

We are now in the position of having more viable proposals from potential trade partners in the Third World than we can manage—more than we can effectively evaluate. We would like to build a strong enough foundation for Equal Exchange (internal systems, working capital base, managerial talent, etc.) so that we can offer more to existing trade partners like Sarvodaya in Sri Lanka and routinely open new trade partnerships over time.

If we are able to move forward on the organic coffee project with the Ashaninkas Cooperative of Peru, we will alter the 1988 plan by allocating more staff time in the Spring to raising capital and making final arrangements for adding the new coffee to the line (not a large undertaking as we have already built an infrastructure—coffee roaster, packaging inventory, label producers—which works to our satisfaction).

Our operational goals for 1988 are (1) to achieve financial breakeven while elevating managers' salaries to the new more appropriate level; (2) to build the sales base 50% to \$350,000; and (3) to prepare for important changes—equity campaign, personnel plan, new products, warehouse space—coming in 1989.

In 1988 we will double the staff time allocated to sales and promotion while significantly reducing time for new product development. Having invested a large proportion of staff time in 1987 producing new packaging and promotional materials (pamphlets, posters, floor displays), we turn (at the risk of sounding like everybody's 1988 presidential candidate) toward "getting our message out."

In April 1988 Equal Exchange will be the host for Winsor de Silva, Sarvodaya's export coordinator who is visiting the U.S. to learn how to build their newest strategy for self-sufficiency—the export of foods and handicrafts. Sarvodaya's program with Equal Exchange is their first formal export arrangement.

Thank you for your continued interest and support. We know you'll be thinking of us at teatime.

**Announcement: Annual Meeting.** On Thursday, March 31, 4pm at the 443 Albany Street, Boston office/warehouse location, Equal Exchange will hold its annual meeting for 1988. All shareholders are invited—please notify us if you are planning to attend.

Annual Meeting: March 31, 1988

Second



# Annual Report

March 16, 1988

drawings by M.L. Duniec, from *Coffee*, by Kenneth Davids

On January 1, 1987, Equal Exchange was marketing one product line (Cafe Nica Coffee) and was incurring monthly losses. By December 31, 1987, Equal Exchange had a second product line (Samusala Ceylon Tea), an expanded coffee line with vastly improved packaging, and new promotional materials to communicate our vision more clearly to the public. And, we realized a profit over last six months.

1987 was a year of great achievements for Equal Exchange. We made progress in creating a sustainable foundation for Equal Exchange in several key ways. To capitalize our operations, we successfully raised \$100,000 in equity and received our first institutional loan from the Adrian Dominican Sisters. This helped us create a working capital base and build a network of shareholders who share our vision of "fair trade with the Third World."

Having more than doubled the number of accounts we service on a regular basis since 1986, we developed a solid base of loyal customers. By adding Samusala Ceylon Tea from the Sarvodaya Movement in Sri Lanka we've broadened the scope of our trade partnerships and appear to our customers as more than a single product, single identity company. The final key element of Equal Exchange, the staff, is unchanged. Since 1983, the founders of Equal Exchange Rink Dickinson, Jonathan Rosenthal, and Michael Rozyne have remained the only staff. Due to continued growth, this will change in the near future.

For the first time in the short history of Equal Exchange, we proudly, yet cautiously, report a period of profitability (July-December 1987): proudly, because we worked very hard to get here; yet cautiously, because in part this was due to financial sacrifices made by the staff.



With an infusion of \$30,000 our working capital base will be able to support all growth projected for 1988 in our Cafe Nica and Samusala Tea product lines. However, we are finalizing an exciting proposal from the Ashaninkas Cooperative Association in the high mountain Andes of Peru for a gourmet quality, organically grown coffee. If we decide to accept this proposal, we will begin an effort to raise an additional \$100,000 of working capital to pay for coffee inventory, increased accounts receivable and an expanded operational infrastructure.

**Sales**

Though we celebrate the expansion of our wholesale customer base and praise Rink Dickinson's successful efforts as sales manager, with concern we witness a continued flat sales curve at the distributor level. Personal visits and intensified promotion work by Equal Exchange staff with the largest co-ops of several of our distributors have definitely reversed or at least halted the declining trend some places. But we continue to search for the right formula to make distributor sales stronger—and remain hesitant to take on new distributors until we find that formula.

We ended the year with 97 wholesale accounts (stores, co-ops, restaurants)—three times the level at the end of 1986—and with 20 distributors. The wholesales are heavily concentrated in the Northeast and in Chicago, Austin-Texas, Minneapolis and Washington, D.C. The two largest distributors for Equal Exchange are (1) Northeast Cooperatives, a consumer-owned warehouse servicing 500 food co-ops in greater New England; and (2) Pueblo to People, a Texas-based alternative trading organization which imports and sells handicrafts and food products on behalf of poor Central American producers, almost exclusively by mail-order.

The place we are feeling growth the most is in the build-up of time we now spend shipping orders and bookkeeping. We expect to hire a fourth employee before the Fall. Meanwhile, we are using the work build-up as a way to identify and weed out inefficiencies in our systems.

**LOOK AT 1988**

The plan for 1988 is to push toward the highest achievable sales capacity—given our current resource and staff level—in preparation for a significant expansion in 1989. We will be laying the groundwork for expansion of our equity base, product line, staffing level, and physical plant.

EQUAL EXCHANGE, INC. INCOME STATEMENT 1987

	1/1-6/30/87	7/1-12/31/87	1/1-12/31/87
<b>SALES</b>			
Consumer	\$7,128	\$7,337	\$14,465
Wholesale	\$21,515	\$42,840	\$64,355
Distributor	\$52,234	\$61,156	\$113,390
Manufacturer	\$9,920	\$31,273	\$41,193
Misc.	\$144	\$111	\$255
Total Gross Sales	\$90,941	\$142,717	\$233,658
Total Sales Discounts	\$1,194	\$1,345	\$2,539
Net Sales	\$89,747	\$141,371	\$231,118
Gross Profit on Sales	\$23,427	\$48,667	\$72,094
Gross Margin on Sales	26.1%	34.4%	31.2%
Gross margin on brokerage	\$0	\$2,140	\$2,140
<b>GROSS PROFIT</b>	<b>\$23,427</b>	<b>\$50,807</b>	<b>\$74,234</b>
<b>TOTAL OPERATING EXPENSES</b>	<b>\$40,565</b>	<b>\$45,805</b>	<b>\$86,100</b>
Income (Loss) from Operations	(\$17,137)	\$5,001	(\$12,136)
<b>OTHER INCOME/EXPENSES</b>			
Interest Income	\$527	\$582	\$1,109
Misc. Income	\$14	\$55	\$69
Total Other Income	\$541	\$637	\$1,178
Interest Expense	\$716	\$1,022	\$1,738
Total Other Expense	(\$716)	(\$1,022)	(\$1,738)
<b>INCOME (LOSS) BEFORE TAXES</b>	<b>(\$17,312)</b>	<b>\$4,616</b>	<b>(\$12,696)</b>
Income Taxes	\$0	\$228	\$228
<b>NET INCOME (LOSS)</b>	<b>(\$17,312)</b>	<b>\$4,388</b>	<b>(\$12,924)</b>

EQUAL EXCHANGE, INC. BALANCE SHEET

	12/31/87	6/30/87	12/31/86
<b>ASSETS</b>			
Total Current Assets	\$144,212	\$113,807	\$95,555
Total Other Assets	\$18,122	\$18,419	\$15,661
<b>Total Assets</b>	<b>\$162,336</b>	<b>\$132,226</b>	<b>\$111,215</b>
<b>LIABILITIES AND SHAREHOLDERS EQUITY</b>			
Total Current Liabilities	\$86,655	\$71,262	\$57,500
Total Other Liabilities	\$7,480	\$1,400	
<b>Total Liabilities</b>	<b>\$94,135</b>	<b>\$72,662</b>	<b>\$57,500</b>
<b>STOCKHOLDERS' EQUITY</b>			
Series A (voting)	\$3	\$3	\$3
Series B (nonvoting)	\$4,762	\$4,592	\$3,662
Additional Capital: Series A	\$72	\$72	\$72
Series B	\$106,000	\$101,920	\$79,590
Donated Capital	\$1,209	\$1,209	\$1,209
Retained Earnings	(\$43,844)	(\$48,232)	(\$30,920)
<b>Total Stockholders' Equity</b>	<b>\$68,202</b>	<b>\$59,564</b>	<b>\$53,616</b>
<b>Total Liabilities and Equity</b>	<b>\$162,336</b>	<b>\$132,226</b>	<b>\$111,215</b>

**1987 IN REVIEW**

**Confidence Building**

At the 1987 International Conference of Alternative Trading Organizations (ATOs) in Berlin, Jonathan Rosenthal represented Equal Exchange as one of 34 ATOs in attendance from 14 developed nations. Representatives from 11 developing nations were on hand to provide the producers' perspectives on alternative trading. Though the world movement of alternative trading is growing fast, participants were leery to claim gains against the tremendous imbalance of power which keeps Third World producers in a losing position in world trade. Several ATO leaders pointed to the small size and relative powerlessness of the world movement as reasons to increase cooperation among ATOs and consolidate resources to form support structures like an ATO international development finance bank.

As active members of the ATO movement in North America, we recognize the important leadership role played by more experienced European ATOs and look forward to forming more cooperative links with the world movement this year.

1987 had a lot to do with confidence building. The financial results of the year's second-half help us believe in the viability of Equal Exchange. In 1988, in an attempt to continue our growth and maintain our position of profitability, we will continue to spend the largest part of staff time on the day-to-day work (sales, promotion, inventory control, shipping, accounting) which will make Equal Exchange an efficient and innovative food supplier in the eyes of our customers.

Yet, that which distinguishes Equal Exchange from other food companies, our deep commitment to provide fair trade opportunities for peasant farmers in the Third World, compels us always to continue expending energy to better understand the world trade situation and to learn how we can do a better job of serving our trade partners and customers—to create equal exchange.

**A New Look for Cafe Nica**

On the domestic front in 1987, while Oliver North was stealing the hearts of TV soap-opera audiences nationwide, it was easy for many U.S. citizens to overlook what the Iran/Contra Hearings were really about—that is, the abuse of power by high government officials, only willing to act within the law when it coincided with their personal belief system. And, unfortunately, it was easy for many to believe that the crimes committed were the acts of a few zealous *individuals* who got

carried away, rather than a century-old institutionalized effort on the part of the United States to keep the people of Central America under our control.

The hearings, the war, and continued efforts to fund the contras kept Nicaragua a "hot" issue and fueled our efforts to expand markets for Cafe Nica, still the majority of sales at year's end. In the Winter of 1987, upon the return of a four-person Equal Exchange delegation (including artist Sue Niewiarowski and journalist Kimberly French) from the coffee producing region of Matagalpa (northern Nicaragua), we set out to design a new four-color package for our Nicaraguan coffee and numerous promotional materials.

Promotional literature and new product packaging together with public speaking engagements, in-store tastings, and an initial public relations effort aimed at newspaper media were all part of an expanded effort in 1987 to communicate our vision of equal exchange.

### **Introducing Samusala Ceylon Tea**

No less a hotspot this past year was the troubled Asian island of Sri Lanka, where minority Tamils (Hindu) intensified their fight for self-rule against the dominant governing Sinhalese (Buddhist). In the midst of this brutal civil war, the Sarvodaya Movement works on both sides of the conflict, aiding refugees and campaigning for non-violent negotiations. In March, Equal Exchange's Jonathan Rosenthal traveled to Sri Lanka and made the final links with Sarvodaya needed to begin our joint Samusala Tea program. (Samusala is the Sinhalese word for 'cooperative exchange.')

In last year's annual report we sent you a sample of the tea. In last October's mid-annual report we enclosed the new tea carton. With this report we enclose the final product, a sample of our Earl Grey tea bag and a copy of "The Samusala Story."

Samusala Tea represents the first fruits of four years of work by Equal Exchange and Sarvodaya to forge a lasting trade partnership. Although the initial pace was slow and cautious, both groups are now more committed than ever to realizing the next steps of the project. In fact, Sarvodaya now has a full time export coordinator and has just finished feasibility studies for two products—sesame seeds and black pepper—produced by rural farmers who are part of Sarvodaya Village Societies. The potential for small-scale rural farmers to have direct access to U.S. markets represents an historic breakthrough—however small the scale—for international development and trade.

### **Infrastructure**

If anything was less stable than Nicaragua and Sri Lanka in 1987, one candidate was the U.S. dollar whose nose-dive in 1986 precipitated our move away from processing coffee in Europe to processing in Canada. During 1987, as the dollar kept losing value, we limited our losses by contracting for currency futures while we developed relationships with a coffee roaster in Montréal and another one in Toronto. By year's end, we had moved 70% of our production to Canada. Faced with the U.S. embargo against Nicaragua, stable relationships with two Canadian coffee roasters makes it easier for us to procure green Nicaraguan coffee beans and add new sizes and kinds of roasts to our product line. And of course we are less vulnerable to the weakness of the dollar against European currency.

### **Financial Performance**

We reached breakeven and were able to report a small profit during the second half of 1987 largely because (a) shifting coffee production to Canada enabled us to increase the annual gross margin from 19% to 32%; and (b) hard, persistent sales work was evidenced by a notable jump in sales in November and December.

Shortly after disseminating the "Mid-Annual Report" last October in which we claimed to be "unsatisfied with the level of sales we (had) achieved," we convened a weekend meeting of financial advisors to tackle some of the challenging questions we were facing regarding growth, business strategy, and raising capital. The group of advisors, four people talented in business (some Equal Exchange shareholders), strongly concurred that Equal Exchange should narrow the scope of operations for the short-term and concentrate on sales and economic viability. Then, after building the sales base and achieving a breakeven position, we should return the focus to growth and acquiring more working capital.

The promising results of the last quarter prompted us to take further advice from our financial advisors and raise managers' salaries from a sacrifice level of \$12,000 to a more appropriate level of \$20,000. The sentiment expressed at the October 1987 meeting was that achieving breakeven while placing such financial stress on the managers of the organization was a short-term plug and not part of a sustainable success strategy.

Cafe Nica Beans Found in Pocket of Drowned CIA Agent, Brother of Oliver North's Therapist

This headline has no bearing in reality. However, as this section is about promotion and public relations, and as we have invested so much time in the last nine months writing pamphlets, promotional pieces, and most recently press releases, it seemed fitting to introduce this section with a headline that would grab your attention.

The results of nine months work in the area of promotion is all showing up in October. Here's what's coming:

\*Printed Cafe Nica bags, sample enclosed. We went this route to ensure consumers knew about Equal Exchange and what makes us special. These bags printed in larger quantities, cost the same as the plain bags did.

\*Equal Exchange short pamphlet, about the company, Cafe Nica and Samusala Tea. This one intended for widespread distribution.

\*"The Cafe Nica Story," an 8-page indepth pamphlet all about our coffee. For those who want the full story.

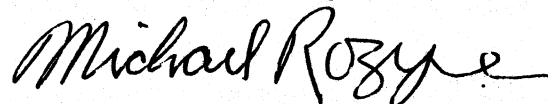
\*"The Samusala Story," a 12-page indepth pamphlet all about our tea.

\*Cafe Nica Floor Display with 5-color 14" X 19" poster. Displays 24-8oz ground coffees, for co-ops and natural food stores.

\*Samusala Tea Floor Display, displays 36 20-bag tea cartons.

It promises to be a hoppin' Fall.

On behalf of Equal Exchange,



Michael Rozyne



# Mid-Annual Report

October 5, 1987

To our shareholders and close associates:

## Sales and Business Performance

From a bottom-line perspective, the first half of 1987 went as projected.

We remain in a losing position as we build new accounts, develop new products, find ways to cut unit costs and make the kinds of long-term investments that will enable us to move slowly toward a breakeven position.

In summary, January-June 1987, sales were \$90,940.99 and our loss was (\$17,136.90). We originally projected sales of \$117,000., but with expenses higher than actual which pointed to a loss of (\$18,786.).

In our mid-year evaluation we were satisfied to have contained losses slightly ahead of projections. However, all three founders of Equal Exchange were **unsatisfied** with the level of sales we achieved. The facts show significant growth in our wholesale category--sales to stores and co-ops directly--due to the aggressive work of our Sales Manager Rink Dickinson.

However, sales to our ten regional distributors were stagnant. One explanation is the declining position of some of the cooperative food warehouses in the national natural foods market. Due to severe competitive and financial pressure, many cooperative wholesalers cannot afford to put adequate time into closely coordinated merchandising and promotion work with their larger co-op stores. They have no sales rep on the road.

We have begun calling some of our co-op distributors' largest stores directly ourselves--to make sure they are carrying the full line, to make sure they promptly introduce Samusala Tea, and to arrange for promotions for the Fall.

To respond to the overall unsatisfactory level of sales, we are going to **immediately** increase the overall staff time given to sales. Michael has already begun work on restaurant sales, a new subcategory of "wholesale" in which we are introducing what is known in the industry as a "pillow-pack," a 2oz simply-packaged envelope of coffee which restaurant managers use in coffee-makers. Jonathan will begin sales work in November. As the long, complex job of arranging for the smooth manufacture of coffee in Canada requires increasingly less management time, more of that time will be converted to sales.

#### \$100,000. Successfully Raised

Our first offering of stock was successfully completed late this Spring. We raised \$100,000. in equity as planned. To continue growing we are hoping to begin a second offering sometime in the winter of 1987-88.

In early September our first formal loan application proved successful when the Adrian Dominican Sisters awarded us a low-interest loan of \$10,000. The Adrian Dominican Sisters generously allocate a percentage of their pension fund each year to support the work of progressive-minded nonprofits and businesses.



#### After Four Years of Hard Work...Introducing Samusala Tea from Sri Lanka

On October 12, our second product line Samusala Ceylon Tea will be ready for shipping. This was the original product that brought the three of us together in 1983 to talk about starting Equal Exchange. Needless to say, we're excited! As this report goes to press, the tea itself was unavailable for comment (in New Jersey waiting to be packed). However, the tea package is enclosed for your perusal.

#### Organically Grown Coffee Coming in Early 1988

The next product we have approved for addition is a coffee grown organically by indigenous tribal people called the Ashaninkas in the mountainous jungle of Peru. We will be buying from the Ashaninkas Cooperative. The coffee and the entire production-transportation-packaging network has been certified organic by O.C.I.A. (Organic Crop Improvement Association), and will display their emblem on the label. We expect to introduce this coffee in the Spring of 1988.

Next in line is a whipped-honey, milk chocolate covered candy produced by a small black-owned business in Zimbabwe. The initial samples were devoured instantly, testimony to something--either the candy's great taste or else the desperate nutritional status of Equal Exchange employees and friends. We're looking for a name for these candies (the Dutch call them 'Crunchettes'), and will need to rely on our next capital raising drive before the introduction of these can be projected.

#### Gregory Vafis--EE's Summer Intern

Gregory Vafis, a Politics major from the University of California at Santa Cruz, was Equal Exchange's first intern this summer. Gregory's project was to test the viability of sales to workplaces--the result of which will be a cautious foray this Fall into the world of selling to workplaces. Gregory also did the accounts receivable bookkeeping, the bulk of warehouse shipping, and helped redesign and execute the Fall warehouse layout in anticipation of new products being added right now.

We were extremely fortunate to have someone as talented as Gregory. And we certainly learned that the three founders' time is best spent on overall management and sales work--even if it means hiring others to do bookkeeping and warehouse work.

**EQUAL EXCHANGE, INC.**  
**BALANCE SHEET**  
**30-Jun-87**

CURRENT ASSETS	ASSETS	
Cash		\$27,976.97
Accounts Receivable, Trade	\$14,404.43	
Less Allowance for Bad Debt	\$223.24	\$14,181.19
Inventory		\$67,998.26
Prepaid expenses		\$3,653.51
<b>Total Current Assets</b>		<b>\$113,806.93</b>
<b>OTHER ASSETS</b>		
Equipment	\$4,045.19	
Less Accum. Depreciation	\$406.68	\$3,638.56
Leasehold improvements	\$533.26	
Less Accum. Amortization	\$355.52	\$177.74
Organizational Expenses		\$13,230.59
Deposits		\$1,372.00
<b>Total Other Assets</b>		<b>\$18,418.84</b>
<b>Total Assets</b>		<b>\$132,225.77</b>
<b>LIABILITIES AND SHAREHOLDERS EQUITY</b>		
<b>CURRENT LIABILITIES</b>		
Accounts Payable, Trade	\$2,166.22	
Accrued Payroll Taxes	\$1,492.00	
Notes Payable: Bank Line of Credit	\$5,000.00	
: Computer Purch	\$1,200.00	
: Other	\$61,403.86	
<b>Total Current Liabilities</b>		<b>\$71,262.08</b>
<b>OTHER LIABILITIES</b>		
Note Payable: Computer Purch	\$1,400.00	
<b>Total Other Liabilities</b>		<b>\$1,400.00</b>
<b>Total Liabilities</b>		<b>\$72,662.08</b>
<b>STOCKHOLDERS' EQUITY</b>		
Paid in on capital stock		
common \$1.00 par value		
issued and outstanding:		
Series A (voting) 3 shares	\$3.00	
Series B (nonvoting) 4592.32	\$4,592.33	
Additional Capital: Series A	\$72.00	
: Series B	\$101,919.86	\$106,587.19
Donated Capital	\$1,208.86	
Retained Earnings	(\$30,920.06)	
Profit/(Loss) Year to Date	(\$17,312.30)	
<b>Total Stockholders' Equity</b>		<b>\$59,563.69</b>
<b>Total Liabilities and Stockholders' Equity</b>		<b>\$132,225.77</b>

**EQUAL EXCHANGE FINANCIAL STATEMENT**

**JUNE 30, 1987**

**PROFIT/LOSS JANUARY-JUNE 1987**

Sales: Consumers	7128.21	
Wholesale	21515.15	
Distributor	52233.67	
Manufacturer	9919.59	
Misc.	144.37	
		<b>90940.99</b>
Less COD discounts, allowances, promo discts		<u>1193.83</u>
<b>NET SALES</b>		<b>89747.16</b>
Cost of Goods		<u>66320.62</u>
<b>GROSS PROFIT ON SALES</b>		<b>23426.54</b>
Operating Expenses:		
Salaries	18287.57	
Payroll Tax	2022.05	
Emp. benefits	1404.00	
Promo/advert.	2753.72	
Rent & utilit.	2680.00	
Other	13416.10	
		<b>40563.44</b>
Income (Loss) from Operations		<b>(17136.90)</b>
Other Income		540.56
Other Expense		<u>(715.96)</u>
Income (Loss) Before Taxes		<b>(17312.30)</b>
<b>NET INCOME (LOSS)</b>		<b>(17312.30)</b>

\*Other Operating Expense includes phone, photocopy, insurance, delivery, product development, postage, bank charges, depreciation, misc.

) )

) )