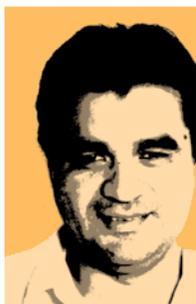
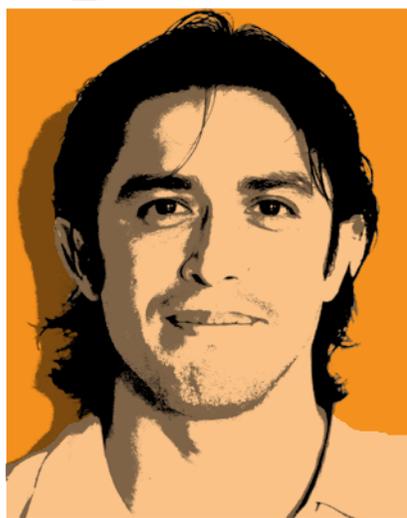




celebrating
TWENTY YEARS

2006 annual report



OUR MISSION

Equal Exchange's mission is to build long-term trade partnerships that are economically just and environmentally sound, to foster mutually beneficial relationships between farmers and consumers and to demonstrate, through our success, the contribution of worker co-operatives and Fair Trade to a more equitable, democratic and sustainable world.

OUR GUIDING PRINCIPLES

- Trade directly with democratically organized small farmer co-operatives;
- Facilitate access to credit for producer organizations;
- Pay producers a guaranteed minimum price that provides a stable source of income as well as improved social services;
- Provide high quality food products;
- Support sustainable farming practices;
- Build a democratically-run co-operative workplace;
- Develop more environmentally-sound business practices.

OUR VISION

There will be...

a vibrant mutually co-operative community of two million committed participants trading fairly one billion dollars a year in a way that transforms the world.



Producers from the San Fernando Cooperative in Peru arrive at the collection center with freshly harvested coffee.

A Movement Has Taken Hold

BY ROB EVERTS AND RINK DICKINSON

MAY 1, 1986

Ten thousand pounds of “forbidden coffee” from Nicaragua are released from customs. These were beans shipped to the U.S. through a loophole in Ronald Reagan’s embargo against the Sandinista government. An organization is born.

MAY 1, 2006

Twenty-six million pounds of coffee have been imported over twenty years, purchased by Equal Exchange direct from small farmer co-operatives. A movement has taken hold.

Over the past 20 years relationships have been established and nurtured. Nowhere was the power of these relationships more evident than at our 20th anniversary party last summer. Surrounded by hundreds of farmer co-op representatives, international Fair Trade leaders, Equal Exchange allies, investors, customers, worker owners, and family members, in the middle of roasting and packaging equipment and pallets of coffee, tea and chocolate, we celebrated the journey we have traveled together. We hope you will feel in these pages some of the energy generated over the past two decades and the distance we have yet to travel.

Our network represents a restructuring of trade which has provided hope for small farmers around the world. But what are some examples of specific change since we began? Instead of measuring the level of incomes, the number of clinics, the children who have graduated from high school, or even the communities maintained intact amidst so much poverty-driven emigration, we’d like to share one image. When we began, virtually no small farmer organizations could access financial credit from local banks on reasonable terms if at all. They were regarded as too “high risk,” a threat to the status quo, or both. Today, thanks to long-term relationships with farmer co-operatives, many of these organizations have built the track record and bargaining power to do just that and more. The impact of these changes is huge.

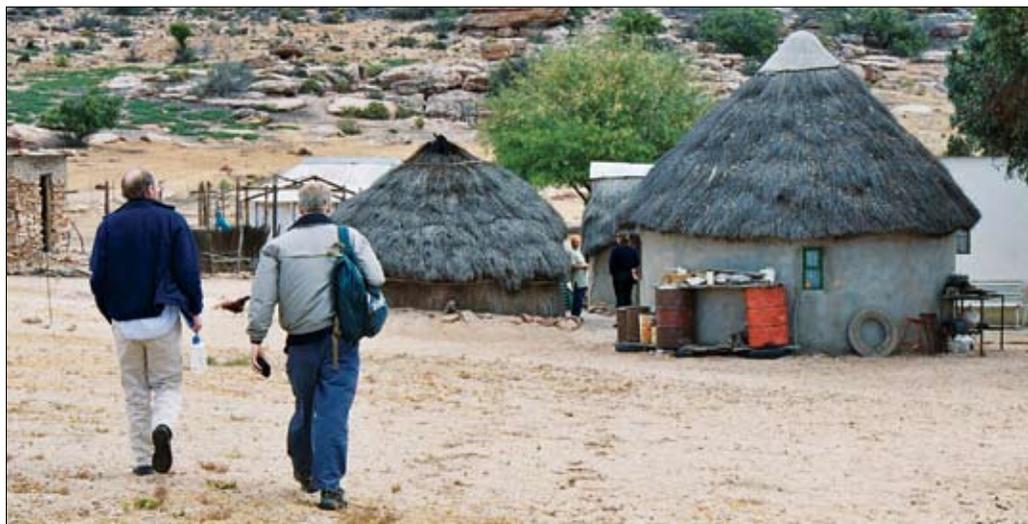
But in spite of the remarkable progress of Fair Trade, national trade policies and massive consolidation in the industrial food system have combined to make life even worse for the majority of rural poor around the world.

It is in this context that Equal Exchange is committed to sharpen our message to consumers and encourage participation in political actions that reinforce the daily decisions people make with their purchases. We hope to build a social economy that does nothing less than transform the world.

2006 was another strong year for Equal Exchange. Revenues increased by 14% to \$23.6 million. After charitable contributions and worker-owner patronage disbursements, we realized a net income before taxes of \$952,422. The West Coast region was a particularly strong contributor to overall growth this year and the entire organization appreciates the performance of the talented team driving these sales. In addition, non-coffee products are growing significantly as a

proportion of overall sales. The quality chocolate market is experiencing a renaissance reminiscent of specialty coffee twenty years ago, and together with the integrity behind our brand we are benefiting from that trend.

We’d like to conclude with some words of appreciation, first, for our investors and lenders, those who invested for the first time in 2006 and those who have been with us over the years. Our capital base has been a critical underpinning to everything we’ve done. We value your financial role, your staying power and your vision in helping us to fulfill our mission. Finally, we deeply appreciate everyone in our broad network of customers, farmers, and allies. We look forward to taking Fair Trade to new heights with all of you.



Rink Dickinson, left, and Rob Everts, right, visiting a farm of the Heiveld Cooperative in South Africa.

our story

Equal Exchange was started 20 years ago. Here is the story of how it happened.

To read the unabridged version of our story go to equalexchange.coop/story

A Vision of Fairness to Farmers



Fairness to Farmers. A closer connection between people and the farmers we all rely on.

This was the essence of the vision that the three Equal Exchange founders Rink Dickinson, Jonathan Rosenthal, and Michael Rozyne held in their minds and hearts as they stood together on a metaphorical cliff back in 1986. The three, who had met each other as managers at a New England food co-op, were part of a movement to transform the relationship between consumers and food producers. At the end of three years the founders had a plan for a new organization called Equal Exchange that would be:

- A social change organization that would help farmers and their families gain more control over their economic futures
- A group that would educate consumers about trade issues affecting farmers
- A provider of high-quality foods that would nourish the body and the soul
- A company that would be controlled by the people who did the actual work
- A community of dedicated individuals who believed that honesty, respect, and mutual benefit are integral to any worthwhile endeavor

No Turning Back

Rink, Jonathan, and Michael understood that significant change only happens when you're open to taking big risks. So they cried "Adelante!" and took a running leap off the cliff. They left their jobs. They invested their own money. And they turned to their families and friends for start-up funds and let them know there was a good chance they would never see that money again. The core group of folks believed in their cause and decided to invest. Their checks provided the \$100,000 needed to start the new company. With this modest financing in hand, Rink, Jonathan, and Michael headed into the great unknown. For the first three years Equal Exchange struggled and, like many new ventures, lost money. But the founders persevered; by the third year they began to break even.

Through the Loophole: Nicaraguan Coffee

It was no accident that they chose Nicaraguan coffee as the first Equal Exchange product. In 1985, the Reagan administration imposed an embargo on all products from Nicaragua's Sandinista government. Importing coffee beans from Nicaragua would demonstrate solidarity with the fledgling people's movement and would challenge U.S. trade policies.

Equal Exchange brought Nicaraguan coffee into the U.S. through a loophole in the law. If the coffee was roasted in another country, it could be regarded as a product from that country, and therefore legally imported into the U.S. A friendly Dutch alternative trade organization stepped forward to broker and roast the beans. Alerted to this symbolic action, the Reagan administration tried to stop the tiny organization. Officials seized Equal Exchange's Nicaraguan coffee as soon as it arrived in the port of Boston. During their first two years of business, the founders spent many days, with trade lawyers at their side, doing battle with customs officials. Each time the coffee cargo was released it was a small victory.





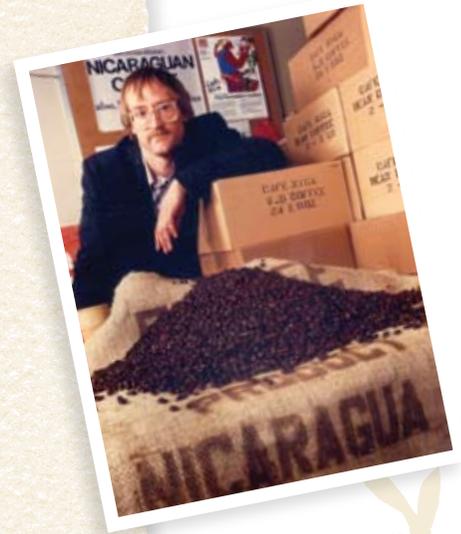
An Emerging Organization

Slowly but steadily Equal Exchange identified farmer groups and added coffees from co-operatives in Latin America and Africa. By 1991 Equal Exchange had become part of the European Fair Trade Network—aligning with groups that were at least a decade ahead of what was happening in the U.S. Tea seemed like a step in the right direction. It was a commodity consumed by millions and it was also a natural complement to coffee. The founders were already in close contact with representatives from a village movement in Sri Lanka, and by 1987 Equal Exchange brought in its first high-quality black tea.

By the end of 1991, what had once been the “pipe dream” of reaching \$1 million in sales had become a reality. By 1994, we had become a worker-owned co-operative with about 20 members. A pivotal early investment by the Adrian Dominican Sisters, in 1989, helped to alert others that this undertaking, however risky, might be worthy of outside financial support.

Another exciting chapter in our history started in 1996, when Equal Exchange joined with Lutheran World Relief in a path breaking collaboration resulting in what is now our Interfaith Program. This major initiative helped Equal Exchange create partnerships with communities of faith throughout the U.S. Over the next ten years more than 15,000 congregations across the U.S. began using our Fair Trade coffee.

In 2001, we polled our Interfaith partners to determine what new products would further inspire them. The response from congregations could be summed up in a single word: “cocoa.” We added our hot cocoa mix in 2002 and our baking cocoa powder in 2003. The next logical step was to introduce Fair Trade chocolate bars, which we did in 2004. The chocolate bars have been received with great enthusiasm by our supporters. They have brought our work with cocoa farmers to the next level and are providing consumers with an alternative to chocolate tainted with slavery from West Africa.



20 Years and Counting

Today, at 20 years old, Equal Exchange is a thriving model of Fair Trade that has exceeded beyond our founders’ original vision. We offer coffee, tea, and chocolate products from 38 farmer co-operatives in 20 countries. We are more than 70 worker owners strong, with a broader network that includes 400 loyal investors, more than 300 food co-operatives, hundreds of cafés and other stores, and more than a million consumers.

Once upon a time, the specialty coffee industry dismissed our vision of more equitable relationships with farmers as naïve and unrealistic. Today there are some 400 coffee companies purchasing at least a small portion of their coffee under Fair Trade terms. Over the next few decades, Equal Exchange needs to engage and collaborate with like-minded partners and stakeholders throughout the Fair Trade system if we are to continue to transform how business is done. Our collective achievements of the past 20 years prove that we can create change beyond our wildest dreams.

We invite you to share our vision for a better world—a vision that connects us more closely to the food we eat and to the farmers who grow it.



Photos, clockwise from top: Michael Rozyne (left) and Jonathan Rosenthal (right), *The Patriot Ledger*, 1994; Rink Dickinson, *Time Magazine*, 1988; Equal Exchange staff and friends at the Stoughton, MA office, (top to bottom, left to right) Kent French, Mark Sweet, Mark Souza, Clark Arrington, Jonathan Rosenthal, Lisa Woodside, Charlotte Mann, Michael Rozyne, Judith Arc, and Truc Dang; first brochure with illustration by Nicaraguan mural artist Alejandro Canales; cartoon from 1997 national advertising campaign.



our products

This year was full of exciting developments with our producer partners. In 2006, we traveled to Ethiopia to visit our partner Oromia Coffee Farmers' Cooperative Union (OCFCU) for the first time. It was inspiring to see so many new schools and health clinics built with Fair Trade premiums in many of the communities where the OCFCU's co-operatives are situated. During the late fall, Equal Exchange co-sponsored screenings of the documentary film *Black Gold*, in many independent movie houses across the U.S. The film describes the difficult life of coffee farmers in Ethiopia, and featured the OCFCU and its work to help the farmers improve their lives and communities. While in Africa, Equal Exchange staff members also attended the African Fair Trade Network conference in Tanzania, where representatives from Fair Trade co-ops all over the continent were present to discuss the accomplishments and challenges of Fair Trade.

Our partnerships now number 38 farmer co-operatives in 20 countries. In 2006, Equal Exchange Interfaith, Sales, and Investor delegations traveled to Nicaragua, Mexico, El Salvador, Guatemala, and the Dominican Republic. In addition, Equal Exchange staff members traveled to Colombia, Bolivia, and South Africa to meet with co-op members. We were particularly impressed by the accomplishments and level of commitment and enthusiasm of the farmers and staff of our trading partner in Colombia, ASPROCAFE Ingruma. Given the ongoing conflict in the country, which has affected hundreds of thousands of people, it was inspiring to see this example of organization and co-operativism. The farmers, who are very concerned about protecting their natural resources, are developing organic coffee, sustainable farming, and environmental preservation projects incorporating women and youth in unique and innovative ways.

Equal Exchange is proud of the role we have played in connecting ASPROCAFE with one of our long-term Interfaith partners, Lutheran World Relief (LWR). After an onsite visit and much deliberation, LWR decided to use its allocation from the Equal Exchange "Small Farmer Fund" to contribute to the ASPROCAFE sustainable farming project. The project marks a "triangulation" between a field-based partner; ASPROCAFE, its U.S. based partner; Equal Exchange, and LWR, which purchases Colombian coffee from Equal Exchange. Our partnerships with groups in the U.S. and abroad keep evolving and changing. We look forward to continuing to grow and deepen this network of consumers, farmers, and other allies. *—Phyllis "Felicia" Robinson*

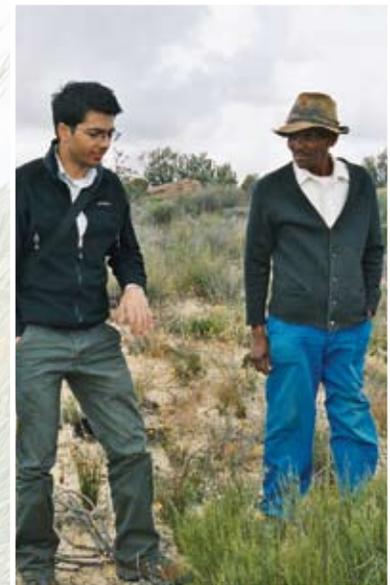
COFFEE ROASTING IN 2006: In 7,012 roasts over 226 production days, we roasted 1,485,679 pounds of green beans, which after the natural shrink in the roasting process, became 1,172,510 pounds of roasted and packaged coffee.

Visiting Rooibos Farmers in South Africa

In November, we journeyed to the most remote outer reaches of the Western Cape province of South Africa to visit our two new trading partners, the rooibos tea farmers of the Wupperthal and Heiveld Cooperatives. The Rooibos plant produces a red decaffeinated tea which is naturally rich in antioxidants, but is not related to the tea family. Rooibos is indigenous to the Western Cape in South Africa and doesn't grow anywhere else in the world. Both the Wupperthal and Heiveld co-ops are moving substantial amounts of rooibos tea, maintaining high quality, and successfully managing a facility called Fair Packers. The co-ops are facing increasing pressure from the highly capitalized plantation sector and newly certified "Fair Trade" plantations.

Throughout our trip, during meetings and discussions, the larger South African historical context was ever-present. Until 1994, due to the South African policy of Apartheid, whites had all of the institutional advantages and blacks were systematically denied land ownership, housing, health care, and quality education. As a result, the black population is struggling to establish itself, to overcome poverty, and to deal with an extreme crime rate. Wupperthal and Heiveld are encouraged by the new partnership with Equal Exchange and passionate about their unique product, which they are eager to share with the rest of the world.

—Deepak Khandelwal



Hendrik Hesselman, from the Heiveld Cooperative, right, shows Deepak Khandelwal from Equal Exchange, left, rooibos plants at the Heiveld Co-op located in western South Africa.

TEA



Energized by stories of success during a 2005 trip to tea lands in northern India, we decided to take the next big step in our tea program in 2006. The tea industry is beset by the same issues as coffee—large players with lots of control—and producers and farmers with little power or influence. Small farmers, the focus of Equal Exchange's trading model, are the most marginalized. In the context of tea, fighting for this group requires us to continue to challenge not only the conventional system, but also the Fair Trade certification system that is drifting from its early roots by endorsing larger and larger producers. The big steps for us in 2006 included establishing relationships with three other small farmer groups, launching three new tea-bagged products, and developing strategies to get high-end loose teas to the market. The year-end result was good: a 35 percent increase in tea volume, deeper connections with more small farmers, and an immeasurable revitalization of our tea energy. —Deepak Khandelwal

CHOCOLATE



Coffee beware, chocolate is on the move. Although coffee remains the engine behind Equal Exchange, our chocolate products are new and young and growing rapidly. After four years of success with our co-operative Fair Trade chocolate products, in 2006, Equal Exchange continued to solidify and deepen its presence in the chocolate world with some great new additions. These included three new 3.5 oz chocolate bars: Organic Dark Chocolate with Pure Cocoa Nibs, Organic Mint Chocolate, and Organic Espresso Bean. Other new players include Organic Chocolate Syrup for our Café and Restaurant Program, and last but not least, our smallest product yet, Organic Dark Chocolate mini bars, .16 oz bites of exquisite dark chocolate.

What do these additions mean for us? We now have a larger presence on the chocolate shelf with a line of six sumptuous bars. Also, we made our first foray into the vast arena of holiday chocolates, starting this past Halloween with a successful campaign using our mini bars. Finally, the Dark Chocolate Syrup has become a key ingredient in our Fair Trade Café and Restaurant Program. The results speak for themselves: Equal Exchange customers purchased 979,882 chocolate bars in 2006. That's a 57% increase in just one year. —Dary Goodrich

Modern Slavery on Cocoa Farms

In 2001, many chocolate lovers were shocked to hear from journalists that children were regularly being lured into enslavement on West African cocoa farms, where 70% of the world's cocoa is grown. After six months of public and government pressure, corporate representatives of the chocolate industry signed an agreement promising to create a system that by June of 2005 could bring certifiably “clean” cocoa to market that was untainted by forced child labor.

Unfortunately, almost six years since the scandal broke, little has been done. After missing the June 2005 deadline, and having little progress to report, the chocolate industry unilaterally moved the target date back to June 2008. They have dropped the goal of eliminating forced child labor and now are promising only a monitoring operation that will cover only half of the cocoa grown in two countries: the Ivory Coast and Ghana.

In the meantime, groups like the International Labor Rights Fund have continued to pressure the industry. A key demand is that the large corporations begin buying certified Fair Trade cocoa as it offers critical protections for workers and directly addresses the underlying problem of low cocoa prices and chronic poverty among cocoa farmers. So far the industry has refused.

In the meantime, Equal Exchange will continue to be a leader in this area whenever and wherever possible. Since we introduced our first cocoa product in 2002, we have used certified Fair Trade Certified™ organic cocoa exclusively for our chocolate and cocoa line. Together with our three cocoa-producing co-operative partners—CONACADO (Dominican Republic), CACVRA (Peru), and El Quinacho (Peru)—we believe we are demonstrating a viable alternative to an industry badly in need of reform.

—Rodney North



Cocoa nibs in sacks at the CONACADO Cooperative in the Dominican Republic

twenty years of

INTERVIEW WITH:



Blanca Rosa Molina

President, CECOCAFEN,
Nicaragua

"Fair Trade and Equal Exchange have caused positive change in our lives. The most important area is in land conservation. Fair Trade has allowed us to have the land and work it. For the small producer this is the most important thing. The land is the means of life, our form of life. Fair Trade has prevented us from losing our land. Instead, we have been able to improve it, diversify the crops that we grow on it, and protect the environment.

Fair Trade has also been extremely important for women in Nicaragua. It has allowed us to organize, to have an effect on politics and our co-operatives. I'm a producer of coffee and until recently the world of coffee was a man's world. Coffee farming makes up the principal economy of the country; but women did not enter it. Now, we've made a major advance in the participation of women. Today, women form a significant portion of coffee producers: thirty six percent. We are found within the management structure, we are in the administration. And this is very important. What made this happen was Fair Trade."

Our Co-op Supporters

Back in 1986 when Equal Exchange was importing its first container of coffee, many food co-ops were already celebrating 10 or 15 years as community-owned businesses. These co-operatives were pioneers in organic retailing, and the idea of empowering coffee growers and linking them with their customers in the U.S. resonated with them. As Equal Exchange started sourcing coffee from small farmers, food co-ops were enthusiastic early supporters.

Fern Weiss, currently at the Wedge Natural Foods Co-op in Minnesota, recalls being a buyer at the Cambridge Food Co-op (now Harvest Food Co-op) in the early days of Equal Exchange. "I liked the idea of putting a face and name to the grower. Fair Trade didn't have the recognition it has now and we really didn't know what it meant. We supported Equal Exchange partly because the coffee was organic and healthy for the earth, but also because it seemed like a more spiritually healthy way of doing business. At the time, we didn't realize its importance or how far reaching it would become."

Over the past twenty years, Equal Exchange and food co-ops across the country have grown up together, partnering in ways that express their social visions in an increasingly competitive natural foods industry. During this time more than 40 food co-op staff members have visited coffee-growing co-ops on Equal Exchange delegations to Mexico, Peru, El Salvador, Guatemala, and Nicaragua. And when Equal Exchange's trading partner in the Dominican Republic suffered a devastating hurricane, more than 50 food co-ops stepped up, raising more than \$7,000 in reconstruction funds. More recently, food co-ops have been key allies in helping Equal Exchange create our Domestic Fair Trade program, which adapts our international standards to food grown by U.S. farmers.

Just as Fair Trade is about more than paying a fair price, Equal Exchange's relationships with food co-ops are about more than supplying them with delicious chocolate, tea, and coffee. Equal Exchange, food co-ops and the producer co-ops at the beginning of the chain all participate in a vibrant co-operative economy, where goods are valued for the human connections and community that they represent. *—Kristin Howard*



Fresh produce at the Community Mercantile Food Co-op located in Lawrence, Kansas.

EQUAL EXCHANGE TIMELINE



MAY 1, 1986

U.S. customs officials release the first shipment of Nicaraguan coffee from the Port of Boston, and Equal Exchange is born

1989

International Coffee Agreement expires - coffee prices drop from \$1.30 to \$0.80 per pound.



co-ops, stores & cafés



Cafés in Philly Join Forces

The Independents Coffee Cooperative began informally three years ago, when four independently owned coffee houses in Philadelphia began sharing information around the issue of Fair Trade coffee. This inspiring group of café owners embraced the spirit of co-operation in an environment where most folks would have seen competition. The four businesses began to consolidate their efforts in a number of areas such as advertising, training, collective buying, and resource sharing. They recognized that in this way they would have a greater impact on people, profits, and the planet.

The innovations of the Independents Coffee Cooperative have resulted in a powerful co-operative model. The café owners purchase coffee grown by a Peruvian co-op; it's roasted at the largest co-op coffee roaster in the U.S. (Equal Exchange); and it's retailed at their own cafes. All of these activities lead to a more streamlined supply and reinforce the Fair Trade co-operative message. "The best part," says Lynsey Miller of Equal Exchange, "is that consumers in Philadelphia can now use their dollars to make a statement while getting an amazing cup of coffee." At the end of 2006, the Independents Coffee Cooperative had expanded to include six businesses with a total of ten coffeehouses.

—L.J. Taylor

A Relationship with the Stormans

The relationship between the Stormans family and Equal Exchange goes back 13 years. Bayview Thriftway was the first family-owned supermarket in the Western United States to offer a full line-up of fairly traded coffees to its customers when the store installed an Equal Exchange bulk coffee display unit in July 1993.

The third generation family-owned supermarket began to work with Equal Exchange in July 1994, in order to give shoppers access to foods grown and imported under Fair Trade conditions. As co-owner Kevin Stormans put it, "Thanks to Equal Exchange, the relationship we have with family farmers in developing countries is both commercial and personal. I've visited the farmers and they've visited us. Through this relationship I have come to understand how incredibly important the work Equal Exchange is and how vital their core values are to making an impact in this world." —Tom Hanlon-Wilde



Kevin Stormans, right front, holding a coffee bag, visits the COCLA Cooperative in Peru with other western store owners and managers in 2001.

INTERVIEW WITH:



Bill Harris

President, Cooperative Coffees, Georgia

"Cooperative Coffees started in 1999 because a group of seven roasters, all regionally based, wanted to trade directly with producer groups. They couldn't import directly on their own, because they just weren't big enough—coffee is imported in 40,000 pound increments. Many of them were former green bean customers of Café Campesino. So, we formed a co-operative, and that meant that collectively we could buy containers of coffee directly from producers, and control the relationship.

If you just buy from conventional importers, you don't know from year to year where your coffee's going to come from. You can hope that you'll be able to continue purchasing from the same co-operative, but you aren't guaranteed, which means that you can't necessarily build a long-term relationship. And since these roasters all cared deeply about being directly involved with the producers and building relationships, we used a co-operative model to start importing...

Equal Exchange has been at it a long time. They've been helpful all along the way, just sharing information and collaborating whenever it's feasible to do so. The Equal Exchange folks have been collaborators, friends, mentors..."



1990

Equal Exchange formalizes worker-owner co-operative structure.



1991

Equal Exchange formally adopts European Fair Trade pricing. Product line expands to include a full assortment of whole beans, decaf, different roasts, and flavored coffee. Sales break \$1 million.

twenty years of faith

INTERVIEW WITH:



Melanie Hardison

Associate for *Enough for Everyone*, Presbyterian Church (USA)

"I've been on three delegations, one to El Salvador and two to Nicaragua, and have seen the impact of Fair Trade on farmers and their families. We've visited Fair Trade coffee co-operatives and communities that are part of the Fair Trade system, and we've visited farmers outside of the system and the differences are vast. It's most visible when you meet the children. When we've interacted with children whose families aren't part of Fair Trade communities, you see poverty, hunger, and malnutrition. In a Fair Trade community you can observe that most of the children are healthier; they're more interactive and often better educated.

Fair Trade is about justice. It's about us as consumers in the United States putting our faith for us and humanity in a system that works for farmers. It's not charity at all. It's really about changing our consumer purchases to make a difference for people around the world. Visiting farmers, being in their communities, learning about their lives, I know firsthand that each purchase makes a difference for farmers everywhere."

Our Interfaith Roots

The Equal Exchange Interfaith Program, launched in 1999, has its roots in Equal Exchange's earlier years. The Adrian Dominican Sisters were among the first Equal Exchange lenders and places of worship to bring our original product, Café Nica, to their members in 1989. Seven years after this, in 1996, we started a pilot project in Minnesota, Wisconsin, and Michigan with Lutheran World Relief (LWR). Many Lutherans there are from farming families, and they responded overwhelmingly to the idea that the cup of coffee they enjoyed after worship should benefit the farmers who grew the beans.

Encouraged by their enthusiasm, we launched the Equal Exchange Interfaith Program with LWR and the American Friends Service Committee in 1999. Since then we have expanded our program to include several other partnerships (see below), as well as other faiths and denominations. To date, more than 15,000 congregations and organizations have participated in the program by serving fairly traded coffee, tea and cocoa after worship, selling our chocolate bars at holiday bazaars, and spreading the word in their communities. We enjoy daily contact with our Interfaith Program customers; in fact, their input was the catalyst that launched our popular Organic Hot Cocoa Mix in 2002.



Erbin Crowell, founder of Equal Exchange's Interfaith Program, and Rev. Timothy Bernard, early advocate for the LWR Coffee Project, at a Jubilee 2000 gathering.

As people of faith put their values into action through Fair Trade, they have become an integral part of the network of relationships at the core of Fair Trade. Through visits to coffee co-operatives, congregation members have learned from farmers and shared how they promote the co-ops' coffee back home. Farmers can appreciate the power in these relationships. As Diego Pérez López from the CIRSA Cooperative in Mexico summed it up during a 2005 Interfaith delegation: "We are all working together in this co-operative effort for the good of all.... We are all in the same struggle for a life of peace."

—Anna Utech

INTERFAITH PROGRAM PARTNERS:

AMERICAN FRIENDS SERVICE COMMITTEE (1999)	PRESBYTERIAN CHURCH (USA) (2001)
CHURCH OF THE BRETHREN (2002)	UNITARIAN UNIVERSALIST SERVICE COMMITTEE (2001)
LUTHERAN WORLD RELIEF (1996)	UNITED CHURCH OF CHRIST (2004)
MENNONITE CENTRAL COMMITTEE U.S. (2003)	UNITED METHODIST COMMITTEE ON RELIEF (2002)



1992

Equal Exchange introduces "Café Salvador" in partnership with Oxfam and Neighbor to Neighbor.

1996

Pilot project with Lutheran World Relief which results in the founding of our Interfaith Program in 1999. Equal Exchange is the first U.S. coffee company to provide pre-harvest credit to small farmer co-operatives.



n-based relationships

Our Ten Thousand Villages Partnership

For the last fifteen years Ten Thousand Villages and Equal Exchange have worked together to build a Fair Trade network in the U.S. We are both founding members of IFAT (International Fair Trade Association) an organization composed of Fair Trade organizations from countries throughout the world.

Equal Exchange is continually inspired by both the tremendous mission and integrity of Ten Thousand Villages and their success in building a sustainable economic model. Ten Thousand Villages, founded in 1946, has a commitment to small-scale artisans that is rooted in their connection with the Mennonite Central Committee and their history working with village producers in countries such as India, Bangladesh, and Kenya.

Mennonite volunteers have lived in most of the countries of the world, usually in the most rural and marginalized communities. This experience has directly shaped the Ten Thousand Villages world view and has created an organization of committed and humble Fair Traders. Their vision has led them to be successful. In the last five years Ten Thousand Villages has grown very rapidly, adding more stores to their network. Equal Exchange is particularly grateful for the support Ten Thousand Villages has shown to our farmer partners by marketing their coffee, tea, and chocolate products and by telling their stories.

To learn more about them go to www.tenthousandvillages.com

—Rink Dickinson



(Front to back) Bonnie Moyer, Ten Thousand Villages Store Manager, Soudertown, PA, Lilla Woodham from Equal Exchange, and Ariel Escobar, Product Coordinator, UCA Tierra Nueva at the Tierra Nueva Cooperative in Nicaragua.

A Different Kind of Customer Service

Partnerships are at the very core of Equal Exchange Customer Service Department. We strive to develop long term connections with our producer partners and with the community that purchases our products. We work as a team and try to carry that spirit to the customer. What differentiates us as a service team? Our goal is not only to process an order in a timely and professional way, but also to be informative and, dare we say it, have fun at the same time. We'll take a few minutes to inform a customer about some development with one of our producer partners or to listen to them tell us some news about their co-op or a fundraiser that they've done. We're not just here to crank out orders, though we certainly do that too.

And it's not that we never make mistakes. But if there is a problem, we figure out how to make things work. Conversely, we find that our customers tend to be more understanding than most. Many of them see this business of making the world a fairer place as a collaboration. They understand that we're all in this together and we're in it for the long haul. Every conversation is another stone set into the foundation of Fair Trade. —Keith Olcott

INTERVIEW WITH:



Rocio Motato

Organizer, Grupo ASPROCAFE de Ingruma, Colombia

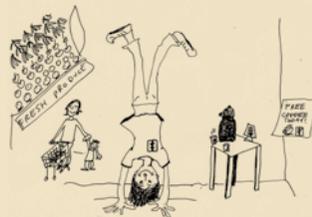
“We deeply appreciate Equal Exchange. Our relationship with them is very human. Why? Because Equal Exchange has visited us, and they understand the producers' reality. Since Fair Trade arrived at Río Sucio much development has taken place in the small producer co-operatives. The programs that have come have had much impact on our region, socially and economically.

Equal Exchange has linked us with other organizations like Lutheran World Relief which is helping us to increase our organic production. In a study made through the organic coffee program, we saw that low crop productivity was caused by a lack of fertilizer resulting from a scarcity of materials. Many farms do not have animals, which produce natural fertilizer. The Lutheran project provides animals for the youth to raise for this purpose.

This project is very important for us because we are in a zone of conflict. It motivates the youth to stay on the farms and not join one of the armed groups. It's also a project that's of vital importance for women, as it helps them gain independence so that they don't have to depend completely on their husbands. They can also manage their own resources and help meet the family's basic needs.”

1997

Equal Exchange creates Organizing Department for grassroots outreach.



1998

Equal Exchange launches new tea line, and opens new office and warehouse in Hood River, Oregon.



twenty years of

INTERVIEW WITH:



Jonathan Rosenthal

Equal Exchange Co-founder
Top Banana, Oké USA, Fair Trade Fruit Co.

"When we started Equal Exchange, we were kind of running on vapors; there was little substance other than our ideas and dreams. Today, there are more than a hundred people working at Equal Exchange and an incredible physical plant. The dream has become a huge extended family, stretching across the globe. It makes me feel very proud, and a little nostalgic just trying to connect where things are today to where they were twenty years ago.

One of the biggest themes back in the eighties was really just survival. We were so focused on seeing if we could make it, if these 'crazy ideas,' as people called them, could really take hold. We were exploring things like what products? What business model? What distribution channels? What sales methods? How to market things? ...Everything was up for grabs except our basic values. We wanted to live our values and meaning, we wanted to structure ourselves in the same way that we worked with producers to structure themselves. One of the things I'm proudest of is that Equal Exchange, with all the growth and change over the last twenty years, has stayed true to those original values in a really inspiring way."



Summit Reflections

In mid-July, we celebrated our 20th anniversary, with hundreds of Fair Trade leaders, partners, store managers, investors, and Equal Exchange worker-owners. Also attending were 25 representatives from small farmer coffee, tea, cocoa, and sugar small farmer co-operatives from 19 different groups in Central and South America, Africa, and Asia. We held a two day event which included a Stakeholders Summit, a one-day conference in which we addressed a number of important issues trying to get closer to the "heart" of Fair Trade. During the summit we heard a range of stories and viewpoints that are helping us to form a foundation of information and experience that will enable us forge paths into the future. Here are some of the conclusions from our Summit:

- Some of the obstacles currently faced by small scale farmers include:
 - A lack of access to the international market and a need to expand that market;
 - Restrictive government policies, e.g., land ownership, banking regulations, export/tax policies, and a lack of infrastructure to support small farmers;
 - Insufficient price rewards in general and for quality.
- There's a need to address the problematic parts of the various certification systems, e.g.,

Fair Trade, organic, etc.—including issues of governance and participation—and fee structures.

- Stakeholders must work together to strengthen relationships throughout the supply chain.
- There's a need to create new models of co-operative ownership for the entire Fair Trade supply chain from producer to consumer.
- Co-op leaders must mobilize the co-operative community to advocate for small farmers and to promote the co-op difference.
- The success of Fair Trade should not be measured by volume but by stronger producer organizations and educated consumers.
- There's a need to establish Fair Trade neighborhoods where Fair Trade businesses and households cluster together, support each other, and strengthen the ties between shoppers and producers.

The issues identified at the Summit provide a focus for future collaboration and engagement among Fair Trade stakeholders. There's a tremendous opportunity for Equal Exchange to mobilize our own community to action, while simultaneously supporting other stakeholders in their initiatives.

—Virginia Berman, Dia Cheney, Rob Everts

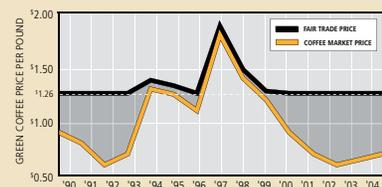
2000

Equal Exchange Solar Van, painted by artist Joe Flemming arrives for brewing coffee at events and festivals across the U.S.



2001

Coffee prices plunge to a new low.



community building

Building a Community

Ten years ago, the Equal Exchange Organizing Department was a mere experiment. In 1996, Equal Exchange hired its first organizer, Virginia Berman, to research various questions, the most vital of which being “If enough shoppers knew the difference between Equal Exchange and other coffees, would they choose the Fair Trade brand?” After hundreds of coffee tastings and conversations with engaged shoppers and activists at farmers markets and food co-ops across the country, it became clear that Americans would not only choose Equal Exchange, they would demand it. We needed a new department to communicate our mission to consumers, and the Equal Exchange Organizing Team was born. Today the Organizing Team holds coffee, chocolate, and tea tastings in stores and cafes, a total of 300 in 2006. Organizing also runs a community events program, which offers thousands of cups of coffee and chocolates to folks at conferences, concerts, and festivals each year, some 65,000 cups of coffee in 2006.

The Equal Exchange Organizing Department works closely with the grassroots community by assisting advocates in hosting house parties which introduce friends and neighbors to our products and our mission. The team offers resources to activists who want to see more stores carrying Equal Exchange products. In 2006, the Organizing Team launched its latest initiative: its Fundraising Program. During the past year, 120 parents, PTA presidents, teachers, and Equal Exchange customers chose to feature Equal Exchange products over the conventional fundraising items used to raise money for their children’s schools. After ten years of grassroots organizing, Equal Exchange’s committed enthusiasts now number in the hundreds of thousands and are poised to delve even deeper into the work of transforming the world. —Susan Sklar and Virginia Berman



Michelle Ford, left, Daniel Steinberg, right, and Kevin Hollender, back, at Greenfest, San Francisco



INTERVIEW WITH:



Tadesse Meskela

General Manager, Oromia Coffee Cooperative Union (OCFCU), Ethiopia

The OCFCU, which has 75,000 members from 101 co-operatives is featured in the documentary film “Black Gold.” The movie was screened at dozens of independent theatres this past year and will continue to be shown in 2007. The OCFCU is an Equal Exchange producer partner.

“In 2004, because of Fair Trade, OCFCU started to receive a better income than what we had received in the conventional market. This has changed the lives of our farmers significantly. Before Fair Trade, people used to walk 15 to 30 kilometers to a nearby school or to a health center. Because of Fair Trade there is now a health center in their village, a school, and a clean water supply station. But this is just start. There are only four co-operatives that benefit from the school and the health center; and we have more than 100 co-operatives.

Fair Trade is just asking a fair price for our products. The price of coffee has stayed low while the price of other commodities has increased. We don’t ask for charity; we ask for the right price for our products...Once people see our film, *Black Gold*, I’m hoping that they will think of the grower every day when they their drink coffee, because farmers are living hard, miserable lives. We’re hoping that everyone will care enough to pay more for Fair Trade coffee.”

2002

Equal Exchange begins a unique partnership with the Canadian Fair Trade Pioneer, La Siembra, and with the CONACADO Cooperative in the Dominican Republic. The Hot Cocoa mix is introduced.



2003

Farmer co-op in Mexico brings producer partnerships to new level with a significant investment in Equal Exchange. Baking Cocoa is introduced.



twenty years

INTERVIEW WITH:



Miguel Paz Lopez

Export Manager,
CECOVASA, Peru

"The challenge during these 35 years of continuous work, is figuring out how different ethnic groups— the Quechua and the Aymara— who have different languages and different customs, can face a common problem together such as the alleviation of poverty, and how they are able to work together. These two ethnic groups united to form CECOVASA coffee co-operative in the Altiplano region.

Equal Exchange arrived at CECOVASA at a particularly critical moment. We had focused on the task of improving quality and the task of organic production and we found that the coffee our members had produced with so much care and sacrifice, didn't have a market. Equal arrived and helped us to resolve this problem. The members at this time were questioning the work that they were doing at the co-operative level. Since their product was not purchased there were two main issues: the possibility that the work that they had done was not worth it, and the second, there was no compensation for their labor. So when Equal Exchange arrived on the scene it helped to strengthen the co-operative by providing a viable market. In the last few years, the contribution of Equal has continued to be important and has also given an impetus to CECOVASA's quality improvement program."

The Blooming of the West

In 2006, Equal Exchange's Western landscape blossomed with new developments. Our sales rose by 30 percent to more than \$3 million. During the past year, Equal Exchange's Western sales representatives together spent an average of 20 days per month in the field, resulting in more direct relationships with customers as well as in active community building. Back at our Hood River, Oregon office, a three-person team held things together. Five other worker-owners operated offices out of their homes in several different locales.

The highlight for the West this past year was the opening of the first Equal Exchange café at Ballard Market in June (see page 14). Also during 2006, an additional eight family-owned grocery stores in the Seattle area joined the ranks of Equal Exchange's bulk coffee customers. A third initiative was our expansion into hospitals. Equal Exchange started working with the Dominican Hospital in Santa Cruz, California, expanding upon our previous successes with the St. Louis Regional Hospital and the Sisters of Mary Retreat Center in Northern California. All three facilities joined the Equal Exchange community through active collaborations with our Sales and Interfaith Departments.

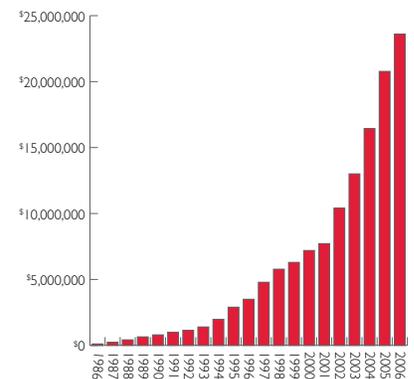
In the category of environmental improvements, Equal Exchange West purchased a bio-diesel van last year to provide more fuel efficient, environmentally sound deliveries to our customers. Finally, given that Oregon Tilth, our organic certifier, is located in Portland, we were especially proud to receive their 2006 "Handler of the Year" award. Oregon Tilth, which certifies more than 3,000 certified manufacturers of organic foods, commended Equal Exchange for upholding the highest standards in organic and Fair Trade practices." (See below.)

All of these accomplishments represent years of hard work, planting seeds and carefully nurturing them into maturity in both the East and the West. However, in 2006 the Western frontier's accomplishments were an inspiration for the entire organization.

—Tom Hanlon-Wilde

20 YEARS OF OUR SALES GROWTH

(includes coffee, tea & chocolate)



Equal Exchange was named the 2006 "Handler of the Year" by Oregon Tilth, an organic certifier. Roxanne Magnuson, right, from Equal Exchange, accepted the award at the 2006 Oregon Tilth Conference in San Francisco. Pictured to her left is fellow award winner David Lively, founder of Organically Grown Company.



2004

Equal Exchange purchases new building in West Bridgewater, Massachusetts, and introduces three organic, Fair Trade chocolate bars and the first Fair Trade Certified sugar on the U.S. market

of innovation

The Equal Exchange Espresso Bar

The Equal Exchange Espresso Bar at Seattle's Ballard Market opened this past June to provide specialty drinks such as lattes and americanos to Ballard Market shoppers, area residents, and store employees. Manager Alison Booth and the barista team often add to the experience by serving guests "latte art" – designs of hearts or leaves in the foamed milk or crema on top of espresso drinks. During the past year we served over 26,000 customers and used 2,350 pounds of coffee. This amount of coffee beans represents more than what the average farm family grows in an entire year.

The Ballard Market is owned by Town & Country Markets, a third generation family-owned company that operates six stores in the Seattle Metro area. Town & Country Markets began working with Equal Exchange six years ago. The company's commitment to Fair Trade, along with the strong relationship between the two groups, resulted in the Equal Exchange Espresso Bar. "This is an exciting new venture that's a benchmark for us," said Tom Hanlon-Wilde of Equal Exchange. "It's the first time that we've worked so closely with a store to create an Equal Exchange café. We hope that this is the start of more creative collaborations in the future." –Susan Sklar



Alison Booth, Manager of the Equal Exchange Espresso Bar at Ballard Market, holds a freshly brewed latte.

INTERVIEW WITH:



Jeff De Jong

Co-Executive Director of La Siembra Cooperative, Ottawa, Canada

"La Siembra Cooperative is a 100% worker-owned co-op that's based on certified organic sugar and chocolate products. We got involved in Fair Trade to amplify the discussion on the meaning Fair Trade. The movement began with coffee, but we focused on cacao and sugar in order to provide more Fair Trade options for consumers.

Over the past five years, we've seen the increasing impact of Fair Trade on the farmers that we're working with through the establishment of health clinics, wells, schools, and scholarship programs for youth—all built using Fair Trade premiums. And beyond the social impact, we've also seen an increasing strengthening of the co-operative organizations: the producer groups themselves. That's leading to more and more empowerment for the individual farmers and an increasing ability for them to address their own needs. It's really exciting to watch.... In our partnership with Equal Exchange I see inspiration on both sides. Every time we get together in small and large settings, we come away energized and confident in the path that we're building together."

A Vision Created

In 2006, Equal Exchange completed its process of creating a twenty year vision. This process has elevated our organizational thinking and fosters a relationship between the goals we have set out to accomplish and the reality of the task at hand. Equal Exchange has always been committed to challenging unjust systems of trade by modeling our ability to be a viable, for-profit, worker-owned business. Our success has changed the specialty coffee movement in the U.S. and will continue to change the way people think and talk about chocolate, tea, sugar, and products produced here in our own country.

We are deepening our relationships to include a worldwide network of consumers, producers, merchants, workers, activists, and investors. Are you one of the two million committed participants that we're looking for? We invite you to be part of our network and the Equal Exchange movement for change. Through purchases, you exercise your right to choose; in talking about the Equal Exchange model of co-operative business, you spread the word. Look for more ways to plug in and define your level of participation. Welcome to the family. –Beth Ann Caspersen

2006 EQUAL EXCHANGE BOARD MEMBERS:

BETH ANN CASPERSEN, CHAIR
RODNEY NORTH

TERRY APPLEBY
KEITH OLCOTT

SUE MEEHAN
PHYLLIS ROBINSON

LYNSEY MILLER
ALISTAIR WILLIAMSON

2005

Equal Exchange builds the largest worker-owned coffee roasting operation in the U.S.



2006

Equal Exchange adds three new chocolate bars and three new teas. We celebrate our 20th anniversary!



our model

A Purpose Built Company

Equal Exchange was built with a purpose beyond making money. Determined to start a company that changed the terms of trade, our founders decided to build a different kind of company. So what did they do? Let's start with an analogy.

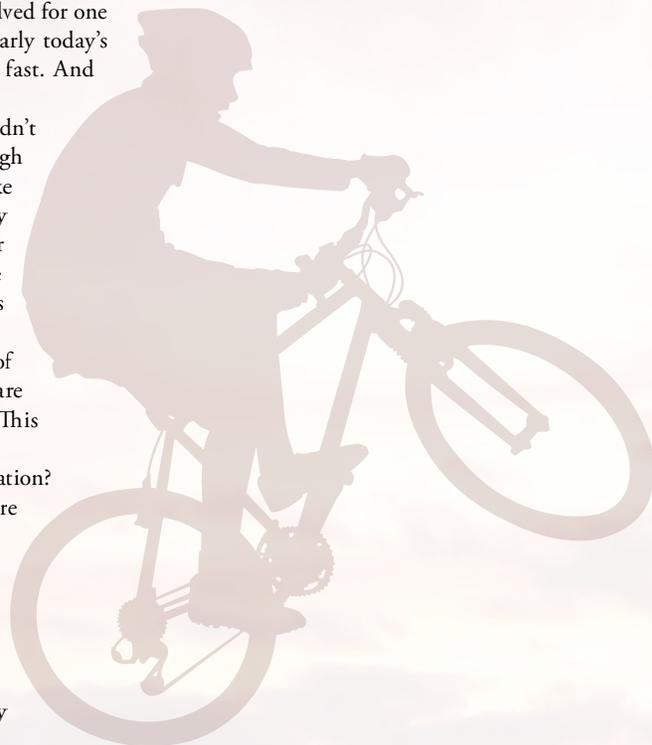
Back in the 70's almost every bicycle in the U.S. was a form of road bike, often a racing bike with curved down handlebars. For over a century this form of bike had evolved for one primary purpose, to travel down roads, usually fast. And that they did. Similarly today's corporations are built for one primary purpose – to make shareholders money fast. And that they do.

Then some wild-eyed folks in California noticed that most of the world didn't consist of smoothly paved roads or roads at all. They wanted to cycle through forests, up hills, and across streams; to go places that road bikes couldn't take them. While everyone else thought they knew what a good bike looked like, they set that aside and built a different kind of bike—one with fat tires for better grip, low gears for the long climb, and strong brakes for the hairy descent. The result was a more versatile, rugged, durable bike. You probably own one: it's called a mountain bike.

Just as most of the land area in the world doesn't consist of roads, so most of the good in the world isn't just about money. Conventional corporations are designed to make money, but poorly suited to pursue a larger social mission. This takes an entirely different kind of business.

So what are the gears and brakes, the tires and suspension of our new corporation? What makes Equal Exchange more versatile, rugged, and durable? Below are features that constitute the frame of our organization, built with the explicit purpose of pursuing social justice and fairness over profits. It only took a few years for the advances of the mountain bike to be embraced by the mainstream. Now more than half of all the new bikes sold in the U.S. are mountain bikes.

Perhaps in 20 years from now half of the new companies started in the U.S. will be purpose built to pursue the greater good. If you're reading this, chances are that you're already part of one of them. *-Alistair Williamson*



A Purpose Built Model

Equal Exchange's mission joins the principles of Fair Trade and co-operation, committing us to building a more just and sustainable food system in partnership with farmers. For example, we share risk with our trading partners by paying *at least* a guaranteed minimum price of \$1.26 per pound of green coffee, and \$1.41 for organic, no matter how low the world market may fall. This includes paying farmer co-ops a "Fair Trade premium" which is allocated by their members for development projects in their communities.

In 2006, Equal Exchange also facilitated over \$2,072,070 million in advance credit to farmer co-ops. Through our Interfaith

Program, we allocated \$131,658 to our faith-based project partners for additional programs in farming communities. We allot 10% of profits each year to charitable organizations that support the cause of Fair Trade and co-operation. Recipients in 2006 included the Federation of Southern Cooperatives, the New York State Labor-Religion Coalition, Twin Trading, Grassroots International, the NCB Capital Impact Coop 500 Fund, the Center for Economic and Political Research and Community Action (CIEPAC), and Marketplace: Handwork of India.

WORKER OWNERSHIP

Equal Exchange is a worker co-operative.

This brings one person one vote economic democracy to our company. Every worker owner has an equity stake in the co-op and shares in our profits and losses. That aligns real financial accountability with real representation. Because our members are closer to the mission than anyone, putting voting control in their hands keeps us on track.

FIXED PRICE SHARES

We need outside capital to grow—but we don't want capital growth to be our only goal. So our shares are set at a fixed price. These shares earn dividends, targeted at 5%, and can be sold back to the company. No one is getting rich here, but the \$4 million in

Financial Report

The Balance Sheet for 2006 indicates continued growth and emphasizes the seasonality of our business and our commitment to Fair Trade principals. Our inventories are significantly higher based on expansion of our chocolate and tea lines, as well as the need to acquire quality green coffee beans to ensure a supply for the upcoming year. We have also taken a more active role in providing pre-harvest financing to our producer partners, and we have recorded prepaid expenses for equipment that will be used to expand our in-house roasting and packaging capacity. This long-term planning is balanced with a healthy short-term profitability, as indicated by the increase of \$364,275 in Retained Earnings. *—Brian Albert*

Income Statement

	2006	2005	2004
Total Sales	\$23,639,000	\$20,779,000	\$16,535,000
Cost of Sales (coffee/tea/chocolate, roasting, packaging, shipping)	\$14,165,000	\$12,701,000	\$10,263,000
Operating Expenses (marketing, sales, administration, education)	\$7,946,000	\$6,621,000	\$5,639,000
Other Expenses (primarily interest on loans)	\$576,000	\$466,000	\$275,000
Total Costs	\$22,687,000	\$19,788,000	\$16,177,000
Income Before Taxes	\$952,000	\$991,000	\$358,000
Taxes	\$415,000	\$415,000	\$155,000
Shareholder Dividends	\$173,000	\$120,000	\$96,000
Annual Retained Earnings (reinvested in the business)	\$364,000	\$456,000	\$107,000

Contribution to the Equal Exchange Mission

	2006	2005	ALLOCATION OF INCOME		
Gross sales	\$23,639,456	\$20,779,047	Revised Income ²	\$1,146,491	\$1,176,478
FAIR TRADE COMMITMENT	2006	2005	Charitable Contributions	\$80,410	\$65,035
Total Fair Trade Purchases	\$9,612,264	\$8,061,914	Class B Shareholder Dividends	\$173,147	\$120,324
Above Market Prices (Coffee Only) ¹	\$629,347	\$297,139	Member Patronage Dividends	\$113,659	\$120,188
Fair Trade Premium (Coffee Only)	\$247,483	\$218,600	Taxes	\$415,000	\$415,000
Small Farmer Funds	\$131,658	\$118,000	Retained Earnings (Reinvested)	\$364,275	\$455,931
Advance Payment Facilitated	\$2,072,070	\$1,700,000			

¹Because world coffee market prices have recovered somewhat in 2006, the amount allocated to "Above Market Prices" is less than in previous years.
²In order to show allocation of profits, "Revised Income" is "Income Before Taxes" plus "Charitable Contributions" plus "Member Patronage Dividends".

outside investment has allowed us to build the company, and is helping us to change the world. Equal Exchange has paid dividends to outside shareholders for an uninterrupted 17 years.

EXTREME COMMUNITY

Everyone talks a good line on community, but at Equal Exchange we like to crank it up and practice what you might call "Extreme Community," staying in close touch with all of our different stakeholders at the same

time. For example, every single Equal Exchange worker owner spends a week overseas to meet, stay, and work with farmers. Another example: to help us stay connected with one another, the salary range at our own worker co-operative is limited to 4 to 1, from highest to lowest paid.

NO SELLING OUT

Many companies set out to do good, but then the founder retires or a major offer is too tempting and they end up selling to a larger

more conventional corporation. So it was for Ben and Jerry's, Tom's of Maine, and the Body Shop. However, Equal Exchange's bylaws require that if the co-operative is sold, all proceeds, after investors are paid back, are distributed to other Fair Trade organizations. Without the possibility of windfall riches there isn't the motivation to sell out. The result? All of our energies focus on advancing our mission, and we attract employees, supporters, and investors with similar goals.

—Erbin Crowell and Alistair Williamson

Audited Financial Statements

These financial statements are extracts from the Audited Financial Statements of Equal Exchange, Inc. for the years ending December 31, 2005 and 2006. This independent audit was conducted in accordance with auditing standards generally accepted in the United States of America by the firm of Morris and Morris P.C., Certified Public Accountants of Needham Heights, Massachusetts.

BALANCE SHEETS ASSETS

	<u>Dec. 31, 2006</u>	<u>Dec. 31, 2005</u>
CURRENT ASSETS:		
Cash and Equivalents	\$480,150	\$239,854
Accounts Receivable - Trade, Net of Reserve for Possible Uncollectible Accounts of \$50,000 in 2006 and \$100,000 in 2005	1,569,117	1,443,128
Note Receivable - Other	10,500	20,500
Inventories	6,983,311	5,578,710
Prepaid Expenses and Other Current Assets	282,652	84,283
Prepaid Income Taxes	98,886	-
Deposits	-	-
Deferred Income Tax Asset	<u>75,000</u>	<u>96,000</u>
TOTAL CURRENT ASSETS	<u>9,499,616</u>	<u>7,462,475</u>
PROPERTY AND EQUIPMENT, at Cost	7,803,903	6,982,421
Less: Accumulated Depreciation and Amortization	<u>(1,306,619)</u>	<u>(901,824)</u>
	6,497,284	6,080,597
DEFERRED FINANCING COSTS	64,154	81,119
NOTE RECEIVABLE - OTHER	100,000	-
OTHER ASSETS	<u>128,233</u>	<u>22,774</u>
TOTAL ASSETS	<u>\$16,289,287</u>	<u>\$13,646,965</u>

BALANCE SHEETS Continued LIABILITIES AND STOCKHOLDERS' EQUITY

CURRENT LIABILITIES:
Notes Payable - Lines-of-Credit
Mortgages and Notes Payable, Current Portion
Capital Lease Obligations, Current Portion
Accounts Payable - Trade
Accrued Expenses and Other Current Liabilities
Patronage Rebates Payable
TOTAL CURRENT LIABILITIES
MORTGAGES AND NOTES PAYABLE, Non-Current Portion
CAPITAL LEASE OBLIGATIONS, Non-Current Portion
DEFERRED INCOME TAXES
COMMITMENTS AND CONTINGENCIES
TOTAL LIABILITIES
STOCKHOLDERS' EQUITY:
Preferred Stock; Authorized 299,800 Shares; Issued and Outstanding, 163,985 Shares in 2006 and 139,791 Shares in 2005
Common Stock; Authorized 200 Shares; Issued and Outstanding, 81 Shares in 2006 and 70 Shares in 2005
Less: Common Stock Subscriptions Receivable
Retained Earnings
TOTAL STOCKHOLDERS' EQUITY
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY

STATEMENTS OF OPERATIONS AND RETAINED EARNINGS

SALES
COST OF SALES
GROSS PROFIT
OPERATING EXPENSES
INCOME FROM OPERATIONS
OTHER (EXPENSE) INCOME:
Interest Expense
Charitable Contributions Expense
Interest Income
Loss on Disposal of Equipment
INCOME BEFORE INCOME TAXES
PROVISIONS FOR INCOME TAXES:
Current
Deferred
NET INCOME
RETAINED EARNINGS, Beginning of Year
Less: Preferred Stock Dividends
RETAINED EARNINGS, End of Year



Dec. 31, 2006	Dec. 31, 2005
\$3,006,846	\$1,524,011
200,001	373,044
250,328	236,738
1,219,767	978,467
661,840	702,614
<u>228,036</u>	<u>185,288</u>
5,566,818	4,000,162
3,238,671	3,162,672
866,058	1,116,386
292,000	148,000
-	-
<u>9,963,547</u>	<u>8,427,220</u>
4,564,605	3,844,270
222,165	188,515
(80,755)	(68,490)
<u>1,619,725</u>	<u>1,255,450</u>
<u>6,325,740</u>	<u>5,219,745</u>
<u>\$16,289,287</u>	<u>\$13,646,965</u>

Dec. 31, 2006	Dec. 31, 2005
\$23,639,456	\$20,779,047
<u>14,164,991</u>	<u>12,701,086</u>
9,474,465	8,077,961
<u>7,946,163</u>	<u>6,621,015</u>
<u>1,528,302</u>	<u>1,456,946</u>
(515,617)	(410,634)
(80,410)	(65,035)
20,147	9,978
-	-
<u>(575,880)</u>	<u>(465,691)</u>
<u>952,422</u>	<u>991,255</u>
250,000	355,000
<u>165,000</u>	<u>60,000</u>
<u>415,000</u>	<u>415,000</u>
537,422	576,255
1,255,450	799,519
(173,147)	(120,324)
<u>\$1,619,725</u>	<u>\$1,255,450</u>

STATEMENTS OF CASH FLOWS

	Dec. 31, 2006	Dec. 31, 2005
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash Received from Customers	\$23,513,467	\$20,797,028
Cash Paid for Operating Expenses	(22,827,787)	(19,891,427)
Interest Paid	(515,617)	(410,634)
Income Taxes Paid	(551,149)	(60,359)
Interest Received	<u>20,147</u>	<u>9,978</u>
Net Cash (Used for) Provided by Operating Activities	<u>(360,939)</u>	<u>444,586</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Cash Paid for Purchase of Property and Equipment	(914,238)	(1,345,310)
Cash Paid for Investments	(105,864)	-
Cash (Advance) Collected on Notes Receivable - Other, Net	(90,000)	14,500
Cash Paid for Deferred Financing Costs	<u>(6,289)</u>	<u>(80,619)</u>
Net Cash (Used for) Investing Activities	<u>(1,116,391)</u>	<u>(1,411,429)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net Cash Advances (Payments) on Notes Payable - Lines-of-Credit	1,482,835	(518,671)
Proceeds from Issuance of Preferred Stock	626,047	833,804
Proceeds Received from New Long-Term Debt Borrowings	200,000	250,000
Proceeds Received from Dividend Reinvestment	110,065	81,952
Proceeds Received from Common Stock Subscriptions	37,885	30,036
Cash Paid to Reduce Mortgages and Notes Payable	(297,044)	(85,336)
Cash Paid to Reduce Capitalized Lease Obligations	(236,738)	(38,188)
Preferred Stock Dividends Paid	(173,147)	(120,324)
Cash Paid to Redeem Preferred Stock	(15,777)	(19,166)
Cash Paid to Redeem Common Stock	(16,500)	(13,134)
Repayment of Notes Payable - Stockholder	-	-
Net Cash Provided by Financing Activities	<u>1,717,626</u>	<u>400,973</u>
NET INCREASE (DECREASE) IN CASH AND EQUIVALENTS	240,296	(565,870)
CASH AND EQUIVALENTS, Beginning of Year	<u>239,854</u>	<u>805,724</u>
CASH AND EQUIVALENTS, End of Year	<u>\$480,150</u>	<u>\$239,854</u>
RECONCILIATIONS OF NET INCOME TO NET CASH (USED FOR) PROVIDED BY OPERATING ACTIVITIES:		
Net Income	<u>\$537,422</u>	<u>\$576,255</u>
Adjustments to Reconcile Net Income to Net Cash (Used for) Provided by Operating Activities:		
Depreciation and Amortization	521,210	337,508
Loss on Disposal of Equipment	-	-
Changes in Assets and Liabilities:		
(Increase) Decrease in Accounts Receivable - Trade	(125,989)	17,981
(Increase) in Inventories	(1,404,601)	(1,484,254)
(Increase) Decrease in Prepaid Expenses and Other Assets	(198,369)	25,223
(Increase) Decrease in Prepaid Income Taxes	(98,886)	92,378
Decrease (Increase) in Deferred Income Tax Asset	21,000	(8,000)
Decrease in Other Assets	-	-
Increase in Accounts Payable	241,300	447,964
Increase in Accrued Expenses and Other Current Liabilities	161,489	73,451
(Decrease) Increase in Accrued Income Taxes Payable	(202,263)	202,263
Increase in Accrued Patronage Rebates Payable	42,748	95,817
Increase in Deferred Income Taxes Payable	<u>144,000</u>	<u>68,000</u>
Total Adjustments	<u>(898,361)</u>	<u>(131,669)</u>
Net Cash (Used for) Provided by Operating Activities	<u>\$(360,939)</u>	<u>\$444,586</u>

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In all of our materials, including this report, we now hyphenating the word "co-operative" in its various forms, e.g., co-op. While the unhyphenated word, "cooperative" may have several different meanings, a "co-operative" means only this: an association of folks united voluntarily to meet their common economic, social, and cultural needs and aspirations through a jointly-owned and democratically-controlled enterprise. That's who we are. It's odd how a little hyphen can link you to a national and international movement.*
 *from the International Co-operative Alliance

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