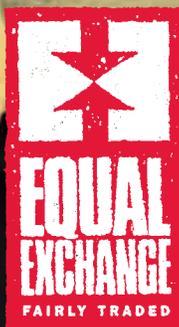


INTERNATIONAL *Year* *of the* CO-OP

EQUAL EXCHANGE 2012 ANNUAL REPORT



OUR MISSION:

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.



SALES BY PRODUCT CATEGORY 2012



74%
COFFEE



16%
CHOCOLATE
& COCOA



6%
BANANAS



2%
TEA



2%
OTHER



By **RINK DICKINSON & ROB EVERTS**

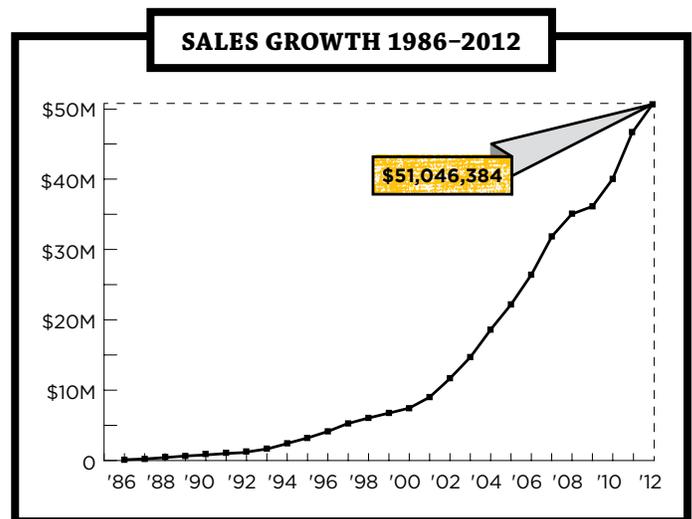
Recovering from Recession, Growing Cooperative Markets

Having weathered the double whammy of the recession and sustained high commodity prices, beginning midway through 2012 we could feel a restored sense of control over our destiny.

Sales grew 9 percent with the healthiest contributing factor being the balanced nature of the growth. Increased bulk sales and new initiatives such as the Congo Coffee Project and Biosphere Reserve Series enabled us to purchase significantly more coffee from farmer partners. On the chocolate side we sold well over two million chocolate bars while adding an exciting new line of lower cost candy bars made in Peru. And through a groundbreaking partnership with the leading Fair Trade organization in the U.K., we introduced Geobars to the U.S. market. Sales totalled \$51,046,384, and after charitable contributions and worker-owner patronage disbursements, we realized net income before taxes of \$1,428,422.

Growing these new markets for farmer co-operatives was our most tangible contribution to the worldwide celebration of the International Year of the Cooperative. There was a sweet irony in the timing of this UN-designated recognition of co-operatives: the world is still struggling to recover from the economic devastation wrought on billions by capitalists who write or rig

the rules of the game to the benefit of the few. Co-operatives of all stripes—worker, farmer, credit unions, food co-ops—are indeed among the many institutions working to counter this tremendous imbalance in power and wealth. We are proud of the cooperative supply chains we have built in coffee and are committed to the extremely difficult work of replicating this in every other small farmer product we sell.



We Stand with Small Farmers

By PHYLLIS ROBINSON

In the fall of 2011, third party certifier Transfair USA changed its name to Fair Trade USA, left the international Fair Trade system, and authorized their label for coffee plantations—a betrayal to farmer co-ops, alternative trade organizations, and all Fair Trade activists who had steadily and painstakingly built the system for the past three decades.

At Equal Exchange, we have historically focused on the positive, on moving forward our vision and our model of Fair Trade, but we could not let this audacious, and potentially harmful, move go by without taking a strong stance. The Fair Trade system was built by the hard work of many, and Fair Trade USA does not have the right to diametrically—and unilaterally—change the very nature and purpose of the system in a way that jeopardizes the existence of small farmer co-ops. We believe Fair Trade USA is stealing the intellectual property of an entire movement, expressed in the term “Fair Trade.”

Fair Trade originated as a partnership of small farmer co-operatives, alternative trade organizations, and civil organizations who understood that centuries of unfair and oppressive agricultural, trade, and economic policies created a system of injustice and perpetuated deep poverty and despair for millions of farm workers throughout the world. Three decades later, farmer co-ops are just beginning to have real economic and political power. By allowing plantations into the Fair Trade coffee system, Fair Trade USA is ensuring that small farmer co-ops will once again have to compete for market share against large plantations that continue to have all the advantages—precisely one of the things the Fair Trade system was designed to change.

By creating new, lower standards to accommodate the needs of plantations and corporations, Fair Trade USA has recreated the unlevel playing field for small farmers, but now with a label

that says “Fair Trade.” It inherently costs a democratically run co-operative much more to provide trainings, technical support and other benefits to farmer members than it does for a plantation owner to run his or her own business, and the low-bar standards of Fair Trade USA will only accentuate this reality. There is nothing on the label to let a shopper know if their coffee was grown on a plantation or a small, family farm. And the changes were made by Fair Trade USA after the certifier failed for more than a decade to

convince the farmer co-ops and other stakeholders in the Fair Trade system to allow the certification of coffee plantations.

To help spread the word about Fair Trade USA’s actions and the ramifications, we immediately began sharing our stance on our *Small Farmers Big Change* blog, on our website, and in numerous external publications. We then wrote hundreds of our strongest food co-op and interfaith partners informing them of the split, the certifier’s new practices, and the implications and consequences of such a radical betrayal of the system. Our team of sales representatives spent the summer conducting trainings and workshops, educating consumers, and collecting signatures in support of small farmers. The campaign culminated with an ad in the *Burlington Free Press* calling on Green Mountain Coffee Roasters to “do the right thing” and discontinue their broad support for Fair Trade USA. Our actions generated considerable press, including in national media outlets like NPR and the *New York Times*, and sparked debate in the coffee world and the business press.

Moving forward we are continuing to ask people to recommit to building the Fair Trade movement according to its original principles, through buying authentic Fair Trade products from small-scale farmer co-ops, promoting authentic Fair Trade at the store level, and encouraging everyone to look beyond the seal—even a Fair Trade one.

**FAIR TRADE USA
HAS RECREATED
THE UNLEVEL
PLAYING FIELD FOR
SMALL FARMERS,
BUT NOW WITH A
LABEL THAT SAYS
“FAIR TRADE.”**

Phyllis Robinson is Education and Campaigns Manager [LEARN MORE www.equalexchange.coop/small-farmer-campaign](http://www.equalexchange.coop/small-farmer-campaign)

SMALL FARMERS LAUNCH NEW SYMBOL

By TOM HANLON-WILDE



Organized small farmers recently took a giant leap forward in realizing the power

of cooperation and ensuring fair prices through the creation of the Small Producers Symbol (SPP). This is the first time small farmers have defined Fair Trade for themselves by putting out their own label.

By organizing themselves democratically, the farmers have moved from being oppressed to being global leaders. Farmers gained rights as sharecroppers in the 1950s, became landowners in the 1960s, and developed their own export warehouses in the 1990s. Taking ownership of Fair Trade is a natural next step. As Equal Exchange Co-Executive Director Rink Dickinson pointed out at the 2011 Interfaith Task Force meeting, “We need to be clear: the idea for con-

trolled mainstreaming of Fair Trade came from the South ... The idea was not to give control of the Fair Trade system to European non-profits, or bureaucrats, or multi-national companies or to plantations ...”

In Quito, Ecuador, in November 2012, the SPP was formalized by authentic Fair Trade leaders such as Merling Preza Ramos, Sergio Neira, Raul del Aguila, and Nelson Guerra Chinchilla. The system is impressive, with four dozen criteria for small farmer member organizations,

including maximum individual farm sizes and a maximum percentage of farm work performed by hired farm workers. Buyers must meet nearly three dozen criteria to carry the symbol on products, including a minimum of 5 percent annual volume growth in purchases. Look for the SPP symbol on Equal Exchange products starting in 2013.

Tom Hanlon-Wilde is West Coast Sales Manager and was present at the event in Quito in November



Fair Trade Just Got Sweeter with New Candy Bars

By **KELSIE EVANS**

In October 2011, Equal Exchange expanded our chocolate line to include candy bars from Peru. The candy bars offer classic, sweeter flavor combinations reminiscent of childhood favorites: Organic Milk Chocolate Peanut Butter, Organic Milk Chocolate Crisp, and Organic Dark Chocolate Fruit and Nut.

As Fair Trade, organic bars with pretty simple ingredient lists, this new line is unique in the chocolate market. Half the size and price of our Swiss-made 100g chocolate bar line, the candy bars complement and help grow our chocolate bar line and, ultimately, the impacts we are able to have on farmer co-ops.

The primary ingredients in the bars, cacao and sugar, are organic and fairly traded. The cacao comes from small-scale farmer co-ops in Peru, namely Oro Verde and ACOPAGRO. We were already sourcing cacao from ACOPAGRO for our 100g chocolate bars and are excited to increase purchases from this group while expanding our impact to a new co-op, Oro Verde. The sugar is sourced from Manduvira, a farmer co-op in Paraguay. Their sugar is now featured in these bars and our cocoa products. The quinoa in our Organic Milk Chocolate Crisp is also fairly traded from Peru, and we are actively looking for Fair Trade sources for the peanuts, raisins and almonds in our other two flavors.

Kelsie Evans is Chocolate Products Coordinator
LEARN MORE www.equalexchange.coop/chocolate

NEW LOOK!

In late 2012, our new chocolate and cocoa labels made their debut in stores, congregations and homes. The new look emphasizes our relationships with small farmer co-ops, as well as the fact that our chocolate and cocoa products are made with simple, organic ingredients.



Grant Project Supports Cacao & Coffee Co-ops

By **DARY GOODRICH**

Two years ago, Equal Exchange decided to try something new, which was apply for, and win, a USAID Co-operative Development Program grant. In 2012, International Year of the Co-op, we moved beyond the startup phase of the project and have accomplished some exciting work with five co-ops located in the Dominican Republic, Peru and Ecuador. The project, which ends in 2014, is focused on building tools and models that create increased quality, yields, and member equity, which lead to stronger co-ops that are better able to meet the changing demands of the market and the changing needs of their farmer-members.

Dary Goodrich is Chocolate Products Manager
 Left: Julia Aspajo Ramirez, a member of ACOPAGRO co-op in Peru.





FINDING *hope* IN COFFEE

My visit to SOPACDI Coffee Co-op

By BETH ANN CASPERSEN

For decades, ethnic conflict, refugee issues, brutal dictators, and battles over mining control have led to ongoing strife in the Democratic Republic of Congo (DRC). It's estimated that six million people have died in just the last 10 years due to the country's war. Sexual assault and rape are often used as a weapon against women; the *New York Times* recently reported that on average a woman is raped every minute in the country.

My first thought after learning of conditions in the DRC was, "What can I do about it? What can Equal Exchange, as a coffee roaster and importer, do about it?" I knew that coffee was a possible source of support. Working with some other determined organizations, in the last two years we've started to make some initial steps to leverage coffee and help bring some hope to those most devastated by horrific violence in the DRC, many of whom are women.

In 2011 we created a blend of African coffees and launched the Congo Coffee Project to raise money for the Panzi Foundation while we waited for our first shipment of Congolese coffee from SOPACDI co-op to arrive. We knew it would be risky to bring in beans from the DRC. Green (unroasted) coffee is valuable there, transportation is a challenge and the country is fraught with corruption. But the SOPACDI coffee made it to our warehouse. The first shipment was good, and the second was great: shining with a sparkling acidity and booming sweetness alongside jasmine aromatics. It was so good, in fact, that at the end of 2012 we changed the Congo Coffee Project blend to become a completely single-origin offering from SOPACDI.

Still, I wanted to know the coffee and members of the co-op on a deeper level, so in October I went to visit SOPACDI in person. It was my 10th trip to Africa, but my first ever to the DRC. I was nervous.

As soon as I arrived, I was in awe of my surroundings. SOPACDI is situated on Lake Kivu, a large and important body of water that supports thousands of people. There the co-op cultivates the bourbon variety of coffee next to the lake and high up into the mountains. The lake itself is stunning and the thick black soil is perfect for growing coffee.

Since this was my first visit to the co-op, I performed a coffee quality audit through which I evaluated and documented the processing and maintenance systems taking place at their central washing station. Through a grant from the United Methodist Committee on Relief (an Equal Exchange partner) and assistance from Twin Trading (a leading U.K. Fair Trade company), I also conducted a competitive process to find a cupper for the co-op. The goal was to find someone who could manage and perform quality control tasks in the co-op's future laboratory. Filling this position was critical. With a cupper and quality control staff, the co-op will be empowered; farmers can know the quality of their coffee and can cater to the needs of their buyers.

In 2013, the new coffee cuppers that I helped select will come to Equal Exchange for roasting and quality training at our roastery in West Bridgewater, Mass., completing the circle. There's still a lot of work to do in the Democratic Republic of Congo, but I know our small steps are doing something positive.

Supporting Women through the Congo Coffee Project

By **BETH ANN CASPERSEN**



Equal Exchange began the Congo Coffee Project in 2011 to raise funds for the Panzi Hospital in the Democratic Republic of Congo (DRC). The DRC is a war-torn country with high incidences of gender-based violence and inter-ethnic strife. In 2012, Equal Exchange contributed \$16,138—all earned through the sales of Congo Coffee Project coffee—to the Maison Dorcas aftercare program. Approximately 40–60 percent of the survivors of sexual and violent crimes at Panzi go to this aftercare program, which provides extended shelter, literacy and skills training, and trauma treatment for women

and their children. Our contribution will be used to train women in weaving, and making soymilk, bread, and fruit juice.

In October 2012, I was able to visit the Panzi Hospital. Together with Dr. Lee Ann de Reus, I met children in the childcare center and toured Maison Dorcas. It was a very emotional experience that left me speechless, sad and hopeful. It was difficult to ask questions with such a heavy heart, but as the day progressed, my sadness was transformed into hope as I watched children play and women knit. Our contribution to the hospital does have an impact. I know our donation is being put to good use, but I left knowing we can do more.

Beth Ann Caspersen is Quality Control Manager

[LEARN MORE](http://www.equalexchange.coop/congo-coffee-project) www.equalexchange.coop/congo-coffee-project



Opposite page: Three women at the Panzi Hospital in the Democratic Republic of Congo. Above, clockwise: Quality Control Manager Beth Ann Caspersen meets children at the Panzi Hospital childcare center; farmers from SOPACDI sort harvested coffee cherries; Caspersen with Zawadi Nabintu, who oversees the childcare center at the Panzi Hospital.

EQUAL EXCHANGE RUNS FOR CONGOLESE WOMEN



Since its launch, the Congo Coffee Project has inspired us in a lot of ways. So much so that nine of us decided to run 6.2 miles in support of Congolese women. We all triumphantly crossed the finish line as part of Team Congo in the Run for Congo 10K on Oct. 11. Collectively, Team Congo raised over \$16,000 for Women for Women International's programs in the DRC. The fastest runner and top fundraiser for Team Congo both came from Equal Exchange!





HOPE'S BLEND REACHES UNITED METHODIST CONGREGATIONS

In 2012, the United Methodist Committee on Relief (UMCOR) and Equal Exchange celebrated 10 years of partnership by developing our first-ever product together: Organic Hope's Blend coffee. Since the UMCOR Coffee Project began in 2002, over 5,000 United Methodist churches, camps, conference centers, youth and women's groups, and organizations have supported Fair Trade. Now, the results of our partnership are even more tangible—and delicious.



Through sales of Hope's Blend coffee, farmers are supporting their families,

sustaining their communities, and protecting the environment. And for all of our communities, in the pews and on the coffee farms, that's a real source of hope.



Equal Exchange partners with a vibrant network of thousands of faith communities working to make a difference, together. Through our Community Sales program, we partner with faith-based relief, development and human rights organizations and work with communities of faith as they learn about and promote Fair Trade. In 2012, Equal Exchange generated \$128,089 for our Small Farmer Fund through our 12 faith-based partnerships:

- | | |
|--|---|
| American Friends Service Committee | Lutheran World Relief |
| American Jewish World Service | Mennonite Central Committee U.S. |
| Baptist Peace Fellowship of North America | Presbyterian Church (U.S.A.) |
| Catholic Relief Services | Unitarian Universalist Service Committee |
| Church of the Brethren | United Church of Christ |
| Disciples of Christ | United Methodist Committee on Relief |

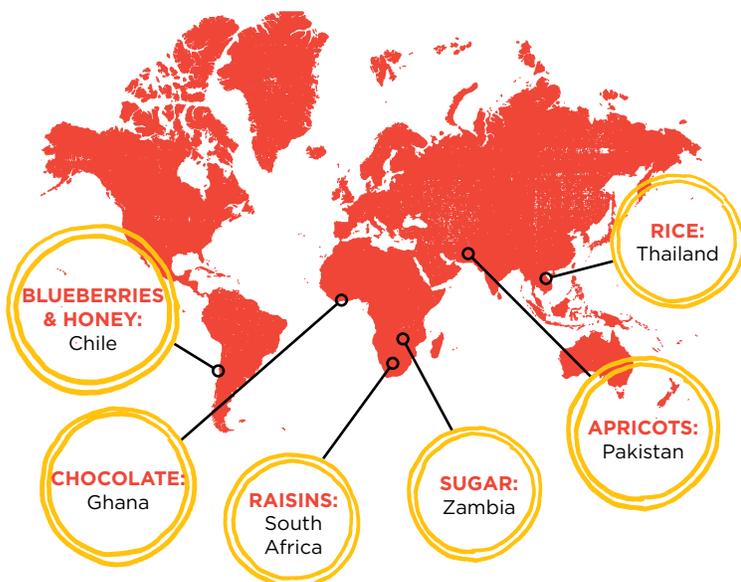
LEARN MORE www.equalexchange.coop/our-partners

GEOBARS LAUNCH IN THE U.S.

Geobars are a snack bar launched in 1999 by Traidcraft, a U.K.-based alternative trade organization that was working with a group of grape farmers in South Africa. Their first cereal bars were only comprised of 10–20 percent Fair Trade ingredients (by weight). Twelve years and multiple product changes later, the Geobars of today have over 50 percent Fair Trade ingredients. This is an amazing accomplishment,

and we're proud to now help bring Geobars to the U.S. market in collaboration with Traidcraft. The goal is to produce a 100 percent Fair Trade Geobar. The primary farmer groups supported through Equal Exchange Geobars are South African grape farmers, Pakistani apricot collectors, Chilean beekeepers and berry farmers, Indian rice farmers, and Thai rice farmers.

LEARN MORE www.equalexchange.coop/products/fair-foods



Introducing the Biosphere Reserve Series

By **LYNSEY MILLER**

Farmers' relationships with their land run deep. The land helps to sustain coffee production, farming communities, and ultimately our coffee addictions. The farmers we work with, in turn, play an important role in sustaining the land.

These limited edition products and the stories behind them allowed us to delve deeper into the positive role small farmers are playing in confronting environmental challenges.

In Mexico, CESMACH co-op co-coordinated an international conference to talk about how small coffee farmers can take united action against climate change. In El Salvador, the farmers

of Las Colinas have made significant investments in protecting the watershed that impacts not only their community, but thousands of people in surrounding communities as well. And in Peru, a small group from our coffee team visited the farmers of CECOVASA and journeyed with them into the protected national park that abuts their land.

From the rich coffee itself to peculiar photos and stunning video footage, we've found inspiration in these wondrous places and in the people who both rely on them and protect them for our future.

Lynsey Miller is Director of Sales & Marketing for Coffee. Above: El Triunfo National Park in Mexico, one of the biospheres showcased in the Biosphere Reserve Series. [LEARN MORE](#) www.equalexchange.coop/biospherereserve



COME FOR THE NOODLES, STAY FOR THE CO-OP REVOLUTION

By **JIM FELDMANN**

The Red and Black Café is a worker-owned restaurant and community space in Southeast Portland, Ore. Along with tasty vegan offerings, at the Red and Black Café you'll find a non-hierarchical, democratic workplace. "We are living the dream," said collective member John Langley. "We are living in a world without bosses."

Serving up justice in more ways than Equal Exchange coffee, this co-op stands in solidarity with those who continue to struggle, fight and organize toward worker-controlled workplaces and a liberated future for all. The Red and Black is a hub of organizing activity, hosting local, national and international speakers. In support of our Authentic Fair Trade campaign in 2012, the Red and Black hosted Santiago Paz from CEPICAFE in Peru. They also sell the co-op's coffee every day in their café.

If all that activity isn't enough, the Red and Black also helped develop a low-income housing co-op when they bought the building where they are located. They bike our Organic Peru medium roast coffee to their shop weekly and serve up some tasty conscious food to hungry customers. Check them out if you visit Portland. The Dragon Noodles are world famous!

Jim Feldmann is a Natural Foods Sales Representative. Above: Red & Black Café collective member Ashley Jackson tends to the counter.



FEATURING COFFEE FROM SOME OF THE MOST WONDROUS AND WILD PLACES— AND WORKING TO KEEP THEM THAT WAY.

ORGANIC BIRD OF PARADISE
Biosphere Reserve:
El Triunfo, Mexico
Co-op: CESMACH

ORGANIC EIGHT RIVERS
Biosphere Reserve:
El Imposible, El Salvador
Co-op: Las Colinas

ORGANIC EXPEDITION
Biosphere Reserve:
Bahuaja-Sonene, Peru
Co-op: CECOVASA



EQUAL EXCHANGE ON THE SILVER SCREEN

By ALISON BOOTH GRIBAS

I never thought I'd see my face projected onto a movie screen.

In June 2010, a friend of documentary filmmakers Melissa Young and Mark Dworkin suggested a film about worker-owned co-operatives. Two and a half years and over 100 interviews later, "Shift Change" premiered in Oakland, Calif. The documentary, filmed in the United States and Spain, showcases 15 thriving worker co-ops. Melissa and Mark searched the country for real co-ops in diverse industries, including engineering, bakeries ... and Fair Trade coffee! They filmed Equal Exchange owners at work in almost every department, from Customer Service to Quality Control, and me in action at the Equal Exchange Espresso Bar in Seattle.

The theme of the film is that worker co-ops create meaningful jobs in which profits serve to protect job security and worker dignity for generations. It is an uplifting reminder of why I work for a co-op and work to build co-ops. It is also a powerful teaching tool. The International Year of the Co-op helped increase turnout for "Shift Change" screenings, bringing new members to our regional and national co-op networks. It has also brought co-ops to the attention of local policy makers, financiers, and academics. At a time of economic upheaval, "Shift Change" shows that co-ops are a real, viable solution. As Medrick Addison, one of the founding members of Evergreen Cooperative Laundry, said in the film, "The world is watching."

Alison Booth Gribas is Manager of Equal Exchange Espresso Bar

[LEARN MORE www.movingimages.org](http://www.movingimages.org)



Twin Pines Cooperative Foundation

By DANIEL FIRESIDE

The Twin Pines Cooperative Foundation (TPCF), founded in 1964, manages innovative programs that fund U.S. cooperative development organizations and work to save family farms. Its partnership with Equal Exchange embodies one of our favorite of the seven Cooperative Principles, "Cooperation Among Co-operatives." TPCF is the largest co-operative investor in Equal Exchange's preferred stock. In the words of David Thompson, President of TPCF and member of the Co-op Hall of Fame (pictured above),

For over a decade Equal Exchange and the TPCF have practiced shared goals of solidarity and reciprocity. We are grateful that Equal Exchange has offered matching grants and support that have enabled at least five food co-ops to join the other 25 food co-ops in our Cooperative Community Fund (CCF) program. TPCF is the largest single investor in cooperative development organizations in the USA. Each one of our CCF co-ops sells Equal Exchange coffee.

When we started our "One Farm at a Time" program to organize food co-ops to save farmland, Equal Exchange was right there with a grant to get us going. In 2013, we will preserve our first family farm. In turn, TPCF is the largest U.S. co-op investor in Equal Exchange. We cherish the opportunity to partner with Equal Exchange in the Cooperative Development Decade that lies before us.

Daniel Fireside is Capital Coordinator. [LEARN MORE www.community.coop](http://www.community.coop)

BUILDING THE CO-OP MOVEMENT

By MOLLY ZEPP

The International Year of the Co-op marked an exciting milestone for the U.S. Federation of Worker Co-operatives (USFWC). With over 400 participants, the USFWC national conference in June was the

largest worker co-op conference to date in the U.S. Equal Exchange set its own record with 19 people (nearly 1/5 of the co-op!) in attendance. The conference provided powerful networking opportunities and

enabled us to learn from a diverse array of co-ops while sharing achievements from our 26-year history. We were inspired by the models of other co-ops, such as three house-cleaning co-ops

led by immigrant women who are member-owners. Meeting folks involved in this unique, democratic way of doing business was energizing and affirmed that we're part of a movement—something much larger and grander than what happens within our walls.

Molly Zepp is Worker-Owner Outreach Coordinator and is a Community Sales Representative. Pictured from left to right: Equal Exchange worker-owners Alison Booth, Esther West, Jessie Myszk and Aaron Dawson.



LOOKING BOTH WAYS

By LJ TAYLOR

At Equal Exchange, it is almost a guarantee that each worker-owner will encounter something that will be the largest and most complex task they have ever undertaken. From a Board of Directors perspective this can be a challenge. How do you measure success or your impact if you are growing larger than you have ever been? How do you cultivate new minds to ponder these topics?

This year two innovations from our new governance model have captured the spirit of these challenges: Measures of Success and the Leadership and Training Committee. Uniquely crafted, Measures of Success is a tool that gives us a way to analyze not only the amount we sell through our various supply chains, but also the impact we are having through those supply chains. Prepared by our Co-Executive Directors and reviewed annually with the Board of Directors, this tool allows us to give context to our growth in sales and impact.

The Leadership and Training Committee is tasked with answering the vital question, “How do we create new leaders?” After consulting with the worker-owners, Board of Directors and the Co-Executive Directors, this committee has decided to focus on three areas: advanced financial training, peer networking, and the question, “What would it mean for Equal Exchange to be a learning organization?” By more critically analyzing what we have done while simultaneously preparing for what we want to do, I believe we are transforming the way we talk about the governance of our co-operative. I can’t wait to show the world all we can do. // L.J. Taylor is Chair of the Board of Directors and is a Food Service Sales Representative

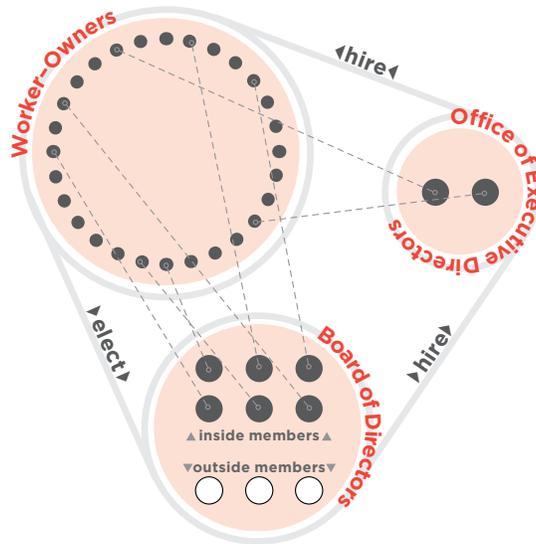
WORK IT, OWN IT

By KELSIE EVANS

Equal Exchange is an interesting hybrid: a for-profit, mission-driven, worker-owned co-operative. Our success as a business is closely linked to our mission; the greater our sales and growth as a business, the greater our impact on farming communities in over 25 countries around the world.

Our mission guides not only what we do, but how we do it. Day-to-day tasks happen according to a more traditional management model, with departments and supervisors. However, things look a little different at an organizational level. Our more than 100 employees are also owners. Each member, regardless of title or department, has one share and one vote. We strive for transparency, information sharing and open-book management. As worker-owners, we also elect representatives to the Board of Directors (comprised of six worker-owners and three outside directors). The Board of Directors oversees the Office of Executive Directors, who in turn supervises the employees, who are also owners.

In 2012, worker-owners passed a new governance model: Governance for Leadership, Accountability, Scalability & Success (GLASS). The model clarifies responsibilities of the Board and Worker-Owners in governing the co-operative, establishes clear measures of success and reporting, and provides a “GLASS floor” separating the role of owners governing the co-operative from the role of workers operating the business. The model was developed by worker-owner Ann Cherin, who we recognized as Worker-Owner of the Year for her efforts. // Kelsie Evans is Worker-Owner Coordinator and Chocolate Products Coordinator



MEASURING OUR CARBON FOOTPRINT



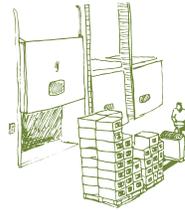
FOOD SUSTAINABILITY METRICS

A commitment to environmental stewardship is one of Equal Exchange's core values. This has taken on even greater urgency as our small farmer partners are coping first-hand with the impacts of global warming and climate change. Finding meaningful measurements of our impact on these forces isn't easy, and often highlights contradictions. For example, we support organic farming, yet we are shipping products around the globe.

In order to improve our environmental impact, we need to understand it. With that in mind, in the fall of 2012, we brought on Bluehorse Associates to do a business-level energy assessment and a product portfolio impact analysis using Carbonostics, an environmental impact tool. The analysis process was powerful, informative, and relevant to our business and sustainability objectives. The results crystallized which areas of our business

and supply chain contribute proportionately to carbon emissions, and, in turn, revealed options for carbon reduction that didn't necessarily match our prior assumptions.

We are motivated to keep challenging our assumptions about paths for better environmental stewardship. There are no quick fixes, but with deeper information we are able to make more effective long-term choices.



A COOPERATIVE BANANA SUPPLY CHAIN

By NICOLE VITELLO

WHO OWNS EQUAL EXCHANGE?

By DANIEL FIRESIDE

Oké USA broke even in 2012, selling \$2.96 million in bananas to 350 independent groceries and co-ops. Oké USA's impact on Equal Exchange's financials was minimal, but served the brand well with 11 million bananas reaching consumers. Our impact on farmers was significant as well, returning \$1.6 million to small farmer co-operatives.

We witnessed this impact personally as Lianne Zoetewij, the general manager of El Guabo banana co-op in Ecuador, blew out the candles on a huge 15th anniversary cake for the co-op. I cheered along with the staff at the sheer improbability of banana farmers in Ecuador trading directly with companies like Equal Exchange for 15 years.

Standing in that room in Ecuador was living proof that Fair Trade is about building long-term trade relationships where both parties benefit. In Ecuador, the cost of basic necessities for a family of four is \$9.60 per day, but on typical banana plantations workers may earn as little as \$3 each day. Fair Trade for El Guabo farmers means a minimum price of \$11 per banana box (three to four times the conventional price) and an additional \$1 per box going back to the community for schools and health care programs.

In total, Equal Exchange banana purchasing provides El Guabo with a weekly income of \$15,000. That means farmers can afford to

stay on their land instead of working on someone else's. This is not a story where giant multinationals (who today control 80 percent of the world banana market) own all the means of production. This is a story where small farmers decided to organize for strength in numbers, and Fair Trade offered them the standards and protection to trade with the outside world. This reality made each bite of cake that much sweeter. // Nicole Vitello is President of Oké USA/Equal Exchange Bananas

Who owns a company? If it's a public company, the answer is, "the stockholders." For a private company, it's usually a small group of investors. In Equal Exchange's case, the answer isn't so simple.

Since we're a worker co-operative, you might think the workers own the company. Indeed, each worker-owner of Equal Exchange buys one share of Class A stock. That gives us the right to vote on important company matters and elect and serve on the Board of Directors. It gives us the right to profit (and loss) sharing through patronage. But we have to sell our share back when we leave. And we can't ever sell the company for gain.

Our Class B preferred stockholders own part of Equal Exchange. This is our largest source of outside financing. In a conventional company, money buys power. But our preferred stockholders have agreed to modest dividends and don't get to vote. We also depend on loans from individuals and institutions who share Equal Exchange's social values. Others let us use their CDs to guarantee a line of credit at Eastern Bank. And

those millions of dollars in "retained earnings" on our balance sheet are the profits that worker-owners have decided to put back into the company to further its growth.

Who owns Equal Exchange's mission? A broad community that includes the small farmers and their co-operatives that grow and ship the products we sell, consumer food co-operatives and communities of faith that have been our strongest partners since we were

founded, and everyone else who believes in our mission and actively supports our company.

What we've built is a stakeholder model, where ownership is measured by what each actor puts in, and where risk, profit, and power are distributed fairly. Instead of "ownership," we hold Equal Exchange in trust on behalf of those who contributed before us, and to preserve a legacy for those who come after we are gone.

// Daniel Fireside is Capital Coordinator



Members of El Guabo Co-operative, which celebrated its 15th anniversary this year.

A Milestone Year

By **BRIAN ALBERT**

I have been with Equal Exchange for just over seven years. Not too long after joining this organization, we hit the \$20 million mark in revenues. I remember feeling that I was part of something really special, and hitting that level of sales was quite an accomplishment, as we had just hit \$10 million three years before that. By the end of 2012, we cleared the \$50 million mark! I find this especially poignant as we hit this milestone during the International Year of the Co-op.

It has certainly not been easy to get to this point. Over the past several years we have struggled through a historic recession, endured a two-year hiring freeze, and saw the commodity price of coffee hit a 30-year high. I firmly believe that one of the major reasons that we were able to achieve this level of success in this environment is due to our structure. As a worker-owned co-operative, our staff lives the values that we espouse. Our commitment to the organization and the small-scale farmers that we partner with is all too rare in our society, and virtually unheard of in the traditional business model. We are Equal Exchange!

// Brian Albert is Director of Finance

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INCOME STATEMENT	2012	2011	2010
Total Sales	\$51,046,000	\$46,820,000	\$36,526,000
Cost of Sales (coffee/tea/chocolate, roasting, packaging, shipping)	\$37,343,000	\$33,618,000	\$23,659,000
Operating Expenses (marketing, sales, administration, education)	\$11,800,000	\$11,350,000	\$11,235,000
Other Expenses (primarily interest on loans)	\$475,000	\$382,000	\$309,000
Total Costs	\$49,618,000	\$45,350,000	\$35,203,000
Net Income Before Taxes	\$1,428,000	\$1,472,000	\$1,323,000
Taxes	\$648,000	\$649,000	\$578,000
Shareholder Dividends	\$511,000	\$429,000	\$325,000
Annual Retained Earnings (reinvested in the business)	\$269,000	\$392,000	\$420,000

Equal Exchange, Inc. and Subsidiary Audited Consolidated Financial Statements and Supplementary Information
Years Ended December 31, 2012 and 2011

EQUAL EXCHANGE, INC. AND SUBSIDIARY CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2012 AND 2011

	<u>2012</u>	<u>2011</u>
ASSETS		
CURRENT ASSETS:		
Cash	\$ 489,817	\$ 757,429
Accounts Receivable	3,123,181	2,849,063
Inventory	14,698,437	15,117,041
Notes Receivable, Current Portion	131,836	34,800
Prepaid Expenses and Other	855,604	800,338
Prepaid Corporate Income Taxes	49,800	
Deferred Income Taxes	<u>361,221</u>	<u>367,496</u>
	19,709,896	19,926,167
PROPERTY AND EQUIPMENT, NET	5,968,678	5,979,771
OTHER ASSETS:		
Intangible Assets, Net	99,140	182,212
Investments	83,360	43,360
Notes Receivable, Net of Current Portion	<u>3,230</u>	<u>39,249</u>
	<u>185,730</u>	<u>264,821</u>
	\$ <u>25,864,304</u>	\$ <u>26,170,759</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Notes Payable – Lines of Credit	\$ 1,746,266	\$ 3,463,192
Current Portion of Long-Term Debt	1,536,277	1,253,534
Accounts Payable and Accrued Expenses	3,269,931	2,198,802
Corporate Income Taxes Payable	271,632	
Patronage Rebates Payable	<u>329,745</u>	<u>376,382</u>
	6,882,219	7,563,542
LONG-TERM LIABILITIES:		
Long-Term Debt, Net of Current Portion	2,301,539	2,616,521
Deferred Income Taxes	<u>990,000</u>	<u>850,000</u>
	3,291,539	3,466,521
MINORITY INTEREST IN CONSOLIDATED SUBSIDIARY	160,163	165,324
STOCKHOLDERS' EQUITY:		
Preferred Stock, \$1 Par Value; 9,999,500 Shares Authorized; Issued and Outstanding, 399,948 Shares in 2012 and 390,116 Shares in 2011	10,999,389	10,728,960
Common Stock, \$1 Par Value; 500 Shares Authorized, Issued and Outstanding, 106 Shares in 2012 and 108 Shares in 2011	314,233	318,753
Less: Common Stock Subscriptions Receivable	(40,191)	(59,480)
Retained Earnings	<u>4,256,952</u>	<u>3,987,139</u>
	<u>15,530,383</u>	<u>14,975,372</u>
	\$ <u>25,864,304</u>	\$ <u>26,170,759</u>

EQUAL EXCHANGE, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF EARNINGS AND RETAINED EARNINGS
YEARS ENDED DECEMBER 31, 2012 AND 2011

	<u>2012</u>	<u>2011</u>
NET SALES	\$ 51,046,384	\$ 46,819,829
COST OF SALES	<u>37,343,411</u>	<u>33,617,786</u>
GROSS PROFIT	13,702,973	13,202,043
OPERATING EXPENSES		
Bad Debt Expense (Recovery)	(28,828)	6,631
General and Administrative Expenses	<u>11,828,711</u>	<u>11,343,485</u>
	<u>11,799,883</u>	<u>11,350,116</u>
EARNINGS FROM OPERATIONS	1,903,090	1,851,927
OTHER INCOME AND (EXPENSE):		
Interest Income	4,420	7,346
Interest Expense	<u>(479,088)</u>	<u>(387,182)</u>
	<u>(474,668)</u>	<u>(379,836)</u>
EARNINGS BEFORE INCOME TAXES AND MINORITY INTEREST	1,428,422	1,472,091
INCOME TAXES (CREDIT):		
Current:		
Federal	340,000	500,000
State	<u>162,000</u>	<u>189,000</u>
	502,000	689,000
Deferred:		
Federal	150,000	(55,000)
State	<u>(3,725)</u>	<u>15,000</u>
	<u>146,275</u>	<u>(40,000)</u>
	<u>648,275</u>	<u>649,000</u>
EARNINGS BEFORE MINORITY INTEREST	780,147	823,091
MINORITY INTEREST IN EARNINGS (LOSS) OF CONSOLIDATED SUBSIDIARY	<u>(559)</u>	<u>2,049</u>
NET EARNINGS	780,706	821,042
RETAINED EARNINGS, BEGINNING	3,987,139	3,595,014
PREFERRED STOCK DIVIDENDS PAID	<u>(510,893)</u>	<u>(428,917)</u>
RETAINED EARNINGS, ENDING	<u>\$4,256,952</u>	<u>\$3,987,139</u>

EQUAL EXCHANGE, INC. AND SUBSIDIARY CONSOLIDATED STATEMENTS
OF CASH FLOWS YEARS ENDED DECEMBER 31, 2012 AND 2011

	<u>2012</u>	<u>2011</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net Earnings	\$ 780,706	\$ 821,042
Noncash Items Included in Net Earnings:		
Deferred Income Taxes (Credit), Net	146,275	(40,000)
Depreciation and Amortization	947,815	979,992
(Increase) Decrease in:		
Accounts Receivable	(274,118)	(193,356)
Inventory	418,604	(6,826,395)
Prepaid Expenses and Other	(55,266)	(265,008)
Prepaid Corporate Income Taxes	(49,800)	
Increase (Decrease) in:		
Accounts Payable and Accrued Expenses	1,071,129	659,428
Corporate Income Taxes Payable	(271,632)	271,632
Patronage Rebates Payable	<u>(46,637)</u>	<u>229,382</u>
	2,667,076	(4,363,283)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Additions to Property and Equipment	(848,652)	(275,077)
Increase (Decrease) in Intangible Assets	(4,998)	(2,062)
(Increase) Decrease in Investments, Net	(40,000)	25,153
(Increase) Decrease in Notes Receivable, Net	<u>(61,017)</u>	<u>(18,010)</u>
	(954,667)	(269,996)
CASH FLOWS FROM FINANCING ACTIVITIES:		
New Borrowings:		
Notes Payable - Lines of Credit	11,834,213	5,888,215
Long-Term Debt	100,000	620,000
Debt Reduction:		
Notes Payable - Lines of Credit	(13,551,139)	(2,992,975)
Long-Term Debt	(132,239)	(100,522)
Increase (Decrease) in Minority Interest	(5,161)	2,048
Proceeds From Common Stock Subscriptions	36,159	44,582
Proceeds From Issuance of Preferred Stock	178,712	1,432,684
Proceeds From Dividend Reinvestment	322,772	277,169
Redemption of Preferred Stock	(231,055)	(137,275)
Redemption of Common Stock	(21,390)	(37,970)
Preferred Stock Dividends Paid	<u>(510,893)</u>	<u>(428,917)</u>
	<u>(1,980,021)</u>	<u>4,567,039</u>
NET (DECREASE) IN CASH	(267,612)	(66,240)
CASH - BEGINNING	<u>757,429</u>	<u>823,669</u>
CASH - ENDING	\$ <u>489,817</u>	\$ <u>757,429</u>

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION

	<u>2012</u>	<u>2011</u>
Cash Paid During The Year For:		
Interest	\$ <u>486,954</u>	\$ <u>364,865</u>
Income Taxes	\$ <u>820,855</u>	\$ <u>425,600</u>



“ While visiting Flor de Café, a primary co-operative of Manos Campesinas in San Marcos, Guatemala, I conducted a coffee quality audit at their centralized coffee processing mill. Coffee quality audits are a great way for me to look at the processing equipment, evaluate the co-op’s internal systems for quality, and diagnose possible problems. The mill manager, Hugo, and the agronomist, Maco, and I talked about drying, the final stage of processing. Each bean is affected by the sun, and beans must be routinely turned. An afternoon rain shower could adversely affect the quality of their coffee, in both how their coffee will roast and the taste. Visiting co-ops and doing this in-depth quality work is something what makes us unique as a coffee importer and roaster.”

*Beth Ann Caspersen,
Equal Exchange Quality Control Manager*

PHOTO CREDITS

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