



***EQUAL EXCHANGE, INC. AND SUBSIDIARY***

***Audited Consolidated Financial Statements  
and  
Supplementary Information***

***Years Ended December 31, 2012 and 2011***

**LMHS, P.C.**

*Certified Public Accountants and Advisors*

EQUAL EXCHANGE, INC. AND SUBSIDIARY  
AUDITED CONSOLIDATED FINANCIAL STATEMENTS  
AND SUPPLEMENTARY INFORMATION  
YEARS ENDED DECEMBER 31, 2012 AND 2011

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LMHS, P.C.

*Certified Public Accountants and Advisors*

INDEPENDENT AUDITORS' REPORT

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

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, 2012 and 2011, and the related consolidated statements of earnings, 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, 2012 and 2011, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

*LMHS, P.C.*

LMHS, P.C.  
Norwell, Massachusetts

March 22, 2013

EQUAL EXCHANGE, INC. AND SUBSIDIARY  
CONSOLIDATED BALANCE SHEETS  
DECEMBER 31, 2012 AND 2011

	<u>2012</u>	<u>2011</u>
<u>ASSETS</u>		
CURRENT ASSETS:		
Cash	\$ 489,817	\$ 757,429
Accounts Receivable	3,123,181	2,849,063
Inventory	14,698,437	15,117,041
Notes Receivable, Current Portion	131,836	34,800
Prepaid Expenses and Other	855,604	800,338
Prepaid Corporate Income Taxes	49,800	
Deferred Income Taxes	<u>361,221</u>	<u>367,496</u>
	19,709,896	19,926,167
PROPERTY AND EQUIPMENT, NET	5,968,678	5,979,771
OTHER ASSETS:		
Intangible Assets, Net	99,140	182,212
Investments	83,360	43,360
Notes Receivable, Net of Current Portion	<u>3,230</u>	<u>39,249</u>
	<u>185,730</u>	<u>264,821</u>
	<u>\$ 25,864,304</u>	<u>\$ 26,170,759</u>
<u>LIABILITIES AND STOCKHOLDERS' EQUITY</u>		
CURRENT LIABILITIES:		
Notes Payable - Lines of Credit	\$ 1,746,266	\$ 3,463,192
Current Portion of Long-Term Debt	1,536,277	1,253,534
Accounts Payable and Accrued Expenses	3,269,931	2,198,802
Corporate Income Taxes Payable		271,632
Patronage Rebates Payable	<u>329,745</u>	<u>376,382</u>
	6,882,219	7,563,542
LONG-TERM LIABILITIES:		
Long-Term Debt, Net of Current Portion	2,301,539	2,616,521
Deferred Income Taxes	<u>990,000</u>	<u>850,000</u>
	3,291,539	3,466,521
MINORITY INTEREST IN CONSOLIDATED SUBSIDIARY	160,163	165,324
STOCKHOLDERS' EQUITY:		
Preferred Stock, \$1 Par Value; 9,999,500 Shares Authorized; Issued and Outstanding, 399,948 Shares in 2012 and 390,116 Shares in 2011	10,999,389	10,728,960
Common Stock, \$1 Par Value; 500 Shares Authorized; Issued and Outstanding, 106 Shares in 2012 and 108 Shares in 2011	314,233	318,753
Less: Common Stock Subscriptions Receivable	( 40,191)	( 59,480)
Retained Earnings	<u>4,256,952</u>	<u>3,987,139</u>
	<u>15,530,383</u>	<u>14,975,372</u>
	<u>\$ 25,864,304</u>	<u>\$ 26,170,759</u>

See Notes to Consolidated Financial Statements

EQUAL EXCHANGE, INC. AND SUBSIDIARY  
CONSOLIDATED STATEMENTS OF EARNINGS AND RETAINED EARNINGS  
YEARS ENDED DECEMBER 31, 2012 AND 2011

	<u>2012</u>	<u>2011</u>
NET SALES	\$ 51,046,384	\$ 46,819,829
COST OF SALES	<u>37,343,411</u>	<u>33,617,786</u>
GROSS PROFIT	13,702,973	13,202,043
OPERATING EXPENSES:		
Bad Debt Expense (Recovery)	( 28,828)	6,631
General and Administrative Expenses	<u>11,828,711</u>	<u>11,343,485</u>
	<u>11,799,883</u>	<u>11,350,116</u>
EARNINGS FROM OPERATIONS	1,903,090	1,851,927
OTHER INCOME AND (EXPENSE):		
Interest Income	4,420	7,346
Interest Expense	<u>( 479,088)</u>	<u>( 387,182)</u>
	<u>( 474,668)</u>	<u>( 379,836)</u>
EARNINGS BEFORE INCOME TAXES AND MINORITY INTEREST	1,428,422	1,472,091
INCOME TAXES (CREDIT):		
Current:		
Federal	340,000	500,000
State	<u>162,000</u>	<u>189,000</u>
	502,000	689,000
Deferred:		
Federal	150,000	( 55,000)
State	<u>( 3,725)</u>	<u>15,000</u>
	<u>146,275</u>	<u>( 40,000)</u>
	<u>648,275</u>	<u>649,000</u>
EARNINGS BEFORE MINORITY INTEREST	780,147	823,091
MINORITY INTEREST IN EARNINGS (LOSS) OF CONSOLIDATED SUBSIDIARY	<u>( 559)</u>	<u>2,049</u>
NET EARNINGS	780,706	821,042
RETAINED EARNINGS, BEGINNING	3,987,139	3,595,014
PREFERRED STOCK DIVIDENDS PAID	<u>( 510,893)</u>	<u>( 428,917)</u>
RETAINED EARNINGS, ENDING	<u>\$ 4,256,952</u>	<u>\$ 3,987,139</u>

See Notes to Consolidated Financial Statements

EQUAL EXCHANGE, INC. AND SUBSIDIARY  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
YEARS ENDED DECEMBER 31, 2012 AND 2011

	2012	2011
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net Earnings	\$ 780,706	\$ 821,042
Noncash Items Included in Net Earnings:		
Deferred Income Taxes (Credit), Net	146,275	( 40,000)
Depreciation and Amortization	947,815	979,992
(Increase) Decrease in:		
Accounts Receivable	( 274,118)	( 193,356)
Inventory	418,604	( 6,826,395)
Prepaid Expenses and Other	( 55,266)	( 265,008)
Prepaid Corporate Income Taxes	( 49,800)	
Increase (Decrease) in:		
Accounts Payable and Accrued Expenses	1,071,129	659,428
Corporate Income Taxes Payable	( 271,632)	271,632
Patronage Rebates Payable	( 46,637)	229,382
	2,667,076	( 4,363,283)
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Additions to Property and Equipment	( 848,652)	( 275,077)
Increase (Decrease) in Intangible Assets	( 4,998)	( 2,062)
(Increase) Decrease in Investments, Net	( 40,000)	25,153
(Increase) Decrease in Notes Receivable, Net	( 61,017)	( 18,010)
	( 954,667)	( 269,996)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
New Borrowings:		
Notes Payable - Lines of Credit	11,834,213	5,888,215
Long-Term Debt	100,000	620,000
Debt Reduction:		
Notes Payable - Lines of Credit	(13,551,139)	( 2,992,975)
Long-Term Debt	( 132,239)	( 100,522)
Increase (Decrease) in Minority Interest	( 5,161)	2,048
Proceeds From Common Stock Subscriptions	36,159	44,582
Proceeds From Issuance of Preferred Stock	178,712	1,432,684
Proceeds From Dividend Reinvestment	322,772	277,169
Redemption of Preferred Stock	( 231,055)	( 137,275)
Redemption of Common Stock	( 21,390)	( 37,970)
Preferred Stock Dividends Paid	( 510,893)	( 428,917)
	( 1,980,021)	4,567,039
<b>NET DECREASE IN CASH</b>	( 267,612)	( 66,240)
<b>CASH - BEGINNING</b>	757,429	823,669
<b>CASH - ENDING</b>	\$ 489,817	\$ 757,429

See Notes to Consolidated Financial Statements

EQUAL EXCHANGE, INC. AND SUBSIDIARY  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
YEARS ENDED DECEMBER 31, 2012 AND 2011  
(Continued)

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION

	<u>2012</u>	<u>2011</u>
Cash Paid During The Year For:		
Interest	<u>\$ 486,954</u>	<u>\$ 364,865</u>
Income Taxes	<u>\$ 820,855</u>	<u>\$ 425,600</u>

See Notes to Consolidated Financial Statements



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

A. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

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

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

3. Operations - Equal Exchange, Inc. is engaged in the manufacturing and distribution of coffee, tea, cocoa, chocolate and related products nationally, with its main office located at 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 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.

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

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

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.
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. 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, and notes payable. 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 notes payable approximates their fair values, as current interest rates approximate market rates.
12. Freight - The Company includes freight in as a component of inventory and freight out as part of cost of sales.
13. General and Administrative Expenses - These expenses are charged to operations as incurred and are not allocated to cost of sales.
14. Income Taxes - The Company exists, for income tax purposes, as two separate entities: Equal Exchange, Inc. and OKE USA Fruit Company. Federal and state income taxes are provided based upon earnings and tax rates applicable to the Company using the method of accounting described above.

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

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

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 Taxes, Income and Other* - The Company adopted the new standards for *Accounting for Uncertainty in Income*, (Sales, Use and Payroll Taxes), 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, 2012 and 2011, 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.
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, 2012 and 2011, there was an allowance for doubtful accounts of \$57,041.

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

C. INVENTORY:

Inventory consists of the following at December 31,:

	2012	2011
Unprocessed green coffee beans and bananas	\$ 9,377,668	\$ 11,065,602
Processed coffee, tea, cocoa, chocolate, and snacks and supplies	<u>5,320,769</u>	<u>4,051,439</u>
	<u>\$ 14,698,437</u>	<u>\$ 15,117,041</u>

D. NOTES RECEIVABLE:

Notes Receivable consists of the following at December 31,:

	2012	2011
6.00% Installment Note Receivable - Equal Exchange UK: Due in monthly installments of \$20,110 including interest to September, 2013.	\$ 97,131	\$ -
5.00% Installment Note Receivable - La Siembra: Due in monthly installments of \$1,625, including interest to September, 2013.	20,519	32,607
5.00% Installment Note Receivable - La Siembra: Due in monthly installments of \$1,625, including interest to January, 2014.	<u>17,416</u>	<u>41,442</u>
	135,066	74,049
Current Portion	<u>( 131,836)</u>	<u>( 34,800)</u>
	<u>\$ 3,230</u>	<u>\$ 39,249</u>

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

2013		\$ 131,836
2014		<u>3,230</u>
		<u>\$ 135,066</u>

E. PROPERTY AND EQUIPMENT:

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

	2012	2011
Land	\$ 502,688	\$ 502,688
Building and Improvements	3,773,609	3,773,609
Coffee Roasting and Packaging Equipment	3,949,319	3,531,339
Furniture, Fixtures, Equipment and Software	<u>3,136,526</u>	<u>2,836,382</u>
	11,362,142	10,644,018
Accumulated Depreciation	<u>( 5,393,464)</u>	<u>( 4,664,247)</u>
	<u>\$ 5,968,678</u>	<u>\$ 5,979,771</u>

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

F. INTANGIBLE ASSETS:

Intangible Assets consists of the following at December 31,:

	2012	2011
Capitalized Software and Development Costs, Net of Accumulated Amortization of \$122,165 and \$34,095 in 2012 and 2011, respectively.	<u>\$ 99,140</u>	<u>\$ 182,212</u>

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,:

	2012	2011
Liberation Foods	\$ 63,360	\$ 23,360
Coop Capital Fund NE	<u>20,000</u>	<u>20,000</u>
	<u>\$ 83,360</u>	<u>\$ 43,360</u>

H. NOTES PAYABLE - LINES OF CREDIT:

At December 31, 2012, the Company has a \$5,750,000 secured line of credit with TD Bank, N.A, with a maturity date of June 30, 2013. This line of credit was increased from \$3,750,000 in July, 2011. 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, N.A. behind the PCI second mortgage. At December 31, 2012 and 2011, there were no amounts outstanding on this line of credit.

The Company has a \$4,000,000 unsecured rolling credit facility with Shared Interest, a socially responsible organization based in the United Kingdom. The purpose of this credit facility is to finance purchases from small farmer associations approved by Shared Interest. Under the terms of this credit facility, Shared Interest pays producers for coffee shipped to the Company. The Company is required to repay Shared Interest in full within five months following the settlement date. Advances bear interest at the borrowing rate of Shared Interest, plus one percent, 7% at December 31, 2012. This credit facility may be terminated upon 180 days notice. At December 31, 2012 and 2011, the outstanding balance on this rolling credit facility amounted to \$1,746,266 and \$2,523,192, respectively.

The Company also has a \$1,000,000 secured line of credit with Eastern Bank. This line of credit bears interest at the bank's prime lending rate and is secured by certificates of deposit held by Eastern Bank that are owned by individuals and institutions affiliated with the Company. The Company can borrow up to ninety percent of the face value of the certificates of deposit. At December 31, 2012 and 2011, the outstanding balance on this line of credit amounted to zero and \$940,000, respectively.

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

I. LONG-TERM DEBT:

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

	2012	2011
4.50% Note Payable - Calvert Social Investment Foundation: Due in semi-annual interest-only payments with a balloon payment due June, 2013.	\$ 1,000,000	\$ 1,000,000
4.25% Note Payable - MMA Community Development Investment: Due in semi-annual interest-only payments with a balloon payment due August, 2013.	250,000	250,000
7.14% Mortgage Note Payable - T.D. Bank, N.A.: Due in monthly installments of approximately \$13,658 including interest with a balloon payment due July, 2014. The interest rate is hedged through the use of a swap contract.	1,290,584	1,356,280
6.00% Mortgage Note Payable - PCI: Due in monthly installments of \$7,321 including interest with a balloon payment due October, 2014.	736,232	777,775
3.00% Notes Payable - Various Individuals and to Institutions: 5.00% Due in annual or semiannual interest-only payments, with balloon payments due at varying maturity dates through December, 2017.	461,000	486,000
3.75% Note Payable - Twin Pines Cooperative Foundation: Due in annual interest-only payments with a balloon payment due May, 2017.	100,000	
Current Portion	3,837,816 ( 1,536,277)	3,870,055 ( 1,253,534)
	<u>\$ 2,301,539</u>	<u>\$ 2,616,521</u>

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

2013	\$ 1,536,277
2014	2,181,539
2015	10,000
2016	
2017	110,000
	<u>\$ 3,837,816</u>

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

J. MINORITY INTEREST IN SUBSIDIARY:

An ownership interest of 10 percent in the subsidiary is held by unrelated parties. This interest, reflected on the 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.

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, in 2012, the Company sold 6,499 shares of Class B Preferred Stock and raised \$178,712. In 2011, the Company sold 52,098 shares of Class B Preferred Stock and raised \$1,432,684.

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.

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

K. CAPITAL STRUCTURE: (Continued)

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

2013	\$ 9,077,045
2014	1,106,529
2015	372,016
2016	264,789
2017 and Thereafter	<u>179,010</u>
	<u>\$ 10,999,389</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 2012 and 2011, the price per share was \$3,395 and \$3,290, 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.

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

	<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, 2010	333,262	\$333,262	\$ 8,823,120	\$ 9,156,382
Shares issued for cash	52,098	52,098	1,380,586	1,432,684
Dividends Reinvested	9,748	9,748	267,421	277,169
Shares redeemed for cash	<u>( 4,992)</u>	<u>( 4,992)</u>	<u>( 132,283)</u>	<u>( 137,275)</u>
Balance, December 31, 2011	390,116	\$390,116	\$10,338,844	\$10,728,960
Shares issued for cash	6,499	6,499	172,213	178,712
Dividends Reinvested	11,735	11,735	311,037	322,772
Shares redeemed for cash	<u>( 8,402)</u>	<u>( 8,402)</u>	<u>( 222,653)</u>	<u>( 231,055)</u>
Balance, December 31, 2012	<u>399,948</u>	<u>\$399,948</u>	<u>\$10,599,441</u>	<u>\$10,999,389</u>



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

K. CAPITAL STRUCTURE: (Continued)

The Company has authorized at Board Meetings the issuance of additional shares of both common and preferred stock beyond the number of shares authorized initially in the Articles of Incorporation.

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, 2010	107	\$ 107	\$ 313,236	\$ 313,343
Shares issued for				
subscriptions receivable	12	12	43,368	43,380
Shares redeemed for cash	<u>( 11)</u>	<u>( 11)</u>	<u>( 37,959)</u>	<u>( 37,970)</u>
Balance, December 31, 2011	108	\$ 108	\$ 318,645	\$ 318,753
Shares issued for				
subscriptions receivable	5	5	16,865	16,870
Shares redeemed for cash	<u>( 7)</u>	<u>( 7)</u>	<u>( 21,383)</u>	<u>( 21,390)</u>
Balance, December 31, 2012	<u>106</u>	<u>\$ 106</u>	<u>\$ 314,217</u>	<u>\$ 314,233</u>

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 rebates 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, 2012 and 2011, patronage rebate expense amounted to \$322,100 and \$369,213, 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, 2012 and 2011, advertising costs amounted to \$1,116,491 and \$994,875, respectively.

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

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, 2012 and 2011, charitable contributions amounted to \$151,400 and \$130,104, respectively.

P. OPERATING LEASES:

The Company leases distribution and retail space in Massachusetts, Minnesota and Oregon for terms in excess of one year. Rent expense for the years ended December 31, 2012 and 2011 amounted to \$219,837 and \$206,437, respectively.

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

2013	\$ 145,988
2014	126,312
2015	41,076
2016	41,076
2017 and Thereafter	<u>65,037</u>
	<u>\$ 419,489</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, 2012 and 2011, producer advances guaranteed by the Company amounted to \$718,380 and \$429,384, respectively. During the years ended December 31, 2012 and 2011, 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, 2012 and 2011, the Company contributed 3% of each eligible employee's annual compensation. For the years ended 2012 and 2011, the Company's contribution to this plan totaled \$141,023 and \$131,550, respectively. These amounts are included in Payroll Taxes and Employee Benefits.

S. MAJOR CUSTOMER:

For the years ended December 31, 2012 and 2011, the Company had one major customer, to which sales accounted for approximately 24% and 22% of the Company's revenue, respectively. At December 31, 2012 and 2011, accounts receivable from this customer represented approximately 21% and 14%, respectively, of the total accounts receivable balance.

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

T. SUBSEQUENT EVENTS:

Management has evaluated events occurring after the consolidated balance sheet date through March 22, 2013, 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.  
West Bridgewater, Massachusetts

We have audited the consolidated financial statements of Equal Exchange, Inc. and Subsidiary as of and for the years ended December 31, 2012 and 2011, and our report thereon dated March 22, 2013, which expressed an unmodified opinion on those consolidated financial statements, appears on pages 1 and 2. Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplementary information is presented for 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 audits 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.

March 22, 2013

EQUAL EXCHANGE, INC. AND SUBSIDIARY  
CONSOLIDATING BALANCE SHEET  
DECEMBER 31, 2012

	<u>EQUAL</u> <u>EXCHANGE, INC</u>	<u>OKE USA</u> <u>FRUIT COMPANY</u>	<u>CONSOLIDATING</u> <u>ENTRIES</u>	<u>CONSOLIDATED</u> <u>BALANCE SHEET</u>
<u>ASSETS</u>				
<b>CURRENT ASSETS:</b>				
Cash	\$ 238,155	\$ 251,662	\$ -	\$ 489,817
Accounts Receivable	2,769,347	353,834		3,123,181
Inventory	14,626,348	72,089		14,698,437
Notes Receivable, Current Portion	381,836		(250,000)	131,836
Prepaid Expenses and Other	855,604			855,604
Prepaid Corporate Income Taxes	49,800			49,800
Deferred Income Taxes	146,155	215,066		361,221
	19,067,245	892,651	(250,000)	19,709,896
 <b>PROPERTY AND EQUIPMENT:</b>				
Land	502,688			502,688
Building and Improvements	3,773,609			3,773,609
Coffee Roasting and Packaging Equipment	3,949,319			3,949,319
Furniture, Fixtures, Equipment and Software	3,136,526			3,136,526
	11,362,142			11,362,142
Accumulated Depreciation	(5,393,464)			(5,393,464)
	5,968,678			5,968,678
 <b>OTHER ASSETS:</b>				
Intangible Assets, Net	99,140			99,140
Investments	426,881		(343,521)	83,360
Notes Receivable, Net of Current Portion	3,230			3,230
	529,251		(343,521)	185,730
	\$25,565,174	\$ 892,651	\$ (593,521)	\$25,864,304
<u>LIABILITIES AND STOCKHOLDERS' EQUITY</u>				
<b>CURRENT LIABILITIES:</b>				
Notes Payable - Lines of Credit	\$ 1,746,266	\$ -	\$ -	\$ 1,746,266
Current Portion of Long-Term Debt	1,536,277	250,000	(250,000)	1,536,277
Accounts Payable and Accrued Expenses	3,130,964	122,908	16,059	3,269,931
Patronage Rebates Payable	329,745			329,745
	6,743,252	372,908	(233,941)	6,882,219
 <b>LONG-TERM LIABILITIES:</b>				
Long-Term Debt, Net of Current Portion	2,301,539			2,301,539
Deferred Income Taxes	990,000			990,000
	3,291,539			3,291,539
 <b>MINORITY INTEREST IN CONSOLIDATED SUBSIDIARY</b>			160,163	160,163
 <b>STOCKHOLDERS' EQUITY:</b>				
Class A Shares		580,639	(580,639)	
Class B Shares		190,000	(190,000)	
Class C Shares		27,000	(27,000)	
Preferred Stock	10,999,389			10,999,389
Common Stock	314,233			314,233
Less: Subscriptions Receivable	(40,191)			(40,191)
Retained Earnings	4,256,952	(277,896)	277,896	4,256,952
	15,530,383	519,743	(519,743)	15,530,383
	\$25,565,174	\$ 892,651	\$ (593,521)	\$25,864,304

See Independent Auditors' Report on Supplementary Information

EQUAL EXCHANGE, INC. AND SUBSIDIARY  
CONSOLIDATING STATEMENT OF EARNINGS  
YEAR ENDED DECEMBER 31, 2012

	<u>EQUAL EXCHANGE, INC</u>	<u>OKE USA FRUIT COMPANY</u>	<u>CONSOLIDATING ENTRIES</u>	<u>CONSOLIDATED EARNINGS</u>
NET SALES	\$ 48,116,928	\$ 2,929,456	\$ -	\$ 51,046,384
COST OF SALES:				
Purchases	31,657,932	1,892,722		33,550,654
Freight	2,479,261	800,503		3,279,764
Utilities	122,302			122,302
Warehouse Occupancy Costs	78,470			78,470
Depreciation	312,221			312,221
	<u>34,650,186</u>	<u>2,693,225</u>		<u>37,343,411</u>
GROSS PROFIT	13,466,742	236,231		13,702,973
OPERATING EXPENSES:				
Salaries and Wages	5,323,355	123,579		5,446,934
Payroll Taxes and Employee Benefits	1,594,474	32,247		1,626,721
Advertising and Business Promotion	1,106,429	10,062		1,116,491
Bad Debt Expense (Recovery)	(28,828)			(28,828)
Certification Fees	67,217			67,217
Charitable Contributions	151,400			151,400
Computer Expense and Service	161,561			161,561
Consulting Expense	32,792			32,792
Contracted Services	103,904	500		104,404
Credit Card Service Fees	276,442			276,442
General and Administrative	77,408	25,568		102,976
Insurance	127,290	4,981		132,271
Office Expense	158,866	5,395		164,261
Patronage Rebates	322,100			322,100
Payroll Processing Fees	38,156			38,156
Postage	40,266			40,266
Professional Fees	128,333	18,918		147,251
Real Estate Taxes	76,501			76,501
Rent	210,837	9,000		219,837
Repairs and Maintenance	351,882			351,882
Selling Expenses	436,993			436,993
Telephone	77,957	3,295		81,252
Utilities	95,409			95,409
Amortization	83,072			83,072
Depreciation	552,522			552,522
	<u>11,566,338</u>	<u>233,545</u>		<u>11,799,883</u>
EARNINGS FROM OPERATIONS	1,900,404	2,686		1,903,090
OTHER INCOME AND (EXPENSE):				
Interest Income	4,420			4,420
Equity in Earnings of Subsidiary	(5,030)		5,030	
Interest Expense	(469,088)	(10,000)		(479,088)
	<u>(469,698)</u>	<u>(10,000)</u>	<u>5,030</u>	<u>(474,668)</u>
EARNINGS BEFORE INCOME TAXES AND MINORITY INTEREST	1,430,706	(7,314)	5,030	1,428,422
INCOME TAXES (CREDIT):				
Current	500,000	2,000		502,000
Deferred	150,000	(3,725)		146,275
	<u>650,000</u>	<u>(1,725)</u>		<u>648,275</u>
EARNINGS BEFORE MINORITY INTEREST	780,706	(5,589)	5,030	780,147
MINORITY INTEREST			559	559
NET EARNINGS	<u>\$ 780,706</u>	<u>\$ (5,589)</u>	<u>\$ 5,589</u>	<u>\$ 780,706</u>

See Independent Auditors' Report on Supplementary Information

EQUAL EXCHANGE, INC. AND SUBSIDIARY  
CONSOLIDATING BALANCE SHEET  
DECEMBER 31, 2011

	<u>EQUAL EXCHANGE, INC</u>	<u>OKE USA FRUIT COMPANY</u>	<u>CONSOLIDATING ENTRIES</u>	<u>CONSOLIDATED BALANCE SHEET</u>
<u>ASSETS</u>				
<b>CURRENT ASSETS:</b>				
Cash	\$ 438,613	\$ 318,816	\$ -	\$ 757,429
Accounts Receivable	2,683,686	165,377		2,849,063
Inventory	15,039,512	77,529		15,117,041
Notes Receivable, Current Portion	284,800		(250,000)	34,800
Prepaid Expenses and Other	698,015	102,323		800,338
Deferred Income Taxes	156,000	211,496		367,496
	19,300,626	875,541	(250,000)	19,926,167
<b>PROPERTY AND EQUIPMENT:</b>				
Land	502,688			502,688
Building and Improvements	3,773,609			3,773,609
Coffee Roasting and Packaging Equipment	3,531,339			3,531,339
Furniture, Fixtures, Equipment and Software	2,836,382			2,836,382
	10,644,018			10,644,018
Accumulated Depreciation	(4,664,247)			(4,664,247)
	5,979,771			5,979,771
<b>OTHER ASSETS:</b>				
Intangible Assets, Net	182,212			182,212
Investments	394,943		(351,583)	43,360
Notes Receivable, Net of Current Portion	39,249			39,249
	616,404		(351,583)	264,821
	\$ 25,896,801	\$ 875,541	\$ (601,583)	\$ 26,170,759
<u>LIABILITIES AND STOCKHOLDERS' EQUITY</u>				
<b>CURRENT LIABILITIES:</b>				
Notes Payable - Lines of Credit	\$ 3,463,192	\$ -	\$ -	\$ 3,463,192
Current Portion of Long-Term Debt	1,253,534	250,000	(250,000)	1,253,534
Accounts Payable and Accrued Expenses	2,092,289	90,454	16,059	2,198,802
Corporate Income Taxes Payable	269,511	2,121		271,632
Patronage Rebates Payable	376,382			376,382
	7,454,908	342,575	(233,941)	7,563,542
<b>LONG-TERM LIABILITIES:</b>				
Long-Term Debt, Net of Current Portion	2,616,521			2,616,521
Deferred Income Taxes	850,000			850,000
	3,466,521			3,466,521
<b>MINORITY INTEREST IN CONSOLIDATED SUBSIDIARY</b>			165,324	165,324
<b>STOCKHOLDERS' EQUITY:</b>				
Class A Shares		580,639	(580,639)	
Class B Shares		190,000	(190,000)	
Class C Shares		27,000	(27,000)	
Preferred Stock	10,728,960			10,728,960
Common Stock	318,753			318,753
Less: Subscriptions Receivable	(59,480)			(59,480)
Retained Earnings	3,987,139	(264,673)	264,673	3,987,139
	14,975,372	532,966	(532,966)	14,975,372
	\$ 25,896,801	\$ 875,541	\$ (601,583)	\$ 26,170,759

See Independent Auditors' Report on Supplementary Information

EQUAL EXCHANGE, INC. AND SUBSIDIARY  
CONSOLIDATING STATEMENT OF EARNINGS  
YEAR ENDED DECEMBER 31, 2011

	<u>EQUAL EXCHANGE, INC</u>	<u>OKE USA FRUIT COMPANY</u>	<u>CONSOLIDATING ENTRIES</u>	<u>CONSOLIDATED EARNINGS</u>
NET SALES	\$ 43,340,250	\$ 3,479,579	\$ -	\$ 46,819,829
COST OF SALES:				
Purchases	27,363,203	2,142,446		29,505,649
Freight	2,471,609	1,037,167		3,508,776
Utilities	145,215			145,215
Warehouse Occupancy Costs	97,044			97,044
Depreciation	361,102			361,102
	<u>30,438,173</u>	<u>3,179,613</u>		<u>33,617,786</u>
GROSS PROFIT	12,902,077	299,966		13,202,043
OPERATING EXPENSES:				
Salaries and Wages	5,201,843	95,588		5,297,431
Payroll Taxes and Employee Benefits	1,553,339	25,301		1,578,640
Advertising and Business Promotion	987,199	7,676		994,875
Bad Debt Expense	6,631			6,631
Certification Fees	46,842			46,842
Charitable Contributions	130,104			130,104
Computer Expense and Service	40,322			40,322
Consulting Expense	209,139			209,139
Contracted Services	82,767	31,900		114,667
Credit Card Service Fees	269,038			269,038
General and Administrative	95,968	36,000		131,968
Insurance	87,061	4,872		91,933
Office Expense	153,763	6,193		159,956
Patronage Rebates	369,213			369,213
Payroll Processing Fees	36,758			36,758
Postage	32,268			32,268
Professional Fees	118,127	27,683		145,810
Real Estate Taxes	63,608			63,608
Rent	197,437	9,000		206,437
Repairs and Maintenance	279,151			279,151
Selling Expenses	328,118			328,118
Telephone	83,281	4,003		87,284
Utilities	111,033			111,033
Amortization	31,003			31,003
Depreciation	587,887			587,887
	<u>11,101,900</u>	<u>248,216</u>		<u>11,350,116</u>
EARNINGS FROM OPERATIONS	1,800,177	51,750		1,851,927
OTHER INCOME AND (EXPENSE):				
Interest Income	7,327	19		7,346
Equity in Earnings of Subsidiary	20,719		(20,719)	
Interest Expense	(377,181)	(10,001)		(387,182)
	<u>(349,135)</u>	<u>(9,982)</u>	<u>(20,719)</u>	<u>(379,836)</u>
EARNINGS BEFORE INCOME TAXES AND MINORITY INTEREST	1,451,042	41,768	(20,719)	1,472,091
INCOME TAXES (CREDIT):				
Current	685,000	4,000		689,000
Deferred	(55,000)	15,000		(40,000)
	<u>630,000</u>	<u>19,000</u>		<u>649,000</u>
EARNINGS BEFORE MINORITY INTERST	821,042	22,768	(20,719)	823,091
MINORITY INTEREST			(2,049)	(2,049)
NET EARNINGS	<u>\$ 821,042</u>	<u>\$ 22,768</u>	<u>\$ (22,768)</u>	<u>\$ 821,042</u>

See Independent Auditor's Report on Supplementary Information



EQUAL EXCHANGE, INC. AND SUBSIDIARY  
SUPPLEMENTARY INFORMATION  
YEARS ENDED DECEMBER 31, 2012 AND 2011

	<u>2012</u>	<u>2011</u>
<u>CONSOLIDATED SCHEDULES OF COST OF SALES:</u>		
Purchases	\$ 33,550,654	\$ 29,505,649
Freight	3,279,764	3,508,776
Utilities	122,302	145,215
Warehouse Occupancy Costs	78,470	97,044
Depreciation	<u>312,221</u>	<u>361,102</u>
	<u>\$ 37,343,411</u>	<u>\$ 33,617,786</u>
 <u>CONSOLIDATED SCHEDULES OF OPERATING EXPENSES:</u>		
Salaries and Wages	\$ 5,446,934	\$ 5,297,431
Payroll Taxes and Employee Benefits	1,626,721	1,578,640
Advertising and Business Promotion	1,116,491	994,875
Certification Fees	67,217	46,842
Charitable Contributions	151,400	130,104
Computer Expense and Service	161,561	40,322
Consulting Expense	32,792	209,139
Contracted Services	104,404	114,667
Credit Card Service Fees	276,442	269,038
General and Administrative	102,976	131,968
Insurance	132,271	91,933
Office Expense	164,261	159,956
Patronage Rebates	322,100	369,213
Payroll Processing Fees	38,156	36,758
Postage	40,266	32,268
Professional Fees	147,251	145,810
Real Estate Taxes	76,501	63,608
Rent	219,837	206,437
Repairs and Maintenance	351,882	279,151
Selling Expenses	436,993	328,118
Telephone	81,252	87,284
Utilities	95,409	111,033
Amortization	88,070	31,003
Depreciation	<u>547,524</u>	<u>587,887</u>
	<u>\$ 11,828,711</u>	<u>\$ 11,343,485</u>

See Independent Auditors' Report on Supplementary Information