



EQUAL EXCHANGE
2008 ANNUAL REPORT

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 cooperative workplace.
- Develop more environmentally sound business practices.

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 vision

IN 20 YEARS THERE WILL BE...
a vibrant, mutually cooperative community of two million committed participants trading fairly one billion dollars a year in a way that transforms the world.

COVER PHOTO: Florizelda Cunia Queredo of CEPICAFE in Peru, bagging coffee on a drying patio. Swath of thread from San Fernando Co-op, Peru.
INSIDE COVER PHOTO: A meeting of co-op members in San Fernando, Peru, September 2008.

Building a Cooperative Global Network

BY RINK DICKINSON & ROB EVERTS, CO-EXECUTIVE DIRECTORS

Equal Exchange had an extremely successful year in 2008. It was a year in which we saw strong overall growth - 17% - anchored in the success of our various sectors. Growth was very healthy in the Interfaith Program, natural foods co-ops, grocery stores and our private label, and the Food Service team had one of its most successful years ever. We ended the year with sales of \$34.4 million. After charitable contributions and worker-owner patronage disbursements, we realized a net income before taxes of \$1.47 million. From a product perspective, coffee and tea did well, and chocolate experienced extraordinary growth, at 39%.

This ability to grow and grow profitably in different sectors, regions and products would not have been possible without a continued development of operational capacity. Equal Exchange's in-house roasting volume grew by 30% with very few bottlenecks. Distribution worked out of more locations, shipping 10% more packages, again in a smooth fashion. The Massachusetts warehouse was reorganized to make it more efficient and more team oriented. We also installed a chocolate cooler. At the same time, we made the most significant advance in years in our ability to unify our purchasing and costing systems and to obtain key business information.

One of the key planks of our 2008-2011 Strategic Plan was to develop cafés to engage more directly and vibrantly with consumers. This direction came from the success of our first café in Seattle at the Ballard Market. By summer 2008, we were deep in the throes of designing and planning our second café, this time located adjacent to North Station in Boston's West End. The new Equal Exchange Café opened on Dec. 18 to strong response and has continued to grow since then. The café team of Meghan

Hubbs and Adena Killian from Equal Exchange, and Mark Ostow from Café Zing in Cambridge, all deserve special credit.

In 2006, Equal Exchange became a founding investor and co-owner of Oké USA, a Fair Trade banana company. The other two owners are Red Tomato, a non-profit that connects family fruit and vegetable farmers to consumers, and AgroFair, a pioneering Fair Trade fruit company based in The Netherlands with substantial farmer co-operative ownership. Although Oké USA made major inroads in creating a small farmer banana supply chain in North America, by the middle of 2008 it was clear that our economic model wasn't working. By the fall, the other owners asked Equal Exchange to take a major role to save the organization. At the end of 2008, Equal Exchange worker-owners approved investing time and money to support the banana project. We responded and as of this writing, Oké USA is working out of both our Massachusetts and Minnesota offices and we are learning more about how to form mutually cooperative bonds and build market success with a product quite different from coffee.

The challenge of learning how to effectively collaborate with like-minded organizations is the next frontier for Equal Exchange. This skill of partnering and cooperating is much sought in the more conventional business world. Ironically, often mission-based organizations are even weaker in this key skill. We tend to be too afraid of risk and unwilling to give up control.

We believe our 20 Year Vision of a powerful, diverse, multifaceted cooperative global network is on target. Building this network will require humility, experimentation, and many failures as we slowly learn how to work together. We invite you to join us on this journey.

“We believe our 20 Year Vision of a powerful, diverse, multifaceted cooperative global network is on target.”





A Year that Increased Sales and Built Connections

BY LYNSEY MILLER, MARKET DEVELOPMENT LEADER

Equal Exchange's sales reached \$34.4 million in 2008, boasting \$5 million in growth. In the landscape of a declining economy, this exceptional 17% growth was possible through our strong relationships and diverse programs. When we set goals and priorities for our current four-year Strategic Plan, we made the conscious decision to make "directness" a theme. Just as our direct relationships with farmer co-ops are the core of both our mission and our business, direct relationships with customers are important to us philosophically and practically.

Natural Foods team goes direct

In our most mature sales sector, the natural foods market, these new direct strategies injected energy into our own sales force. They also successfully impacted sales numbers. For example, our Natural Foods team launched a new Grocery Direct program, to not only work with food co-ops' bulk coffee buyers, but also with their grocery buyers to channel our grocery products directly instead of through a distributor. We created special end-cap display units that featured all of our diverse products – packaged coffees, teas, cocoas, chocolate bars and snacks – together in one location in the store to celebrate October as Fair Trade Month. An unprecedented 61 co-ops installed these prominent displays. As a result of this and other creative sales strategies, in 2008 the Natural Foods-East team grew sales 22% and the West team grew 30%.

Interfaith Program adds new partnership

Our Interfaith Program continues to be a strong model for direct participation in the Fair Trade market. Sales through these unique relationships grew 10% over last year, thanks to both our long-standing partnerships and a new partnership: the Disciples of Christ Coffee Project, launched with Disciples Home Missions and Week of Compassion. Our Interfaith Program continued to build the Fair Trade market both in sales dollars and in the number of engaged participants, generating over \$8 million in sales through the purchases of 11,000 congregations.

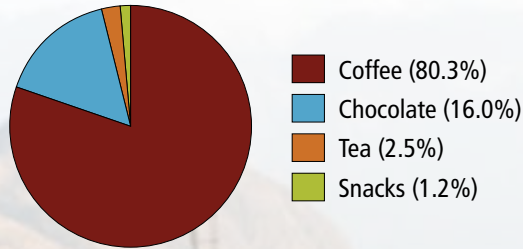
Fundraising Program triples participation

In 2006, Equal Exchange piloted a Fundraising Program, enabling 116 groups to use our products to raise money for their schools and organizations. This year, 338 groups participated. The traditional fundraising industry is framed as a means to an end; groups with social missions have to raise money through products and partnerships that often contradict their values. Equal Exchange created a program to challenge this norm, and communities have responded. This year, both the ends and the means mattered; schools raised over \$250,000 for their programs and channeled \$400,000 in product purchases to the Fair Trade economy.

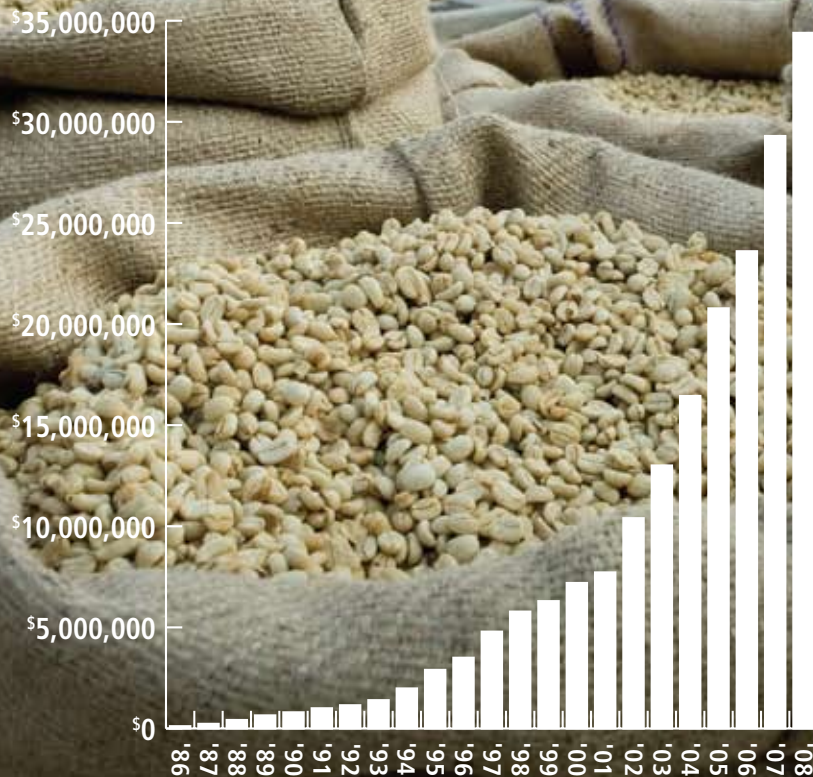
Equal Exchange Café opens in Boston

As part of our commitment to engage retail customers more directly in Equal Exchange's mission, we opened our second café – our first in Boston. The Equal Exchange Café opened just a few short weeks before the year came to a close, and the encouraging launch (amid a slew of snowstorms!) sparked great feedback from longtime customers, newcomers, and many of our Boston area accounts. We see the potential of this endeavor to increase brand recognition in a location where both quality and impact for farmers can be showcased in creative and more intimate ways.

2008 Sales by Product Category



23 YEARS OF GROWTH: SALES AT EQUAL EXCHANGE



Looking Ahead Amidst Economic Uncertainty

BY LYNSEY MILLER,
MARKET DEVELOPMENT LEADER

As we look toward sales expectations for 2009, we attempt to balance three key factors:

- 1) Historical strong growth of our company year after year.
- 2) Somber economic predictions for the broader economy.
- 3) The growing interest among consumers to know more about where their food comes from.

We do not know for certain how Equal Exchange will fare.

We do know that in our 23 year history, even during economic downturns, Equal Exchange has remained profitable, as people often turn to cafés, local businesses and congregations to find community in these times – the very places that make up the majority of our customer base. We also know that diversity is in our favor, and that we have diversity in four key areas:

OUR PRODUCT LINE – coffee, tea, cocoa, chocolate and snacks

OUR CUSTOMER BASE – food co-ops, independent and family-owned markets, cafés, institutions, congregations, school fundraisers

OUR GEOGRAPHY – both staff and consumer support on both coasts and in many cities in between

OUR PRODUCT SOURCES – small farmer co-ops in over 20 countries

RIGHT PHOTO: Organic Ceylon Green Pyramid Tea from the farmers of SOFA in Sri Lanka. The pyramid teas come in special pyramid-shaped, biodegradable bags that allow for larger leaf teas and better extraction.

Planting Democracy in the Tea Industry

BY RODNEY NORTH, THE ANSWER MAN

Equal Exchange is changing the tea system by working with small farmers – and we need your help.

In the United States, 98% of the tea certified as “Fair Trade” is grown on plantations. In contrast, Fair Trade coffee, cocoa or sugar must be sourced from small farmer co-ops, a requirement we strongly endorse. For over a century, tea plantations, also known as “estates” or “tea gardens,” have exploited workers and reinforced deep social and economic divisions. So, offering Fair Trade certification to plantations has always been controversial.

The Fair Trade certification requires the payment of a social premium and the creation of a joint labor-management council to disperse the funds. However, research shows that these requirements produce little change and affirms Equal Exchange’s belief that the Fair Trade plantation standards cannot in and of themselves correct the huge imbalance of power that exists within the tea industry and will not produce the deep, system changes that Fair Trade should aspire to achieve.

For example, in the rooibos tea market, about 98% of production comes from large-scale South African plantations that were established during the colonial and apartheid eras, when black African farmers were pushed off the best rooibos-farming land. Rather than challenging the structure of the rooibos market, Fair Trade certifiers have instead chosen to accept it and

have certified some of these large plantations in order to sell to the Fair Trade market.

Instead of working with these plantations, we sought out the two co-ops of small-scale Khoi San farmers who represent that dwindling two percent of small-scale rooibos farmers who are not part of the plantation system. We believe working with Heiveld Co-operative and the Wupperthal Tea Association represents the real heart of what Fair Trade is all about.

Today, these two co-ops are making great strides and have even purchased their own tea-packaging operation. As Barend Salomo of Wupperthal Tea Association said at Equal Exchange’s 20th Anniversary celebration in 2006: “I am so proud that Equal Exchange can help us to put a bridge between the past and the future, where we can again become proud and free and independent to share our heritage [rooibos tea] with the rest of the world.”

Despite meeting all Fair Trade certification standards, we chose not to put the TransFair USA Fair Trade seal on our Organic Pyramid Teas. This is to show our support for – and belief in – small farmers in the tea industry, and to encourage a conversation about Fair Trade standards. We hope you’ll help us as we try to build a viable market for small-scale tea farmers.



PHOTOS: Top: Members of the Small Organic Farmers Association (SOFA) in Sri Lanka; Middle: Equal Exchange Education and Campaigns Manager Phyllis Robinson (left), and former Equal Exchange Tea Products Manager Deepak Khandelwal (right), with members of SOFA; Bottom: Equal Exchange Director of Distribution Jessie Myszka with Hendrik Hesselman of Heiveld Co-operative in South Africa.

As part of our *Small Farmers. Big Change.* campaign to bring justice to the food system and health to the planet, Equal Exchange set up the Small Farmers Green Planet Fund to support our farmer partners' efforts to fight climate change. Here are four projects the fund supported in 2008.

BY PHYLLIS ROBINSON, EDUCATION & CAMPAIGNS MANAGER

Small Farmers Green Planet Fund



South Africa



Nicaragua



Colombia



Mexico

WUPPERTHAL TEA ASSOCIATION AND HEIVELD CO-OPERATIVE

Over the past few years, rooibos farmers have experienced severe impacts from drought and higher temperatures, felt most acutely in the drier parts where they farm. The delicate soil and water conditions in these areas are being threatened by increasingly warmer temperatures. Rainfall patterns have also changed and the farm plots have suffered from high levels of degradation and the loss of soil nutrients. This climate change adaptation project includes soil and water conservation, native farming practices, and erosion prevention. The farmers' long-term prosperity will depend greatly upon their ability to adapt their farming practices to these changing climate conditions.

TIERRA NUEVA UNION OF CO-OPERATIVES

Each time we visit Tierra Nueva, we repeatedly hear from the farmers how proud they are of their efforts to protect their fragile ecosystems and we see how committed their president is to conserving their natural resources. So, Equal Exchange and Interfaith partner Presbyterian Church (USA) decided we wanted to do more to support these efforts. The "Planting Trees for Life" reforestation project includes the planting of organic coffee, fruit, and timber trees to generate additional income and diversify diets, and the construction of fuel-efficient stoves.

ASPROCAFE

The indigenous farmers in ASPROCAFE are deeply committed to the environment and have dedicated the extra money received from Fair Trade coffee sales to create the Organic Coffee Project. This is an integrated food security, environmental preservation, and reforestation project which includes the planting of organic coffee and fruit trees; trainings on soil and water conservation, organic gardening and the fabrication of natural pesticides, fertilizers and methane cooking gas; and a loan fund for women to buy farm animals to make organic fertilizer and to diversify their diets and income.

CESMACH

The farmers in CESMACH not only set a goal to become the supplier of the highest quality organic coffee in the region, but also to create and implement a variety of social development and environmental projects that benefit members and their fragile biosphere. This food security project with women of the co-op involves planting organic fruit orchards and vegetable gardens, chicken production, and protecting native tree species in the biosphere. Women also receive trainings and technical assistance in project management and leadership development.

PHOTOS (left to right): Hendrik Hesselman, Heiveld Co-operative; Marvín Tónico Polanco, Tierra Nueva Union of Co-operatives; Doña Ana Lucía Bañol, ASPROCAFE; María Leticia Velasco, CESMACH.



JUAN JESUS CASTILLO: Working in Solidarity BY JIM FELDMANN, WEST SALES REPRESENTATIVE



Juan Jesus Castillo is a small-scale coffee farmer from the village of Sapse in the northern region of Peru, where he and his wife farm three acres of organic coffee. Castillo also serves as president of the Sub-Regional Committee of Producer Associations of Los Ranchos.

As president of the board, he leads the directors in developing programs for the 230 farming families organized into six village-level co-ops. Castillo's community of Sapse is part of a much larger regional co-op called CEPICAFE.

As part of Equal Exchange's continuous efforts to connect producers and consumers, the West sales office (based in Oregon) took a select group of store managers to live and work with CEPICAFE members in August 2007. Castillo hosted two Equal Exchange customers for a two-night homestay. The trip created a connection that participants wanted to continue beyond the visit. So, in May 2008, Equal Exchange invited Castillo to

make his first trip out of Peru and visit our communities in the United States.

The trip began with a visit to Minneapolis, where Castillo attended the Specialty Coffee Association of America's annual meeting. He saw firsthand what the other side of the coffee industry looks like, talking with roasters and fellow producers from around the world. "It is very important ... to get to know people in the U.S. with whom we are cooperating to build Fair Trade," Castillo said. "Getting to know you on a personal level makes the cooperation become a friendship, and that motivates me to work harder in solidarity."

Castillo then headed to California, where he presented at Chico Natural Foods Co-op. He explained the impact Fair Trade has on the day-to-day lives of his community: "With Fair Trade, we have more self-respect and we have the ability to better our lives. It is not a hand out; it is a partnership of equals."

The group traveled on to Seattle, where Castillo met

with store representatives from the region. He presented to the grocery staff at the Port Townsend Food Co-op. There he explained that like the Port Townsend store, Castillo's community was also organized into a co-operative.

From Washington, he traveled to Oregon to speak at the Portland VegFest about Fair Trade and the role of co-ops. "The producer co-ops are directly involved with setting the Fair Trade standard," he said. "We are in solidarity with each other and the Fair Trade movement. By being participants in this system, our co-ops are stronger."

There was time for recreational activities, too. Castillo went fishing on the Santiam River with Jeff Watson of Lifesource Natural Foods (Salem, Ore.) piloting the boat. As fate would have it, Castillo caught the largest and only fish of the day. Castillo has said that he felt like he was among friends during the trip. "I left feeling very satisfied that we can cooperate together and hope we can keep doing so."

PHOTOS: Left: Ming Chang and Juan Jesus Castillo at Sunny Farms Country Store in Sequim, Wash.; Top middle (left to right): Marcelo Mino, Bob Gerner, Castillo, Equal Exchange West Sales Rep. Kevin Hollender, and Carla Gerner at El Cerrito Natural Grocery in El Cerrito, Calif.; Bottom middle: Castillo, Equal Exchange West Sales Rep. Jim Feldmann and Jeff Watson fishing on the Santiam River; Right: Equal Exchange West Sales Rep. Roxanne Magnuson (second from left) and Jeff Watson (center) with Castillo and his family in Peru in 2007.



VICTOR DIAZ: **Building Awareness** BY ASHLEY SYMONS, MARKETING WRITER



Victor Diaz is a cacao farmer in the Dominican Republic. He's also a member of CONACADO, a co-operative of farmers that supply cacao for Equal Exchange's chocolate products.

In April 2008, the Equal Exchange Fundraising Program led a delegation of fundraising participants – primarily teachers and parents – to Yamasá, where Diaz's farm is located, along with the other farms that make up Bloque 2 of the co-op. The visitors saw firsthand every step of the harvesting and processing of cacao pods.

They also visited schools attended by children of cacao farmers. "In a place where education is so undervalued, where many children aren't becoming cacao farmers, it means so much to have visitors from the United States who want to come to our schools and talk about the importance of cacao farming," Diaz said about those school visits. At 52 years old, Diaz is one of the youngest farmers in the co-op; most of CONACADO's farmers

are in their 60s and 70s, and their children and grandchildren do not plan to follow in their footsteps. He was grateful for the excitement around cacao farming that the Equal Exchange visit provided for the young people of his community.

Eight months later, the tables turned. Diaz traveled to the U.S. on a trip that included visits to schools in New York and Massachusetts, where children participate in the Fundraising Program. The kids learned how cacao is farmed and the steps it goes through before becoming the chocolate products sold in their school fundraisers. "We saw the magic that happens when a farmer gets into a room with the people selling the products," said Virginia Berman, the Equal Exchange Fundraising Program Director.

Diaz also visited Park Slope Food Co-op in New York, where he saw Equal Exchange chocolate bars on the shelf and was able to interact with customers of the food co-op. "This is a very important visit for us ... for producers to visit with consumers, that is like fertilizer

for us," Diaz said. "When producers meet consumers, it forces us to produce an even better product. And, it's really important for consumers to meet the farmers who produce their food."

Diaz said throughout the trip he received a very warm welcome, and "felt among family." During his journey back to the Dominican Republic he "felt content because I went to live a new experience, and in each visit to different places there was always some impact and memory."

This was Diaz's second visit to Equal Exchange headquarters. He also came in November 2007, shortly after a hurricane damaged crops in the Dominican Republic. During that visit, he wanted to spread this message to U.S. consumers: "Buy Equal Exchange and Fair Trade cocoa products," Diaz said. "They are helping our community develop. They are helping us preserve our environment. By purchasing these products, you are cooperating in helping us achieve well-being for our families and development for our communities."

PHOTOS: Top left: Victor Diaz with Equal Exchange Retail Web Store Manager Gary Goodman and Ignacia del Rosario de los Santos, a teacher from El Mogote school in the Dominican Republic; Bottom left: Diaz and Equal Exchange Fundraising Program Director Virginia Berman at Brooklyn New School; Diaz with children of cacao-farming families; Diaz visiting Equal Exchange in November 2007.





The Art and Science of Quality

BY BETH ANN CASPERSEN, QUALITY CONTROL MANAGER

Sensory experiences are just as much physical as they are mental exercises for your brain. Through sight, sound, touch, taste and smell, you create an experience in your mind based on the way you connect to familiar feelings. Think of the soft texture of velvet. The bright reflection of light off of fresh snow. The tart taste of a green apple. The smell of toasted bread. Or, the distant cry of a sea gull. Each sensation produces a feeling and may trigger a memory. With sensory analysis, we are utilizing these kinds of life experiences in the tasting room to capture, describe and classify the myriad sensations experienced through our products.

Equal Exchange has four different product categories: coffee, tea, chocolate and snacks, and each category has a very specific set of physical and sensorial quality standards. Physical requirements such as size, color and uniformity are universal and provide insight into the way they are produced. Sensorial characteristics like aroma and mouthfeel are used for all products, but specialized attributes may differ. However, our overall goal is to source the sweetest, cleanest products that display unique, origin-specific characteristics to entice the most spirited foodies.

So how do we translate this sensory practice into the delicious Equal Exchange products that you know and love? Our process is multilayered, combining both art and science. We approach tasting work through traditional quality control, coffee roaster participation in cuppings, and this year we introduced a cross-departmental sensory panel.

Our Quality Control (QC) department is responsible for leading the process to measure, taste and

analyze all of our products. As coffee importers, we evaluate all incoming green coffee before it is roasted and report these results back to our producer partners. In addition, all product quality is confirmed through traditional quality control measures and taste tests before it reaches the consumer.

The second part of our approach is to bring the Quality Control and Roasting teams together to taste and evaluate our coffee. This enables us to make critical decisions about our coffee together and provide feedback that is necessary to perpetually improve our roasting process. Additionally, each day at 11 a.m., you will see two-to-four people in the QC Lab taking part in production cupping. This is our process to evaluate the flavor and consistency of our roasted product. Each session may consist of 50 or more coffee samples and although a little bit overwhelming to a newcomer, we find that the process to evaluate the coffees provides each taster with a full spectrum of flavors. Frequently you will see members of the Sales team, along with their clients, participating in this valuable tasting exercise. Production cupping is an amazing tool for the QC team and is open to any of our staff that might like to participate.

The third part of our approach – and newest tasting work this year – is a cross-departmental sensory panel consisting of 10 Equal Exchange employees that incorporates various teams into our product development strategy. This work has been very exciting and will provide Equal Exchange staff with important skills that will improve our expertise in tasting as we expand and diversify our line of specialty food products.

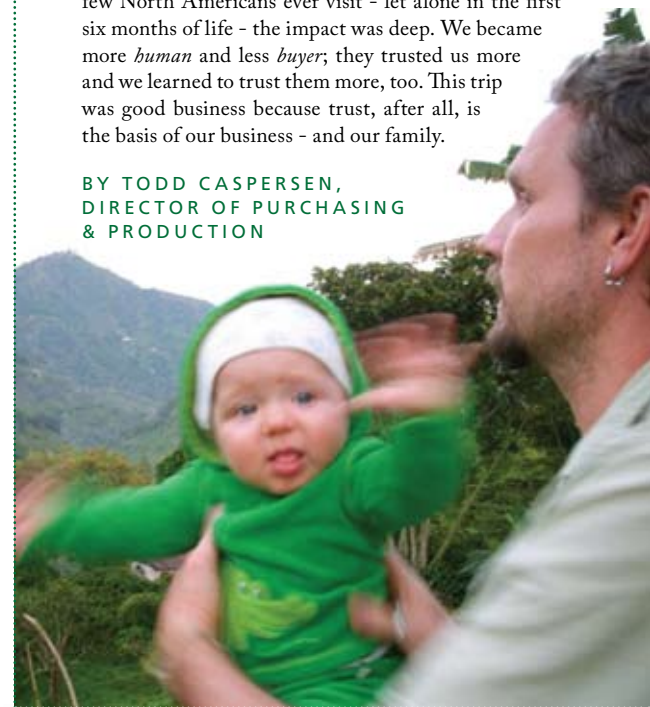
THE CASPERSENS GO TO COLOMBIA

For me, Equal Exchange is family business, but not in the traditional sense. My wife, Beth Ann, works here; my parents and sister are investors; Beth Ann and I own Class A and Class B shares - it's family business. So when it came time to visit ASPROCAFE in Colombia, it was natural to bring our six-month-old son, Magnus, and my mother to take care of him while we worked in the cupping lab and visited the far-flung coffee farms.

As a result of bringing the family, arrangements were made for us to stay with a Colombian farming family. The Trujillo family opened their home to ours and made this one of the best trips I have taken in 10 years. Taking the leap and leaving our son and his grandmother in their care was, I admit, a bit scary. But it resulted in us deepening our relationship with the Trujillo family and others in the community, and deepening the institutional relationship between both of our co-ops.

When the members of ASPROCAFE saw we brought Magnus along, to an area many consider dangerous and few North Americans ever visit - let alone in the first six months of life - the impact was deep. We became more *human* and less *buyer*; they trusted us more and we learned to trust them more, too. This trip was good business because trust, after all, is the basis of our business - and our family.

BY TODD CASPERSEN,
DIRECTOR OF PURCHASING
& PRODUCTION



Magnus and Todd Caspersen during their December 2008 visit to ASPROCAFE in Colombia.





Kyle Moody MASTER BARISTA, EQUAL EXCHANGE CAFÉ, BOSTON

"I work at Equal Exchange Café because it fits my humanitarian and environmental beliefs. Every day I get to honor all the people dedicated to making our coffee, chocolate, tea, sugar, domestic snacks, and baked goods the absolute best. What a gift to educate our customers about all that we do!"



Gradon Tripp CUSTOMER, EQUAL EXCHANGE CAFÉ, BOSTON

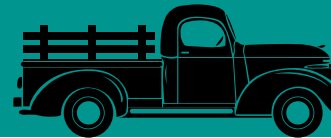
"I'm pleased to have the Equal Exchange Café near my office. The quality coffee and espresso drinks, the pastries and lunch offerings, delivered by an exceptionally friendly staff and through a highly ethical business structure, are a small sign of what can be if every company had a best-for-all mentality."





Equal Exchange Café Opens in Boston

BY ROB EVERTS, CO-EXECUTIVE DIRECTOR



“One Medium Latte, a cup of the Organic French Roast, a scone and a bagel, please.”

Happily, we’ve been hearing that a lot since opening our first café in Boston on Dec. 18. The Equal Exchange Café, located adjacent to Boston’s historic North End, is a street-level storefront in a building that houses many businesses and organizations in the floors above. Of particular note is the headquarters of our friends and longtime allies at Oxfam America.

Cafés are one of a number of ways we hope to engage consumers more directly in the years ahead. In the café we are able to showcase the fruits of the enormous effort our farmer partners invest in growing the highest quality coffee, tea and cacao. And to supplement our directly sourced products and milk from regional dairy farmers, we are supporting local independent businesses to provide fresh pastries and healthy, light lunch offerings.

Our 20 Year Vision speaks of a “mutually cooperative community of two million committed participants...” and we believe the direct engagement potential of

retail cafés can play an important role in fulfilling this ambitious vision. Not only does a unique, independent café provide the oft-described “third place” beyond home and work, for Equal Exchange it also represents an opportunity to connect curious and change-seeking consumers with the hopes and hardships of small farmers around the world. Over time, and over high quality food and drink, we hope to engage thousands of people in our efforts to reform a food system dominated by corporate behemoths.

We have much to learn in the world of retail business. Already, we are grateful to many current café accounts for sharing their experiences with us. In addition, one particular challenge for Equal Exchange as an organization is how to include usually part-time, often temporary baristas in the worker co-op. Our current structure and bylaws extend to “regular,” full-time workers only. Now with the addition of a second café (our first opened in Seattle in 2006), the question is one our worker-owners will need to grapple with. Stay tuned.



PHOTOS (clockwise, from top left): Customers line up during the Grand Opening of the Equal Exchange Café; Barista Ariel Aaronson-Eves during a chocolate and coffee pairing event; Master Barista Kyle Moody with Equal Exchange Co-Executive Director Rob Everts; Café Manager Adena Killian.

Close to the center of Equal Exchange's business model there are two gates. One is open, one is closed, and therein lies a great strength - and a secret of our success.

Most businesses are designed to deliver two financial results: to make profits and to grow in value. They then distribute those gains back to the business' owners; profits can be returned through dividends and growth in value through increasing share prices, through capital gain.

For over two decades, Equal Exchange has chosen just one means: we welcome profit and decline capital gain. The chart on page 13 is the result; it shows our fixed share price and annual dividend (typically five percent), which are reinvested in more shares. It looks pretty good, so let's dig a little deeper.

The Freedom of No Capital Gain. The answer to "How much is a company worth?" can change every few minutes. We've all seen the stock market

graphs. The answer goes up and down and huge wealth is won or lost on that guesswork and speculation. At Equal Exchange we have closed that gate. Buy a share in our co-op, and its price is fixed. There is no capital gain, no hope of windfall riches, no ticker symbol to obsess over, no precipitous decline. You can't trade that share in the stock market for a variable price, you trade it back to Equal Exchange for the price you paid.

With no way to get rich, the need to control is also weakened. In most business models, control allows owners to maximize their return and get the biggest piece of the pie. But if your pie slice is fixed what are you trying to control? That allows us to sell non-voting shares, and keep control with the worker-owners who are both the biggest investors and are closest to the mission.

But wait, if all our pie slices are fixed, yet Equal Exchange is growing, who does the rest of the pie belong to? It belongs to the community. That's what our bylaws say. If the co-op is ever sold, any extra money and capital gain goes to further Fair Trade. That is freedom; freedom from having to, or the temptation to, turn our co-op into cash. It's freedom to deliver on our mission.

The Character of Profits. Profits, that's different. We like profits. We are traders, and sustainable trade involves profit. Profits give us the means to invest in new ideas, to cover occasional failure, and to reward the worker-owners and investors for their labor and money. Profits, unlike share prices, are measured by auditable standards. They reflect what we did. Profits demonstrate to others that Fair Trade can thrive.

So while non-profits avoid both gates, and corporations embrace both, Equal Exchange has chosen a singular path - yes to profit, no to capital gain - and we've grown steadily for over 20 years. We hope you'll continue to travel this path with us. As more people seek economic alternatives, we are expecting company.

PROFIT	CAPITAL GAIN	
✓	✓	TYPICAL CORPORATION
✓	✗	EQUAL EXCHANGE
✗	✗	TYPICAL NON-PROFIT

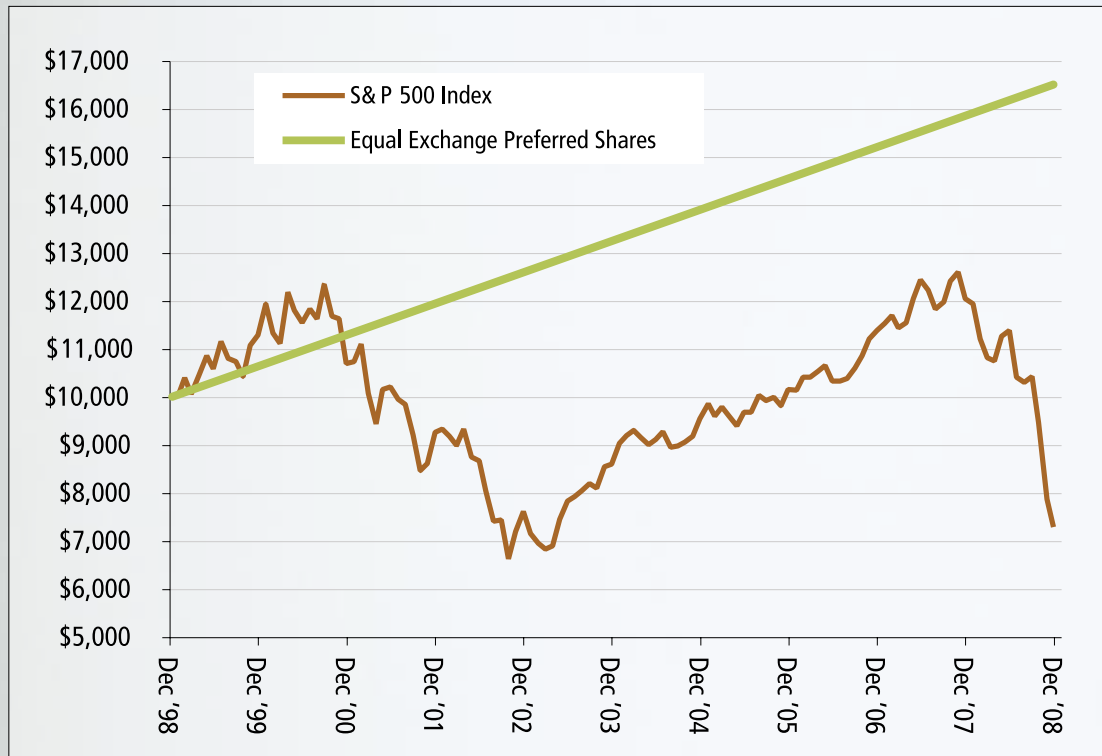
The Beauty of One

BY ALISTAIR WILLIAMSON, CAPITAL COORDINATOR

CANDACE & RICHARD GALIK

EQUAL EXCHANGE PREFERRED SHARES VS. THE S&P 500

This chart shows an investment of \$10,000 made in 1999, in both the S&P 500 index (which tracks the 500 largest companies in the U.S.), and in Equal Exchange Preferred Shares. In both cases any dividends issued were reinvested in new shares.



"Purchasing Equal Exchange Preferred Shares over 10 years ago, we made a stable investment with annual dividends that have outpaced inflation; we also made a commitment to quality products and Fair Trade."



WORKER-OWNER REPORT

Owners Vote for Big Change

BY MIKE MOWRY, WORKER-OWNER COORDINATOR

I became Worker-Owner Coordinator at Equal Exchange in May, during an exciting and momentous year for the co-operative. Amidst market turmoil, corporate greed, and the growing disconnect between those who produce our food and those who consume it, the worker-owners at Equal Exchange made bold decisions to sharpen our focus on creating a fairer and more just food system. While markets all around us fluctuated sporadically throughout 2008, we as co-op members voted to increase the

amount of money we have invested in Equal Exchange. Through the purchase of Class B shares, collectively we now have personal investments in our organization approaching \$500,000. Seeking to broaden our dedication to *Small Farmers. Big Change.*, the worker-owners also approved a proposal to start selling Fair Trade bananas - a new and exciting path toward working with more small-scale producer co-ops around the world.

BOARD REPORT

Of People and Perishable Fruit

BY ALISTAIR WILLIAMSON, BOARD CHAIR

It's September 2008, and there's a proposal to the board. "Let's invest half a million dollars in a struggling business importing low-margin, perishable fruit," said Rink Dickinson, Co-Executive Director and a founder of Equal Exchange. "It's time to step up to Fair Trade bananas." That's exciting, but in such uncertain times, how do we decide? We decide by contemplating our vision; we decide by contemplating failure; we decide together.

Our 20 Year Vision speaks of a billion dollar Fair Trade community. We are three years into it, with no time to be timid. To really change the nature of trade, you can't avoid bananas. We considered the impact of losing our complete investment; would Equal Exchange be dangerously weakened? Our conclusion was no. Then, the board (of nine), our Co-Executive Directors and the worker-owner body (86 at the time) each made a choice. All chose to invest.

It was a happy milestone for us to be able

to offer resources of this scale to others, as they've been offered to us. The deliberations and the robust spread of voices also reminded us that, big or small, a board will fail when it becomes anonymous. We must not forget or disguise that *people* make choices, not institutions.

Recognizing that, we seek as much insight, skills and experience as we can get our hands on. For six years now, we have turned to Terry Appleby, one of three external directors on our board. The General Manager of Hanover and Lebanon Co-op Food Stores, he leads a business twice our size and has served his entire career in co-ops. His easy demeanor, generous knowledge, and determination to understand have served us beyond our knowing. This year, sadly, he reaches his six-year maximum term. Thank you, Terry. Ten thousand thank yous from the small villages and forested mountains around our planet.

Our home is your home.

Contribution to the Equal Exchange Mission		
	2008	2007
Total sales	\$34,440,241	\$29,370,480
FAIR TRADE COMMITMENT		
Total Fair Trade Purchases	\$15,942,269	\$11,676,645
Above Market Prices (Coffee Only)	\$1,191,177	\$509,170
Fair-Trade Premium (Coffee Only)	\$644,945	\$495,014
Small Farmer Funds	\$152,873	\$142,585
Advance Payment Facilitated	\$2,000,404	\$2,375,230
ALLOCATION OF INCOME		
Revised Income*	\$2,024,000	\$1,363,886
Charitable Contributions	\$105,000	\$5,296
Class B Shareholder Dividends	\$282,959	\$213,888
Member Patronage Dividends	\$451,004	\$260,359
Taxes	\$600,000	\$435,000
Retained Earnings (Reinvested)	\$585,181	\$449,343

*In order to show allocation of profits, "Revised Income" is "Income Before Taxes" plus "Charitable Contributions" plus "Member Patronage Dividends."

INTERNAL DIRECTORS: Steve Bolton (*Operations Manager*), Alison Booth (*Equal Exchange Espresso Bar Manager*), Dary Goodrich (*Chocolate Products Manager*), Rodney North (*The Answer Man*), Keith Olcott (*Customer Service Manager*), Alistair Williamson (*Capital Coordinator*)

EXTERNAL DIRECTORS: Terry Appleby (*Hanover and Lebanon Co-op Food Stores*), José Luis Rojas (*Root Capital*), Martin Van Den Borre (*La Siembra*)

FINANCIAL REPORT

Strong Growth & New Investments

BY BRIAN ALBERT, FINANCE DIRECTOR

Despite the climate of economic uncertainty that affected so many folks in 2008, Equal Exchange recorded an increase in sales in excess of 17%. This growth, coupled with closely monitored expenses, has allowed us to reallocate resources to the exciting new banana and café projects.

A glance at the Balance Sheet shows a significant increase in inventory, which reflects both additional quantity and the higher-than-normal cost of green coffee this year. Careful management of this inventory shall allow us to reduce the resultant increased balances on our lines of credit. There is also an increase on the current portion of our mortgages, which reflects a balloon payment on a portion of the package used to purchase the building in 2004; we expect a routine renewal of that loan during 2009.

One of the highlights of the year is not as readily apparent. Late in the year, our worker-owner body elected to invest all of our internal capital in Class B shares, demonstrating to the outside world our belief in ourselves and our mission.

We are looking forward to another exciting and challenging year in 2009, while continuing to learn how to achieve our 20 Year Vision.

Income Statement			
	2008	2007	2006
Total Sales	\$34,440,000	\$29,370,000	\$23,639,000
Cost of Sales (coffee/tea/chocolate, roasting, packaging, shipping)	\$22,447,000	\$18,867,000	\$14,165,000
Operating Expenses (marketing, sales, administration, education)	\$9,535,000	\$8,646,000	\$7,946,000
Other Expenses (primarily interest on loans)	\$990,000	\$759,000	\$576,000
Total Costs	\$32,972,000	\$28,272,000	\$22,687,000
Income Before Taxes	\$1,468,000	\$1,098,000	\$952,000
Taxes	\$600,000	\$435,000	\$415,000
Shareholder Dividends	\$283,000	\$214,000	\$173,000
Annual Retained Earnings (reinvested in the business)	\$585,000	\$449,000	\$364,000

WHEREVER YOU ARE, BE PART OF OUR VISION FOR TWO MILLION COMMITTED PARTICIPANTS

A PLACE OF WORSHIP: Serve Equal Exchange coffee during social hours and talk about the aromas and flavors.

IN SCHOOL: Participate in the Equal Exchange Fundraising Program to raise money for your school or group.

AT WORK: Brew Equal Exchange coffee or tea for co-workers.

THE STORE: Ask for Equal Exchange coffees, teas, chocolates and snacks at the places you shop.

THE TRAIN: Share a piece of Equal Exchange chocolate with a stranger.

THE GYM: Tell your workout buddy about something cool you think Equal Exchange is doing.

A CAFÉ: If your café doesn't serve Equal Exchange coffee and tea, ask them to! Suggest your favorites.

ON THE WEB: Visit www.equalexchange.coop and our blog at www.SmallFarmersBigChange.coop



Equal Exchange Customer Service Representative and Educator Dana Welch, from the Minnesota office.

EQUAL EXCHANGE Audited Financial Statements, 2008 & 2007

STATEMENTS OF OPERATIONS AND RETAINED EARNINGS

	FY 2008	FY 2007
SALES	\$ 34,440,241	\$ 29,370,480
COST OF SALES	<u>22,446,593</u>	<u>18,866,940</u>
GROSS PROFIT	<u>11,993,648</u>	<u>10,503,540</u>
OPERATING EXPENSES	<u>9,535,120</u>	<u>8,646,241</u>
INCOME FROM OPERATIONS	<u>2,458,528</u>	<u>1,857,299</u>
OTHER (EXPENSE) INCOME:		
Interest Expense	(720,437)	(737,131)
Reduction of Investment to Market	(80,000)	-
Bad Debt Expense	(94,265)	(38,759)
Charitable Contributions Expense	(105,000)	(5,296)
Interest Income	<u>9,314</u>	<u>22,118</u>
	<u>(990,388)</u>	<u>(759,068)</u>
INCOME BEFORE INCOME TAXES	<u>1,468,140</u>	<u>1,098,231</u>
PROVISIONS FOR INCOME TAXES:		
Current	435,000	325,000
Deferred	<u>165,000</u>	<u>110,000</u>
	<u>600,000</u>	<u>435,000</u>
NET INCOME	868,140	663,231
RETAINED EARNINGS, Beginning of Year	2,069,068	1,619,725
Less: Preferred Stock Dividends Paid	<u>(282,959)</u>	<u>(213,888)</u>
RETAINED EARNINGS, End of Year	<u>\$ 2,654,249</u>	<u>\$ 2,069,068</u>

These financial statements are extracts from the Audited Financial Statements of Equal Exchange, Inc. for the years ending December 31, 2007 and 2008. 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

	FY 2008	FY 2007
ASSETS		
CURRENT ASSETS:		
Cash and Equivalents	\$ 212,717	\$ 381,497
Accounts Receivable - Trade	2,227,843	1,973,098
Notes Receivable - Other	88,628	34,174
Inventories	10,839,429	8,193,630
Prepaid Expenses, Advances in Inventory, and Other Current Assets	928,227	766,611
Deferred Income Tax Asset	<u>145,000</u>	<u>77,000</u>
TOTAL CURRENT ASSETS	<u>14,441,844</u>	<u>11,426,010</u>
PROPERTY AND EQUIPMENT, at Cost	9,761,178	9,093,099
Less: Accumulated Depreciation and Amortization	<u>(2,287,935)</u>	<u>(1,781,198)</u>
	<u>7,473,243</u>	<u>7,311,901</u>
DEFERRED FINANCING COSTS	35,434	49,794
NOTES RECEIVABLE - OTHER	190,870	151,326
OTHER ASSETS	<u>234,473</u>	<u>281,188</u>
	<u>7,934,020</u>	<u>7,794,209</u>
TOTAL ASSETS	<u>\$ 22,375,864</u>	<u>\$ 19,220,219</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Notes Payable - Lines-of-Credit	\$ 5,164,438	\$ 4,022,153
Mortgages and Other Notes Payable, Current Portion	1,639,829	319,677
Capitalized Lease Obligations, Current Portion	447,679	420,470
Accounts Payable - Trade	940,158	1,079,240
Accrued Expenses and Other Current Liabilities	769,526	660,063
Patronage Rebates Payable	<u>255,255</u>	<u>418,205</u>
TOTAL CURRENT LIABILITIES	<u>9,216,885</u>	<u>6,919,808</u>
MORTGAGES AND OTHER NOTES, Non-Current	2,875,097	3,259,969
CAPITALIZED LEASE OBLIGATIONS, Non-Current	1,125,216	1,572,897
DEFERRED INCOME TAXES	637,000	404,000
TOTAL LIABILITIES	<u>13,854,198</u>	<u>12,156,674</u>
STOCKHOLDERS' EQUITY:		
Preferred Stock: 206,864 Shares in 2008; 175,939 Shares in 2007	5,680,390	4,829,986
Common Stock: 93 Shares in 2008; 85 Shares in 2007	260,903	232,555
Less: Common Stock Subscriptions Receivable	(73,876)	(68,064)
Retained Earnings	<u>2,654,249</u>	<u>2,069,068</u>
TOTAL STOCKHOLDERS' EQUITY	<u>8,521,666</u>	<u>7,063,545</u>
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	<u>\$ 22,375,864</u>	<u>\$ 19,220,219</u>

EQUAL EXCHANGE Audited Financial Statements, 2008 & 2007

STATEMENTS OF CASH FLOWS

	FY 2008	FY 2007
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash Received from Customers	\$ 34,185,496	\$ 28,966,499
Cash Paid for Operating Expenses	(34,359,448)	(28,647,767)
Interest Paid	(720,437)	(737,131)
Income Taxes (Paid), Net	(412,249)	(133,202)
Interest Received	9,314	22,118
Net Cash (Used for) Operating Activities	<u>(1,297,324)</u>	<u>(529,483)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Cash Paid for Purchase of Property and Equipment	(924,851)	(44,950)
Cash (Advanced) on Notes Receivable - Other, Net	(173,998)	(75,000)
Cash Paid for Investments	(20,000)	(153,360)
Net Cash (Used for) Investing Activities	<u>(1,118,849)</u>	<u>(273,310)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Cash Advances on Notes & Lines-of-Credit, Net	1,142,285	1,015,307
Proceeds Received from New Debt	1,100,000	-
Proceeds Received from Preferred Stock	791,549	279,705
Cash Received from Dividend Reinvestment	177,087	132,276
Proceeds Received from Common Stock	50,427	40,781
Cash Paid to Reduce Capitalized Leases	(420,472)	(301,715)
Preferred Stock Dividends Paid	(282,959)	(213,888)
Cash Paid to Reduce Mortgages & Other Notes	(164,720)	(84,026)
Cash Paid to Redeem Preferred Stock	(118,232)	(146,600)
Cash Paid to Redeem Common Stock	(27,572)	(17,700)
Net Cash Provided by Financing Activities	<u>2,247,393</u>	<u>704,140</u>
NET (DECREASE) IN CASH AND EQUIVALENTS	(168,780)	(98,653)
CASH AND EQUIVALENTS, Beginning of Year	<u>381,497</u>	<u>480,150</u>
CASH AND EQUIVALENTS, End of Year	<u>\$ 212,717</u>	<u>\$ 381,497</u>

STATEMENTS OF CASH FLOWS, continued

	FY 2008	FY 2007
RECONCILIATIONS OF NET INCOME TO NET CASH (USED FOR) OPERATING ACTIVITIES:		
Net Income	<u>\$ 868,140</u>	<u>\$ 663,231</u>
Adjustments to Reconcile Net Income to Net Cash		
Depreciation and Amortization	777,955	648,794
Reduction of Investment to Market	(80,000)	-
Bad Debt Expense	(94,265)	(38,759)
Changes in Assets and Liabilities:		
(Increase) in Accounts Receivable - Trade	(269,010)	(442,740)
(Increase) in Inventories	(2,645,799)	(1,210,319)
(Increase) in Prepaid Expenses, Advances for Inventories & Other Assets	(175,306)	(483,959)
Decrease in Prepaid Income Taxes	-	98,886
(Increase) in Deferred Income Tax Asset	(68,000)	(2,000)
(Decrease) in Accounts Payable - Trade	(139,082)	(140,527)
Increase (Decrease) in Accrued Expenses and Other Liabilities	86,712	(94,689)
Increase in Accrued Income Taxes Payable	22,751	92,912
(Decrease) Increase in Accrued Patronage Rebates Payable	(162,950)	190,169
Increase in Deferred Income Taxes Payable	<u>233,000</u>	<u>112,000</u>
Total Adjustments	<u>(2,165,464)</u>	<u>(1,192,714)</u>
Net Cash (Used for) Operating Activities	<u>\$ (1,297,324)</u>	<u>\$ (529,483)</u>



Where in the
USA is
Equal Exchange?



EQUAL EXCHANGE OFFICES:

West Bridgewater, MA
St. Paul, MN
Hood River, OR
Portland, OR



EQUAL EXCHANGE CAFÉS:

Boston, MA - Equal Exchange Café
Seattle, WA - Equal Exchange Espresso Bar



EQUAL EXCHANGE

BARBARA ALBERNAZ BRIAN ALBERT MIKE ALLEN JUVENAL ALVES JODI ANDERSON RON ARM RAFAEL AVILES TERINA BARNES DAVID BATES SARAH BELFORT VIRGINIA BERMAN PHIL BERRY RENIE BITHELL
 TERRY BOISCLAIR STEVE BOLTON ALISON BOOTH PETER BUCK JOAO CARDOSO HEATHER CARPENTIER BETH ANN CASPERSEN TODD CASPERSEN DIA CHENEY ANN CHERIN DAN COBB BRIAN CROUTH MIKE CUMMISKEY
 AARON DAWSON ANTONIO DELGADO JOHN DEPINA VICTOR DEPINA JIM DESMOND RINK DICKINSON SANDRA DISTELRATH DOMINGOS DO ROSARIO MARIA F. DOS REIS RICK DOUGHTY JOE DRISCOLL KELSIE EVANS
 ROB EVERTS JIM FELDMANN MICHELLE FORD JONATHAN FREEDMAN JAMIE GALLAGHER CARLOS GOMES GARY GOODMAN DARY GOODRICH TOM HANLON-WILDE LISA HARRIS BRIAN HENRY KEVIN HOLLENDER
 MEGHAN HUBBS DONNA HUNT JEANNE HUNT KEVIN JONES SUZANNE KELEHER ANDREW KESSEL DEEPAK KHANDLWAL ADENA KILLIAN HOPE KOLLY WAYNE KRITZMAN DANIELLE LAFOND SAMUEL LEWONTIN
 THOMAS LUSSIER ROXANNE MAGNUSON IAN MCMILLAN SHARYN MCWILLIAMS LYNSEY MILLER GLADYS MINAYA MIKE MOWRY JESSIE MYSZKA LIANE NADEAU WELLS NEAL RODNEY NORTH BRIAN O'CONNELL
 KEITH OLCOTT MARGARET O'NEILL SCOTT PATTERSON MEGHAN PFEIFFER KARIN PICARSKI RICHARD POOLE ELIOT RAMOS NICK REID JOE RIEMANN PHYLLIS ROBINSON DAN RONY CARA ROSS LISA RUSSELL JOSE SANCHEZ
 ADAM SCHAEFFER CARI SENEFSKY SUSAN SHAW RICK SHEPARD SUSAN SKLAR MARK SOUZA CODY SQUIRE DANIEL STEINBERG FORREST SUTTON ASHLEY SYMONS L.J. TAYLOR JOAQUIN TEIXEIRA MARIO TEIXEIRA
 ANNA UTECH LISA VALDEZ NICOLE VITELLO DANA WELCH ESTHER WEST ALISTAIR WILLIAMSON AMY WISEHART LILLA WOODHAM

Editors: Ashley Symons & Ann Cherin; **Designer:** Liane Nadeau

Photo Credits: Cover, farmer photo Olaf Hammelburg, thread Jessica Notargiacomo; Inside cover, Jessica Notargiacomo; p. 1, Gary Goodman; p. 2, Gary Goodman; p. 3, Jessica Notargiacomo; p. 4, Sri Lanka Deepak Khandelwal; product Gary Goodman, South Africa Deepak Khandelwal; p. 5, (L-R) Deepak Khandelwal, Phyllis Robinson, Phyllis Robinson, Lilla Woodham; p. 6, Jim Feldmann, Peru photo courtesy of Roxanne Magnuson; p. 7 Dominican Republic Gary Goodman, classroom courtesy of Virginia Berman, Equal Exchange Gary Goodman; p. 8, Top left and bottom right Ashley Symons, all others Gary Goodman; p. 9, Beth Ann Caspersen; p. 10, headshots Ashley Symons; p. 11, top row Ashley Symons, bottom Gary Goodman, interior detail Kayden Nadeau; p. 14, headshot Gary Goodman; p. 15, Scott Patterson; Back cover, Gary Goodman.