EQUAL EXCHANGE, INC.

Audited Financial Statements
and
Supplementary Information

Years Ended December 31, 2010 and 2009

EQUAL EXCHANGE, INC.
AUDITED FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
YEARS ENDED DECEMBER 31, 2010 AND 2009

INDEPENDENT AUDITORS' REPORT

To The Stockholders
Equal Exchange, Inc.
West Bridgewater, Massachusetts

We have audited the accompanying balance sheet of Equal Exchange, Inc. (a Massachusetts corporation) as of December 31, 2010 and the related statements of earnings, retained earnings, and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of Equal Exchange, Inc. as of December 31, 2009, were audited by other auditors whose report dated April 5, 2010, expressed an unqualified opinion on those statements.

We conducted our audit 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 financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The Company reports its investment in OKE USA Fruit Company, a 90% owned subsidiary, on the cost method of accounting. In our opinion, accounting principles generally accepted in the United States of America require that all majority-owned subsidiaries be accounted for as consolidated subsidiaries. If the financial statements of OKE USA Fruit Company had been consolidated with those of Equal Exchange, Inc., total assets would be increased by approximately $750,000 and liabilities would increase by approximately $420,000 as of December 31, 2010.

In our opinion, except for the effects of not consolidating the 90% owned subsidiary, as discussed in the preceding paragraph, the 2010 financial statements referred to above present fairly, in all material respects, the financial position of Equal Exchange, Inc. as of December 31, 2010, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

LMHS, P.C.

March 7, 2011

EQUAL EXCHANGE, INC.
BALANCE SHEETS
DECEMBER 31, 2010 AND 2009

	2010	2009
ASSETS		
CURRENT ASSETS:		
Cash	$ 657,124	$ 376,667
Accounts Receivable	2,304,912	2,185,768
Inventory	8,224,913	8,293,729
Notes Receivable, Current Portion	267,538	324,996
Prepaid Expenses and Other	447,077	415,139
Deferred Income Taxes	151,000	115,000
	12,052,564	11,711,299
PROPERTY AND EQUIPMENT, NET	6,653,683	7,017,564
OTHER ASSETS:		
Intangible Assets, Net	211,153	28,694
Investments	399,377	381,861
Notes Receivable, Net of Current Portion	38,501	6,039
	649,031	416,594
	$ 19,355,278	$ 19,145,457
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Note Payable - Lines of Credit	$ 567,952	$ 624,928
Current Portion of Capital Lease Obligations		432,124
Current Portion of Long-Term Debt	121,793	550,639
Accounts Payable and Accrued Expenses	1,385,692	1,089,703
Patronage Rebates Payable	147,000	421,875
	2,222,437	3,119,269
LONG-TERM LIABILITIES:		
Capital Lease Obligations, Net of Current Portion		693,092
Long-Term Debt, Net of Current Portion	3,228,784	3,190,008
Deferred Income Taxes	900,000	770,000
	4,128,784	4,653,100
STOCKHOLDERS' EQUITY:		
Preferred Stock, No Par Value; 375,526 Shares Authorized; Issued and Outstanding, 332,379 Shares in 2010 and 290,429 Shares in 2009	9,156,382	7,978,429
Common Stock, No Par Value; 200 Shares Authorized, Issued and Outstanding, 107 Shares in 2010 and 99 Shares in 2009	313,343	282,683
Less: Common Stock Subscriptions Receivable	(60,682)	(62,807)
Retained Earnings	3,595,014	3,174,783
	13,004,057	11,373,088
	$ 19,355,278	$ 19,145,457

See Notes to Financial Statements

EQUAL EXCHANGE, INC.
STATEMENTS OF EARNINGS AND RETAINED EARNINGS
YEARS ENDED DECEMBER 31, 2010 AND 2009

	2010	2009
NET SALES	$ 36,525,856	$ 35,832,510
COST OF SALES	23,659,316	23,075,260
GROSS PROFIT	12,866,540	12,757,250
OPERATING EXPENSES	11,234,758	10,771,023
EARNINGS FROM OPERATIONS	1,631,782	1,986,227
OTHER INCOME AND (EXPENSE):		
Interest Income	14,832	3,754
Interest Expense	(323,662)	(622,848)
	(308,830)	(619,094)
EARNINGS BEFORE INCOME TAXES	1,322,952	1,367,133
INCOME TAXES:		
Current:		
Federal	336,000	270,000
State	148,000	160,000
	484,000	430,000
Deferred:		
Federal	38,000	140,000
State	56,000	23,000
	94,000	163,000
	578,000	593,000
NET EARNINGS	744,952	774,133
RETAINED EARNINGS, BEGINNING	3,174,783	2,654,249
PREFERRED STOCK DIVIDENDS PAID	(324,721)	(253,599)
RETAINED EARNINGS, ENDING	$ 3,595,014	$ 3,174,783

See Notes to Financial Statements

EQUAL EXCHANGE, INC.
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2010 AND 2009

	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net Earnings	$ 744,952	$ 774,133
Noncash Items Included in Net Earnings:		
Deferred Income Taxes, Net	94,000	163,000
Depreciation and Amortization	915,949	855,570
(Increase) Decrease in:		
Accounts Receivable	(119,144)	42,075
Inventory	68,816	2,545,700
Prepaid Expenses and Other	(31,938)	545,772
Increase (Decrease) in:		
Accounts Payable and Accrued Expenses	295,989	(630,707)
Patronage Rebates Payable	(274,875)	177,346
	1,693,749	4,472,889
CASH FLOWS FROM INVESTING ACTIVITIES:		
Additions to Property and Equipment	(531,480)	(385,087)
Increase in Intangible Assets	(203,047)	
Increase in Investments, Net	(17,516)	(182,637)
Decrease in Notes Receivable, Net	24,996	(51,537)
	(727,047)	(619,261)
CASH FLOWS FROM FINANCING ACTIVITIES:		
New Borrowings:		
Note Payable - Lines of Credit	500,000	
Long-Term Debt		305,000
Debt Reduction:		
Note Payable - Lines of Credit, Net	(556,976)	(4,539,510)
Capital Lease Obligations	(1,125,216)	(447,679)
Long-Term Debt	(390,070)	(1,079,279)
Proceeds From Common Stock Subscriptions	47,495	44,450
Proceeds From Issuance of Preferred Stock	1,036,500	2,217,150
Proceeds From Dividend Reinvestment	212,418	160,380
Redemption of Preferred Stock	(70,965)	(79,491)
Redemption of Common Stock	(14,710)	(17,100)
Preferred Stock Dividends Paid	(324,721)	(253,599)
	(686,245)	(3,689,678)
NET INCREASE IN CASH	280,457	163,950
CASH - BEGINNING	376,667	212,717
CASH - ENDING	$ 657,124	$ 376,667

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION

	2010	2009
Cash Paid During The Year For:		
Interest	$ 334,347	$ 622,848
Income Taxes	$ 445,917	$ 603,498

See Notes to Financial Statements

EQUAL EXCHANGE, INC.
NOTES TO FINANCIAL STATEMENTS

A. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

1. Organization - Equal Exchange, Inc. (the Company) 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 the Company, each of whom is limited to one share. The Company 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; employees may not continue with the Company without becoming stockholders. The Company also offers non-voting preferred stock, which pays a variable, noncumulative, annual dividend, targeted at five percent of the value of the preferred stock.

2. Operations - The Company is engaged in the manufacturing and distribution of coffee, tea, chocolate and related products nationally, with its main office located at 50 United Drive, West Bridgewater, Massachusetts. The Company was formed to establish equitable trade relationships between small farmers around the world and U.S. consumers. The Company buys green coffee beans directly from farmers' cooperatives and imports the coffee to the United States. The Company 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 sugar are also purchased according to fair trade practices. The Company performs coffee roasting and packaging production at its West Bridgewater, Massachusetts facility. In addition, the Company 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, the Company purchases and loans coffee grinders, brewers and retail display equipment to its customers.

3. Method of Accounting - The Company's policy is to prepare its 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.

4. 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.

5. Cash and Cash Equivalents - For purposes of the 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.

6. Inventory - The Company's inventory is valued at the lower of cost (first in, first out) or market.

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

7. 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 the estimated useful lives of the assets.

8. 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 7-10 years.

9. Freight - The Company includes freight in as a component of inventory and freight out as part of cost of sales.

10. General and Administrative Expenses - These expenses are charged to operations as incurred and are not allocated to Cost of Sales.

11. Income Taxes - 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 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 financial statement purposes on the allowance method. Accrued absences are reported for tax purposes on the cash method and for 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 financial statement purposes. Deferred tax assets and liabilities are classified as current or non-current in the accompanying balance sheets, based upon classification of the related asset or liability.

12. Use of Estimates - The preparation of 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.

13. Patronage Rebates - The Company's By-Laws require it to make a patronage rebate to each worker-owner, based on the Company's 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, 2010 and 2009, there was an allowance for doubtful accounts of $50,000.

C. INVENTORY:

Inventory consists of the following at December 31,:

	2010	2009
Unprocessed green coffee beans	$ 4,797,985	$ 5,612,717
Processed coffee, tea, cocoa, chocolate, and snacks and supplies	3,426,928	2,681,012
	$ 8,224,913	$ 8,293,729

D. NOTES RECEIVABLE:

Notes Receivable consist of the following at December 31,:

		2010	2009
4.00%	Notes Receivable - OKE USA Fruit Company: Requires no monthly installments; Principal and accrued interest due at various maturity dates during 2011.	$ 250,000	$ 290,000
6.00%	Installment Note Receivable - La Siembra: Due in monthly installments of $1,625, including interest to January, 2014.	56,039	41,035
		306,039	331,035
	Current Portion	(267,538)	(324,996)
		$ 38,501	$ 6,039

The Company had a 45% ownership in OKE USA Fruit Company at December 31, 2009. This ownership position was increased to 90% effective December 27, 2010, through the purchase of additional shares.

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

2011	$ 267,538
2012	17,981
2013	18,902
2014	1,618
	$ 306,039

E. PROPERTY AND EQUIPMENT:

Property and Equipment consists of the following at December 31,:

2010	2009

Land	$ 502,688	$ 502,688
Building and Improvements	3,750,884	3,750,884
Coffee Roasting and Packaging Equipment	3,518,220	3,490,730
Furniture, Fixtures, Equipment and Software	2,690,176	2,319,815
	10,461,968	10,064,117
Accumulated Depreciation	(3,808,285)	(3,046,553)
	$ 6,653,683	$ 7,017,564

F. INTANGIBLE ASSETS:

Intangible Assets consists of the following:

	2010	2009
Capitalized Software and Development Costs, Net of Accumulated Amortization of $13,892 in 2010 and $8,537 in 2009	$ 200,353	$ 7,660
Deferred Financing Costs, Net of Accumulated Amortization of $85,744 in 2010 and $70,511 in 2009	10,800	21,034
	$ 211,153	$ 28,694

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:

Investments consist of the following at December 31,:

	2010	2009
OKE USA Fruit Company	$ 330,864	$ 290,864
SHCU - Weaver Street	25,153	25,153
Liberation Foods	23,360	23,360
NCB		22,484
Coop Capital Fund NE	20,000	20,000
	$ 399,377	$ 381,861

At December 31, 2010 and 2009, the Company owned 90% and 45%, respectively, of OKE USA Fruit Company. In our opinion, and as stated in our report, accounting principles generally accepted in the United States of America require that all majority-owned subsidiaries be accounted for as consolidated subsidiaries. OKE USA Fruit Company is not consolidated as part of these financial statements at December 31, 2010. In the opinion of management, and in accordance with FASB ASC 320-10-25, the costs of these investments approximates market value.

H. NOTE PAYABLE - LINES OF CREDIT:

The Company had a $2,500,000 secured line of credit with National Consumer Cooperative Bank (NCB). Advances on this line of credit bore interest at the bank's prime lending rate plus one percent, but no less than five and one-half percent. NCB had a first security interest in all unprocessed green coffee beans inventory. This line of credit was closed in 2010. At December 31, 2010 and 2009, there were no amounts outstanding on this line of credit.

In 2009, the Company had a $1,250,000 secured line of credit with TD Bank, N.A. During 2010, this line of credit was increased to $3,750,000 to replace the NCB line of credit. This line of credit bears interest at the bank's prime lending rate plus two percent and is secured by substantially all business assets of the Company, crossed to existing collateral pledged to TD Bank behind the PCI second mortgage. At December 31, 2010 and 2009, there were no amounts outstanding on this line of credit.

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

The Company has a $2,500,000 unsecured 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, 7.5% at December 31, 2010 and 2009. This credit facility may be terminated upon 180 days notice. At December 31, 2010 and 2009, the outstanding balance on this line of credit amounted to $567,952 and $516,928, respectively.

The Company also has a $1,000,000 secured line of credit with Wainwright Bank. This line of credit bears interest at the bank's prime lending rate and is secured by certificates of deposit held by Wainwright Bank and 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, 2010 and 2009, amounts outstanding on this line of credit were zero and $108,000, respectively.

I. LONG-TERM DEBT:

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

		2010	2009
4.00%	Note Payable - Unrelated Cooperative: Requires no monthly payments; principal and accrued interest due March, 2010.	$ -	$ 100,000
6.67%	Installment Note Payable - T.D. Bank, N.A.: Due in monthly installments of $4,420 including interest to October, 2012.		185,965
4.50%	Note Payable - Calvert Social Investment Foundation: Due in semi-annual interest-only payments with a balloon payment due December, 2012.	700,000	700,000
4,25%	Note Payable - MMA Community Development		

	Investment: Due in semi-annual interest-only payments with a balloon payment due August, 2013.	250,000	250,000
2.26%	Mortgage Note Payable - T.D. Bank, N.A.: Due in monthly installments of $7,749 including interest to July, 2014.	1,417,572	1,474,760
6.00%	Mortgage Note Payable - PCI: Due in monthly installments of $7,321 including interest to October, 2014.	817,005	853,922

I. LONG-TERM DEBT: (Continued)

3.00% to 5.00%	Notes Payable - Various Individuals and Institutions: Due in annual or semiannual interest-only payments, with balloon payments due at varying maturity dates to 2016.	166,000	176,000
		3,350,577	3,740,647
	Current Portion	(121,793)	(550,639)
		$ 3,228,784	$ 3,190,008

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

2011	$ 121,793
2012	848,696
2013	420,688
2014	1,919,400
2015 and Thereafter	40,000
	$ 3,350,577

J. CAPITAL LEASE OBLIGATIONS:

The Company had five separate capital lease obligations associated with coffee roasting equipment and a packaging production line. Each lease required varying monthly payments of principal and interest, with maturity dates ranging from 2010 to 2014. Upon maturity of the capital lease obligations, the equipment would be assigned to the Company. During 2010, the Company paid off the remaining capital lease obligations. At December 31, 2010 and 2009, capital lease obligations outstanding amounted to zero and $1,125,216, respectively.

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.

In 2009, the Board of Directors authorized and approved a subscription agreement in which the corporation intended to raise up to $2,000,000 through the sale of Class B Preferred Stock.

During 2009, in accordance with this subscription agreement and a 2007 subscription agreement which had been extended, the Company sold 80,624 shares of Class B Preferred Stock and raised $2,217,150. Both of these offerings closed as of December 31, 2009.

K. CAPITAL STRUCTURE: (Continued)

1. Preferred Stock (Continued)

In 2010, the Board of Directors authorized and approved a subscription agreement in which the corporation intended to raise up to $2,000,000 through the sale of Class B Preferred Stock. In accordance with this subscription agreement, the Company sold 37,690 shares of Class B Preferred Stock and raised $1,036,500.

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.

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

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, 2010:

2011	$ 8,168,432

2012	500,647
2013	360,825
2014	124,978
2015	1,500
	$ 9,156,382

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 2010 and 2009, price per share was $3,240 and $3,250, respectively. After one year's service, and upon approval of two-thirds 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.

K. CAPITAL STRUCTURE: (Continued)

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.

4. Preferred Stock Transactions

	# of Shares	Par Value	Premium Over Par Value	Total Paid In on Preferred Stock
Balance, January 1, 2009	206,864	$206,864	$ 5,473,526	$ 5,680,390
Shares issued for cash	80,624	80,624	2,136,526	2,217,150
Dividends Reinvested	5,832	5,832	154,548	160,380
Shares redeemed for cash	(2,891)	(2,891)	(76,600)	(79,491)
Balance, December 31, 2009	290,429	$290,429	$ 7,688,000	$ 7,978,429
Shares issued for cash	37,690	37,690	998,810	1,036,500
Dividends Reinvested	7,724	7,724	204,694	212,418
Shares redeemed for cash	(2,581)	(2,581)	(68,384)	(70,965)
Balance, December 31, 2010	333,262	$333,262	$ 8,823,120	$ 9,156,382

4. Common Stock Transactions

Total

	# of Shares	Par Value	Premium Over Par Value	Paid In on Common Stock
Balance, January 1, 2009	93	$ 93	$ 260,810	$ 260,903
Shares issued for subscriptions receivable	12	12	38,868	38,880
Shares redeemed for cash	(6)	(6)	(17,094)	(17,100)
Balance, December 31, 2009	99	$ 99	$ 282,584	$ 282,683
Shares issued for subscriptions receivable	13	13	45,357	45,370
Shares redeemed for cash	(5)	(5)	(14,705)	(14,710)
Balance, December 31, 2010	107	$ 107	$ 313,236	$ 313,343

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 Company's By-Laws 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, 2010 and 2009, patronage rebate expense amounted to $294,000 and $421,875, 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, 2010 and 2009, advertising costs amounted to $1,240,237 and $941,841, 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, 2010 and 2009, charitable contributions amounted to $69,628 and $92,150, respectively.

P. OPERATING LEASES:
The Company leases distribution and retail space in Oregon and Massachusetts for terms in excess of one year. Rent expense for the years ended December 31, 2010 and 2009 amounted to $176,465 and $113,518, respectively.

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

2011	$ 140,655
2012	140,714
2013	141,608
2014	126,306
2015 and Thereafter	147,168
	$ 696,451

Q. GUARANTEE OF PRODUCER INDEBTEDNESS:
Shared Interest has committed up to $500,000 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, 2010 and 2009, producer advances guaranteed by the Company amounted to $143,750 and $270,990, respectively. During the years ended December 31, 2010 and 2009, the Company did not incur any losses related to guaranteed producer advances.

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, 2010 and 2009, the Company contributed 3% of each eligible employee's annual compensation. For the years ended 2010 and 2009, the Company's contribution to this plan totaled $127,347 and $132,866, respectively.

S. MAJOR CUSTOMER:
For the years ended December 31, 2010 and 2009, the Company had one major customer, to which sales accounted for approximately 22% of the Company's revenue. At December 31, 2010 and 2009, accounts receivable from this customer represented approximately 31% and 36%, respectively, of total accounts receivable.

T. SUBSEQUENT EVENTS:

Management has evaluated events occurring after the balance sheet date through March 7, 2011, the date in which the financial statements were available to be issued. No material events have been identified which would require disclosure under FASB ASC 855-10-50-1.

INDEPENDENT AUDITORS' REPORT
ON SUPPLEMENTARY INFORMATION

To The Stockholders
Equal Exchange, Inc.
West Bridgewater, Massachusetts

Our report on our audit of the basic financial statements of Equal Exchange, Inc. for the year ended December 31, 2010 appears on page 1. This audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information contained on the following page is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements, and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

LMHS, P.C.

March 7, 2011

EQUAL EXCHANGE, INC.
SUPPLEMENTARY INFORMATION
YEARS ENDED DECEMBER 31, 2010 AND 2009

	2010	2009
SCHEDULES OF COST OF SALES:		
Purchases	$ 20,780,706	$ 20,313,916
Freight	2,217,547	2,091,618
Utilities	138,254	138,424
Warehouse Occupancy Costs	85,174	93,889
Depreciation	437,635	437,413
	23,659,316	23,075,260
SCHEDULES OF OPERATING EXPENSES:		
Salaries and Wages	$ 5,293,406	$ 5,108,965
Payroll Taxes	1,659,656	1,324,732
Advertising and Business Promotion	1,240,237	941,841
Bad Debt Expense	9,313	22,006
Certification Fees	153,211	122,818
Charitable Contributions	69,628	92,150
Computer Expense and Service	38,245	151,053
Consulting Expense	63,598	149,067
Credit Card Service Fees	297,369	283,454
General and Administrative	116,963	152,368
Insurance	108,962	68,726
Investor Services		104,805
Office Expense	129,867	105,991
Patronage Rebates	294,000	421,875
Payroll Processing Fees	30,139	19,092
Postage	30,148	30,137
Professional Fees	83,599	91,495
Real Estate Tax Expense	73,557	74,905
Rent	176,465	113,518
Repairs and Maintenance	283,741	163,408
Selling Expenses	295,894	438,833
Contracted Services	118,631	176,439
Telephone	90,143	100,418
Utilities	99,672	89,770
Amortization	25,588	19,805
Depreciation	452,726	403,352
	$ 11,234,758	$ 10,771,023

See Independent Auditors' Report on Supplementary Information

EQUAL EXCHANGE, INC. AND SUBSIDIARY

Consolidated Audited Financial Statements
and
Supplementary Information

Year Ended December 31, 2010

EQUAL EXCHANGE, INC. AND SUBSIDIARY
CONSOLIDATED AUDITED FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
YEAR ENDED DECEMBER 31, 2010

INDEPENDENT AUDITORS' REPORT

To The Stockholders
Equal Exchange, Inc.
West Bridgewater, Massachusetts

We have audited the accompanying consolidated balance sheet of Equal Exchange, Inc. (a Massachusetts corporation) and subsidiary as of December 31, 2010 and the related consolidated statements of earnings, retained earnings, and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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, 2010, and the results of their operations and their cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

LMHS, P.C.

March 16, 2011

EQUAL EXCHANGE, INC. AND SUBSIDIARY
CONSOLIDATED BALANCE SHEET
DECEMBER 31, 2010

ASSETS

CURRENT ASSETS:	
Cash	$ 823,669
Accounts Receivable	2,655,707
Inventory	8,290,646
Note Receivable, Current Portion	17,538
Prepaid Expenses and Other	535,330
Deferred Income Taxes	377,496
	12,700,386
PROPERTY AND EQUIPMENT, NET	6,653,683
OTHER ASSETS:	
Intangible Assets, Net	211,153
Investments	68,513
Note Receivable, Net of Current Portion	38,501
	318,167
	$ 19,672,236

LIABILITIES AND STOCKHOLDERS' EQUITY

CURRENT LIABILITIES:	
Note Payable - Lines of Credit	$ 567,952
Current Portion of Long-Term Debt	121,793
Accounts Payable and Accrued Expenses	1,539,374
Patronage Rebates Payable	147,000
	2,376,119
LONG-TERM LIABILITIES:	
Long-Term Debt, Net of Current Portion	3,228,784
Deferred Income Taxes	900,000
	4,128,784
MINORITY INTEREST IN CONSOLIDATED SUBSIDIARY	163,276
STOCKHOLDERS' EQUITY:	
Preferred Stock, No Par Value; 375,526 Shares Authorized; Issued and Outstanding, 332,379 Shares in 2010 and 290,429 Shares in 2009	9,156,382
Common Stock, No Par Value; 200 Shares Authorized, Issued and Outstanding, 107 Shares in 2010 and 99 Shares in 2009	313,343
Less: Common Stock Subscriptions Receivable	(60,682)
Retained Earnings	3,595,014
	13,004,057
	$ 19,672,236

See Notes to Consolidated Financial Statements

EQUAL EXCHANGE, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENT OF EARNINGS AND RETAINED EARNINGS
YEAR ENDED DECEMBER 31, 2010

NET SALES	$ 36,525,856
COST OF SALES	23,659,316
GROSS PROFIT	12,866,540
OPERATING EXPENSES	11,234,758
EARNINGS FROM OPERATIONS	1,631,782
OTHER INCOME AND (EXPENSE):	
Interest Income	14,832
Interest Expense	(323,662)
	(308,830)
EARNINGS BEFORE INCOME TAXES	1,322,952
INCOME TAXES:	
Current:	
Federal	336,000
State	148,000
	484,000
Deferred:	
Federal	38,000
State	56,000
	94,000
	578,000
CONSOLIDATED NET EARNINGS	744,952
RETAINED EARNINGS, BEGINNING	3,174,783
PREFERRED STOCK DIVIDENDS PAID	(324,721)
RETAINED EARNINGS, ENDING	$ 3,595,014

EQUAL EXCHANGE, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2010

CASH FLOWS FROM OPERATING ACTIVITIES:	
Net Earnings	$ 744,952
Noncash Items Included in Net Earnings:	
Deferred Income Taxes, Net	(132,496)
Depreciation and Amortization	915,949
(Increase) Decrease in:	
Accounts Receivable	(469,939)
Inventory	3,083
Prepaid Expenses and Other	(120,191)
Increase (Decrease) in:	
Accounts Payable and Accrued Expenses	449,671
Patronage Rebates Payable	(274,875)
	1,116,154
CASH FLOWS FROM INVESTING ACTIVITIES:	
Additions to Property and Equipment	(531,480)
Increase in Intangible Assets	(203,047)
Decrease in Investments, Net	313,348
Decrease in Note Receivable, Net	274,996
	(146,183)
CASH FLOWS FROM FINANCING ACTIVITIES:	
New Borrowings:	
Note Payable - Lines of Credit	500,000
Debt Reduction:	
Note Payable - Lines of Credit	(556,976)
Capital Lease Obligations	(1,125,216)
Long-Term Debt	(390,070)
Increase in Minority Interest	163,276
Proceeds From Common Stock Subscriptions	47,495
Proceeds From Issuance of Preferred Stock	1,036,500
Proceeds From Dividend Reinvestment	212,418
Redemption of Preferred Stock	(70,965)
Redemption of Common Stock	(14,710)
Preferred Stock Dividends Paid	(324,721)
	(522,969)
NET INCREASE IN CASH	447,002
CASH - BEGINNING	376,667
CASH - ENDING	$ 823,669

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION

Cash Paid During The Year For:	
Interest	$ 334,347
Income Taxes	$ 445,917

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. At January 1, 2010, Equal Exchange, Inc. had a 45 percent interest in OKE USA Fruit Company, which was accounted for under the cost method. On December 28, 2010, Equal Exchange, Inc. acquired an additional 45 percent interest in OKE USA Fruit Company. For financial reporting purposes, this transaction was treated with an effective date of December 31, 2010, and, in accordance with FASB Statement 141R, the operating activity of the subsidiary for 2010 is not included as a component of the consolidated statement of earnings.

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; employees may not continue with Equal Exchange, Inc. without becoming stockholders. 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, chocolate and related products nationally, with its main office located at 50 United Drive, West Bridgewater, 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 sugar 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.

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

4. Method of Accounting - The Company's policy is to prepare its 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 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.

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 the estimated useful lives of the assets.

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 7-10 years.

10. Freight - The Company includes freight in as a component of inventory and freight out as part of cost of sales.

11. General and Administrative Expenses - These expenses are charged to operations as incurred and are not allocated to Cost of Sales.

12. 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.

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

Deferred income taxes are provided for differences in timing in reporting income for 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 financial statement purposes on the allowance method. Accrued absences are reported for tax purposes on the cash method and for 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 financial statement purposes. Deferred tax assets and liabilities are classified as current or non-current in the accompanying balance sheets, based upon classification of the related asset or liability.

13. Use of Estimates - The preparation of 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.

14. 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, 2010, there was an allowance for doubtful accounts of $57,041.

C. INVENTORY:

Inventory consists of the following at December 31, 2010:

Unprocessed green coffee beans and bananas	$ 4,863,718
Processed coffee, tea, cocoa, chocolate, and snacks and supplies	3,426,928
	$ 8,290,646

D. NOTE RECEIVABLE:

Note Receivable consists of the following at December 31, 2010:

6.00%	Installment Note Receivable - La Siembra: Due in monthly installments of $1,625, including interest to January, 2014.	$ 56,039
	Current Portion	(17,538)
		$ 38,501

D. NOTE RECEIVABLE: (Continued)

The following is a schedule by years of the aggregate maturities of note receivable at December 31, 2010:

2011	$ 17,538
2012	17,981
2013	18,902
2014	1,618
	$ 56,039

E. PROPERTY AND EQUIPMENT:

Property and Equipment consists of the following at December 31, 2010:

Land	$ 502,688
Building and Improvements	3,750,884
Coffee Roasting and Packaging Equipment	3,518,220
Furniture, Fixtures, Equipment and Software	2,695,101
	10,466,893
Accumulated Depreciation	(3,813,210)
	$ 6,653,683

F. INTANGIBLE ASSETS:

Intangible Assets consists of the following at December 31, 2010:

Capitalized Software and Development Costs, Net of Accumulated Amortization of $13,892 in 2010	$ 200,353
Deferred Financing Costs, Net of Accumulated Amortization of $85,744 in 2010	10,800
	$ 211,153

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:

Investments consist of the following at December 31, 2010:

SHCU - Weaver Street	$ 25,153
Liberation Foods	23,360

Coop Capital Fund NE	20,000
	$ 68,513

H. NOTE PAYABLE - LINES OF CREDIT:
The Company had a $2,500,000 secured line of credit with National Consumer Cooperative Bank (NCB). Advances on this line of credit bore interest at the bank's prime lending rate plus one percent, but no less than five and one-half percent. NCB had a first security interest in all unprocessed green coffee beans inventory. This line of credit was closed in 2010. At December 31, 2010, there were no amounts outstanding on this line of credit.

H. NOTE PAYABLE - LINES OF CREDIT: (Continued)
In 2009, the Company had a $1,250,000 secured line of credit with TD Bank, N.A. During 2010, this line of credit was increased to $3,750,000 to replace the NCB line of credit. This line of credit bears interest at the bank's prime lending rate plus two percent and is secured by substantially all business assets of the Company, crossed to existing collateral pledged to TD Bank behind the PCI second mortgage. At December 31, 2010, there were no amounts outstanding on this line of credit.

The Company has a $2,500,000 unsecured 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, 7.5% at December 31, 2010. This credit facility may be terminated upon 180 days notice. At December 31, 2010, the outstanding balance on this line of credit amounted to $567,952.

The Company also has a $1,000,000 secured line of credit with Wainwright Bank. This line of credit bears interest at the bank's prime lending rate and is secured by certificates of deposit held by Wainwright Bank and 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, 2010, there were no amounts outstanding on this line of credit.

I. LONG-TERM DEBT:
Long-Term Debt consists of the following at December 31, 2010:

4.50%	Note Payable - Calvert Social Investment Foundation: Due in semi-annual interest-only payments with a balloon payment due December, 2012.	$ 700,000
4,25%	Note Payable - MMA Community Development Investment:	

	Due in semi-annual interest-only payments with a balloon payment due August, 2013.	250,000
2.26%	Mortgage Note Payable - T.D. Bank, N.A.: Due in monthly installments of $7,749 including interest to July, 2014.	1,417,572
6.00%	Mortgage Note Payable - PCI: Due in monthly installments of $7,321 including interest to October, 2014.	817,005

I. LONG-TERM DEBT: (Continued)

3.00% to 5.00%	Notes Payable - Various Individuals and Institutions: Due in annual or semiannual interest-only payments, with balloon payments due at varying maturity dates to 2016.	166,000
		3,350,577
	Current Portion	(121,793)
		$ 3,228,784

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

2011	$ 121,793
2012	848,696
2013	420,688
2014	1,919,400
2015 and Thereafter	40,000
	$ 3,350,577

J. CAPITAL LEASE OBLIGATIONS:

The Company had five separate capital lease obligations associated with coffee roasting equipment and a packaging production line. Each lease required varying monthly payments of principal and interest, with maturity dates ranging from 2010 to 2014. Upon maturity of the capital lease obligations, the equipment would be assigned to the Company. During 2010, the Company paid off the remaining capital lease obligations. At December 31, 2010, there were no amounts outstanding on these capital lease obligations.

K. MINORITY INTEREST IN SUBSIDIARY:

An ownership interest of 10 percent in the subsidiary is held by unrelated parties. This interest, reflected on the balance sheet as a separate line item, is the summation of the 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.

L. 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.

L. CAPITAL STRUCTURE: (Continued)

1. Preferred Stock (Continued)

In 2010, the Board of Directors authorized and approved a subscription agreement in which the corporation intended to raise up to $2,000,000 through the sale of Class B Preferred Stock. In accordance with this subscription agreement, the Company sold 37,690 shares of Class B Preferred Stock and raised $1,036,500.

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.

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

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, 2010:

2011	$ 8,168,432

2012	500,647
2013	360,825
2014	124,978
2015	1,500
	$ 9,156,382

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 2010, the price per share was $3,240. After one year's service, and upon approval of two-thirds 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.

L. CAPITAL STRUCTURE: (Continued)

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.

4. Preferred Stock Transactions

	# of Shares	Par Value	Premium Over Par Value	Total Paid In on Preferred Stock
Balance, December 31, 2009	290,429	$290,429	$ 7,688,000	$ 7,978,429
Shares issued for cash	37,690	37,690	998,810	1,036,500
Dividends Reinvested	7,724	7,724	204,694	212,418
Shares redeemed for cash	(2,581)	(2,581)	(68,384)	(70,965)
Balance, December 31, 2010	333,262	$333,262	$ 8,823,120	$ 9,156,382

4. Common Stock Transactions

	# of Shares	Par Value	Premium Over Par Value	Total Paid In on Common Stock

Balance, December 31, 2009	99	$ 99	$ 282,584	$ 282,683
Shares issued for subscriptions receivable	13	13	45,357	45,370
Shares redeemed for cash	(5)	(5)	(14,705)	(14,710)
Balance, December 31, 2010	107	$ 107	$ 313,236	$ 313,343

M. 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.

N. 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 year ended December 31, 2010, patronage rebate expense amounted to $294,000.

O. ADVERTISING AND BUSINESS PROMOTION:
The Company follows the policy of charging the costs of advertising and business promotion to expense as incurred. For the year ended December 31, 2010, advertising costs amounted to $1,240,237.

P. CHARITABLE CONTRIBUTIONS:
The Company makes charitable contributions to unrelated tax exempt organizations that promote Fair Trade Industry activities. For the year ended December 31, 2010, charitable contributions amounted to $69,628.

Q. OPERATING LEASES:
The Company leases distribution and retail space in Oregon and Massachusetts for terms in excess of one year. Rent expense for the year ended December 31, 2010 amounted to $176,465.

The following is a schedule by years of the future minimum lease payments as of

December 31,:

2011	$	140,655
2012		140,714
2013		141,608
2014		126,306
2015 and Thereafter		147,168
	$	696,451

R. GUARANTEE OF PRODUCER INDEBTEDNESS:
Shared Interest has committed up to $500,000 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, 2010, producer advances guaranteed by the Company amounted to $143,750. During the year ended December 31, 2010, the Company did not incur any losses related to guaranteed producer advances.

S. 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 year ended December 31, 2010, the Company contributed 3% of each eligible employee's annual compensation. For the year ended 2010, the Company's contribution to this plan totaled $127,347.

T. MAJOR CUSTOMER:
For the year ended December 31, 2010, the Company had one major customer, to which sales accounted for approximately 22% of the Company's revenue. At December 31, 2010, accounts receivable from this customer represented approximately 31% of total accounts receivable.

U. SUBSEQUENT EVENTS:
Management has evaluated events occurring after the balance sheet date through March 16, 2011, 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.

INDEPENDENT AUDITORS' REPORT
ON SUPPLEMENTARY INFORMATION

To The Stockholders
Equal Exchange, Inc.
West Bridgewater, Massachusetts

Our report on our audit of the basic consolidated financial statements of Equal Exchange, Inc. and subsidiary for the year ended December 31, 2010 appears on page 1. This audit was conducted for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The supplementary information contained on the following pages is presented for purposes of additional analysis and is not a required part of the basic consolidated financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic consolidated financial statements, and, in our opinion, is fairly stated in all material respects in relation to the consolidated financial statements taken as a whole.

LMHS, P.C.

March 16, 2011

EQUAL EXCHANGE, INC.
SUPPLEMENTARY INFORMATION
YEAR ENDED DECEMBER 31, 2010

SCHEDULE OF COST OF SALES:

Purchases	$ 20,780,706
Freight	2,217,547
Utilities	138,254
Warehouse Occupancy Costs	85,174
Depreciation	437,635
	23,659,316

SCHEDULE OF OPERATING EXPENSES:

Salaries and Wages	$ 5,293,406
Payroll Taxes	1,659,656
Advertising and Business Promotion	1,240,237
Bad Debt Expense	9,313
Certification Fees	153,211
Charitable Contributions	69,628
Computer Expense and Service	38,245
Consulting Expense	63,598
Credit Card Service Fees	297,369
General and Administrative	116,963
Insurance	108,962
Office Expense	129,867
Patronage Rebates	294,000
Payroll Processing Fees	30,139
Postage	30,148
Professional Fees	83,599
Real Estate Tax Expense	73,557
Rent	176,465
Repairs and Maintenance	283,741
Selling Expenses	295,894
Contracted Services	118,631
Telephone	90,143
Utilities	99,672
Amortization	25,588
Depreciation	452,726
	$ 11,234,758

OKE USA FRUIT COMPANY

STATEMENT OF OPERATIONS AND ACCUMULATED DEFICIT

YEAR ENDED DECEMBER 31, 2010

NET SALES	$ 4,385,683
COST OF SALES	4,162,723
GROSS PROFIT	222,960
GENERAL AND ADMINISTRATIVE EXPENSES:	
Salaries and Wages	89,692
Payroll Taxes and Benefits	19,941
Advertising and Business Promotion	9,586
Commissions	91,750
Insurance	4,753
Operating Supplies	13,373
Professional Fees	34,352
Telephone	4,402
Travel and Entertainment	15,293
	283,142
LOSS FROM OPERATIONS	(60,182)
OTHER INCOME AND (EXPENSE):	
Interest Income	337
Interest Expense	(13,921)
	(13,584)
LOSS BEFORE INCOME TAXES	(73,766)
INCOME TAXES (CREDIT):	
Current	912
Deferred	(25,063)
	(24,151)
NET LOSS	(49,615)
ACCUMULATED DEFICIT, BEGINNING	(233,210)
PREFERRED STOCK DIVIDENDS PAID	(4,616)
ACCUMULATED DEFICIT, ENDING	$(287,441)