pay to Landlord rent for the Premises in the amount of \$168,288 per year (\$14,024.00 per month), in advance without set off or offset, on or before the first day of each month. Notwithstanding the foregoing, commencing on April 1, 2022, and on each April 1 thereafter, the rent for each succeeding lease year during the Extension Term shall be increased (but in no event decreased), if applicable, to an amount obtained by multiplying \$168,288 by a fraction, the numerator of which shall be the Consumer Price Index ("CPI") for the immediately preceding March and the denominator of which shall be the CPI for April 1, 2017, as measured by the US Department of Labor Bureau of Labor Statistics "CONSUMER PRICE INDEX FOR ALL URBAN CONSUMERS (CPI-U) for Boston-Brockton-Nashua, MA-NH-ME-CT for ALL ITEMS". In the event that the said Consumer Price Index is discontinued, comparable statistics on the purchasing power of the consumer dollar as published at time of said discontinuation by a responsible financial periodical of recognized authority, selected by Landlord, shall be used in making the above computation."

4. The last sentence of Section 4 of the Lease is hereby deleted and restated as follows:

"The Tenant's Proportionate Share shall be eighteen and three-tenths percent (18.3%), based on 30,879 square feet divided by 168,735 square feet of total building area."

5. Section 6- Security Deposit should be deleted. Landlord will refund existing security deposit to tenant within 7 days of execution of the Second Amendment to Lease.

6. Section 41 of the Lease is hereby amended as follows: the reference therein to "original term" shall be deleted therefrom and in its place and stead shall be added "Extension Term"; and the reference therein to "extended term" shall be deleted therefrom and in its place and stead shall be added "five-year extension term".

7. Paragraph 4 of the First Amendment to Lease is hereby deleted in its entirety and restated as follows:

"Tenant acknowledges that it is presently in possession of the Premises, that the Landlord's work described in numbered paragraph 4 the First Amendment to Lease was completed and accepted by Tenant and that the Premises are leased in "AS IS, WHERE IS" condition, without any warranty or representation whatsoever, except for Landlord's Work as described in Section 1 herein."

8. Numbered paragraphs 5 and 6 of the First Amendment to Lease are hereby deleted in their entirety.
9. Landlord acknowledges that CBRE/NE is the sole broker representing Tenant in this transaction and Landlord shall pay CBRE/NE an agreed upon fee for this transaction in the amount of \$40,000. The parties represent and warrant to each other that they had no contact with any other real estate broker, salesman or finder in connection with the transaction resulting in this Second Amendment. Except as provided above, Tenant agrees to indemnify Landlord and hold Landlord harmless from and against any loss, liability, damage, cost or expense (including, without limitation, reasonable attorney's fees) paid or incurred by Landlord by reason of any claim to broker's, finder's or other fee in connection with this transaction by any party claiming by, through or under Tenant.
10. Section 30 of the Lease shall be amended to delete the section in its entirety and to add in its place and stead the following:

"Section 30 - Notices. Any written notice, request or demand required or permitted by this lease shall, until either party shall notify the other in writing of a different address, be properly given if sent by certified first class mail, postage prepaid, return receipt requested, or by prepaid overnight delivery service, and shall be deemed given on the day that such writing is received by the party to whom it is sent, and addressed (if notice is given by mail or overnight delivery service) as follows:

If to Landlord:

25 Comm NAM, LLC  
c/o Pinnacle Properties Management, LLC  
4 Preston Ct  
Bedford, MA 01730  
Attn: Frederick D. Keefe

With a copy to:

Endeavor Law Firm, LLC  
10955 Lowell Ave, Suite 600  
Overland Park, KS 66210  
Attn: Frank Brady

If to Tenant:

Coffee Holding Company, Inc.  
25 Commerce Way  
North Andover, MA 01845  
Attn: Manager

With a copy to:  
Coffee Holding Company, Inc.  
3475 Victory Blvd  
Staten Island, NY

11. Attn: David Gordon, Vice President, Operations "Section 33 subsection (b) of the Lease is hereby amended as follows: the phrase "Brian L. Gagne, the Manager of Aries Property company, LLC" is replaced by "Frederick Keefe, Manager of Pinnacle Properties Management, LLC, Manager of 25 Comm NAM, LLC";
12. The "Guaranty of Lease" from Michael J. Sullivan is deleted in its entirety,
13. Capitalized terms used herein but not defined herein shall have the meaning ascribed to such term in the Lease.
14. Time is of the essence with respect to this Second Amendment.
15. Except as specifically modified hereby, the Lease and its terms shall remain in full force and effect and is hereby ratified and confirmed.



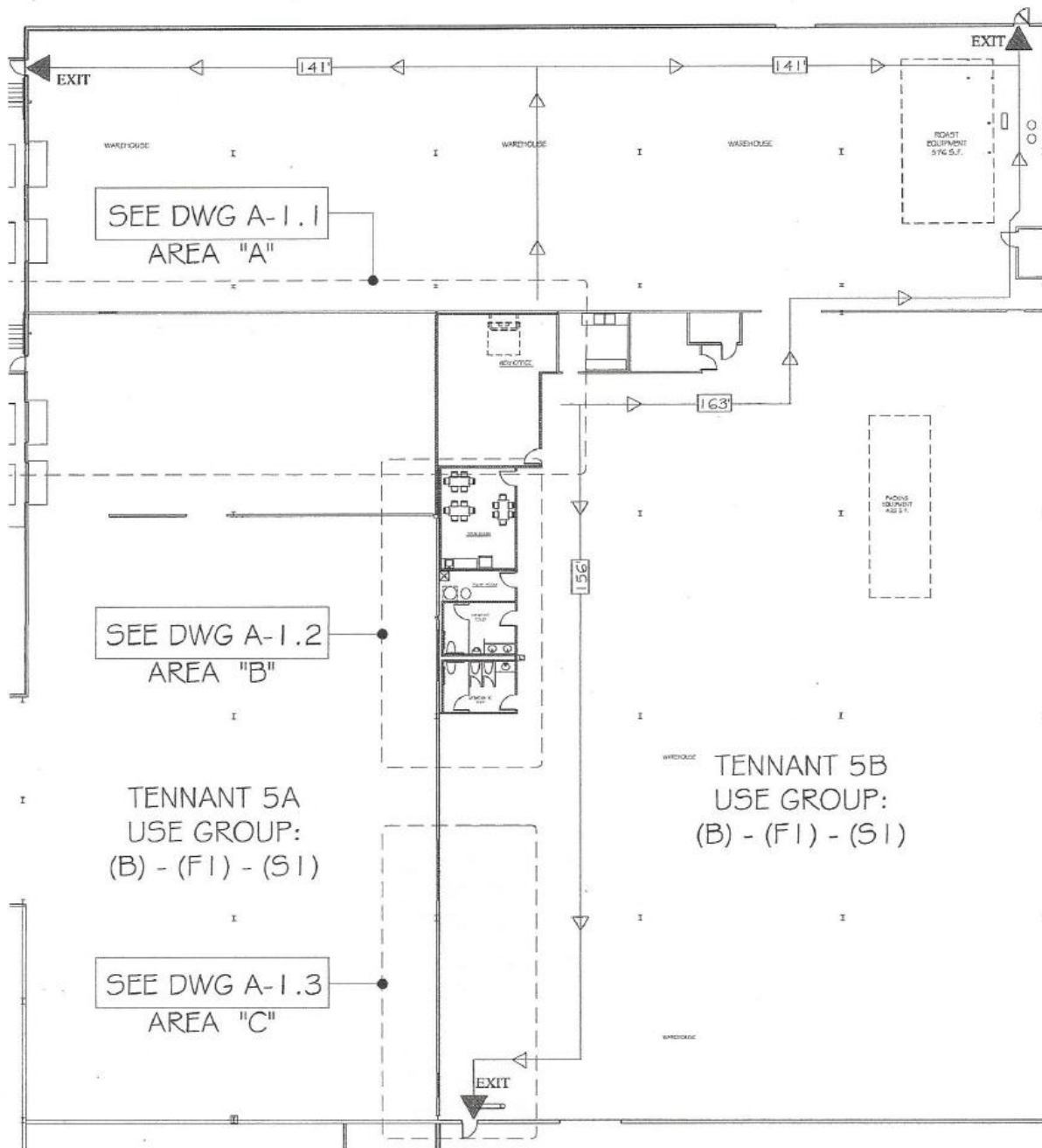


Exhibit A

AK





**COFFEE HOLDING CO., INC.**

**Significant Subsidiaries**

**Name of Entity**

**Jurisdiction**

Organic Products Trading Company, LLC

United States, Washington

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

I, Andrew Gordon, certify that:

1. I have reviewed this annual report on Form 10-K for the period ended October 31, 2018 of Coffee Holding Co., Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. I am responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under my supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to me by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal controls over financial reporting, or caused such internal control over financial reporting to be designed under my supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report my conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's fourth fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. I have disclosed, based on my most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: January 29, 2019

*/s/ Andrew Gordon*

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

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

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

This statement is being furnished in connection with the filing by the Company of the Company's Annual Report on Form 10-K for the period ended October 31, 2018 (the "Report").

By execution of this statement, I certify that:

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

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

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

Date: January 29, 2019

*/s/ Andrew Gordon*

Andrew Gordon

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

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