

Equal Exchange Annual Report 2010

Building a Co-operative
Trade Movement **P.2**

Transforming the Cacao Industry
in the Dominican Republic **P.3**

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• 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.

**Enacted in 2007*



This page: Jose Roberto, a member of Las Colinas co-op in El Salvador, harvests ripe coffee cherries. Cover: Andrés Zaccharias, a member of Las Colinas co-op, holds a ripe coffee cherry in his harvest basket.



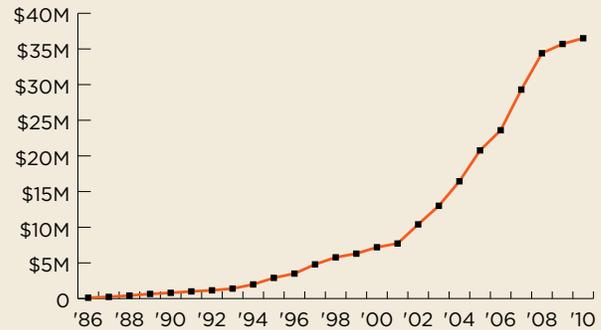
Rising Commodity Prices, Slight Growth

// By Rob Everts & Rink Dickinson

As we closed 2010, sustained high commodity prices continued to challenge all of us in the coffee and chocolate industries, and no one knows where it will stop. We grapple with multiple elements of this economic environment: how to help farmer co-operatives sustain strong organizations and member loyalty in the face of these destabilizing factors, and how to balance prices to customers while maintaining sufficient profit margin to fulfill our mission. Given the scope of the challenges, we are pleased with our performance in 2010.

Our investors played a critical role in our ability to maintain solid cash flows while commodity costs rose so dramatically. The successful offering in 2009, followed by a new offering initiated in the fourth quarter of 2010, have reminded us of the power of our business model and the attraction it has for many investors. Thank you one and all.

EQUAL EXCHANGE (1986-2010) 25 Years of Sales Growth

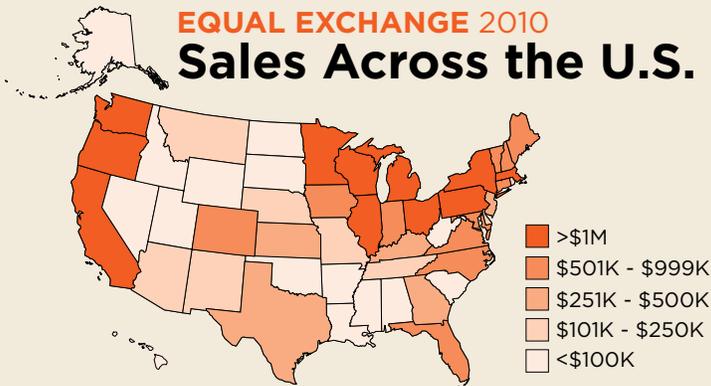


Meanwhile, innovation and a willingness to take appropriate risk were important elements in 2010. We launched a pioneering initiative with six food co-operatives to better identify products consistent with the values of co-op members. As detailed on p.2, the Principle Six: Co-operative Trade Movement initiative will actively engage consumers in building demand for a range of products as part of a wider effort to reform the food system. Additionally, as you will read on p.11, we took a majority ownership stake in Oké USA to better respond to market challenges here in the U.S. for bananas.

Sales in 2010 grew just under two percent to \$36,526,000. After charitable contributions and worker-owner patronage disbursements, we realized a net income before taxes of \$1,323,000. Strong increases were particularly notable in our direct sales to food co-ops—part of a conscious strategy to bypass distributors—and in our Fundraising Program for schools.

Looking ahead, we anticipate the commodity price environment will continue to profoundly challenge us. But by engaging with our base of farmers, customers and investors, we are confident that together we will take Equal Exchange to new levels of success.

EQUAL EXCHANGE 2010 Sales Across the U.S.



Rob Everts Rink Dickinson

P6 LAUNCHES NATIONWIDE

// By Phyllis Robinson, Education & Campaigns Manager

Imagine the power behind an entire network of consumer co-ops explicitly leading with their values and unequivocally encouraging their members to do the same: to support small farmers, local producers, and co-operative and non-profit businesses.

Principle Six is a pilot initiative created by Equal Exchange and six consumer co-ops—Seward Community Co-op, Bloomingfoods Co-op, Brattleboro Food Co-op, The Merc Co-op, Davis Food Co-op, and Willy Street Grocery Co-op—to leverage the power of co-operatives to build a sustainable, alternative economy in stronger alignment with our shared values.

Through a website and point-of-sale materials, P6 promotes the products that exemplify these values, and educates and engages consumers to think more carefully about who is behind their food, who stands to gain through their purchasing decisions, and the tremendous power they wield to create systemic change.

As we bring in more co-ops *and more co-op shoppers*, we will create a strong co-operative trade movement to challenge the conventional business model that currently dominates our food system and economy. This pilot program is just the first step; we have a lot to learn about co-operation and risk-taking if we are to truly build a co-operative *movement*. But we are most certainly planning to grow—in numbers and in strength. Visit www.p6.coop to learn more.



Left: Shelly Paul, left, and Hannah Glusenkamp at the Seward Co-op launch of P6. Right: Seward Co-op General Manager Sean Doyle, left, and Equal Exchange Midwest Sales Manager Scott Patterson at the Seward Co-op launch of P6.

FROM OUR FUNDRAISING TEAM

STUDENTS GET CREATIVE WITH EQUAL EXCHANGE FUNDRAISING

// By Virginia Berman, Fundraising Program Director

In 2010, the Equal Exchange Fundraising Program grew 26 percent. The success was largely thanks to adding the right people to our team (we're three and a half people now!) and expanding the product line in the fundraising catalog. We now offer Ten Thousand Villages artisan-made goods alongside Equal Exchange's coffee, tea, and chocolate.

We're thrilled to have 100 new customers and see the return of previous ones, such as Karen Wilke, a sixth grade teacher at the Longfellow School in LaCrosse, Wisc. For the past three years Karen's class has fundraised with Equal Exchange. She's also used our school curriculum to help talk to students about global wealth distribution, Fair Trade, and co-operatives.

Karen enjoys seeing her students get creative; some focus on the environmental impacts of coffee farming, some on child labor in the cocoa industry. One 11-year-old student even spoke on local television with the school superintendent about why Fair Trade matters to her.

We look forward to hearing more stories of students' and teachers' passions for Fair Trade!

"Where do I start about why I love Equal Exchange for my classroom? With Equal Exchange studies, the students' passions lead them. The students learn how cocoa and coffee are cultivated and the impacts Fair Trade has on farmers."

KAREN WILKE, sixth grade teacher at Longfellow School in LaCrosse, Wisc.



Above: Student fundraisers Marissa and Kiley sell an Equal Exchange chocolate bar to a teacher at Longfellow School in Wisconsin.

Dominican Republic Producers: ‘There’s Been Significant Development’

// By Kelsie Evans, Chocolate Products Coordinator

When we talk about “Small Farmers. Big Change.” and the power of small-scale farmers to change the food system, we’re talking about organizations like CONACADO in the Dominican Republic. Before CONACADO formed in 1988, four Dominican exporters controlled the cacao market, dictating low prices and poor quality. Today, CONACADO members produce about 25 percent of Dominican cacao exports, and the organization has become a powerful alternative for small-scale farmers.

In March 2010, Basilio Almonte, an agronomist, and Ramón Matías Frías González, a cacao farmer and secretary on CONACADO’s Board of Directors, came to the U.S. for a week-long tour of food co-ops, churches, and schools, to meet customers in the Northeast and share their inspiring story firsthand.

“Before I joined CONACADO, I had three acres [of land] and I couldn’t get credit from the bank with such a small amount of land,” said Ramón, who became a member of the co-op in 1992. “Since joining, I have had access to credit and have increased my land ownership to 15 acres. This shows there’s been significant development [as a co-op member].”

The work of CONACADO has not only transformed life for CONACADO’s members, but also for their families and the surrounding communities.

“When we go into a community and see a school repaired or something replaced, we feel very satisfied and we think about the dream that we had in 1988, and we feel like we’re actually making this dream a reality.”

BASILIO ALMONTE, *agronomist*

For Basilio, continued success requires all stakeholders in the supply chain, from producers to shoppers, to support positive change in our food system. “Today, it’s a very competitive [chocolate] market; it’s not easy,” Basilio said. “Big businesses don’t want us to succeed or this concept to grow. We feel very happy that there are organizations such as Equal Exchange and the allies of Equal Exchange that are trying to raise awareness among consumers, and help provide better access and opportunities for producers. When consumers understand this choice and make this choice, we feel very lucky that all of you are here doing this work.”



In the fall, we launched two new chocolate bars, Organic Dark Chocolate Caramel Crunch with Sea Salt (55% Cacao) and Organic Ecuador Dark Chocolate (65% Cacao). They’ve been a big hit with our staff and our customers! Look for them at your local natural foods store or on our webstore at shop.equalexchange.com.



Top: Basilio Almonte, left, and Ramón Matías Frías González, both of CONACADO co-op, speak to a crowd at Honest Weight Food Co-op in Albany, N.Y. Bottom: Students at Yamasá, a school attended by children of CONACADO cacao farmers.

Tools of the Trade

// By Beth Ann Caspersen, Quality Control Manager

The transformation of coffee into a distinct specialty beverage, akin to wine, has been amazing. Recently I borrowed a simple tool used by vintners around the world. It's called a Brix refractometer, and it's used in viticulture to measure the percentage of sucrose development in wine grapes to determine if the grapes should be harvested or not. The Brix refractometer is also used to measure sucrose in a variety of other foods, like beer, fruit juice and now, coffee.

In November, I visited our producer partners at Las Colinas co-operative in Tacuba, El Salvador, to implement a new quality system on the farm. On the first day, I showed the producers the Brix refractometer and talked about sweetness in coffee cherries in a scientific way.

With the Brix refractometer and a graduated cylinder, I measured the quality of the coffee each producer had in his or her basket. We used the Brix refractometer to look at a variety of cherries; from unripe to overripe, and I showed each producer how unripe coffee cherries had a lower percentage of sugar compared to their ripe counterparts. This was the first step in our quality program and helped to solidify the foundation for the project.

Although I had harvested coffee years ago, I decided that strapping a basket to my waist and plucking coffee from the trees may provide some new insight. I knew going into it that sweetness is a direct reflection of how mature the coffee cherries are when harvested, so I knew to harvest just the red, ripe cherries. It sounded straightforward, but I quickly realized that it's not. Sunlight and the angle you're working from can influence how ripe a cherry looks, and I found myself analyzing each and every cherry on the tree!



Picking ripe coffee cherries is only one step in the complex system needed to produce exceptional coffee, but it demonstrates the cross pollination that can happen between two industries. We have been borrowing tools and language from the wine industry for more than three decades. We are more sophisticated and innovative than we have ever been in specialty coffee. Borrowing technical tools from other specialty foods will continue to lead to new inventions and innovations. I look forward to seeing what we will borrow next, or conversely, which segment of the specialty food industry will look to us in specialty coffee for inspiration and guidance in the future.





FARMER TOUR: LAS COLINAS

// By Peter Buck, Interfaith Program Representative

Measuring Sucrose Content of Coffee Cherries

Beth Ann used a Brix refractometer, a tool often used in the wine industry, to measure the sucrose in coffee cherries. Here you can see the measurements in °Bx, the unit of measurement for the Brix refractometer. The desired cherries measure 22-24 °Bx.

	OVERRIPE	28+ °Bx
	RIPE	22-24 °Bx
	HALF RIPE	18- °Bx
	UNRIPE	N/A

Opposite page: Top: Flor Dalma Jimenez, a member of Las Colinas, picks coffee cherries. Left: A cluster of ripe and unripe coffee cherries.

Right: Beth Ann Caspersen, Equal Exchange Quality Control Manager, measures coffee cherries with José Luís Castillo, a member of Las Colinas co-op, and Hector David Castillo Vasquez, a field supervisor at Las Colinas. This page: Top: Members of Las Colinas co-op pose with Beth Ann alongside the day's harvest. Look at those beautiful red cherries!



Pedro Ascencio speaks at Manhattan College in New York.

In mid-September, Equal Exchange and Catholic Relief Services co-sponsored a week-long speaking tour with Pedro Ascencio, farmer and marketing coordinator at Las Colinas co-operative in El Salvador. In 15 presentations to church activists, food co-op members, and students, Pedro presented Las Colinas' compelling 30-year story of struggles and successes.

He told audiences that the farmers of Las Colinas received their land collectively due to land reform in the '80s, and they continue to farm collectively today. Everyone in the co-operative receives the same pay, which Pedro expressed with the slogan "Todo en la cama, o todo en el suelo," which means "Everyone [sleeps] in the bed, or everyone [sleeps] on the ground."

Read more about the tour and Pedro's message on our blog: <http://smallfarmersbigchange.coop/2010/11/18/pedro>



SIXTH ANNUAL COOPERATION IN QUALITY PROGRAM: PERU

Learning Inside and Outside the Cup

// By Beth Ann Caspersen, Quality Control Manager

In September, all three co-ops that we source coffee from in Peru sent their quality managers to Equal Exchange headquarters in Massachusetts to participate in the Sixth Annual Cooperation in Quality Program. It was a busy, fun-filled week of cupping, roasting, espresso making, and descriptive analysis that provided the cuppers with insights into the specialty coffee market in the U.S. and introduced them to the Equal Exchange community.

Training and protocol are the fundamentals of the program, and this includes basic activities like brewing coffee in a French press, and chocolate and fruit tasting, to provide them with exciting experiences and knowledge that they can bring back to their co-operatives. The camaraderie and intercultural experiences that take place also make the program a meaningful experience for all involved.

At the end of the week, we sat down with Henry Guillen, the quality manager for COCLA co-operative in Lima, Peru.

What did you learn during this program?

I have learned so many things. I have never seen a roaster like yours or the connection between quality control and production. I can see that everyone is constantly caring for the quality of your coffee. Here [at Equal Exchange] I see the work of a family and everyone working for the same objective.

What is something you'll take back to your work at COCLA?

Trying different fruits from the U.S. was very interesting. We have some of these fruits [in Peru], some with different names, but to try the blueberries was very interesting.

Also, the methodology for roasting [at Equal Exchange] is very different. We haven't had the opportunity to visit a roaster like this before. In our laboratory, we have the same [sample] coffee roaster, but our starting temperature is lower than yours. Now I am going to change [our methodology] and I am going to implement this in our laboratory.

What will you tell the coffee producers and staff at COCLA when you return?

All of their work from the harvest to the final product is very important.

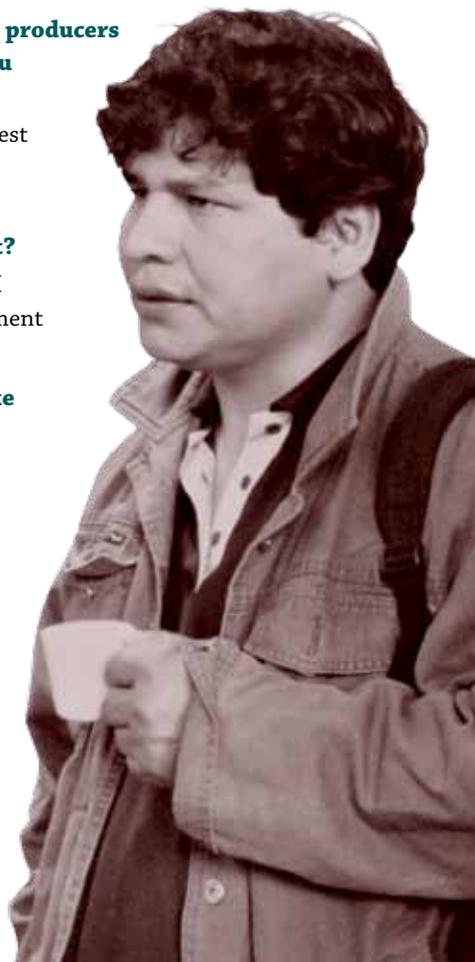
What was your favorite part?

I think that from the moment I opened the door, until the moment I left, it was so beautiful.

What message would you like to pass along to our customers?

Each day we are advancing and improving quality. Drink more coffee from Peru!

Top: Left to right: Beth Ann Caspersen, Juan Rodolfo Cruz Garcia of CEPICAFE, Mike Mowry of Equal Exchange, Tibed Yujra Añamuro of CECOVASA, Henry Guillen of COCLA, and Danielle Lafond of Equal Exchange, during a coffee cupping in the lab. Top right: Tibed Yujra Añamuro and Beth Ann Caspersen. Right: Henry Guillen.





ORGANIZE A FUNDRAISER *at your SCHOOL or ORGANIZATION*

equalexchange.coop/fundraiser

SERVE EQUAL EXCHANGE COFFEE, HOT COCOA *and* TEA DURING FELLOWSHIP HOUR *at your PLACE of WORSHIP*

equalexchange.coop/interfaith



equalexchange.coop/eecd

PUT YOUR SAVINGS TO WORK *for SMALL FARMERS with an EQUAL EXCHANGE CD at EASTERN BANK*

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INVOLVED

COME *on a TOUR!* WE'D LOVE TO SHOW YOU OUR PLACE

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WITH

There are lots of ways to support our business. Here are some ideas!



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smallfarmersbigchange.coop

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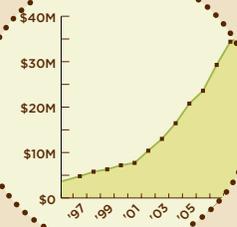


ASK YOUR LOCAL STORE *or CAFÉ to CARRY EQUAL EXCHANGE PRODUCTS*

equalexchange.coop/convince

BECOME AN INVESTOR *in our* COMPANY

equalexchange.coop/invest



3 TOTAL SQUARE FEET OF WAREHOUSE AND OFFICE SPACE IN MA, MN & OR : 88,500



Who's the Boss?

By Esther West, Education Committee Co-chair & Interfaith Program Representative

Just who is the boss here at Equal Exchange? Is it the Board, the Executive Directors, or perhaps the investors? Actually, our co-operative is structured so that Equal Exchange worker-owners are “the boss,” so to speak. Instead of one person or outside shareholders controlling our company, ownership is shared among all of us.

When we are “the boss,” our sense of ownership translates into creating a more sustainable organization. As worker-owners, we have the power and responsibility to use our voices and create a successful company that lives up to our mission. Some particularly unique aspects of our worker-owned model and culture include:

Co-op Education: Our active Education Committee cultivates habits of participation, and fosters efficient, well-rounded business owners. Education and activities around various issues—from learning about rooftop food movements in Mexico, to trainings on facilitation skills—means our co-op has deeply committed and informed worker-owners.

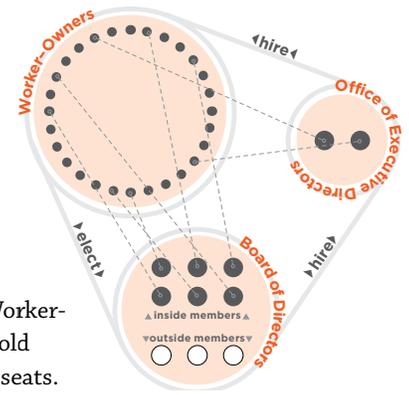
Circle of Accountability: Worker-owners elect the Board and hold six out of nine of the Board's seats. The Board then hires and oversees the Executive Directors, who oversee the worker-owners. This built-in circle of accountability fosters shared ownership and management.

One Person, One Vote: The only voting shares are owned by Equal Exchange worker-owners, and each worker-owner has one voting share.

Additional Structures for Workplace

Democracy: We hold worker-owner meetings, attend Board meetings, and elect worker-owners from across departments to hold positions of leadership in the co-op. Additionally, 10 percent of every worker-owner's paid time is dedicated to activities that fall outside daily job responsibilities, such as a weekly educational hour called Exchange Time.

As a successful worker-owned co-operative built on cooperation and democratic participation, we are continually learning how to change the nature and focus of “who's the boss” in business.



We're Talking Governance

By Kelsie Evans, Worker-Owner Coordinator & Chocolate Products Coordinator

I became Worker-Owner Coordinator at our Annual Elections in May. Each year, the worker-owner body elects a coordinator to facilitate co-op meetings and activities.

In 2010, worker-owners elected a committee to guide us through the process of evaluating our governance model, and we've had productive, participatory meetings to elicit feedback and encourage proposals from the worker-owner body.

It may seem unusual for workers to take time at the end of a busy work day to meet and discuss what's important in a governance model: transparency, clear decision-making procedures, input from all

stakeholders, and collaboration toward achieving common goals—just to name a few that ranked highly on our list—but our ability to determine our core values, and evaluate how well our structure supports those values, is key to our success as a worker-owned business.

This is a great example of the commitment a co-op requires. It's not easy to tackle these issues. We don't get to put our day-to-day jobs on hold because ownership responsibilities demand attention. The time and attention we are willing to put into running our business is a tribute to our culture of ownership. And I'm proud to be a part of it.



The Three Pillars of Committed Capital

By Daniel Fireside, Capital Coordinator

Like any growing business, Equal Exchange needs working capital.

That's the money we use to build a new café, buy a coffee roaster, and experiment with new products. Because of our Fair Trade model, we actually need even more to pay above-market prices to small farmer co-operatives and provide pre-harvest financing.

Conventional investment and bank financing comes with an important condition—put profit above all other values. At Equal Exchange, we've found a different path—one that supports our social values, rather than forcing us to sacrifice them.

There are three pillars of what we call “committed” capital:

Worker Equity: As a 100 percent worker-owned business, every co-operative member buys an ownership share. In return, we elect the Board of Directors and decide critical company policy. We put

a share of profits back into the company, and put half of our profit-sharing into a company investment account.

Preferred Shareholders: Over 400 individuals and institutions have bought special investment shares of the company. These fixed-price shares pay a modest, non-guaranteed dividend targeted at five percent, must be held for at least five years, and don't have voting rights.

Mission Lenders: An increasing share of our loans comes from institutions that support our model. This includes a depositor-backed line of credit from Eastern Bank, and loans from the Calvert Foundation, Everence, religious institutions, and individual supporters.

Because of this extraordinary financing model, we're able to do extraordinary things. To everyone who is part of it, we thank you for your partnership.

INVESTOR PROFILE : Jeff and Anya Byam

// By Daniel Fireside, Capital Coordinator

Jeff and Anya Byam, of Burlington, Vt., only recently became investors in Equal Exchange, but they've been fans for a while.

“We first became aware of Equal Exchange at our Unitarian church in Muskegon, Mich.,” Jeff said. The church sells Fair Trade products as part of Equal Exchange's Interfaith Program.

When Jeff and Anya moved to Vermont in 2007 with their children, they were excited to see Equal Exchange products at their new church in Burlington, as well as at City Market/Onion River Food Co-op.

After reading an Equal Exchange article about child slavery in the conventional cocoa trade, the Byams decided to start giving out Equal Exchange Organic Dark Chocolate Minis for Halloween. This year, they put out a call for their friends and neighbors to join them. With 30 other families, they gave out 4,000 fairly traded minis!

The Byams are thrilled about becoming investors. “The thing that is so cool about Equal Exchange is that it's all about sustainability,” said Jeff. “It's both a social and environmental investment. You don't have to pick one or the other.”





BOARD REPORT



We're Tackling Our Growing Pains

By *Nicholas Reid, Board Co-Chair & Natural Foods Sales Representative* & *Alison Booth, Board Co-Chair & Equal Exchange Espresso Bar Manager*

We are proud to report that, in 2010, Equal Exchange enjoyed another profitable year. Our steady sales and profits enabled us to deliver significant patronage to worker-owners, dividends to investors, and \$60,000 in charitable contributions to 13 different organizations working to grow Fair Trade.

At the same time, we were challenged by both slow economic growth and the implications of our phenomenal growth in years past. Our 20-Year Vision calls for growing, not just steady, markets for Fair Trade. Additionally, our Board experienced dramatic turnover, saying goodbye to four veteran directors, welcoming three new ones, and ushering in new leadership. We struggled with concerns that our governance model no longer fosters the

innovation Equal Exchange requires to meet current challenges and realize our ambitious goals—for our business and our co-operative. As a result, our three pillars—the Board, Executive Directors and Worker-Owners—have committed to working together to examine the way in which we run our business and maintain our democratic practices.

Our work is cut out for us and it is anything but straightforward. Yet, the Board is resolved, and inspired, to support the co-op through this process. In the year to come, we aim to create a new governance platform—one uniquely suited to our own organization and values—that will empower, cultivate and lead the innovation and economy we need to grow, and ultimately make our Vision a reality. Stay tuned.

OKÉ USA



Bananas Are a Tough Business

By *Rink Dickinson, President of Oké USA & Co-Executive Director of Equal Exchange*

This year, Oké USA learned again just how hard it is to change the Dole/Chiquita/Del Monte-controlled banana system. Oké lost money in 2010, giving back most of the gains made the previous year. The reasons included producer partner El Guabo's loss of organic certification for over half the year, a general shortage of banana supply, and a failed attempt to build new customers in Colorado and New Mexico.

Our core Oké USA team of Bradley Russell, Nicole Vitello, and Jessica Jones-Hughes gained an immense knowledge of the banana business this year, and despite the supply crisis, they did everything possible to take care of customers. Our banana network consists primarily of 75 independent stores and co-ops, and a handful of key ripeners and distributors, such as J&J Produce in

Minneapolis, Four Seasons in Pennsylvania, and the retail grocery chain Stop and Shop. The supply crisis did have a positive note: the addition of two new farmer co-ops in Peru, adding almost 1,500 small farmers to our network of producers.

On the most fundamental level Oké USA, through the Equal Exchange brand, is fighting the entrenched banana system in which consumers and small farmers have little power. Our mere existence in the beginnings of a small farmer-to-consumer banana supply chain is alone a great accomplishment.

As we look toward 2011, we know that we will need more commitment from stores, stronger commitment from our ripeners and distributors, and most importantly, more consumer and activist support, to build a successful banana alternative to the Dole/Chiquita/Del Monte oligopoly.

Above: Seven of our nine board members. Clockwise from left: Co-Executive Directors Rob Everts and Rink Dickinson, Marketing Projects Manager Ann Cherin, Outside Director Beth Badger, West Sales Manager Tom Wilde, Natural Foods Sales Rep. Nicholas Reid, and Outside Director José Luis Rojas. Not pictured: Equal Exchange Espresso Bar Manager Alison Booth and Outside Director Martin Van Den Borre.

PERCENT OF BOARD MEMBERS ELECTED BY WORKER-OWNERS: 100%



Relatively Flat—and That’s Oké

By *Brian Albert, Director of Finance*

For the second consecutive year, sales for Equal Exchange remained relatively flat with profitability well within the targeted range. While there are many companies who would be happy to be in this position, for us it feels like the “flat is the new growth” mantra has become stale. We are happy to report that we have taken steps away from that reality.

In December, we increased our ownership stake in Oké USA, a company that we have supported in various capacities since its inception. We are now a

majority owner of this dynamic enterprise. It would be difficult to imagine a better mission match, and we are thrilled with the opportunity to expand our work in Fair Trade to include small-scale banana farmers.

You’ll see Equal Exchange’s financials in a standalone format in order to present a clearer comparison versus 2009. We have also prepared a separate set of reports showing the effects of the acquisition in 2010, which will serve as the baseline for future years’ consolidated financials.

INCOME STATEMENT

	2010	2009	2008
Total Sales	\$36,526,000	\$35,833,000	\$34,440,000
Cost of Sales (coffee/tea/chocolate, roasting, packaging, shipping)	\$23,659,000	\$23,075,000	\$22,447,000
Operating Expenses (marketing, sales, administration, education)	\$11,235,000	\$10,771,000	\$9,535,000
Other Expenses (primarily interest on loans)	\$309,000	\$619,000	\$990,000
Total Costs	\$35,203,000	\$34,465,000	\$32,972,000
Net Income Before Taxes	\$1,323,000	\$1,367,000	\$1,468,000
Taxes	\$578,000	\$593,000	\$600,000
Shareholder Dividends	\$325,000	\$254,000	\$283,000
Annual Retained Earnings (reinvested in the business)	\$420,000	\$520,000	\$585,000



A BOLD NEW LOOK



We’ve never been ones to blend in—with anything. So, it’s no surprise that our newly redesigned coffee package catches the eye! We feel this bold new design better demonstrates who we are at Equal Exchange: an innovative, complex company with many sides. The layout of the bag allows customers to explore and discover things

about us, our mission, our farmer partners and allies. The bag is shorter in height, but contains the same amount of coffee. Look for it at your local food co-op or natural foods store, or on our retail webstore at shop.equalexchange.com

⌘ AVERAGE NUMBER OF ORDERS SHIPPED PER WEEK IN 2010: 1,798 ⌘

EQUAL EXCHANGE Audited Financial Statements, 2010 & 2009

These financial statements are extracts from the Audited Financial Statements of Equal Exchange, Inc. for the years ending Dec. 31, 2009 and 2010. This independent audit was conducted in accordance with auditing standards generally accepted in the United States of America by the firm Leone, Morrissey, Henrikson & Synan, PC of Norwell, MA.

NOTE: In late December 2010, Equal Exchange, Inc. acquired additional ownership shares of Oké USA, becoming a majority owner. For the consolidated financial statements for 2010, go to: equalexchange.coop/2010-annual-report

STATEMENTS OF EARNINGS AND RETAINED EARNINGS

	<u>2010</u>	<u>2009</u>
NET SALES	\$ 36,525,856	\$ 35,832,510
COST OF SALES	<u>23,659,316</u>	<u>23,075,260</u>
GROSS PROFIT	12,866,540	12,757,250
OPERATING EXPENSES	<u>11,234,758</u>	<u>10,771,023</u>
EARNINGS FROM OPERATIONS	1,631,782	1,986,227
OTHER INCOME AND (EXPENSE):		
Interest Income	14,832	3,754
Interest Expense	<u>(323,662)</u>	<u>(622,848)</u>
	<u>(308,830)</u>	<u>(619,094)</u>
EARNINGS BEFORE INCOME TAXES	1,322,952	1,367,133
INCOME TAXES:		
Current:		
Federal	336,000	270,000
State	<u>148,000</u>	<u>160,000</u>
	484,000	430,000
Deferred:		
Federal	38,000	140,000
State	<u>56,000</u>	<u>23,000</u>
	<u>94,000</u>	<u>163,000</u>
	<u>578,000</u>	<u>593,000</u>
NET EARNINGS	744,952	774,133
RETAINED EARNINGS, BEGINNING	3,174,783	2,654,249
PREFERRED STOCK DIVIDENDS PAID	<u>(324,721)</u>	<u>(253,599)</u>
RETAINED EARNINGS, ENDING	<u>\$3,595,014</u>	<u>\$3,174,783</u>

BALANCE SHEETS

	<u>2010</u>	<u>2009</u>
ASSETS		
CURRENT ASSETS:		
Cash	\$ 657,124	\$ 376,667
Accounts Receivable	2,304,912	2,185,768
Inventory	8,224,913	8,293,729
Notes Receivable, Current Portion	267,538	324,996
Prepaid Expenses and Other	447,077	415,139
Deferred Income Taxes	<u>151,000</u>	<u>115,000</u>
	12,052,564	11,711,299
PROPERTY AND EQUIPMENT, NET	6,653,683	7,017,564
OTHER ASSETS:		
Intangible Assets, Net	211,153	28,694
Investments	399,377	381,861
Notes Receivable, Net of Current Portion	<u>38,501</u>	<u>6,039</u>
	<u>649,031</u>	<u>416,594</u>
	<u>\$ 19,355,278</u>	<u>\$ 19,145,457</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Note Payable – Lines of Credit	\$ 567,952	\$ 624,928
Current Portion of Capital Lease Obligations		432,124
Current Portion of Long-Term Debt	121,793	550,639
Accounts Payable and Accrued Expenses	1,385,692	1,089,703
Patronage Rebates Payable	<u>147,000</u>	<u>421,875</u>
	2,222,437	3,119,269
LONG-TERM LIABILITIES:		
Capital Lease Obligations, Net of Current Portion		693,092
Long-Term Debt, Net of Current Portion	3,228,784	3,190,008
Deferred Income Taxes	<u>900,000</u>	<u>770,000</u>
	4,128,784	4,653,100
STOCKHOLDERS' EQUITY:		
Preferred Stock, No Par Value; 375,526 Shares		
Authorized; Issued and Outstanding, 332,379		
Shares in 2010 and 290,429 Shares in 2009	9,156,382	7,978,429
Common Stock, No Par Value; 200 Shares		
Authorized, Issued and Outstanding,		
107 Shares in 2010 and 99 Shares in 2009	313,343	282,683
Less: Common Stock Subscriptions Receivable	(60,682)	(62,807)
Retained Earnings	<u>3,595,014</u>	<u>3,174,783</u>
	<u>13,004,057</u>	<u>11,373,088</u>
	<u>\$ 19,355,278</u>	<u>\$ 19,145,457</u>



TOTAL ROAST BATCHES IN WEST BRIDGEWATER IN 2010: 11,807

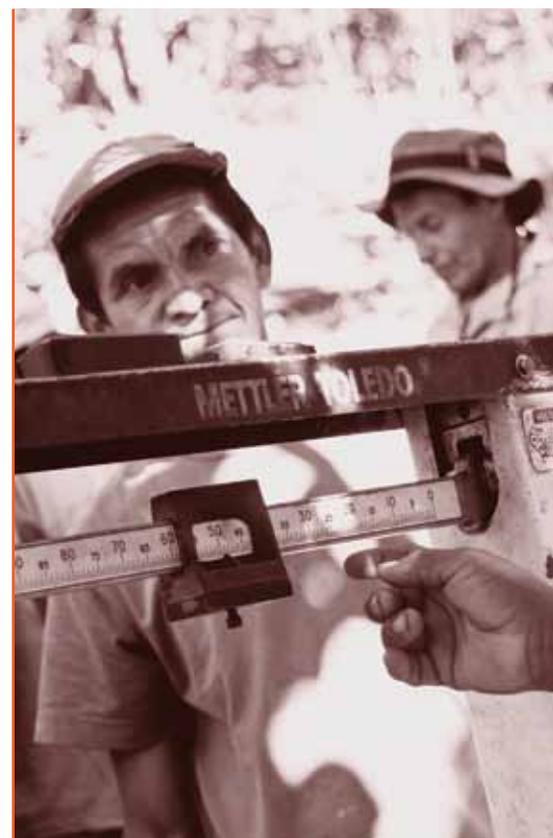
EQUAL EXCHANGE Audited Financial Statements, 2010 & 2009

STATEMENTS OF CASH FLOWS

	<u>2010</u>	<u>2009</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net Earnings	\$ 744,952	\$ 774,133
Noncash Items Included in Net Earnings:		
Deferred Income Taxes, Net	94,000	163,000
Depreciation and Amortization	915,949	855,570
(Increase) Decrease in:		
Accounts Receivable	(119,144)	42,075
Inventory	68,816	2,545,700
Prepaid Expenses and Other	(31,938)	545,772
Increase (Decrease) in:		
Accounts Payable and Accrued Expenses	295,989	(630,707)
Patronage Rebates Payable	<u>(274,875)</u>	<u>177,346</u>
	1,693,749	4,472,889
CASH FLOWS FROM INVESTING ACTIVITIES:		
Additions to Property and Equipment	(531,480)	(385,087)
Increase in Intangible Assets	(203,047)	
Increase in Investments, Net	(17,516)	(182,637)
Decrease in Notes Receivable, Net	<u>24,996</u>	<u>(51,537)</u>
	(727,047)	(619,261)
CASH FLOWS FROM FINANCING ACTIVITIES:		
New Borrowings:		
Note Payable - Lines of Credit	500,000	
Long-Term Debt		305,000
Debt Reduction:		
Note Payable - Lines of Credit, Net	(556,976)	(4,539,510)
Capital Lease Obligations	(1,125,216)	(447,679)
Long-Term Debt	(390,070)	(1,079,279)
Proceeds From Common Stock Subscriptions	47,495	44,450
Proceeds From Issuance of Preferred Stock	1,036,500	2,217,150
Proceeds From Dividend Reinvestment	212,418	160,380
Redemption of Preferred Stock	(70,965)	(79,491)
Redemption of Common Stock	(14,710)	(17,100)
Preferred Stock Dividends Paid	<u>(324,721)</u>	<u>(253,599)</u>
	<u>(686,245)</u>	<u>(3,689,678)</u>
NET INCREASE IN CASH	280,457	163,950
CASH - BEGINNING	<u>376,667</u>	<u>212,717</u>
CASH - ENDING	\$ <u>657,124</u>	\$ <u>376,667</u>

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION

	<u>2010</u>	<u>2009</u>
Cash Paid During The Year For:		
Interest	\$ <u>334,347</u>	\$ <u>622,848</u>
Income Taxes	\$ <u>445,917</u>	\$ <u>603,498</u>



A farmer has his day's harvest weighed at the co-op collection center in Las Colinas, El Salvador.

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