



EQUAL EXCHANGE, INC. AND SUBSIDIARY
AUDITED CONSOLIDATED FINANCIAL STATEMENTS
AND
SUPPLEMENTARY INFORMATION
YEARS ENDED DECEMBER 31, 2016 AND 2015

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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, 2016 and 2015, and the related consolidated statements of earnings and retained earnings and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated 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, 2016 and 2015, 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 29, 2017

EQUAL EXCHANGE, INC. AND SUBSIDIARY
CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
<u>ASSETS</u>		
CURRENT ASSETS:		
Cash	\$ 1,449,213	\$ 1,289,502
Accounts Receivable, Net	5,451,801	4,603,589
Inventory	22,224,038	18,725,929
Prepaid Expenses and Other	1,372,836	1,433,519
Prepaid Corporate Income Taxes	-	140,342
Deferred Income Taxes	159,866	165,566
	<u>30,657,754</u>	<u>26,358,447</u>
 PROPERTY AND EQUIPMENT, NET	 5,688,004	 6,268,907
 OTHER ASSETS:		
Intangible Assets, Net	34,248	38,576
Investments	220,857	389,132
Notes Receivable	335,000	300,000
	<u>590,105</u>	<u>727,708</u>
	<u>\$ 36,935,863</u>	<u>\$ 33,355,062</u>
 <u>LIABILITIES AND STOCKHOLDERS' EQUITY</u>		
CURRENT LIABILITIES:		
Notes Payable - Lines of Credit	\$ 2,727,569	\$ 1,787,374
Current Portion of Long-Term Debt	408,722	1,436,615
Accounts Payable and Accrued Expenses	3,470,846	3,031,175
Corporate Income Taxes Payable	543,758	-
Patronage Rebates Payable	971,677	181,008
	<u>8,122,572</u>	<u>6,436,172</u>
 LONG-TERM LIABILITIES:		
Long-Term Debt, Net of Current Portion	4,303,458	3,021,180
Deferred Income Taxes	1,014,000	1,119,000
	<u>5,317,458</u>	<u>4,140,180</u>
 MINORITY INTEREST IN CONSOLIDATED SUBSIDIARY	 186,370	 168,719
 STOCKHOLDERS' EQUITY:		
Preferred Stock	16,609,119	16,615,995
Common Stock	429,286	411,673
Less: Subscriptions Receivable	(97,002)	(84,318)
Retained Earnings	6,368,060	5,666,641
	<u>23,309,463</u>	<u>22,609,991</u>
	<u>\$ 36,935,863</u>	<u>\$ 33,355,062</u>

See Notes to Consolidated Financial Statements

EQUAL EXCHANGE, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF EARNINGS AND RETAINED EARNINGS
YEARS ENDED DECEMBER 31, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
NET SALES	\$ 70,079,497	\$ 64,505,331
COST OF SALES	<u>49,347,201</u>	<u>47,279,616</u>
GROSS PROFIT	20,732,296	17,225,715
OPERATING EXPENSES:		
Bad Debt Expense	51,524	20,782
General and Administrative	<u>17,041,375</u>	<u>15,370,100</u>
	<u>17,092,899</u>	<u>15,390,882</u>
EARNINGS FROM OPERATIONS	3,639,397	1,834,833
OTHER INCOME AND (EXPENSES):		
Loss on Investment	(203,275)	(203,275)
Interest Income	81,494	56,944
Interest Expense	<u>(399,104)</u>	<u>(372,007)</u>
	<u>(520,885)</u>	<u>(518,338)</u>
EARNINGS BEFORE INCOME TAXES AND MINORITY INTEREST	3,118,512	1,316,495
INCOME TAXES (CREDIT):		
Current:		
Federal	1,190,000	480,000
State	<u>481,000</u>	<u>318,461</u>
	1,671,000	798,461
Deferred:		
Federal	(59,300)	(100,648)
State	<u>(40,000)</u>	<u>(40,000)</u>
	<u>(99,300)</u>	<u>(140,648)</u>
	<u>1,571,700</u>	<u>657,813</u>
EARNINGS BEFORE MINORITY INTERST	1,546,812	658,682
MINORITY INTEREST IN EARNINGS OF CONSOLIDATED SUBSIDIARY	<u>(22,251)</u>	<u>(3,084)</u>
NET EARNINGS	1,524,561	655,598
RETAINED EARNINGS, BEGINNING	5,666,641	5,688,464
PREFERRED STOCK DIVIDENDS PAID	<u>(823,142)</u>	<u>(677,421)</u>
RETAINED EARNINGS, ENDING	<u>\$ 6,368,060</u>	<u>\$ 5,666,641</u>

See Notes to Consolidated Financial Statements

EQUAL EXCHANGE, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2016 AND 2015

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net Earnings	\$ 1,524,561	\$ 655,598
Noncash Items Included in Net Earnings:		
Deferred Income Taxes (Credit)	(99,300)	(140,648)
Depreciation and Amortization	1,120,952	1,119,494
(Increase) Decrease in:		
Accounts Receivable	(848,212)	(554,534)
Inventory	(3,498,109)	1,494,703
Prepaid Expenses and Other	60,683	(331,178)
Prepaid Corporate Income Taxes	140,342	(67,137)
Increase (Decrease) in:		
Accounts Payable and Accrued Expenses	439,671	(873,744)
Corporate Income Taxes Payable	543,758	-
Patronage Rebates Payable	790,669	(319,278)
	<u>175,015</u>	<u>983,276</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Additions to Property and Equipment	(535,721)	(1,227,122)
Decrease in Investments, Net	168,275	132,775
(Increase) Decrease in Notes Receivable, Net	(35,000)	100,000
	<u>(402,446)</u>	<u>(994,347)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
New Borrowings:		
Notes Payable - Lines of Credit	14,162,544	15,845,469
Long-Term Debt	1,650,000	610,000
Debt Reduction:		
Notes Payable - Lines of Credit	(13,222,349)	(17,004,431)
Long-Term Debt	(1,395,615)	(155,556)
Increase (Decrease) in Minority Interest	17,651	(1,516)
Proceeds From Common Stock Subscriptions	57,916	56,201
Proceeds From Issuance of Preferred Stock	84,795	1,630,360
Proceeds From Dividend Reinvestment in Preferred Stock	519,301	438,422
Redemption of Preferred Stock	(610,972)	(287,563)
Redemption of Common Stock	(52,987)	(32,145)
Preferred Stock Dividend Paid	(823,142)	(677,421)
	<u>387,142</u>	<u>421,820</u>
NET INCREASE IN CASH	159,711	410,749
CASH - BEGINNING	1,289,502	878,753
CASH - ENDING	<u>\$ 1,449,213</u>	<u>\$ 1,289,502</u>

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION

Cash Paid During The Year For:		
Interest	\$ 408,868	\$ 379,187
Income Taxes	<u>\$ 986,900</u>	<u>\$ 865,598</u>

See 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 approximate 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, 2016 and 2015, 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, 2016 and 2015, there was an allowance for doubtful accounts of \$50,000.

C. INVENTORY:

Inventory consists of the following as of December 31:

	2016	2015
Unprocessed green coffee beans and bananas	\$ 12,929,479	\$ 11,179,555
Processed coffee, tea, cocoa, chocolate, snacks and supplies	9,294,559	7,546,374
	<u>\$ 22,224,038</u>	<u>\$ 18,725,929</u>

D. PROPERTY AND EQUIPMENT:

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

	2016	2015
Land	\$ 502,688	\$ 502,688
Building and Improvements	4,215,951	4,215,951
Coffee Roasting and Packaging Equipment	5,029,688	4,801,160
Furniture, Fixtures, Equipment and Software	4,527,159	4,379,745
	<u>14,275,486</u>	<u>13,899,544</u>
Accumulated Depreciation	<u>(8,587,482)</u>	<u>(7,630,637)</u>
	<u>\$ 5,688,004</u>	<u>\$ 6,268,907</u>

E. INTANGIBLE ASSETS:

Intangible assets consist of the following as of December 31:

	2016	2015
Capitalized Software and Development Costs, Net of Accumulated Amortization of \$226,480 and \$226,075 in 2016 and 2015, respectively.	\$ 4,826	\$ 5,231
Capitalized Closing Costs, Net of Accumulated Amortization of \$9,807 and \$5,884 in 2016 and 2015, respectively.	<u>29,422</u>	<u>33,345</u>
	<u>\$ 34,248</u>	<u>\$ 38,576</u>

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

E. INTANGIBLE ASSETS: (Continued)

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.

F. 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:

	<u>2016</u>	<u>2015</u>
Liberation Foods, Community Interest Company, UK	\$ 63,360	\$ 63,360
CERO Cooperative, Inc. – 200 Preferred Shares	5,000	5,000
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
LaSiembra – 10,000 Shares Class A	80,500	80,500
Dorchester Food Coop	10,000	10,000
Artisan Beverage	35,000	-
	<u>\$ 220,857</u>	<u>\$ 389,132</u>

During 2016 and 2015, the investment in Equal Exchange Trading, LTD was revalued by management at fifty percent of its original cost in 2015 and zero in 2016. Accordingly, a loss on investment is included in the accompanying statement of earnings of \$203,275.

G. NOTES RECEIVABLE:

Notes Receivable consist of the following at December 31:

	<u>2016</u>	<u>2015</u>
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	\$ 300,000
5.00% Promissory Note Receivable – La Siembra: Interest only payments to October, 2021. This note is collateralize by certain intellectual property of the borrower.	35,000 <u>\$ 335,000</u>	 <u>\$ 300,000</u>

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

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, 7.25% and 7% at December 31, 2016 and 2015, respectively. This credit facility may be terminated upon 180 days notice. At December 31, 2016 and 2015, the outstanding balance on this rolling credit facility amounted to \$2,425,934 and \$1,450,989, respectively.

The Company has \$1,250,000 of secured lines of credit with Eastern Bank. These lines of credit bear interest at the bank's prime lending rate and are 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, 2016 and 2015, the outstanding balance on these lines of credit amounted to \$300,000 and \$335,000, respectively.

Equal Exchange, Inc. has 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, 2016 and 2015, there were no amounts outstanding on this line of credit.

Equal Exchange, Inc. has 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, 2016 and 2015, the amount outstanding on this line of credit amounted to \$1,635 and \$1,385, respectively.

I. LONG-TERM DEBT:

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

	<u>2016</u>	<u>2015</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
4.25% Note Payable – MMA Community Development Investment: Due in semi-annual interest-only payments with a balloon payment due August, 2016.		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
4.00% Note Payable – Cooperative Fund of NE: Due in annual interest-only payments with a balloon payment due April, 2018.	500,000	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

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

I. LONG-TERM DEBT: (Continued)

	<u>2016</u>	<u>2015</u>
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.	2,121,000	471,000
4.50% Mortgage Note Payable – RSF Social Enterprise: Due in monthly installments of \$11,254 including interest to June, 2024.	1,891,180	1,936,795
	4,712,180	4,457,795
Current Portion	(408,722)	(1,436,615)
	<u>\$ 4,303,458</u>	<u>\$ 3,021,180</u>

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

2017	\$ 408,722
2018	1,120,050
2019	292,514
2020	1,205,075
2021 and Thereafter	1,685,819
	<u>\$ 4,712,180</u>

J. MINORITY INTEREST IN SUBSIDIARY:

An ownership interest of nine 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

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

K. CAPITAL STRUCTURE: (Continued)

In 2014, the Board of Directors authorized and approved a Private Placement in which the corporation intended to raise up to \$5,000,000 through the sale of Class B Preferred Stock. There were no subscriptions recorded under this offering in 2016, though the Company did record the following transactions outside of this offering: issued 18,884 shares valued at \$519,301 in reinvested dividends; and, according to its bylaws, issued 104 shares of Class B Preferred Stock, valued at \$2,860 to outside Board Directors and converted half of its Patronage Distribution to 2,616 shares valued at \$71,936. During 2015, the Company sold 51,136 shares under the Private Placement offering, and recorded the following transactions outside of this offering: issued 15,972 shares valued at \$438,422 in reinvested dividends; and, according to its bylaws, issued 156 shares of Class B Preferred Stock to outside Board Directors and converted half of its Patronage Distribution to 8,149 shares valued at \$224,087.

All stock subscription agreements referred to above were executed in accordance with the rules and regulations under Section 3(b) of Regulation D, Rule 506 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,:

2017	\$ 13,938,342
2018	1,479,230
2019	542,504
2020	469,051
2021 and Thereafter	179,992
	<u>\$ 16,609,119</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 2016 and 2015, the price per share was \$3,530. 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

	<u># of Shares</u>	<u>Par Value</u>	<u>Premium Over Par Value</u>	<u>Total Paid In on Preferred Stock</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	604,216	\$ 604,216	\$ 16,011,779	\$ 16,615,995
Shares issued for cash	3,083	3,083	81,712	84,795
Dividends Reinvested	18,884	18,884	500,417	519,301
Shares Redeemed and Other Adjustments	<u>(22,216)</u>	<u>(22,216)</u>	<u>(588,756)</u>	<u>(610,972)</u>
Balance December 31, 2016	<u>603,967</u>	<u>\$ 603,967</u>	<u>\$ 16,005,152</u>	<u>\$ 16,609,119</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

	<u># of Shares</u>	<u>Par Value</u>	<u>Premium Over Par Value</u>	<u>Total Paid In on Common Stock</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	132	\$ 132	\$ 411,541	\$ 411,673
Shares issued for subscriptions receivable	20	20	70,580	70,600
Shares redeemed for cash	<u>(15)</u>	<u>(15)</u>	<u>(52,972)</u>	<u>(52,987)</u>
Balance, December 31, 2016	<u>137</u>	<u>\$ 137</u>	<u>\$ 429,149</u>	<u>\$ 429,286</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, 2016 and 2015, patronage rebate expense amounted to \$949,511 and \$158,425, 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, 2016 and 2015, advertising costs amounted to \$1,058,185 and \$1,275,155, 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, 2016 and 2015, charitable contributions amounted to \$444,551 and \$173,114, 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, 2016 and 2015 amounted to \$1,050,862 and \$778,028, respectively.

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

2017	\$ 926,288
2018	1,221,042
2019	147,580
	<u>\$ 2,294,910</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, 2016 and 2015, producer advances guaranteed by the Company amounted to \$617,324 and \$708,093, respectively. During the years ended December 31, 2016 and 2015, 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, 2016 and 2015, the Company contributed 3% of each eligible employee's annual compensation. For the years ended 2016 and 2015, the Company's contribution to this plan totaled \$197,445 and \$172,485, respectively. These amounts are included in Payroll Taxes and Employee Benefits.

S. MAJOR CUSTOMER:

For the years ended December 31, 2016 and 2015, the Company had one major customer, to which sales accounted for approximately 20% of the Company's revenue. At December 31, 2016 and 2015, accounts receivable from this customer represented approximately 15% and 20%, respectively, of the total accounts receivable balance.

T. SUBSEQUENT EVENTS:

Management has evaluated events occurring after the consolidated balance sheet date through March 29, 2017, 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.



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 consolidated financial statements of Equal Exchange, Inc. and Subsidiary as of and for the years ended December 31, 2016 and 2015, and have issued our report thereon dated March 29, 2017, which contained an unmodified opinion on those consolidated financial statements. Our audits were performed for the purpose of forming an opinion on the consolidated financial statements as a whole.

The supplementary information is presented for the purposes of additional analysis and is not a required part of the consolidated 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 consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated 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 consolidated financial statements as a whole.

LMHS, P.C.

LMHS, P.C.
Norwell, Massachusetts

March 29, 2017

EQUAL EXCHANGE, INC. AND SUBSIDIARY
CONSOLIDATING BALANCE SHEETS
DECEMBER 31, 2016

	<u>EQUAL EXCHANGE, INC</u>	<u>OKE USA FRUIT COMPANY</u>	<u>CONSOLIDATING ENTRIES</u>	<u>CONSOLIDATED BALANCE SHEET</u>
ASSETS				
CURRENT ASSETS:				
Cash	\$ 780,419	\$ 668,794	\$ -	\$ 1,449,213
Accounts Receivable	4,979,575	472,226		5,451,801
Inventory	22,009,373	214,665		22,224,038
Notes Receivable, Current Portion	250,000		(250,000)	
Prepaid Expenses and Other	1,346,177	26,659		1,372,836
Deferred Income Taxes	159,866	-		159,866
	<u>29,525,410</u>	<u>1,382,344</u>	<u>(250,000)</u>	<u>30,657,754</u>
PROPERTY AND EQUIPMENT:				
Land	502,688			502,688
Building and Improvements	4,215,951			4,215,951
Coffee Roasting and Packaging Equipment	5,029,688			5,029,688
Furniture, Fixtures, Equipment and Software	4,527,159			4,527,159
	<u>14,275,486</u>			<u>14,275,486</u>
Accumulated Depreciation	<u>(8,587,482)</u>			<u>(8,587,482)</u>
	5,688,004			5,688,004
OTHER ASSETS:				
Intangible Assets, Net	34,248			34,248
Investments	934,665		(713,808)	220,857
Notes Receivable, Net of Current Portion	335,000			335,000
	<u>1,303,913</u>		<u>(713,808)</u>	<u>590,105</u>
	<u>\$ 36,517,327</u>	<u>\$ 1,382,344</u>	<u>\$ (963,808)</u>	<u>\$ 36,935,863</u>
<u>LIABILITIES AND STOCKHOLDERS' EQUITY</u>				
CURRENT LIABILITIES:				
Notes Payable - Lines of Credit	\$ 2,727,569	\$ -	\$ -	\$ 2,727,569
Current Portion of Long-Term Debt	408,722	250,000	(250,000)	408,722
Accounts Payable and Accrued Expenses	3,184,098	270,724	16,024	3,470,846
Corporate Income Taxes Payable	512,942	30,816		543,758
Patronage Rebates Payable	971,677			971,677
	<u>7,805,008</u>	<u>551,540</u>	<u>(233,976)</u>	<u>8,122,572</u>
LONG-TERM LIABILITIES:				
Long-Term Debt, Net of Current Portion	4,303,458			4,303,458
Deferred Income Taxes	1,014,000			1,014,000
	<u>5,317,458</u>			<u>5,317,458</u>
MINORITY INTEREST IN CONSOLIDATED SUBSIDIARY			186,370	186,370
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	16,609,119			16,609,119
Common Stock	429,286			429,286
Less: Subscriptions Receivable	(97,002)			(97,002)
Retained Earnings	6,453,458	33,165	(118,563)	6,368,060
	<u>23,394,861</u>	<u>830,804</u>	<u>(916,202)</u>	<u>23,309,463</u>
	<u>\$ 36,517,327</u>	<u>\$ 1,382,344</u>	<u>\$ (963,808)</u>	<u>\$ 36,935,863</u>

See Independent Auditors' Report on Supplementary Information

EQUAL EXCHANGE, INC. AND SUBSIDIARY
CONSOLIDATING STATEMENTS OF EARNINGS
YEAR ENDED DECEMBER 31, 2016

	EQUAL EXCHANGE, INC.	OKE USA FRUIT COMPANY	CONSOLIDATING ENTRIES	CONSOLIDATED EARNINGS
NET SALES	\$ 62,715,119	\$ 7,364,378	\$ -	\$ 70,079,497
COST OF SALES:				
Purchases	38,614,742	5,127,711		43,742,453
Freight	3,365,943	1,385,146		4,751,089
Utilities	202,893			202,893
Warehouse Occupancy Costs	176,899			176,899
Depreciation	473,867			473,867
	<u>42,834,344</u>	<u>6,512,857</u>		<u>49,347,201</u>
GROSS PROFIT	19,880,775	851,521		20,732,296
OPERATING EXPENSES:				
Salaries and Wages	7,204,321	253,152		7,457,473
Payroll Taxes and Employee Benefits	2,064,320	61,659		2,125,979
Advertising and Business Promotion	1,030,909	27,276		1,058,185
Bad Debt Expense	51,524			51,524
Certification Fees	125,769	6,559		132,328
Charitable Contributions	444,551			444,551
Computer Expense and Service	92,792	40		92,832
Consulting Expense	258,157	33,198		291,355
Contracted Services	132,391			132,391
Credit Card Service Fees	351,753	7,822		359,575
General and Administrative	267,214	28,868		296,082
Insurance	200,806	8,644		209,450
Office Expense	172,525	6,984		179,509
Patronage Rebates	949,511			949,511
Payroll Processing Fees	48,599	1,688		50,287
Postage	22,648	819		23,467
Professional Fees	115,342	13,262		128,604
Real Estate Taxes	111,279			111,279
Rent	1,041,862	9,000		1,050,862
Repairs and Maintenance	454,536			454,536
Selling Expenses	499,418			499,418
Telephone	147,259	2,699		149,958
Utilities	196,658			196,658
Amortization	4,328			4,328
Depreciation	642,757			642,757
	<u>16,631,229</u>	<u>461,670</u>		<u>17,092,899</u>
EARNINGS FROM OPERATIONS	3,249,546	389,851		3,639,397
OTHER INCOME AND (EXPENSES):				
Loss on Investment	(203,275)			(203,275)
Interest Income	80,836	658		81,494
Equity in Earnings of Subsidiary	200,258		(200,258)	
Interest Expense	(389,104)	(10,000)		(399,104)
	<u>(311,285)</u>	<u>(9,342)</u>	<u>(200,258)</u>	<u>(520,885)</u>
EARNINGS BEFORE INCOME TAXES AND MINORITY INTEREST	2,938,261	380,509	(200,258)	3,118,512
INCOME TAXES:				
Current	1,540,000	131,000		1,671,000
Deferred	(160,000)	60,700		(99,300)
	<u>1,380,000</u>	<u>191,700</u>		<u>1,571,700</u>
EARNINGS BEFORE MINORITY INTEREST	1,558,261	188,809	(200,258)	1,546,812
MINORITY INTEREST			(22,251)	(22,251)
NET EARNINGS	<u>\$ 1,558,261</u>	<u>\$ 188,809</u>	<u>\$ (22,250)</u>	<u>\$ 1,524,821</u>

See Independent Auditors' Report on Supplementary Information

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

	EQUAL EXCHANGE, INC	OKE USA FRUIT COMPANY	CONSOLIDATING ENTRIES	CONSOLIDATED BALANCE SHEET
ASSETS				
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
	<u>25,461,939</u>	<u>1,146,508</u>	<u>(250,000)</u>	<u>26,358,447</u>
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
	<u>13,899,544</u>			<u>13,899,544</u>
Accumulated Depreciation	<u>(7,630,637)</u>			<u>(7,630,637)</u>
	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
	<u>1,244,258</u>		<u>(516,550)</u>	<u>727,708</u>
	<u>\$ 32,975,104</u>	<u>\$ 1,146,508</u>	<u>\$ (766,550)</u>	<u>\$ 33,355,062</u>
LIABILITIES AND STOCKHOLDERS' EQUITY				
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
	<u>6,173,235</u>	<u>496,913</u>	<u>(233,976)</u>	<u>6,436,172</u>
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
	<u>4,140,180</u>			<u>4,140,180</u>
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
	<u>22,661,689</u>	<u>649,595</u>	<u>(701,293)</u>	<u>22,609,991</u>
	<u>\$ 32,975,104</u>	<u>\$ 1,146,508</u>	<u>\$ (766,550)</u>	<u>\$ 33,355,062</u>

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
SUPPLEMENTARY INFORMATION
YEARS ENDED DECEMBER 31, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
<u>CONSOLIDATED SCHEDULES OF COST OF SALES:</u>		
Purchases	\$ 43,742,453	\$ 41,893,538
Freight	4,751,089	4,500,355
Utilities	202,893	220,105
Warehouse Occupancy Costs	176,899	193,606
Depreciation	473,867	472,012
	<u>\$ 49,347,201</u>	<u>\$ 47,279,616</u>
<u>CONSOLIDATED SCHEDULES OF GENERAL AND ADMINISTRATIVE EXPENSES:</u>		
Salaries and Wages	\$ 7,457,473	\$ 7,223,966
Payroll Taxes and Employee Benefits	2,125,979	1,907,951
Advertising and Business Promotion	1,058,185	1,275,155
Certification Fees	132,328	105,241
Charitable Contributions	444,551	173,114
Computer Expense and Service	92,832	128,317
Consulting Expense	291,355	223,081
Contracted Services	132,391	106,299
Credit Card Service Fees	359,575	330,083
General and Administrative	296,082	256,420
Insurance	209,450	190,900
Office Expense	179,509	246,035
Patronage Rebates	949,511	158,425
Payroll Processing Fees	50,287	48,130
Postage	23,467	28,182
Professional Fees	128,604	68,162
Real Estate Taxes	111,279	134,584
Rent	1,050,862	778,028
Repairs and Maintenance	454,536	544,037
Selling Expenses	499,418	437,736
Telephone	149,958	139,841
Utilities	196,658	218,931
Amortization	4,328	4,328
Depreciation	642,757	643,154
	<u>\$ 17,041,375</u>	<u>\$ 15,370,100</u>

See Independent Auditors' Report on Supplementary Information