



EQUAL EXCHANGE, INC. AND SUBSIDIARY
AUDITED CONSOLIDATED FINANCIAL STATEMENTS
AND
SUPPLEMENTARY INFORMATION
DECEMBER 31, 2015 AND 2014

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LMHS, P.C.
Certified Public Accountants and Advisors

INDEPENDENT AUDITORS' REPORT

To The Stockholders
Equal Exchange, Inc.
Canton, Massachusetts

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Equal Exchange, Inc. (a Massachusetts Corporation) and OKE USA Fruit Company (a Subsidiary), which comprise the consolidated balance sheets as of December 31, 2015 and 2014, and the related consolidated statements of earnings and retained earnings and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Equal Exchange, Inc. and Subsidiary as of December 31, 2015 and 2014, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

LMHS, P.C.

LMHS, P.C.
Norwell, Massachusetts

March 22, 2016

EQUAL EXCHANGE, INC. AND SUBSIDIARY

CONSOLIDATED BALANCE SHEETS

DECEMBER 31, 2015 AND 2014

| ASSETS: | <u>2015</u> | <u>2014</u> |
|---|----------------------------|----------------------------|
| CURRENT ASSETS: | | |
| Cash | \$1,289,502 | \$878,753 |
| Accounts Receivable | 4,603,589 | 4,049,055 |
| Inventory | 18,725,929 | 20,220,632 |
| Prepaid Expenses and Other | 1,433,519 | 1,102,341 |
| Prepaid Corporate Income Taxes | 140,342 | 73,205 |
| Deferred Income Taxes | 165,566 | 144,918 |
| | <u>26,358,447</u> | <u>26,468,904</u> |
| PROPERTY AND EQUIPMENT, NET | 6,268,907 | 6,156,951 |
| OTHER ASSETS: | | |
| Intangible assets, net | 38,576 | 42,904 |
| Investments | 389,132 | 521,907 |
| Notes Receivable | 300,000 | 400,000 |
| | <u>727,708</u> | <u>964,811</u> |
| | <u>\$33,355,062</u> | <u>\$33,590,666</u> |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| CURRENT LIABILITIES: | | |
| Notes Payable – Lines of Credit | \$1,787,374 | \$2,946,336 |
| Current Portion of Long-Term Debt | 1,436,615 | 156,556 |
| Accounts Payable and Accrued Expenses | 3,031,175 | 3,904,919 |
| Patronage Rebates Payable | 181,008 | 500,286 |
| | <u>6,436,172</u> | <u>7,508,097</u> |
| LONG-TERM LIABILITIES: | | |
| Long-Term Debt, Net of Current Portion | 3,021,180 | 3,846,795 |
| Deferred Income Taxes | 1,119,000 | 1,239,000 |
| | <u>4,140,180</u> | <u>5,085,795</u> |
| MINORITY INTEREST IN CONSOLIDATED SUBSIDIARY | 168,719 | 170,235 |
| STOCKHOLDERS' EQUITY: | | |
| Preferred Stock, \$1 Par Value; 9,999,500 Shares Authorized; Issued and Outstanding, 604,216 Shares in 2015 and 539,446 Shares in 2014 | 16,615,995 | 14,834,776 |
| Common stock, \$1 Par Value; 500 Shares Authorized; Issued and Outstanding 132 Shares in 2015 and 123 Shares in 2014 | 411,673 | 376,748 |
| Less: Common Stock Subscriptions Receivable | (84,318) | (73,449) |
| Retained Earnings | 5,666,641 | 5,688,464 |
| | <u>22,609,991</u> | <u>20,826,539</u> |
| | <u>\$33,355,062</u> | <u>\$33,590,666</u> |

See Notes to Consolidated Financial Statements

EQUAL EXCHANGE, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF EARNINGS AND RETAINED EARNINGS
YEARS ENDED DECEMBER 31, 2015 AND 2014

| | <u>2015</u> | <u>2014</u> |
|---|--------------------|--------------------|
| NET SALES | \$64,505,331 | \$61,083,820 |
| COST OF SALES | <u>47,279,616</u> | <u>43,752,928</u> |
| GROSS PROFIT | 17,225,715 | 17,330,892 |
| OPERATING EXPENSES: | | |
| Bad Debt Expense | 20,782 | 23,800 |
| General and Administrative Expenses | <u>15,370,100</u> | <u>14,738,371</u> |
| | <u>15,390,882</u> | <u>14,762,171</u> |
| EARNINGS FROM OPERATIONS | 1,834,833 | 2,568,721 |
| OTHER INCOME AND (EXPENSES): | | |
| Loss on Investment | (203,275) | |
| Interest Income | 56,944 | 8,351 |
| Interest Expense | <u>(372,007)</u> | <u>(382,484)</u> |
| | <u>(518,338)</u> | <u>(374,133)</u> |
| EARNINGS BEFORE INCOME TAXES AND MINORITY INTEREST | 1,316,495 | 2,194,588 |
| INCOME TAXES (CREDIT): | | |
| Current: | | |
| Federal | 480,000 | 400,000 |
| State | <u>318,461</u> | <u>265,000</u> |
| | 798,461 | 665,000 |
| Deferred: | | |
| Federal | (100,648) | 255,000 |
| State | <u>(40,000)</u> | <u>81,000</u> |
| | <u>(140,648)</u> | <u>336,000</u> |
| | <u>657,813</u> | <u>1,001,000</u> |
| EARNINGS BEFORE MINORITY INTERST | 658,682 | 1,193,588 |
| MINORITY INTERST IN EARNINGS OF CONSOLIDATED SUBSIDIARY | <u>(3,084)</u> | <u>(8,514)</u> |
| NET EARNINGS | 655,598 | 1,185,074 |
| RETAINED EARNINGS, BEGINNING | 5,688,464 | 5,193,417 |
| PREFERRED STOCK DIVIDENDS PAID | <u>(677,421)</u> | <u>(690,027)</u> |
| RETAINED EARNINGS, ENDING | <u>\$5,666,641</u> | <u>\$5,688,464</u> |

See Notes to Consolidated Financial Statements

EQUAL EXCHANGE, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2015 AND 2014

| | 2015 | 2014 |
|--|--------------|--------------|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net Earnings | \$655,598 | \$1,185,074 |
| Noncash Items Included in Net Earnings: | | |
| Deferred Income Taxes (Credit) | (140,648) | 336,000 |
| Depreciation and Amortization | 1,119,494 | 965,639 |
| (Increase) Decrease in: | | |
| Accounts Receivable | (554,534) | (494,447) |
| Inventory | 1,494,703 | (4,490,156) |
| Prepaid Expenses and Other | (331,178) | (208,073) |
| Prepaid Corporate Income Taxes | (67,137) | (73,205) |
| Increase (Decrease) in: | | |
| Accounts Payable and Accrued Expenses | (873,744) | 574,824 |
| Corporate Income Taxes Payable | | (421,459) |
| Patronage Rebates Payable | (319,278) | (181,439) |
| | 983,276 | (2,807,242) |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Additions to Property and Equipment | (1,227,122) | (1,139,724) |
| Increase in Intangible Assets | | (39,229) |
| Increase in Investments, Net | 132,775 | (26,997) |
| (Increase) Decrease in Notes Receivable, Net | 100,000 | (396,770) |
| | (994,347) | (1,602,720) |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| New Borrowings: | | |
| Notes Payable – Lines of Credit | 15,845,469 | 17,346,663 |
| Long-Term Debt | 610,000 | 2,230,000 |
| Debt Reduction: | | |
| Notes-Payable – Lines of Credit | (17,004,431) | (16,013,998) |
| Long-Term Debt | (155,556) | (2,049,500) |
| Increase (Decrease) in Minority Interest | (1,516) | 3,949 |
| Proceeds From Common Stock Subscriptions | 56,201 | 42,233 |
| Proceeds From Issuance of Preferred Stock | 1,630,360 | 2,975,393 |
| Proceeds From Dividend Reinvestment in Preferred Stock | 438,422 | 454,118 |
| Redemption of Preferred Stock | (287,563) | (116,631) |
| Redemption of Common Stock | (32,145) | (22,510) |
| Preferred Stock Dividends Paid | (677,421) | (690,027) |
| | 421,820 | 4,159,690 |
| NET INCREASE (DECREASE) IN CASH | 410,749 | (250,272) |
| CASH - BEGINNING | 878,753 | 1,129,025 |
| CASH - ENDING | \$1,289,502 | \$878,753 |

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION

| | 2015 | 2014 |
|--------------------------------|-----------|-------------|
| Cash Paid During The Year For: | | |
| Interest | \$379,187 | \$390,163 |
| Income Taxes | \$865,598 | \$1,159,664 |

See Notes to Consolidated Financial Statements

**EQUAL EXCHANGE, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

A. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

1. Principles of Consolidation - The consolidated financial statements include the accounts of Equal Exchange, Inc. and its majority-owned subsidiary OKE USA Fruit Company (the Company). All significant intercompany transactions and balances have been eliminated in these consolidated financial statements.
2. Organization - Equal Exchange, Inc. was organized under the General Laws of the Commonwealth of Massachusetts as a worker cooperative and commenced operations in 1986. All voting stock is owned by employees of Equal Exchange, Inc., each of whom is limited to one share. Equal Exchange, Inc. distributes a portion of its annual profits to the worker-owners as a patronage rebate. Worker-owners may decide to extend membership to an employee after one year of service. Equal Exchange, Inc. also offers non-voting preferred stock, which pays a variable, noncumulative, annual dividend, targeted at five percent of the value of the preferred stock.

OKE USA Fruit Company was incorporated under the laws of the state of Delaware on May 18, 2006.

3. Operations - Equal Exchange, Inc. is engaged in the manufacturing and distribution of coffee, tea, cocoa, chocolate and related products nationally, with its main office located at 15 Campanelli Cir, Canton, Massachusetts. Equal Exchange, Inc. was formed to establish equitable trade relationships between small farmers around the world and U.S. consumers. Equal Exchange, Inc. buys green coffee beans directly from farmers' cooperatives and imports the coffee to the United States. Equal Exchange, Inc. pays a price that covers the cost of production, provides farmers a living wage, and includes a social premium to the cooperative, in accordance with internationally established fair trade practices. Tea, cocoa and chocolate are also purchased according to fair trade practices. Equal Exchange, Inc. performs coffee roasting and packaging production at its West Bridgewater, Massachusetts facility. In addition, Equal Exchange, Inc. contracts for coffee roasting, cocoa and chocolate manufacturing, and product packaging, and sells and distributes its products nationally through distributors, retail stores, restaurants and solidarity organizations. To better serve its customers, Equal Exchange, Inc. purchases and loans coffee grinders, brewers and retail display equipment to its customers.

OKE USA Fruit Company wholesales produce to customers in the United States while establishing a model for international trade that fosters farmer ownership, fair trade practices and environmental protection.

4. Method of Accounting - The Company's policy is to prepare its consolidated financial statements on the accrual method of accounting whereby revenues are recognized when earned and expenses are recognized when incurred. This method of accounting conforms to generally accepted accounting principles.
5. Concentration of Credit Risk - Financial instruments that potentially subject the Company to concentrations of credit risk consist primarily of deposits in excess of federally insured limits, accounts receivable, and credit guarantees for certain vendors. These risks are managed by maintaining all deposits in high quality financial institutions, obtaining signed sales orders, and/or establishing credit limits with all customers, and obtaining signed contracts with vendors. Management believes that the Company is not exposed to any significant credit risk as a result of these credit concentrations.
6. Cash and Cash Equivalents - For purposes of the consolidated statements of cash flows, the Company considers all highly liquid investments available for current use with an initial maturity of three months or less to be cash equivalents.
7. Inventory - The Company's inventory is valued at the lower of cost (first in, first out) or market. Inventories are stated at the lower of cost (first-in, first-out) or market.

EQUAL EXCHANGE, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

A. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)

8. **Property and Equipment** - Property and equipment are recorded at cost. Maintenance and repairs are charged to expense as incurred whereas major betterments are capitalized. Depreciation is computed using the straight-line method over three to thirty-nine years.
9. **Intangible Assets** - Intangible assets subject to amortization include capitalized software and development costs and deferred financing costs, all of which are amortized using the straight-line method over seven to ten years.
10. **Revenue Recognition** - Revenue on sales of coffee, tea, cocoa, chocolate, produce and related products is recognized when orders are shipped.
11. **Fair Value of Financial Instruments** - The Company's financial instruments include cash and cash equivalents, accounts receivable, notes receivable, accounts payable, accrued expenses, notes payable and long-term debt. The recorded values of cash and cash equivalents, accounts receivable, notes receivable, accounts payable, accrued expenses, and notes payable approximate their fair values based on their short-term nature. The recorded values of long-term debt approximates their fair values, as current interest rates approximate market rates.
12. **Freight** - The Company includes freight in as a component of inventory and freight out as part of cost of sales.
13. **General and Administrative Expenses** - These expenses are charged to operations as incurred and are not allocated to cost of sales.
14. **Income Taxes** - The Company exists, for income tax purposes, as two separate entities: Equal Exchange, Inc. and OKE USA Fruit Company. Federal and state income taxes are provided based upon earnings and tax rates applicable to the Company using the method of accounting described above.

Deferred income taxes are provided for differences in timing in reporting income for consolidated financial statement and tax purposes arising principally from differences in the methods of accounting for allowances for bad debts, accrued absences and depreciation. Bad debts are reported for tax purposes on the direct write-off method and for consolidated financial statement purposes on the allowance method. Accrued absences are reported for tax purposes on the cash method and for consolidated financial statement purposes on the accrual method. Depreciation is reported for tax purposes over shorter periods of time and at a more accelerated rate than the method for consolidated financial statement purposes. Deferred tax assets and liabilities are classified as current or non-current in the accompanying consolidated balance sheets, based upon classification of the related asset or liability.

15. **Uncertainty In Income and Other Taxes** - The Company adopted the new standards for *Accounting for Uncertainty in Income Taxes* (income, sales, use and payroll), which requires the Company to report any uncertain tax positions and to adjust its consolidated financial statements for the impact thereof. As of December 31, 2015 and 2014, the Company determined that it had no tax positions that did not meet the "more likely than not" threshold of being sustained by the applicable tax authority. The Company files tax and information returns in the United States Federal, Massachusetts and other state jurisdictions. These returns are generally subject to examination by tax authorities for the last three years.
16. **Sales Tax** - The Company excludes from its sales all sales taxes assessed to its customers. Sales taxes assessed on sales are recorded as accrued liabilities until remitted to state agencies.

**EQUAL EXCHANGE, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

A. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)

17. Use of Estimates - The preparation of consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.
18. Patronage Rebates - The By-Laws of Equal Exchange, Inc. require it to make a patronage rebate to each worker-owner, based on its current year profit. Accordingly, the Company accounts for patronage rebates as an increase in operating expenses in the current year.

B. ALLOWANCE FOR DOUBTFUL ACCOUNTS:

The Company utilizes the allowance method to account for uncollectible accounts receivable balances. Under the allowance method, an estimate of uncollectible customer balances is made based on the Company's prior history and other factors such as the credit quality of the customer and economic conditions of the market. Based on these factors, at December 31, 2015 and 2014, there was an allowance for doubtful accounts of \$50,000.

C. INVENTORY:

Inventory consists of the following as of December 31:

| | 2015 | 2014 |
|--|--------------|--------------|
| Unprocessed green coffee beans and bananas | \$11,179,555 | \$11,295,403 |
| Processed coffee, tea, cocoa, chocolate, snacks and supplies | 7,546,374 | 8,925,229 |
| | \$18,725,929 | \$20,220,632 |

D. NOTES RECEIVABLE:

Notes Receivable consist of the following at December 31:

| | 2015 | 2014 |
|---|-----------|-----------|
| 6.00% Promissory Note Receivable – La Siembra: Interest only payments to July, 2020. \$100,000 was repaid on May 29, 2015. This note is collateralized by certain intellectual property of the borrower. | \$300,000 | \$400,000 |

E. PROPERTY AND EQUIPMENT:

Property and Equipment consists of the following as of December 31:

| | 2015 | 2014 |
|---|-------------|-------------|
| Land | \$502,688 | \$502,688 |
| Building and Improvements | 4,215,951 | 3,956,000 |
| Coffee Roasting and Packaging Equipment | 4,801,160 | 4,765,517 |
| Furniture, Fixtures, Equipment and Software | 4,379,745 | 3,633,334 |
| | 13,899,544 | 12,857,539 |
| Accumulated Depreciation | (7,630,637) | (6,700,588) |
| | \$6,268,907 | \$6,156,951 |

EQUAL EXCHANGE, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

F. INTANGIBLE ASSETS:

Intangible assets consist of the following as of December 31:

| | 2015 | 2014 |
|--|----------|----------|
| Capitalized Software and Development Costs, Net of Accumulated Amortization of \$226,075 and \$225,670 in 2015 and 2014, respectively. | \$5,231 | \$5,636 |
| Capitalized Closing Costs, Net of Accumulated Amortization of \$5,884 and \$1,961 in 2015 and 2014, respectively. | 33,345 | 37,268 |
| | \$38,576 | \$42,904 |

In accordance with FASB ASC 350-40-30-1, the Company capitalized the costs associated with establishing a cooperative supply chain referred to as P6. These costs include software development, product branding, website design and launch, brochure production, legal costs and marketing initiatives.

G. INVESTMENTS:

The Company holds investments in various other similar, fair-trade or socially conscious organizations. All investments are carried at the lower of cost or estimated market value. Investments consist of the following at December 31:

| | 2015 | 2014 |
|---|-----------|-----------|
| Liberation Foods, Community Interest Company, UK | \$63,360 | \$63,360 |
| CERO Cooperative, Inc. – 200 Preferred Shares | 5,000 | 5,000 |
| Coop Capital Fund NE, Community Development Financial Institution | | 20,000 |
| NCB, Federal Savings Bank – 220 Shares Class B | 21,997 | 21,997 |
| Real Pickles Co-op – Preferred Stock | 5,000 | 5,000 |
| Equal Exchange Trading, LTD | 203,275 | 406,550 |
| LaSiembra – 10,000 Shares Class A | 80,500 | |
| Dorchester Food Coop | 10,000 | |
| | \$389,132 | \$521,907 |

During 2015, the investment in Equal Exchange Trading, LTD was revalued by management at fifty percent of its original cost and accordingly, a loss on investment is included in the accompanying statement of earnings of \$203,275.

H. NOTES PAYABLE - LINES OF CREDIT:

The Company has a \$4,000,000 unsecured rolling credit facility with Shared Interest, a socially responsible organization based in the United Kingdom. The purpose of this credit facility is to finance purchases from small farmer associations approved by Shared Interest. Under the terms of this credit facility, Shared Interest pays producers for coffee shipped to the Company. The Company is required to repay Shared Interest in full within five months following the settlement date. Advances bear interest at the borrowing rate of Shared Interest, plus one percent, 7% at December 31, 2015 and 2014. This credit facility may be terminated upon 180 days notice. At December 31, 2015 and 2014, the outstanding balance on this rolling credit facility amounted to \$1,450,989 and \$1,675,703, respectively.

EQUAL EXCHANGE, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

H. NOTES PAYABLE - LINES OF CREDIT: (Continued)

The Company has a \$1,000,000 secured line of credit with Eastern Bank. This line of credit bears interest at the bank's prime lending rate and is secured by certificates of deposit held by Eastern Bank that are owned by individuals and institutions affiliated with the Company. The Company can borrow up to ninety percent of the face value of the certificates of deposit. At December 31, 2015 and 2014, the outstanding balance on this line of credit amounted to \$335,000 and \$400,000, respectively.

During 2014, the Company secured a \$2,500,000 line of credit with NCB, Federal Savings Bank (FSB). This line of credit bears interest at the bank's prime rate plus fifty basis points and is secured by accounts receivable. At December 31, 2015 and 2014, the amount outstanding on this line of credit amounted to zero and \$370,633, respectively.

During 2014, the Company also secured a \$4,000,000 line of credit with Eastern Bank. This line of credit bears interest at the bank's prime lending rate and is secured by the Company's inventory. At December 31, 2015 and 2014, the amount outstanding on this line of credit amounted to \$1,385 and \$500,000, respectively.

I. LONG-TERM DEBT:

Long-Term Debt consist of the following at December 31:

| | <u>2015</u> | <u>2014</u> |
|---|--------------------|--------------------|
| 4.50% Note Payable – Calvert Social Investment Foundation: Due in semi-annual interest-only payments with a balloon payment due August, 2016. | \$1,000,000 | \$1,000,000 |
| 4.25% Note Payable – MMA Community Development Investment: Due in semi-annual interest-only payments with a balloon payment due August, 2016. | 350,000 | 350,000 |
| 3.75% Note Payable – Twin Pines Cooperative Foundation: Due in annual interest-only payments with a balloon payment due May, 2017. | 100,000 | 100,000 |
| 3.00% Notes Payable – Various Individuals and Institutions: to Due in annual or semi-annual interest-only payments, with 5.00% balloon payments due at varying maturity dates through September, 2018. | 471,000 | 471,000 |
| 4.00% Note Payable – Cooperative Fund of NE: Due in annual interest only payments with a balloon payment due April, 2018. | 500,000 | |
| 3.75% Note Payable – Twin Pines Cooperative Foundation: Due in annual interest-only payments with a balloon payment due May, 2019. | 100,000 | 100,000 |
| 4.50% Mortgage Note Payable – RSF Social Enterprise: Due in monthly installments of \$11,254 including interest to June, 2024. | 1,936,795 | 1,982,351 |
| | <u>4,457,795</u> | <u>4,003,351</u> |
| Current Portion | <u>(1,436,615)</u> | <u>(156,556)</u> |
| | <u>\$3,021,180</u> | <u>\$3,846,795</u> |

EQUAL EXCHANGE, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

I. LONG-TERM DEBT: (Continued)

The following is a schedule by years of the aggregate maturities of indebtedness at December 31,:

| | |
|---------------------|--------------------|
| 2016 | \$1,436,615 |
| 2017 | 407,722 |
| 2018 | 720,050 |
| 2019 | 152,514 |
| 2020 and Thereafter | 1,740,894 |
| | <u>\$4,457,795</u> |

J. MINORITY INTEREST IN SUBSIDIARY:

An ownership interest of 10 percent in the subsidiary is held by unrelated parties. This interest, reflected on the consolidated balance sheets as a separate line item, is the summation of the net investments made by these unrelated parties plus their proportionate share of the inception-to-date earnings and loss, and is not necessarily reflective of its market value.

K. CAPITAL STRUCTURE:

1. Preferred Stock

The Company has a single class of non-voting Class B preferred stock. These shares have a par value of \$1 and a face value of \$27.50, and are sold to individuals and organizations. The Company pays annual cash dividends, targeted at five percent of the face value of the preferred stock. The actual amount is declared annually by the Board of Directors based on Company performance. The dividend is non-cumulative. The preferred shares have a dissolution preference equal to their face value.

Stockholders owning preferred stock may, beginning two years after the original purchase date, sell their preferred stock back to the Company in accordance with the following schedule:

- After year 2 - at 70% of face value
- After year 3 - at 80% of face value
- After year 4 - at 90% of face value
- After year 5 - at 100% of face value

In 2010, the Board of Directors authorized and approved a subscription agreement in which the corporation intended to raise up to \$5,000,000 through the sale of Class B Preferred Stock. In accordance with this subscription agreement, in 2015, the Company sold 51,136 shares of Class B Preferred Stock and raised \$1,406,273. Outside of this offering, the Company also recorded the following transactions to its Class B Shares in 2015: Issued 15,942 shares valued at \$438,422 in reinvested dividends; and, according to its bylaws, converted half of its Patronage Distribution to 8,149 shares valued at \$224,087. In addition, in accordance with this subscription agreement, in 2014, the Company sold 96,236 shares of Class B Preferred Stock and raised \$2,646,492. Outside of this offering, the Company also recorded the following transactions to its Class B Shares in 2014: Issued 11,960 shares valued at \$427,498 in reinvested dividends; and, according to its bylaws, converted half of its Patronage Distribution to 11,960 shares valued at \$328,960 and issued a total of 156 shares valued at \$4,290 to its three outside Board members.

EQUAL EXCHANGE, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

K. CAPITAL STRUCTURE: (Continued)

All stock subscription agreements referred to above were executed in accordance with the rules and regulations under Section 3(b) of Regulation D, Rule 505 of the Securities and Exchange Commission pursuant to the Securities Act of 1933.

The Company has the option of making the redemptions described above by converting the preferred shares to five year, five percent promissory notes.

If at any time the debt-to-equity ratio of the Company (defined as the Company's total liabilities divided by the Company's total stockholders' equity) exceeds 2:1, the Board of Directors may postpone or refuse a request for redemption. In addition, if at any time the Board of Directors determines that a requested redemption would impair the ability of the Company to operate effectively, the Board of Directors may limit, postpone or refuse the requested redemption.

The face value of preferred stock, eligible for redemption under the terms described above, are as follows for the year ending December 31,:

| | |
|---------------------|---------------------|
| 2016 | \$13,230,808 |
| 2017 | 2,266,498 |
| 2018 | 337,994 |
| 2019 | 320,122 |
| 2020 and Thereafter | 460,573 |
| | <u>\$16,615,995</u> |

2. Common Stock

The Company has a single class of voting Class A common stock, referred to as membership shares. Class A common shares have a \$1 par value and are sold at a price equal to \$2,000 per share, plus inflation since 1990. In 2015 and 2014, the price per share was \$3,530 and \$3,500, respectively. After one year's service, and absent denial of membership by 20% of the existing members, employees of the Company may purchase one membership share. No individual may own more than one membership share. No dividends are paid on these shares, but the employees who hold them are eligible for patronage rebates.

3. Common Stock Subscriptions Receivable

Members usually choose to pay for their membership share through payroll deductions over several years. The Company issues the membership share immediately and credits the common stock account for the full issue price of the share; unpaid amounts due from the member are recorded as Common Stock Subscriptions Receivable, which are separately reflected as a reduction to Stockholders' Equity.

EQUAL EXCHANGE, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

K. CAPITAL STRUCTURE: (Continued)

4. Preferred Stock Transactions

| | # of Shares | Par Value | Premium Over Par Value | Total Paid In on Preferred Stock |
|--|-----------------|------------------|------------------------------|---|
| Balance, December 31, 2013 | 418,562 | \$418,562 | \$11,103,334 | \$11,521,896 |
| Shares issued for cash | 108,196 | 108,196 | 2,867,197 | 2,975,393 |
| Dividends Reinvested | 16,513 | 16,513 | 437,605 | 454,118 |
| Shares Redeemed and Other Adjustments | <u>(3,825)</u> | <u>(3,825)</u> | <u>(112,806)</u> | <u>(116,631)</u> |
| Balance, December 31, 2014 | 539,446 | \$539,446 | \$14,295,330 | \$14,834,776 |
| Shares issued for cash | 59,285 | 59,285 | 1,571,075 | 1,630,360 |
| Dividends Reinvested | 15,942 | 15,942 | 422,480 | 438,422 |
| Shares Redeemed and Other Adjustments | <u>(10,457)</u> | <u>(10,457)</u> | <u>(277,106)</u> | <u>(287,563)</u> |
| Balance December 31, 2015 | <u>604,216</u> | <u>\$604,216</u> | <u>\$16,011,779</u> | <u>\$16,615,995</u> |

The Board of Directors has authorized and the articles have been amended to increase the number of both common and preferred shares to 500 and 9,999,500, respectively.

5. Common Stock Transactions

| | # of Shares | Par Value | Premium Over Par Value | Total Paid In on Common Stock |
|---|----------------|--------------|------------------------------|---|
| Balance, December 31, 2013 | 110 | \$110 | \$329,448 | \$329,558 |
| Shares issued for subscriptions receivable | 20 | 20 | 69,680 | 69,700 |
| Shares redeemed for cash | <u>(7)</u> | <u>(7)</u> | <u>(22,503)</u> | <u>(22,510)</u> |
| Balance, December 31, 2014 | 123 | \$123 | \$376,625 | \$376,748 |
| Shares issued for subscriptions receivable | 19 | 19 | 67,051 | 67,070 |
| Shares redeemed for cash | <u>(10)</u> | <u>(10)</u> | <u>(32,135)</u> | <u>(32,145)</u> |
| Balance, December 31, 2015 | <u>132</u> | <u>\$132</u> | <u>\$411,541</u> | <u>\$411,673</u> |

EQUAL EXCHANGE, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

L. INCOME TAXES:

The Company accounts for income taxes in accordance with FASB ASC 740, whereby deferred taxes are provided for temporary differences arising from assets and liabilities whose bases are different for financial reporting and income tax purposes. Deferred taxes relate primarily to differences in calculating depreciation on fixed assets and the timing of deductibility of certain other operating expenses.

M. PATRONAGE REBATES:

The By-Laws of Equal Exchange, Inc. require it to make an annual patronage rebate to each worker-owner. The patronage rebate is calculated at forty percent of the net profit or loss, after state income taxes and preferred stock dividend payments, but before charitable donations and federal income taxes. The rebate is then adjusted to reflect the ratio of hours worked by worker-owners to hours worked by all employees. Each year, the Board of Directors determines the allocation of the patronage rebate between payments in cash versus deferral held in the worker-owners' capital accounts, subject to a requirement that at least twenty percent be paid in cash. Profits not paid as dividends on preferred stock or as patronage rebates are retained to capitalize the business, and are not allocated to any individual worker-owners. For the years ended December 31, 2015 and 2014, patronage rebate expense amounted to \$158,425 and \$488,333, respectively.

N. ADVERTISING AND BUSINESS PROMOTION:

The Company follows the policy of charging the costs of advertising and business promotion to expense as incurred. For the years ended December 31, 2015 and 2014, advertising costs amounted to \$1,275,155 and \$1,296,609, respectively.

O. CHARITABLE CONTRIBUTIONS:

The Company makes charitable contributions to unrelated tax exempt organizations that promote Fair Trade Industry activities. For the years ended December 31, 2015 and 2014, charitable contributions amounted to \$173,114 and \$198,000, respectively.

P. OPERATING LEASES:

The Company leases distribution and retail space in Massachusetts, Minnesota, Oregon, Colorado, Washington and Ohio for terms in excess of one year. Rent expense for the years ended December 31, 2015 and 2014 amounted to \$778,028 and \$427,814, respectively.

The following is a schedule by years of the future minimum lease payments as of December 31,:

| | |
|------|--------------------|
| 2016 | \$977,474 |
| 2017 | 875,193 |
| 2018 | 1,240,938 |
| 2019 | 167,476 |
| | <u>\$3,261,081</u> |

Q. GUARANTEE OF PRODUCER INDEBTEDNESS:

Shared Interest has committed up to \$1,000,000 for advances directly to producers with contracts to sell coffee to the Company. These advances are limited to sixty percent of the contract price, with a maximum amount per producer of \$135,000, and are available to producers up to ten months before coffee is delivered to the Company. The Company guarantees 25% of the producer advances made by Shared Interest. At December 31, 2015 and 2014, producer advances guaranteed by the Company amounted to \$708,093 and \$647,347, respectively. During the years ended December 31, 2015 and 2014, the Company did not incur any losses related to guaranteed producer advances.

EQUAL EXCHANGE, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

R. RETIREMENT PLAN:

The Company sponsors a Safe Harbor 401(k) Retirement Plan for its eligible employees. To become eligible for the Plan, an employee must have completed one full year of continuous employment. For the years ended December 31, 2015 and 2014, the Company contributed 3% of each eligible employee's annual compensation. For the years ended 2015 and 2014, the Company's contribution to this plan totaled \$172,485 and \$170,451, respectively. These amounts are included in Payroll Taxes and Employee Benefits.

S. MAJOR CUSTOMER:

For the years ended December 31, 2015 and 2014, the Company had one major customer, to which sales accounted for approximately 20% of the Company's revenue. At December 31, 2015 and 2014, accounts receivable from this customer represented approximately 20% and 23%, respectively, of the total accounts receivable balance.

T. SUBSEQUENT EVENTS:

Management has evaluated events occurring after the consolidated balance sheet date through March 22, 2016, the date in which the consolidated financial statements were available to be issued. No material events have been identified which would require disclosure under FASB ASC 855-10-50-1.

U. PRIOR PERIOD ADJUSTMENT:

The January 1, 2014 beginning Retained Earnings has been restated to record a reduction in the Deferred Tax Asset of the subsidiary in the amount of \$51,698.



LMHS, P.C.

Certified Public Accountants and Advisors

INDEPENDENT AUDITORS' REPORT
ON SUPPLEMENTARY INFORMATION

To The Stockholders
Equal Exchange, Inc.
Canton, Massachusetts

We have audited the financial statements of Equal Exchange, Inc. and Subsidiary as of and for the years ended December 31, 2015 and 2014, and have issued our report thereon dated March 22, 2016, which contained an unmodified opinion on those financial statements. Our audit was performed for the purpose of forming an opinion on the financial statements as a whole.

The supplementary information is presented for the purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

LMHS, P.C.

LMHS, P.C.
Norwell, Massachusetts

March 22, 2016

EQUAL EXCHANGE, INC. AND SUBSIDIARY
CONSOLIDATING BALANCE SHEETS
DECEMBER 31, 2015

| | <u>EQUAL EXCHANGE, INC</u> | <u>OKE USA FRUIT COMPANY</u> | <u>CONSOLIDATING ENTRIES</u> | <u>CONSOLIDATED BALANCE SHEET</u> |
|---|--------------------------------|----------------------------------|----------------------------------|---------------------------------------|
| <u>ASSETS</u> | | | | |
| CURRENT ASSETS: | | | | |
| Cash | \$ 849,287 | \$ 440,215 | \$ - | \$ 1,289,502 |
| Accounts Receivable | 4,213,623 | 389,966 | | 4,603,589 |
| Inventory | 18,509,299 | 216,630 | | 18,725,929 |
| Notes Receivable, Current Portion | 250,000 | | (250,000) | |
| Prepaid Expenses and Other | 1,399,522 | 33,997 | | 1,433,519 |
| Prepaid Corporate Income Taxes | 135,342 | 5,000 | | 140,342 |
| Deferred Income Taxes | 104,866 | 60,700 | | 165,566 |
| | 25,461,939 | 1,146,508 | (250,000) | 26,358,447 |
| PROPERTY AND EQUIPMENT: | | | | |
| Land | 502,688 | | | 502,688 |
| Building and Improvements | 4,215,951 | | | 4,215,951 |
| Coffee Roasting and Packaging Equipment | 4,801,160 | | | 4,801,160 |
| Furniture, Fixtures, Equipment and Software | 4,379,745 | | | 4,379,745 |
| | 13,899,544 | | | 13,899,544 |
| Accumulated Depreciation | (7,630,637) | | | (7,630,637) |
| | 6,268,907 | | | 6,268,907 |
| OTHER ASSETS: | | | | |
| Intangible Assets, Net | 38,576 | | | 38,576 |
| Investments | 905,682 | | (516,550) | 389,132 |
| Notes Receivable, Net of Current Portion | 300,000 | | | 300,000 |
| | 1,244,258 | | (516,550) | 727,708 |
| | \$ 32,975,104 | \$ 1,146,508 | \$ (766,550) | \$ 33,355,062 |
| <u>LIABILITIES AND STOCKHOLDERS' EQUITY</u> | | | | |
| CURRENT LIABILITIES: | | | | |
| Notes Payable - Lines of Credit | \$ 1,787,374 | \$ - | \$ - | \$ 1,787,374 |
| Current Portion of Long-Term Debt | 1,436,615 | 250,000 | (250,000) | 1,436,615 |
| Accounts Payable and Accrued Expenses | 2,768,238 | 246,913 | 16,024 | 3,031,175 |
| Patronage Rebates Payable | 181,008 | | | 181,008 |
| | 6,173,235 | 496,913 | (233,976) | 6,436,172 |
| LONG-TERM LIABILITIES: | | | | |
| Long-Term Debt, Net of Current Portion | 3,021,180 | | | 3,021,180 |
| Deferred Income Taxes | 1,119,000 | | | 1,119,000 |
| | 4,140,180 | | | 4,140,180 |
| MINORITY INTEREST IN CONSOLIDATED SUBSIDIARY | | | 168,719 | 168,719 |
| STOCKHOLDERS' EQUITY: | | | | |
| Class A Shares | | 580,639 | (580,639) | |
| Class B Shares | | 190,000 | (190,000) | |
| Class C Shares | | 27,000 | (27,000) | |
| Preferred Stock | 16,615,995 | | | 16,615,995 |
| Common Stock | 411,673 | | | 411,673 |
| Less: Subscriptions Receivable | (84,318) | | | (84,318) |
| Retained Earnings | 5,718,339 | (148,044) | 96,346 | 5,666,641 |
| | 22,661,689 | 649,595 | (701,293) | 22,609,991 |
| | \$ 32,975,104 | \$ 1,146,508 | \$ (766,550) | \$ 33,355,062 |

See Independent Auditors' Report on Supplementary Information

EQUAL EXCHANGE, INC. AND SUBSIDIARY
CONSOLIDATING STATEMENTS OF EARNINGS
YEAR ENDED DECEMBER 31, 2015

| | EQUAL EXCHANGE, INC | OKE USA FRUIT COMPANY | CONSOLIDATING ENTRIES | CONSOLIDATED EARNINGS |
|---|------------------------|--------------------------|--------------------------|--------------------------|
| NET SALES | 59,067,832 | 5,437,499 | \$ - | \$ 64,505,331 |
| COST OF SALES: | | | | |
| Purchases | 38,256,952 | 3,636,586 | | 41,893,538 |
| Freight | 3,109,746 | 1,390,609 | | 4,500,355 |
| Utilities | 220,105 | | | 220,105 |
| Warehouse Occupancy Costs | 193,606 | | | 193,606 |
| Depreciation | 472,012 | | | 472,012 |
| | <u>42,252,421</u> | <u>5,027,195</u> | | <u>47,279,616</u> |
| GROSS PROFIT | 16,815,411 | 410,304 | | 17,225,715 |
| OPERATING EXPENSES: | | | | |
| Salaries and Wages | 7,027,476 | 196,490 | | 7,223,966 |
| Payroll Taxes and Employee Benefits | 1,866,540 | 41,411 | | 1,907,951 |
| Advertising and Business Promotion | 1,265,275 | 9,880 | | 1,275,155 |
| Bad Debt Expense | 20,782 | | | 20,782 |
| Certification Fees | 100,035 | 5,206 | | 105,241 |
| Charitable Contributions | 173,011 | 103 | | 173,114 |
| Computer Expense and Service | 128,317 | | | 128,317 |
| Consulting Expense | 198,985 | 24,096 | | 223,081 |
| Contracted Services | 106,299 | | | 106,299 |
| Credit Card Service Fees | 323,067 | 7,016 | | 330,083 |
| General and Administrative | 237,883 | 18,537 | | 256,420 |
| Insurance | 182,964 | 7,936 | | 190,900 |
| Office Expense | 238,785 | 7,250 | | 246,035 |
| Patronage Rebates | 158,425 | | | 158,425 |
| Payroll Processing Fees | 46,457 | 1,673 | | 48,130 |
| Postage | 26,739 | 1,443 | | 28,182 |
| Professional Fees | 68,162 | | | 68,162 |
| Real Estate Taxes | 134,584 | | | 134,584 |
| Rent | 769,778 | 8,250 | | 778,028 |
| Repairs and Maintenance | 544,037 | | | 544,037 |
| Selling Expenses | 437,736 | | | 437,736 |
| Telephone | 136,986 | 2,855 | | 139,841 |
| Utilities | 218,931 | | | 218,931 |
| Amortization | 4,328 | | | 4,328 |
| Depreciation | 643,154 | | | 643,154 |
| | <u>15,058,736</u> | <u>332,146</u> | | <u>15,390,882</u> |
| EARNINGS FROM OPERATIONS | 1,756,675 | 78,158 | | 1,834,833 |
| OTHER INCOME AND (EXPENSES): | | | | |
| Loss on Investment | (203,275) | | | (203,275) |
| Interest Income | 56,437 | 507 | | 56,944 |
| Equity in Earnings of Subsidiary | 27,768 | | (27,768) | - |
| Interest Expense | (362,007) | (10,000) | | (372,007) |
| | <u>(481,077)</u> | <u>(9,493)</u> | <u>(27,768)</u> | <u>(518,338)</u> |
| EARNINGS BEFORE INCOME TAXES AND MINORITY INTEREST | 1,275,598 | 68,665 | (27,768) | 1,316,495 |
| INCOME TAXES: | | | | |
| Current | 780,000 | 18,461 | | 798,461 |
| Deferred | (160,000) | 19,352 | | (140,648) |
| | <u>620,000</u> | <u>37,813</u> | | <u>657,813</u> |
| EARNINGS BEFORE MINORITY INTEREST | 655,598 | 30,852 | (27,768) | 658,682 |
| MINORITY INTEREST | | | (3,084) | (3,084) |
| NET EARNINGS | <u>\$ 655,598</u> | <u>\$ 30,852</u> | <u>\$ (30,852)</u> | <u>\$ 655,598</u> |

See Independent Auditors' Report on Supplementary Information

EQUAL EXCHANGE, INC. AND SUBSIDIARY
CONSOLIDATING BALANCE SHEETS
DECEMBER 31, 2014

| | <u>EQUAL EXCHANGE, INC</u> | <u>OKE USA FRUIT COMPANY</u> | <u>CONSOLIDATING ENTRIES</u> | <u>CONSOLIDATED BALANCE SHEET</u> |
|---|--------------------------------|----------------------------------|----------------------------------|---------------------------------------|
| <u>ASSETS</u> | | | | |
| CURRENT ASSETS: | | | | |
| Cash | \$ 416,726 | \$ 462,027 | \$ - | \$ 878,753 |
| Accounts Receivable | 3,794,172 | 254,883 | | 4,049,055 |
| Inventory | 20,037,855 | 182,777 | | 20,220,632 |
| Notes Receivable, Current Portion | 250,000 | | (250,000) | |
| Prepaid Expenses and Other | 1,096,571 | 5,770 | | 1,102,341 |
| Prepaid Corporate Income Taxes | 73,205 | | | 73,205 |
| Deferred Income Taxes | 64,866 | 80,052 | | 144,918 |
| | 25,733,395 | 985,509 | (250,000) | 26,468,904 |
| PROPERTY AND EQUIPMENT: | | | | |
| Land | 502,688 | | | 502,688 |
| Building and Improvements | 3,956,000 | | | 3,956,000 |
| Coffee Roasting and Packaging Equipment | 4,765,517 | | | 4,765,517 |
| Furniture, Fixtures, Equipment and Software | 3,633,334 | | | 3,633,334 |
| | 12,857,539 | | | 12,857,539 |
| Accumulated Depreciation | (6,700,588) | | | (6,700,588) |
| | 6,156,951 | | | 6,156,951 |
| OTHER ASSETS: | | | | |
| Intangible Assets, Net | 42,904 | | | 42,904 |
| Investments | 1,013,689 | | (491,782) | 521,907 |
| Notes Receivable, Net of Current Portion | 400,000 | | | 400,000 |
| | 1,456,593 | | (491,782) | 964,811 |
| | \$ 33,346,939 | \$ 985,509 | \$ (741,782) | \$ 33,590,666 |
| <u>LIABILITIES AND STOCKHOLDERS' EQUITY</u> | | | | |
| CURRENT LIABILITIES: | | | | |
| Notes Payable - Lines of Credit | \$ 2,946,336 | \$ - | \$ - | \$ 2,946,336 |
| Current Portion of Long-Term Debt | 156,556 | 250,000 | (250,000) | 156,556 |
| Accounts Payable and Accrued Expenses | 3,779,729 | 109,166 | 16,024 | 3,904,919 |
| Corporate Income Taxes Payable | | | | |
| Patronage Rebates Payable | 500,286 | | | 500,286 |
| | 7,382,907 | 359,166 | (233,976) | 7,508,097 |
| LONG-TERM LIABILITIES: | | | | |
| Long-Term Debt, Net of Current Portion | 3,846,795 | | | 3,846,795 |
| Deferred Income Taxes | 1,239,000 | | | 1,239,000 |
| | 5,085,795 | | | 5,085,795 |
| MINORITY INTEREST IN CONSOLIDATED SUBSIDIARY | | | 170,235 | 170,235 |
| STOCKHOLDERS' EQUITY: | | | | |
| Class A Shares | | 580,639 | (580,639) | |
| Class B Shares | | 190,000 | (190,000) | |
| Class C Shares | | 27,000 | (27,000) | |
| Preferred Stock | 14,834,776 | | | 14,834,776 |
| Common Stock | 376,748 | | | 376,748 |
| Less: Subscriptions Receivable | (73,449) | | | (73,449) |
| Retained Earnings | 5,740,162 | (171,296) | 119,598 | 5,688,464 |
| | 20,878,237 | 626,343 | (678,041) | 20,826,539 |
| | \$ 33,346,939 | \$ 985,509 | \$ (741,782) | \$ 33,590,666 |

See Independent Auditors' Report on Supplementary Information

EQUAL EXCHANGE, INC. AND SUBSIDIARY
CONSOLIDATING STATEMENT OF EARNINGS
YEAR ENDED DECEMBER 31, 2014

| | EQUAL EXCHANGE, INC | OKE USA FRUIT COMPANY | CONSOLIDATING ENTRIES | CONSOLIDATED EARNINGS |
|---|------------------------|--------------------------|--------------------------|--------------------------|
| NET SALES | \$ 56,245,594 | \$ 4,838,226 | \$ - | \$ 61,083,820 |
| COST OF SALES: | | | | |
| Purchases | 35,735,979 | 3,124,298 | | 38,860,277 |
| Freight | 2,940,791 | 1,222,174 | | 4,162,965 |
| Utilities | 212,985 | | | 212,985 |
| Warehouse Occupancy Costs | 91,242 | 14,947 | | 106,189 |
| Depreciation | 410,512 | | | 410,512 |
| | <u>39,391,509</u> | <u>4,361,419</u> | | <u>43,752,928</u> |
| GROSS PROFIT | 16,854,085 | 476,807 | | 17,330,892 |
| OPERATING EXPENSES: | | | | |
| Salaries and Wages | 6,558,854 | 194,458 | | 6,753,312 |
| Payroll Taxes and Employee Benefits | 1,914,889 | 39,722 | | 1,954,611 |
| Advertising and Business Promotion | 1,283,233 | 13,376 | | 1,296,609 |
| Bad Debt Expense | 23,800 | | | 23,800 |
| Certification Fees | 115,130 | | | 115,130 |
| Charitable Contributions | 198,000 | | | 198,000 |
| Computer Expense and Service | 300,672 | | | 300,672 |
| Consulting Expense | 144,538 | | | 144,538 |
| Contracted Services | 71,547 | | | 71,547 |
| Credit Card Service Fees | 294,817 | | | 294,817 |
| General and Administrative | 220,939 | 50,541 | | 271,480 |
| Insurance | 212,635 | 6,381 | | 219,016 |
| Office Expense | 160,700 | 6,076 | | 166,776 |
| Patronage Rebates | 488,333 | | | 488,333 |
| Payroll Processing Fees | 46,629 | | | 46,629 |
| Postage | 32,490 | | | 32,490 |
| Professional Fees | 101,402 | 3,350 | | 104,752 |
| Real Estate Taxes | 132,067 | | | 132,067 |
| Rent | 418,064 | 9,750 | | 427,814 |
| Repairs and Maintenance | 407,497 | | | 407,497 |
| Selling Expenses | 508,924 | | | 508,924 |
| Telephone | 110,524 | 3,098 | | 113,622 |
| Utilities | 134,608 | | | 134,608 |
| Amortization | 2,366 | | | 2,366 |
| Depreciation | 552,761 | | | 552,761 |
| | <u>14,435,419</u> | <u>326,752</u> | | <u>14,762,171</u> |
| EARNINGS FROM OPERATIONS | 2,418,666 | 150,055 | | 2,568,721 |
| OTHER INCOME AND (EXPENSE): | | | | |
| Interest Income | 8,351 | | | 8,351 |
| Equity in Earnings of Subsidiary | 76,630 | | (76,630) | |
| Interest Expense | (372,444) | (10,040) | | (382,484) |
| | <u>(287,463)</u> | <u>(10,040)</u> | <u>(76,630)</u> | <u>(374,133)</u> |
| EARNINGS BEFORE INCOME TAXES AND MINORITY INTEREST | 2,131,203 | 140,015 | (76,630) | 2,194,588 |
| INCOME TAXES: | | | | |
| Current | 655,995 | 9,005 | | 665,000 |
| Deferred | 290,134 | 45,866 | | 336,000 |
| | <u>946,129</u> | <u>54,871</u> | | <u>1,001,000</u> |
| EARNINGS BEFORE MINORITY INTEREST | 1,185,074 | 85,144 | (76,630) | 1,193,588 |
| MINORITY INTEREST | | | (8,514) | (8,514) |
| NET EARNINGS | <u>\$ 1,185,074</u> | <u>\$ 85,144</u> | <u>\$ (85,144)</u> | <u>\$ 1,185,074</u> |

See Independent Auditors' Report on Supplementary Information

EQUAL EXCHANGE, INC. AND SUBSIDIARY
SUPPLEMENTARY INFORMATION
YEARS ENDED DECEMBER 31, 2015 AND 2014

| ASSETS: | 2015 | 2014 |
|--|---------------------|---------------------|
| <u>CONSOLIDATED SCHEDULES OF COST OF SALES:</u> | | |
| Purchases | \$41,893,538 | \$38,860,277 |
| Freight | 4,500,355 | 4,162,965 |
| Utilities | 220,105 | 212,985 |
| Warehouse Occupancy Costs | 193,606 | 106,189 |
| Depreciation | 472,012 | 410,512 |
| | \$47,279,616 | \$43,752,928 |
| <u>CONSOLIDATED SCHEDULES OF GENERAL AND ADMINISTRATIVE EXPENSES:</u> | | |
| Salaries and Wages | \$7,223,966 | \$6,753,312 |
| Payroll Taxes and Employee Benefits | 1,907,951 | 1,954,611 |
| Advertising and Business Promotion | 1,275,155 | 1,296,609 |
| Certification Fees | 105,241 | 115,130 |
| Charitable Contributions | 173,114 | 198,000 |
| Computer Expense and Service | 128,317 | 300,672 |
| Consulting Expense | 223,081 | 144,538 |
| Contracted Services | 106,299 | 71,547 |
| Credit Card Service Fees | 330,083 | 294,817 |
| General and Administrative | 256,420 | 271,480 |
| Insurance | 190,900 | 219,016 |
| Office Expense | 246,035 | 166,776 |
| Patronage Rebates | 158,425 | 488,333 |
| Payroll Processing Fees | 48,130 | 46,629 |
| Postage | 28,182 | 32,490 |
| Professional Fees | 68,162 | 104,752 |
| Real Estate Taxes | 134,584 | 132,067 |
| Rent | 778,028 | 427,814 |
| Repairs and Maintenance | 544,037 | 407,497 |
| Selling Expenses | 437,736 | 508,924 |
| Telephone | 139,841 | 113,622 |
| Utilities | 218,931 | 134,608 |
| Amortization | 4,328 | 2,366 |
| Depreciation | 643,154 | 552,761 |
| | \$15,370,100 | \$14,738,371 |

See Independent Auditors' Report on Supplementary Information