



Margarita Sandoval, member of the Manos Campesinas Coffee Cooperative, Guatemala, gathering coffee cherries for processing.

2003 ANNUAL REPORT

Reaching Out:
Partners, Products, Possibilities

from the executive directors

by Rob Everts and Rink Dickinson, co-directors

Partners, products, and possibilities. These concepts cut to the heart of Fair Trade, the building of social and economic justice through the marketplace. They also represent the tangible underpinnings to our mission and guiding principles. As you will see in this report, we are proud of what we have accomplished, and both humbled and excited by the prospects that await us down the road.

2003 was another strong year for Equal Exchange. Our sales grew by 25% over 2002 to reach \$13 million; our profits were \$527,000. We raised an unprecedented \$500,000 in new equity through the purchase of Class B preferred stock by new and current investors. And while world coffee prices inched slightly upward, we still paid \$2.2 million to our farmer co-op partners in above-market premiums on the purchase of 3 million pounds of coffee. We also extended a record \$1 million in pre-harvest credit to our co-op partners.

Close partnerships and collaborations played a vital role in our achievements of 2003. Food co-ops and faith-based allies accounted for a significant portion of sales, followed by cafés, supermarkets, and natural food stores. Two new faith-based relief and development organizations, Mennonite Central Committee U.S. and Catholic Relief Services, joined our rapidly growing Interfaith Program. We reached 15 million people through the media, with about two-thirds of the various pieces that appeared, originating from these alliances. On the investment side, a first of its kind collaboration with Progressive Asset Management, helped lead us to many new investors and was responsible for a significant portion of the new equity raised. Beyond the commitment of our farmer partners, driving all of the above was the talent and hard work of the growing number of employees at Equal Exchange. As our success builds, we continue to attract and retain great people. The number of worker-owners climbed to 48.

Another contributing factor to our growth was the strategic decision to open a regional warehouse for distribution in Hood River, Oregon. This move literally brought us much closer to customers in a key region for Equal Exchange. Also, the year

“Close partnerships and collaborations played a vital role”

A worker at CONACADO, a cocoa farmers' cooperative in the Dominican Republic, removes cacao beans from a fermenter for drying.



2003 brought smiles to thousands of our customers' faces with the introduction of organic baking cocoa, in addition to the first full year in the marketplace of our organic hot cocoa in the marketplace. Our partnership with the pioneering worker-owned fair trade cooperative, La Siembra, of Ottawa, Canada, has been a highly successful collaboration for both organizations.

And as large corporations bring small amounts of Fair Trade products to market, we are looking more than ever before to the alternative trade organizations here and in Europe to join us in defining the Fair Trade model we are building. One such example was the inspiring presence of the leading Italian fair trade organization, CTM Altrmercato, at the Equal Exchange annual retreat. With an extensive product line, Altrmercato has built their brand into perhaps the leading ethical food brand in Europe.

Finally, we have outgrown our Canton home of eight years and will soon be moving to a significantly larger space. Accompanying the move will be the potential to expand beyond import, marketing, and distribution, and into production. At the same time, we are on the cusp of receiving an historic financial investment from a Mexican trading partner which would tie our fortunes even closer to the farmers whose hopes and aspirations we seek to articulate every day.



sales department expands

by Tom Hanlon-Wilde, Western Regional Sales Mgr.

This past year was an important building year for the Equal Exchange Sales Department. One of our most important projects was the establishment of a new office and warehouse facility in Oregon. We also distributed our products to an additional 1,000 mainstream supermarket stores, continued efforts to develop our webstore, made great strides in strengthening our ties to retail alternative trade organization shops, and helped to launch a new product. Toward the end of the year, we restructured the department by organizing sales staff members into two different teams according to sector.

Lila Pigott and Micah Steinhilb, transplanted from the Canton office, were instrumental in helping to establish a new Equal Exchange distribution warehouse and offices in Hood River, Oregon. The 4,000 square foot facility allows us to better serve West Coast customers. Meanwhile, last summer, Ian Sitton joined the Western team as the California Sales Representative and helped to boost sales in that state to more than a half-million dollars.

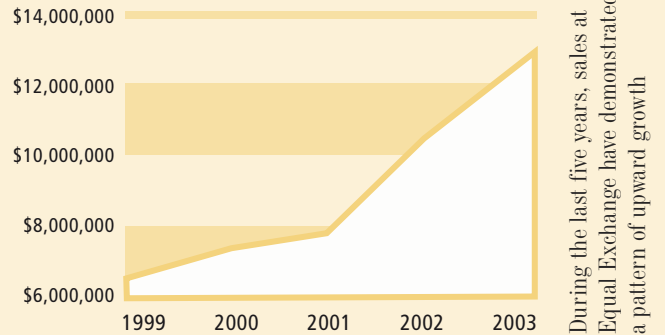
In the East, the new talents of Jim Desmond, Deepak Khandelwal, and L.J. Taylor increased our customer base through their work with core cooperatives, natural food stores, and food-service customers. Other members of the Eastern sales crew continued to develop the Equal Exchange webstore, which nearly doubled our direct sales to customers (see right). The webstore together with retail alternative trade organizations increased overall sales by about 5%. These two initiatives, together with Interfaith Program sales, resulted in one out of every four dollars generated by Equal Exchange occurring outside of food venues, e.g., grocery stores or restaurants.

In 2003, the Sales Department successfully introduced our new Fair Trade Organic Baking Cocoa (see page 8) into an estimated 1,000 cooperatives, natural food stores, and supermarkets. This is our second cocoa product from the CONACADO cooperative in the Dominican Republic, and joins the Hot Cocoa Mix that we launched in 2002. Another Sales Department achievement was the establishment of a new broker network with 80 field representatives nationwide. This was essential to our growth in conventional supermarkets, where most coffee in the U.S. is sold.



Micah Steinhilb in the new Hood River, Oregon warehouse.

EQUAL EXCHANGE SALES GROWTH



Finally, toward the end of 2003, the Equal Exchange sales staff worked on a vital departmental restructuring to enable faster growth in the food-service sector. To this end, a Natural Foods team, led by Cara Ross, was formed to focus on co-ops, natural food stores, and independently owned supermarkets, while a new Food Service team will develop programs for coffeehouses, restaurants, delis, and faith-based and other institutional customers. The Food Service team will be jointly managed by Equal Exchange's Alicia Leinberger, based in Madison, Wisconsin, and Kevin Hollender, located in our Canton office, and includes Alison Booth of the Interfaith department.

Growth of Consumer Webstore by Cara Ross, Sales Manager, Natural Foods

The Equal Exchange online consumer webstore was launched in September of 2002, but our first full year of experience in this new market was 2003. By the end of the year, the webstore had grown by 64%, and total sales exceeded \$157,000. We have received positive feedback on the webstore from customers all over the United States, many of whom live in areas where they had been previously unable to purchase Equal Exchange products. A customer through our email website expressed his satisfaction in this way:

"Equal Exchange is the best source of coffee, period. The quality and variety are second to none; the prices are the same as other premium coffee suppliers, but the farmers who grow the coffee get a fair shake. Equal Exchange is now what the rest of Fair Trade needs to become: consistent, top quality at market prices, and a fair share going to each party in the value chain..."

As we further develop our strategy around the webstore, we continue to implement pilot programs that increase both the numbers of new customers and revenue. We look forward to our second year of business and to building on all that we have learned and experienced this past year.

highlights from our worker cooperative model

by Susan Sklar, Marketing Writer

Equal Exchange has a combination of educational and governance components that help to make it a unique organization. We are an employee-owned cooperative with a current total of 48 worker-owners. Given this governance model, Equal Exchange workers are highly involved in all aspects of the organization. On a regular basis, workers attend sessions devoted to specific educational goals. Topics can include the role of the board, measures of success, or training in basic skills. Other more general presentations range from staff trip reports—following visits to partner cooperatives—to updates on the international fair trade movement.

The Equal Exchange Education Committee is charged with the task of determining what types of education and training are necessary for the meaningful participation of worker-owners. The committee also assigns mentors to new staff members to help them understand the cooperative structure and their rights and obligations should they stay beyond one year to become worker-owners—which the vast majority do. This type of support is necessary since the cooperative structure gives Equal Exchange staff members the fundamental right to make key decisions that affect them. In 2003, for example, worker-owners voted to move the Equal Exchange central office to a new location, given the recent robust growth of the organization.

There is a continuous circular flow between the worker-owner body, the board of directors and the executive directors. Members of the cooperative elect the six worker-owner and three outside board members, who hire the executive director, who then oversees staffing and manages department directors. This democratic structure assures organizational accountability and, together with educational efforts, helps to define Equal Exchange, keeps it vibrant, and contributes to its strength.



“This democratic structure assures organizational accountability”

On Becoming a Worker-Owner

by Mike Allen, Operations Dept.

Mike Allen, a staff member in the Operations Department, was voted into the Equal Exchange Worker Cooperative in April of 2003.


“Even though I knew what worker-ownership was, when I embarked upon it I was nervous because it seemed like such a major responsibility. The idea of having that much input into a workplace—voting on issues—was something that was new for me.

It felt very different being at Equal Exchange. I’d worked doing landscaping and some retail—lots of café jobs, making coffee and brewing espresso. At these jobs, there were sometimes worker manuals, but they were more like codes of conduct. In my other workplaces, the owner or supervisor told us what we could and couldn’t do. It was possible to make suggestions about some aspect of your job to make things a little bit better, but the workers didn’t affect the policies of the whole company.

It feels really good being a worker-owner—knowing that your opinion counts. You may be outvoted on some issues, but at least you have a chance to voice your concerns. I like the fact that I’m able to vote for the people that I’ve worked with—people that I’ve gotten to know—giving them the chance to participate in the company in the same way that I do. The worker-owner model would be great for other workplaces... The longer that people vote on the things they care about, the more they will be interested in their company, and the more they will work to affect positive change.”

Domingos Do Rosario, Mike Allen, Joao Cardoso, and Juvenal Alves in the Equal Exchange warehouse in Canton, MA





“2003 was a year of growth, expansion, and change.”

board report

by Beth Ann Milardo, Chair of the Board

The year 2003 was a year of growth, expansion, and change for Equal Exchange. The Equal Exchange Board of Directors approved a new four-year Strategic Plan as well as the following key proposals: that Equal Exchange purchase a new facility for our home, that we accept a loan from the NCB Development Corporation, an affiliate of the National Cooperative Bank (see below), and that we sell the largest offering of Class B stock to a coffee-producing cooperative in our history. Each of these decisions reflects our need as an organization to continue to be strong and competitive and to demonstrate the viability of Fair Trade and worker cooperatives. In the spring, the worker-owners elected Terry Appleby, of the Hanover Food Cooperative, as our newest outside Board member, and elected two new Equal Exchange worker-owners as inside directors: Denise Abbott, Director of Finance, and Forrest Sutton, Information Systems Manager. I was pleased to be elected by Board members as the second female chair of the Board in the history of Equal Exchange.

THE NCB DEVELOPMENT CORPORATION

The NCB Development Corporation, the non-profit development finance affiliate of the National Cooperative Bank, is known throughout the country as a strong ally and support system for cooperatives. In 2003, the Equal Exchange Board of Directors solidified its longstanding interest in this highly reputable financial institution by approving the largest loan in Equal Exchange history from the corporation for \$1.5 million. This loan has enabled us to finance our inventory and continue to be a viable worker-owned cooperative, all the while keeping our mission intact.

2003 Board of Directors

WORKER-OWNER DIRECTORS

Beth Ann Milardo
Erbin Crowell
Tom Hanlon-Wilde
Forrest Sutton
Denise Abbott
Julie Petot

OUTSIDE DIRECTORS

Terry Appleby
Jean Mason
Sue Meehan

Terry Appleby chooses a bag of Equal Exchange coffee at the Hanover Consumer Cooperative

Thoughts from a New Board Member by Terry Appleby

General Manager, Hanover Consumer Cooperative

My service on the Equal Exchange Board of Directors was preceded by a 15-year relationship as a customer. I originally became associated with Equal Exchange through my position as the grocery merchandiser for a cooperative in Seattle, Washington, and later through my work as General Manager at Hanover Consumer Cooperative, in New Hampshire. To me, Equal Exchange is the perfect partner for a cooperative retail business because its mission and values so clearly reflect the cooperative principles of concern for community and solidarity among cooperatives. Equal Exchange and the cooperative movement strive for the sustainable development of the communities with which they are involved.



“...participants come away with a deeper connection and more meaning in their lives.”

visiting our farmer partners

by Phyllis Robinson, Producer Relations Coordinator

Equal Exchange trips to producer partners are exciting because for many of the participants, it's their first time visiting a developing country. For almost all of them, it's their first time face-to-face with coffee farmers, and seeing and touching coffee plants. On our trip to Peru this past year, after the visitors spent four hours picking coffee alongside co-op members, and then—after a brief lunch—four more hours depulping, washing, drying, and sorting beans, they understood firsthand how hard the work was and how inadequately farmers are compensated for their labor. One trip participant told the others that this experience had changed her life, “like waking up after a long sleep.”

Not only do these trips permit travelers to learn more about farmers so that they can better promote fair trade coffee, but they also motivate the producers. On a number of occasions, I've been told by a farmer that my visit was the first time he or she had ever met someone who buys their coffee, the first time they'd seen their coffee packaged, or the first time that they'd seen photos of the coffee in bins or people drinking in a café. The interaction with the producers validates the hard work that they're doing to grow organic and to improve the quality of the coffee. From both ends, participants come away with a deeper connection and more meaning in their lives.



Sabina Justo Gálvez, a member of the CECOVASA Cooperative, Peru.

2003 Trips to Producer Cooperatives

In 2003, almost half of Equal Exchange staff members visited 13 of our trading partners and approximately 20 additional primary cooperatives in 9 countries. We took a total of 16 representatives of consumer cooperatives, supermarkets, cafés, and restaurants on client tours to visit producers and to meet with local non-governmental organizations. In addition, the Equal Exchange Interfaith Department co-led trips for 16 participants along with Witness for Peace in Nicaragua, and CRISPAZ (Christians for Peace) in El Salvador.

The women of El Privilegio Cooperative, Nicaragua



travel journal excerpts

PERU, by Phyllis Robinson
Producer Relations Coordinator

In July 2003, Phyllis Robinson had the opportunity to visit Equal Exchange's trading partners in Peru: CECOVASA, the Organization of Agrarian Coffee Cooperatives of the Sandia Valley's—eight coffee cooperatives that are composed of Quechuan and Aymara indigenous people. The following is an excerpt from her trip journal.



"I was taken to visit the organic coffee plots. We had to cross a rushing river by walking across a swinging rope bridge. Everywhere I saw careful attention being paid to organic practices: the coffee was grown in neat rows under the shade of fruit trees, the waters that run off from the wet processing mills were carefully channeled into one location, the depulped beans were dried in the sun on raised platforms with plastic available to cover them

in the event of a sudden rain, and the coffee pulp was set aside to be reused as organic compost. Farmers showed me around their plots with a sense of pride for the many improvements they've made... At each co-op we held a meeting. I described Equal Exchange and how we worked. The members, in turn, told me about their struggles, their organizational and production goals, the vision for their business, as well as the development of their communities. I was told repeatedly that I was the first coffee buyer who had come to visit them; on more than one occasion, one of the members broke down in tears expressing gratitude for the visit and for our business."



Phyllis Robinson gets a very warm welcome from the CECOVASA Co-op in Peru

GUATEMALA, by Jenny Wang
Co-owner, Moosewood Restaurant

Jenny Wang of Ithaca, New York, who traveled to Guatemala this past winter with a group of Equal Exchange staff members and other restaurant owner/managers. She is currently the President of the Board at Moosewood, as well as the restaurant's Saturday night cook and one of its four dessert makers.

"I was initially anxious about the number of meetings scheduled with all the different groups and the possible level of political activism that might be expected of me... But I can now look back and say that every single meeting was useful and insightful, whether it was meeting the people doing the work of improving life at "At Rights Action," "Manos Campesinas," or the "Pastoral Land Team" or hearing about the details of their work, it was inspiring to meet people who want to do good... While it was frustrating to not be able to directly help improve the situation for the people we met, I arrived home with a sense of optimism and belief that our everyday actions and choices can have positive reverberations. Rather than despair, I now have a feeling of empowerment about change that can be made on an individual scale."



Conrado López Chilel from the APECAFORM Cooperative, Guatemala



NICARAGUA, by Anna Daigle
Sales Representative

Anna Daigle, was part of a five-person Equal Exchange delegation that visited farmer cooperatives this past November. In her journal excerpt she describes the women's cooperative "El Privilegio," a member of the larger CECOCAFEN, Cooperative in Nicaragua.

"The most prevalent feeling I noticed among the owners of CECOCAFEN was the sense of pride in ownership. Martha, a member of 'El Privilegio', a cooperative of women within CECOCAFEN told us, 'We've gotten a better price for our coffee and that happened only because we were organized. It's our idea to keep working as a co-op. It has brought us successes.' CECOCAFEN provides support to women in a country where these kinds of opportunities for economic independence are few and far between. Currently 329 women participate in a solidarity savings and loan program in which they're organized into 12 autonomous groups around activities that diversify the family's income and complement coffee production. Loans are put back into the crops, and some women have opened small, home-based stores. One woman from El Privilegio sells enchiladas, while another sells clothes. When asked why they call themselves El Privilegio, Martha stated, 'Because it's a privilege to be able to sell coffee.'"

our faith-based partnerships

by Erbin Crowell, Interfaith Director

As globalization has accelerated in recent years, and its negative impacts have become more apparent, communities of faith have been some of the most outspoken advocates for economic alternatives that speak to values of justice and environmental sustainability. Equal Exchange has always partnered with religious groups that share in our mission of building Fair Trade, of making these values real in the marketplace.

Our first faith-based partnership with Lutheran World Relief, was launched, in 1996, as a pilot project that reached out to Lutheran parishes, offering educational materials on coffee and Fair Trade coupled with a concrete way to get involved to make a profound difference for small farmers and their families. The response was enthusiastic, and in 1997 the project was launched nationally. In the first full year, 1,000 parishes got involved. We knew we were on to something.

Since then, Equal Exchange's work with communities of faith has continued to grow rapidly. Our basic model of partnership remains the same: we build on our common missions to create initiatives

of education and action, empowering communities of faith to make a difference in the lives of small farmers and their families through Fair Trade. In 2003, we welcomed two new partners to our program—The Mennonite Central Committee U.S. and Catholic Relief Services.

Equal Exchange's sales to communities of faith and faith-based organizations have grown an average of 65% each year since 2000, reaching just over \$2.6 million in 2003—about 20% of total sales. By the end of the year, eight different denominations with more than 8,000 congregations, offices, retreat centers and educational institutions had participated in the Interfaith Program and our partnerships (see box).

These figures in themselves are amazing. But what is more profound is the impact that these numbers have had on the lives of real people in farming communities in the midst of a global economic crisis. In early 2003, one of our delegations visited the cooperative of Las Colinas in El Salvador to learn more about the impact of Fair Trade in their community. For José Luis Castillo Vasquez, a member of the co-op, the message was simple: "Thanks to God and to Equal Exchange, we will not die of hunger. We will not lose our land and our children can attend school. I want to send my thanks to all of the congregations that purchase our coffee..."

FAITH-BASED PARTNERSHIPS THROUGH THE END OF 2003 INCLUDE:

- American Friends Service Committee (1999)
- Catholic Relief Services (2003)
- Church of the Brethren (2002)
- Lutheran World Relief (1996)
- Mennonite Central Committee U.S. (2003)
- Presbyterian Church (USA) (2001)
- Unitarian Universalist Service Committee (2001)
- United Methodist Committee on Relief (2002)

Baking Cocoa Introduced

In 2001, five years after the launch of the Lutheran World Relief Coffee Project, Equal Exchange and Lutheran World Relief mailed out a survey to

ask participating parishes how the project was working and how we could make it stronger. We explored how we might reach more farmers through Fair Trade, and asked congregants

what new products would inspire them. The overwhelming reply that we received was: "cocoa!" Why hadn't it occurred to us sooner? It would be a product that would allow kids to support Fair Trade, along with their parents and

to reach new farmers in other parts of the world.

We set out to find out how we could create a hot cocoa mix that lived up to our high standards of quality and social responsibility. The result, our Organic Hot Cocoa Mix, brings Equal Exchange together with the small farmers of CONACADO in the Dominican Republic, small sugar farmers in Paraguay, and members of the Wisconsin-based dairy co-op Organic Valley.

In 2003, due to the success of our Hot Cocoa Mix, we introduced Fair Trade Baking Cocoa, also produced by the CONACADO cooperative. Made of pure cocoa powder, Equal Exchange's Baking Cocoa has already contributed its rich flavor to delicious brownies in kitchens and bake sales across the U.S. What's that on the horizon? More chocolate? Stay tuned...

financial statement

Balance Sheets

DEC. 31, 2002

DEC. 31, 2003

ASSETS

Current Assets:

Cash	\$ 965,829	\$ 286,313
Accounts Receivable	971,354	1,369,401
Note Receivable other	50,000	40,000
Inventories	2,359,808	3,628,932
Prepaid Expenses and Other Current Assets	57,963	72,942
Deposit	-	160,000
Deferred Income Tax Asset	65,000	68,000
Total Current Assets	<u>4,469,954</u>	<u>5,625,588</u>

Property and Equipment, at Cost 873,495 878,834

Less: Accumulated Depreciation and Amortization (565,578) (604,313)
307,917 274,521

Other Assets 17,298 16,893

Total Assets \$ 4,795,169 \$ 5,917,002

LIABILITIES

Current Liabilities:

Notes Payable – Lines of Credit	\$ 1,558,241	\$ 1,435,989
Notes Payable – Current	9,000	197,000
Notes Payable – Stockholders	9,600	9,600
Current Portion of Long-Term Debt	95,400	-
Accounts Payable – Trade	241,573	352,811
Accrued Expenses and Other Current Liabilities	358,404	318,158
Patronage Rebates Payable	40,216	77,494
Total Current Liabilities	<u>2,312,434</u>	<u>2,391,052</u>

Long-Term Debt, Less Current Portion 279,000 571,000

Total Liabilities \$ 2,591,434 \$ 2,962,052

Stockholders' Equity

Preferred Stock: Authorized 299,800 shares;
Issued and Outstanding: 79,413 shares in 2003
and 59,986 shares in 2002 \$ 1,649,619 \$ 2,183,855

Common Stock: Authorized 200 shares; Issued and
Outstanding: 49 shares in 2003 and 37 shares in 2002 96,219 130,149

Less: Common Stock Subscriptions Receivable (31,495) (51,535)

Retained Earnings 489,392 692,481

Total Stockholders' Equity 2,203,735 2,954,950

Total Liabilities & Stockholders' Equity \$ 4,795,169 \$ 5,917,002

Introduction to Financials

by Denise Abbott,
Finance Director

Rapid growth and increased seasonality are reflected in the 2003 financial statements. Equal Exchange had a very successful year, with increases in sales of more than 25%. However, when you look at the Balance Sheet (see left) it may be confusing to see that there are increases in Accounts Receivable and Inventory totaling more than \$1 million. There's a simple explanation for this. These numbers reflect the fact that as sales have rapidly expanded, a larger proportion of those sales have occurred in the fourth quarter.

Coffee, tea, and cocoa, by their very nature, lend themselves to cold weather and holiday consumption. As such, there is always a jump at the end of the year. As the company has grown larger, the end of the year receivables reach an even higher point in December and January, when the report financials are tabulated. Over the next months, however, the numbers will balance themselves out. In terms of the size of our inventory, it is larger, but it is also leaving at a faster pace owing to greater demand. For similar reasons, there is also an increase shown in overall profitability. Toward the end of the year, we were not able to re-invest in Equal Exchange fast enough—particularly given that we were conservative on spending for our capital needs for the upcoming year; so the figure presents larger in this year-end report.

2003 Financial Supporters

Adrian Dominican Sisters
 Calvert Foundation
 Cooperative Fund of New England
 Dominican Sisters of Hope
 Partners for the Common Good
 School Sisters of St. Francis
 Seton Enablement Fund
 Shared Interest Society, Ltd.
 Sinsinawa Dominican Sisters
 Sisters of Charity, Bronx, NY
 Sisters of Charity of the Blessed Virgin Mary
 Sisters of Charity of the Incarnate Word
 Sisters of Mercy of the Holy Cross, Merrill, WI
 Sisters of St. Francis, Philadelphia, PA
 Sisters of St. Joseph, Boston, MA
 Women of the Evangelical Lutheran Church in America
 Ursuline Sisters of Tildonk

Income Statements

	DEC. 31, 2002	DEC. 31, 2003
Sales	\$10,425,154	\$13,007,342
Cost of Sales	6,420,700	7,878,315
Gross Profit	4,004,454	5,129,027
Operating Expenses	3,699,370	4,485,806
Income from Operations	305,084	643,221
Other (Expense) Income:		
Interest Expense	(117,383)	(163,613)
Charitable Contributions Expense	(30,900)	(507)
Loss on Disposal of Equipment	-	(1,951)
Interest Income	10,873	3,122
Other Income	-	-
	(137,410)	(162,949)
Income before income taxes	167,674	480,272
Provision (credit) for income taxes:		
Current	85,000	198,000
Deferred	(10,000)	(3,000)
	75,000	195,000
Net Income	92,674	285,272
Retained Earnings, Beginning of Year	468,528	489,392
Less Preferred Stock Dividends	(71,810)	(82,183)
Retained Earnings, End of Year	\$ 489,392	\$ 692,481

Our Business Model

The following are some unique features of the Equal Exchange business model. Unlike conventional companies, we have created a model that is equally accountable to producers, employees, investors, and customers.

Fair prices to producers. We buy directly from farmer cooperatives and guarantee them a minimum price of \$1.26 per pound of coffee. If the market price rises above this, we pay 5 cents more per pound. We also pay a premium of 15 cents per pound for organically grown coffee.

Credit for producers. We share risk with our farmer partners by providing up to 60% of the purchase price up to 10 months before coffee delivery. This helps farmers to get through the difficult months before harvest.

Reasonable returns for investors. Our preferred shareholders have the first claim on Equal Exchange's post-tax profits. When we make a profit, shareholders earn an annual dividend, which has averaged about 5% over the last 15 years. In 2003, preferred shareholders earned a 5% dividend.

Employee-owners. Equal Exchange allocates a share of profits (or losses) to its employee-owners. After preferred shareholders have received their dividends, up to 20% of the remaining profits are distributed to employee-owners. The other 80% is reinvested in the company.

Pay ratio. Equal Exchange has a maximum pay ratio of 3 to 1, meaning that the highest-paid employee may not earn more than 3 times the pay of the lowest-paid employee.

Statement of Cash Flow

	DEC. 31, 2002	DEC. 31, 2003
Cash Flow from Operating Activities:		
Cash Received from Customers	\$ 10,113,690	\$ 12,609,295
Cash Paid to Vendors and Employees	(10,122,719)	(13,423,628)
Interest Paid	(117,383)	(163,613)
Income Taxes (Paid)	(5,009)	(141,313)
Interest Received	10,873	3,122
Net Cash (Used for) Provided by Operating Activities	<u>(120,548)</u>	<u>(1,116,137)</u>
Cash Flows from Investing Activities:		
Cash Paid for Purchase of Property and Equipment	(184,233)	(301,670)
Cash (Advance) Repaid on Note Receivable	(50,000)	10,000
Net Cash (Used for) Investing Activities	<u>(234,233)</u>	<u>(291,670)</u>
Cash Flows from Financing Activities		
Proceeds from Sale of Preferred Stock	125,049	504,458
Proceeds Received from New Long-Term Debt Borrowings	40,000	396,000
Proceeds Received from Dividend Reinvestment	49,704	58,630
Proceeds Received from Common Stock Subscriptions Receivable	14,541	21,211
Net Cash Advances (Payments) Under Notes Payable – Lines of Credit	378,519	(122,252)
Repayment of Current Portion of Long-Term Debt	(20,145)	(11,400)
Preferred Stock Dividends Paid	(71,810)	(82,183)
Cash Paid to Retire Preferred Stock	(17,927)	(28,853)
Cash Paid to Retire Common Stock	(2,000)	(7,320)
Net Cash Provided by (Used For) Financing Activities	<u>495,931</u>	<u>728,291</u>
Net Increase (Decrease) in Cash	141,150	(679,516)
Cash, Beginning of Year	<u>824,679</u>	<u>965,829</u>
Cash, End of Year	<u>\$ 965,829</u>	<u>\$ 286,313</u>





2003 Equal Exchange Staff

Abbott, Denise
 Allen, Michael
 Alves, Juvenal
 Berman, Virginia
 Boisclair, Terry
 Booth, Alison
 Buck, Peter
 Cardosa, Joao
 Caspersen, Todd
 Cheney, Dia
 Crowell, Erbin
 Daigle, Anna
 Dawson, Aaron
 Depina, Victor

Desmond, James
 Dickinson, Rink J.
 Do Rosario, Domingos
 Everts, Robert
 Fernandes, Bernardo
 Ganesan, Subashini
 Goodman, Gary
 Goodrich, Dary
 Gray, Kendra
 Hanlon-Wilde, Thomas
 Hardester, Laura
 Hiemenz, Jessica
 Hollender, Kevin
 Holt, Bill

Howard, Kristin
 Hubbs, Meghan
 Hunt, Jeanne
 Khandelwal, Deepak
 Kolly, Hope
 LaWall, Anne
 Leinberger, Alicia
 MacDonald, Joyce
 Magnuson, Roxanne
 Marsh, Renie
 Martin, Dwayne
 McKone-Sweet, Mark C.
 Milardo, Beth Ann
 Miller, Jenna

Miller, Lynsey
 Myszka, Jessie
 North, Rodney S.
 Olcott, Keith
 Owens, David
 Parker, Jill
 Petot, Julie
 Pigott, Delilah
 Popp, Kalista
 Robinson, Phyllis
 Ross, Cara
 Russell, Lisa
 Sanchez, Pedro
 Sheaff, Beth

Sitton, Ian
 Souza, Mark S.
 Steinhilb, Micah
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Our Mission Statement

Equal Exchange's mission is to build long-term trade partnerships that are economically just and environmentally sound, to foster mutually beneficial relations between farmers and consumers and to demonstrate, through our success, the viability of worker cooperatives and fair trade.

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