Annual Report

Coffee Quality Institute®
“The Q Coffee System provides a platform that will begin to address the long standing problem of rural poverty for coffee farmers.”
For the past four years, CQI has been highly focused on a single goal: Ensure the structure and implementation of an internationally respected grading system that evaluates the quality of coffee. We refer to this objective as the Q Coffee System, and at its core is a large number of international Q Graders, whose purpose is to identify and grade those coffees worth premiums in the market place. This screening tool, particularly when carried out at origin, creates the transparency required in the quality discovery process to allow both buyer and seller; through a common language, to negotiate a mutually acceptable price for the higher value coffee. There is no better demonstration of how well the Q Coffee System works at origin than the recent application by the Ethiopia Commodity Exchange (ECX) to incorporate the standards of specialty coffee into its arrival grading system, in which high quality coffees are separated out from the commercial grades for sale either at auction or through the Direct Specialty Trade (DST) program.

In Ethiopia, as well as many countries in Central and South America and also a few in Eastern Africa, washed, mild Arabica coffees are being identified, separated out, and sold at premium prices as the global demand for specialty coffees continues to increase. The Q Coffee System provides a platform that will begin to address the long standing problem of rural poverty for coffee farmers. As the volume of Q Coffee™ grows self-generating revenue for CQI, our strategic plan is to shift these resources back to the original Coffee Corps program that allows industry volunteers to provide technical assistance which will further strengthen the capacity for many coffee producing countries, working on a number of different projects. These projects follow two broad themes: 1) increase the production of high quality coffees – both volume and value; and 2) increase the internal consumption of high quality coffees – particularly in the out-of-home market. A small, but highly visible demonstration of the current success of the Coffee Corps program is the six (6) Eastern Africa competitors who will compete at the 2010 World Barista Championships, who were largely trained by Coffee Corps volunteers.

The final phase of CQI’s long term strategy will be to complete the development of the Women in Coffee Leadership Program created in Central America several years ago. In the developing world, women play a key role in building the infrastructure in the communities in which they live and work. Empowering women to take a greater leadership role in their communities has a direct correlation to retaining a higher percentage of coffee “earnings” generated from producing and selling specialty coffees. It ultimately will be through this program that CQI will be executing our mission at the highest level: To work internationally to improve the quality of coffee and the lives of the people who produce it.
“Working for a green coffee importer gives me opportunities to travel all around the world, and I have yet to visit a country whose coffee industry hasn’t been hugely impacted by the efforts of the Coffee Quality Institute. In the cities, you meet baristas trained by Coffee Corps volunteers in espresso bars, and at the exporters’ offices you meet Licensed Q Graders running the quality control departments. The training and technical support offered by CQI’s programs are invaluable to developing countries whose economies depend on the sales of specialty coffee.”

–Chris Davidson, Atlas Coffee Importers
We continue to see erratic weather patterns, land use pressures, decreasing yields, high fertilizer costs, and lack of access to credit - all factors that affect the future supply of specialty coffee. In order for our industry to grow and thrive, we need a sustainable supply of high quality coffee, just as coffee growers need sustainable livelihoods. CQI’s model in this regard has remained largely unchanged - provide education and technical assistance to elevate quality (primarily through Coffee Corps), create the infrastructure and systems to identify and separate quality coffees at origin (the Q Coffee System), and build strong communities through appropriately managed reinvestments (Women in Coffee Leadership Program). But our rationale and approach are just a small part of the equation. It’s the work on the ground, the individual projects, which pave the way and collectively build a stronger future for high quality coffee.
## OUR PROGRAMS

<table>
<thead>
<tr>
<th>Program</th>
<th>Description</th>
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</thead>
<tbody>
<tr>
<td><strong>THE COFFEE SYSTEM</strong></td>
<td>Create the infrastructure and systems to identify and separate high quality coffees at origin</td>
</tr>
<tr>
<td><strong>COFFEE CORPS</strong></td>
<td>Provide education and technical assistance to elevate quality</td>
</tr>
<tr>
<td><strong>WOMEN IN COFFEE LEADERSHIP PROGRAM</strong></td>
<td>Build strong communities through appropriately managed reinvestments</td>
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**THE DETAILS**

**Q COFFEE SYSTEM:**
Locates specialty coffees at origin and helps to improve those that have the potential to meet specialty coffee standards, as defined by the Specialty Coffee Association of America. Through our In-Country Partners (ICPs) and Licensed Q Graders, professionally accredited cuppers, green coffee samples are independently cupped and scored.

**HOW IT WORKS:**
- A green coffee sample of one lot or less is submitted to an ICP
- The ICP assigns 3 Licensed Q Graders to cup and score the coffee
- Coffees that meet the standards for green, roasted and cup quality are issued a Q Certificate

**COFFEE CORPS:**
A unique private-public partnership that matches experts in the industry with producers and associations at origin seeking technical assistance. These experts volunteer their own time to help growers improve their production methods, quality control processes or marketing.

**WOMEN IN COFFEE LEADERSHIP PROGRAM:**
A continually evolving program that views investments in women’s leadership as a key component in developing and strengthening the specialty coffee sector as a whole, recognizing the growing body of research that shows women are more effective in managing a community’s resources.
PLEASE NOTE: Colored countries indicate where ICPs are established or in development.
OUR YEAR IN NUMBERS

Licensed nearly 300 Q Graders
(for a total of 872 worldwide)

Signed 4 new In-Country Partners
(for a total of 13 worldwide)

Signed 7 new Licensing Partners
(for a total of 15 worldwide)

Graded over 100 lots of coffee through the Q Coffee System
(for a total of 400 lots)

Provided nearly 2,500 volunteer hours from Coffee Corps
(for a total of over 40,000 hours)
**ATLAS COFFEE IMPORTERS**

Atlas Coffee Importers of Seattle, Washington, has integrated the Q Coffee System into its quality control program and is using the Q Certificates and scores as a way to create an internal premium structure that pays higher premiums for coffees that receive higher scores.

**AMOR PERFECTO | COLOMBIA**

“In a highly competitive market with low prices for a pound of roasted coffee, product quality makes the difference in order to stand out. To achieve this difference it’s crucial to certify that the raw material we are working with is both specialty and exceptionally qualified. Therefore, it’s important that an independent, third party organization affirms the quality of our coffee, which is why we are Licensing Partners of the Coffee Quality Institute. From the moment we decided to become a Licensing Partner, we have increased our sales over 20%, and being a licensing partner and roasting only Q Coffee™ has served as a double guarantee for us and especially for our clients, whom are guaranteed that the characteristics of our coffee will deliver an exceptional cup to the final consumer.”

**HORIGUCHI COFFEE**

Although there are a number of coffee roasters selling Q Coffee™ in Japan, Horiguchi Coffee is leveraging its mark of Q Coffees through additional coffee grading and cupping seminars that are open to both coffee professionals and the public. Through this, Horiguchi Coffee is raising awareness about SCAA Protocols and making the Q mark a more real, tangible understanding of quality.
IMPLEMENTING SOLUTIONS FOR THE SPECIALTY SECTOR WITH THE ETHIOPIAN COMMODITY EXCHANGE (ECX)

CQI worked closely with the ECX in 2009 to train their cuppers, certifying 37 as Q Graders, and to integrate the Q Coffee System into their arrival grading system. This protocol also supports the new Direct Specialty Trade (DST) platform, which was implemented with support from SCAA and various representatives from the trade. This new system creates a fully traceable and transparent system of exchange for higher quality coffees, ultimately creating a venue for price discovery via an auction.

Representatives from the company Nigusie Lemma Edeto Coffee Development Enterprise sold an unwashed Jimma for $2.90 in the first-ever DST auction in February of 2010. Their feeling: that same coffee would have sold for at most half of that price but DST gave them an opportunity to pull this higher quality lot out and direct it more appropriately.
"I think that CQI has been uniquely placed to make a true difference in Ethiopia. The Q will help to bring a tangible increase to the incomes of literally thousands of Ethiopian coffee farmers. It is very motivating, and a privilege to be a part of."

- Phil Schluter, Schluter S.A.

2009 was a particularly expansive period for CQI as we strengthened and fostered partnerships that enabled us to expand our reach and provide more education and technical assistance to the specialty coffee sector.

The net-net is that more people and organizations around the world are aligning with CQI’s work, and these types of partnerships create long-term traction for building a sustainably supply of high quality coffees. We look forward to building upon these successes in 2010.
CQI began working with the Ethiopia Commodity Exchange (ECX) to address the needs of the specialty coffee sector and the fate of specialty coffee from Ethiopia. After a series of training and concordance exercises, CQI certified more than thirty ECX cuppers as Licensed Q Graders and integrated the Q Coffee System, which follows the SCAA Standards, into its arrival grading system. We are proud to announce that Ethiopia is the first origin country to incorporate the Q Coffee System into its internal system, a move that we believe will serve as a model for other producing countries to better identify and separate specialty coffees.

Further steps are being taken by CQI to implement the entirety of its Q Coffee System, which will allow export lots to be graded as well, creating further opportunities for sellers and buyers of high quality coffees to connect.

We secured a $1.5 million grant through the Competitiveness and Trade Expansion Program (COMPETE) funded by the United States Agency for International Development (USAID). This multi-year project, in collaboration with the Eastern African Fine Coffees Association, covers a variety of interventions including a competitive assessment, training and technical assistance, field lab expansion, and implementation of the Q Coffee System region-wide, positioning us as a major partner contributing to the success of the region.

CQI, in partnership with the Uganda Coffee Development Authority, hosted a Robusta Symposium for delegates to begin working on quality standards and grading protocols for Robusta coffees, with the purpose of identifying and elevating quality in this category of coffee. An initial draft of the protocols was developed and further workshops are being held to refine the documents before an expected release in late 2010. This has the potential to radically change how the industry views this species of coffee and really drives the mission to improve the lives of producers worldwide.

CQI is also very pleased to announce that Specialty Coffee Association of Japan signed a Memorandum of Understating, signifying Japan’s commitment to support the CQI as an In-Country Partner and uphold the standards of specialty coffee as defined by the SCAA. The purpose of the agreement is to build on the growing demand within the country and expand the Q Coffee System by providing an SCAA Certified Laboratory, hosting CQI-authorized trainings and conducting calibration workshops.
CQI is a 501 (c)(3) tax-exempt organization and has been delivering positive results for over 11 years. An investment in CQI helps create a more economically viable future for producers and supports the supply chain by increasing the value, volume and sustainability of high quality coffee production.
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<tr>
<td>Cost</td>
<td>664,925</td>
<td>657,355</td>
<td>1,104,629</td>
<td>2,916,310</td>
<td>656,471</td>
<td>1,047,387</td>
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<tr>
<td>Sales</td>
<td>1,183,998</td>
<td>567,165</td>
<td>562,797</td>
<td>1,231,598</td>
<td>2,026,441</td>
<td>1,769,479</td>
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<td>Gross Profit</td>
<td>40,138</td>
<td>21,029</td>
<td>108,818</td>
<td>23</td>
<td>308</td>
<td>814</td>
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<tr>
<td>Total Revenue</td>
<td>1,889,061</td>
<td>1,245,549</td>
<td>1,776,244</td>
<td>4,147,931</td>
<td>2,683,220</td>
<td>2,817,680</td>
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<tr>
<td>Cost</td>
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<td>1,107,878</td>
<td>1,502,754</td>
<td>3,958,882</td>
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<tr>
<td>Sales</td>
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<tr>
<td>Total Revenue</td>
<td>1,183,998</td>
<td>567,165</td>
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<tr>
<td>Cost</td>
<td>29,583</td>
<td>185,790</td>
<td>304,030</td>
<td>321,370</td>
<td>314,261</td>
<td>252,575</td>
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<tr>
<td>Sales</td>
<td>107,682</td>
<td>29,583</td>
<td>185,790</td>
<td>304,030</td>
<td>321,370</td>
<td>314,261</td>
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<tr>
<td>Gross Profit</td>
<td>78,099</td>
<td>(156,207)</td>
<td>(118,240)</td>
<td>(17,340)</td>
<td>7,109</td>
<td>61,686</td>
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<tr>
<td>Total Revenue</td>
<td>$0.80</td>
<td>$0.89</td>
<td>$0.85</td>
<td>$0.95</td>
<td>$0.89</td>
<td>$0.88</td>
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As of March 2010, we welcome Bridget Carrington, Arnoldo Leiva and Ric Rhinehart to our Board of Trustees.

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Thank you to our 2009 Annual Luncheon sponsors, without whom, our work would not be possible.

"Curtis is proud to work with the Coffee Quality Institute whose focus and hard work improves the quality of coffee and the economic stability of those who produce it. CQI’s efforts help create a common language for coffee quality, and in turn, help thousands of farmers raise the integrity of their crops so they can better compete in the world marketplace."

- Kevin Curtis, Wilbur Curtis Company
SILVER

BRONZE

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“It is once again my great pleasure to be part of and witness the tremendous progress CQI has made and the profound impact our work has at all levels of the coffee value chain. Most importantly, I see evidence in the faces of the people we touch—the overwhelming feeling of accomplishment from a young cupper learning new skills, the elation of a producer group earning a higher price for their quality efforts, and the palpable excitement of a roaster forging new ground with a bold statement of quality. We pride ourselves on creating market-based solutions and there is no greater or more satisfying proof than to see the market respond so positively.” –Ellen Jordan Reidy, America’s Food Technologies, Inc.
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To learn more about CQI and our programs, we encourage you to visit us at
WWW.COFFEEINSTITUTE.ORG
CQI thanks America’s Food Technologies, Inc. (AMFOTEK®) for sponsoring this annual report. AMFOTEK specializes in coffee and tea based beverage product development and manufacturing. For more information, please call 800-824-9092.

MISSION:
To work internationally to improve the quality of coffee and the lives of people who produce it.