



The Equal Exchange, Inc. 1989

Annual Report

The Short of It

In 1989, Equal Exchange earned a profit of \$23,730 on sales of \$660,000. Both our profit and gross sales were higher than we projected for the year. Sales of organic Peruvian coffee grew steadily. And we introduced *Cafe Libre* — “the anti-apartheid coffee” — a blend of Zimbabwean and Tanzanian coffees. Given an unusually high incidence of staff illness, and the consequent shortage of hands, it was a productive year we are very proud of.

A new face for Nicaragua

On the day this report was drafted, Tuesday, February 26, it was announced that Violeta Chamorro had defeated Sandinista leader Daniel Ortega in their run-off for President of Nicaragua.

By all indications, the contras will be forced to lay down their weapons, ending at least their military fight. President Bush has announced the end of the U.S. trade embargo, halting the U.S. economic war against the Nicaraguan people. The U.S. government, having successfully destroyed the Nicaraguan economy, will now send aid and pose as its savior.

Assuming that the Sandinistas hand over the government as they have indicated all along they would, the end of eleven years of Sandinista rule raises many questions for Central America followers:

- What will become of the Sandinistas and the social and military organization they have so tirelessly built over the last decade?
- Can UNO (the National Opposition Union), a wide-ranging political coalition including conservative leaders on the one-hand, and socialists and communists on the other, achieve sufficient clarity and sustain enough unity to effectively govern?

- Assuming the contras are disbanded, the U.S. embargo is lifted, and economic aid flows freely toward the new victorious government in Nicaragua, will peace and renewed trade with the U.S. lift the Nicaraguan economy out of the doldrums? If so, at what cost to the Nicaraguan people? At what cost to the rural peasantry and the urban poor, the majority of whom have historically been the losers when free-market measures have been imposed suddenly on a developing economy?
- Could things really get much worse for the average Nicaraguan citizen?

Cafe Nica followers may be wondering what impact an end to the embargo will have on their morning cup of coffee. Equal Exchange hopes to deepen our trade with the peasant cooperatives formed during the ten years of the revolution. With the end of the embargo in sight, we will attempt to find one or two cooperatives with whom to trade directly. We would like to trade with a grassroots cooperative that is interested in growing coffee organically.

Stay tuned!

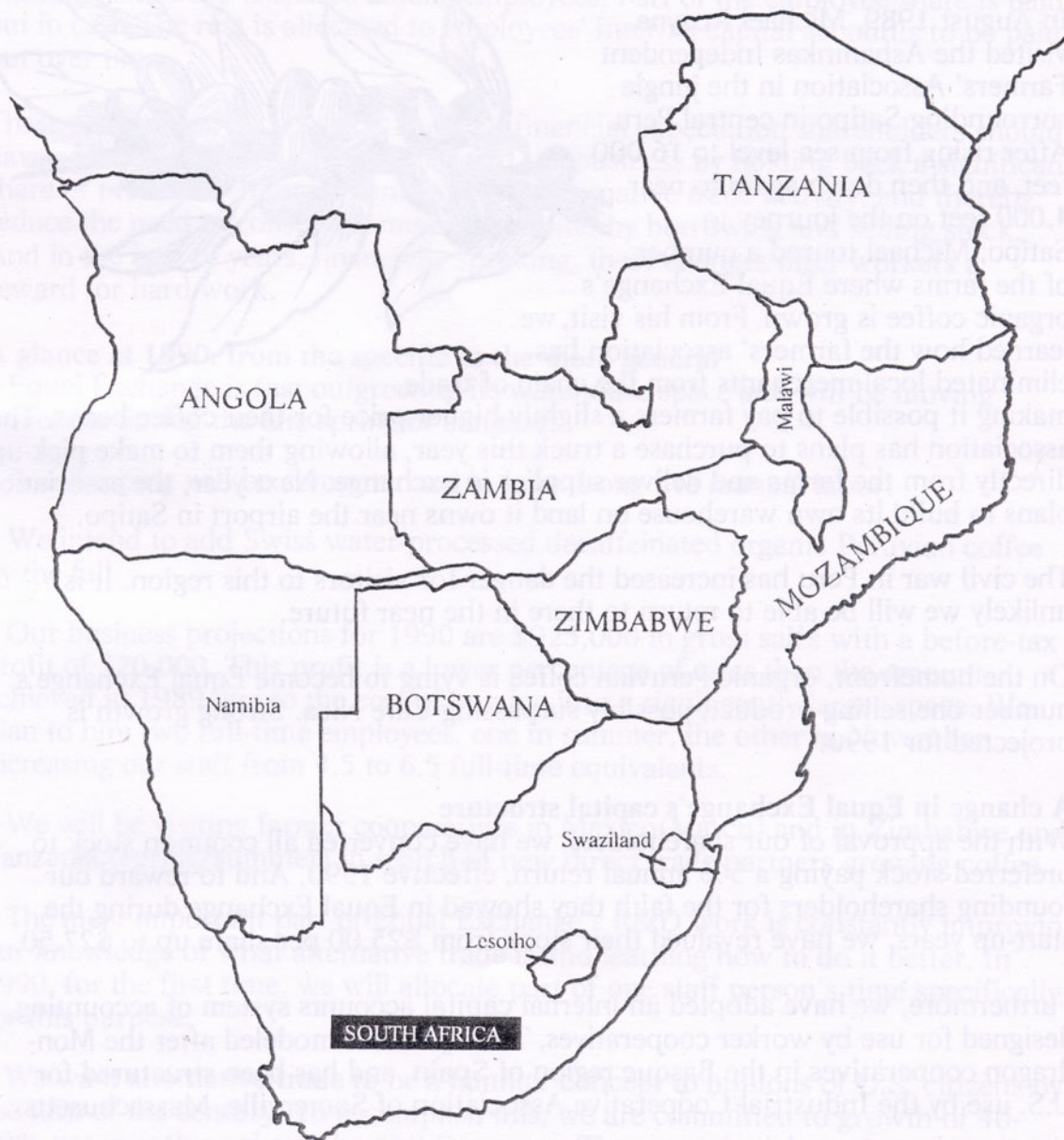
Cafe Libre — “the anti-apartheid coffee”

Mandela is free. The African National Congress has been legalized. The world is watching to see whether black majority rule in South Africa will be established through political negotiation, or whether it will be won as the result of continued violent confrontation.

In November 1989, Equal Exchange joined the European alternative trade groups in offering an anti-apartheid coffee which we are calling *Cafe Libre*. *Cafe Libre* is a blend of exceptionally rich coffees from two of the frontline states, Zimbabwe and Tanzania. For every pound Equal Exchange sells, we are setting aside twenty cents to support an organization fighting against apartheid. Our longer-range goal for *Cafe Libre* is to trade directly with a coffee cooperative in southern Africa.

The frontline states — Angola, Botswana, Mozambique, Tanzania, Zambia, and Zimbabwe — are those nations directly threatened by South Africa's economic and military attack against freedom for black Africans. The damage to their economies from South African aggression has been estimated to be \$6 1/2 billion pounds a year.

By selling a blend of the highest quality coffees available from southern Africa under the tradename *Cafe Libre*, we are inviting our customers to take a stand against apartheid through the act of purchasing and consuming their daily coffee.



The frontline states of southern Africa: Angola, Botswana, Mozambique, Tanzania, Zambia, and Zimbabwe.

Organic Peruvian coffee takes the lead

In August 1989, Michael Rozyne visited the Ashaninkas Independent Farmers' Association in the jungle surrounding Satipo in central Peru.

After rising from sea level to 16,000 feet, and then down again to near 4,000 feet on the journey to

Satipo, Michael toured a number of the farms where Equal Exchange's organic coffee is grown. From his visit, we learned how the farmers' association has

eliminated local merchants from the chain of trade,

making it possible to pay farmers a slightly higher price for their coffee beans. The association has plans to purchase a truck this year, allowing them to make pick-ups directly from the farms and deliver supplies in exchange. Next year, the association plans to build its own warehouse on land it owns near the airport in Satipo.



The civil war in Peru has increased the danger for visitors to this region. It is unlikely we will be able to return to there in the near future.

On the homefront, organic Peruvian coffee is vying to become Equal Exchange's number one selling product, possibly surpassing Cafe Nica. Strong growth is projected for 1990.

A change in Equal Exchange's capital structure

With the approval of our shareholders, we have converted all common stock to preferred stock paying a 5% annual return, effective 1990. And to reward our founding shareholders for the faith they showed in Equal Exchange during the start-up years, we have revalued their stock from \$25.00 per share up to \$27.50.

Furthermore, we have adopted an internal capital accounts system of accounting designed for use by worker cooperatives. This system is modeled after the Mondragon cooperatives in the Basque region of Spain, and has been structured for U.S. use by the Industrial Cooperative Association of Somerville, Massachusetts.

Under this system, eligible worker-owners employed by Equal Exchange have their own internal capital account. At year's end, after the 5% preferred dividend has been paid to shareholders, remaining profits are divided: 80% is reinvested in the

business, and 20% is shared among employees. Part of the employee share is paid out in cash. The rest is allocated to employees' internal capital accounts to be paid out over time.

These changes more clearly define what financial expectation shareholders should have of Equal Exchange. They safeguard the business by holding back a significant share of profits for reinvestment in future alternative trade activity, and thereby reduce the need to constantly raise new capital by borrowing and selling stock. And in the best of years, financially speaking, these changes offer workers a reward for hard work.

A glance at 1990: from the specific to the more general

- Equal Exchange is fast outgrowing its warehouse space and will be moving sometime during the late spring or summer.
- Bookkeeping will be computerized in June. Long live manual labor!
- We intend to add Swiss water-processed decaffeinated organic Peruvian coffee by the fall.
- Our business projections for 1990 are \$925,000 in gross sales with a before-tax profit of \$20,000. This profit is a lower percentage of sales than the amount achieved in 1989 due to the cost of moving into a significantly larger space. We plan to hire two full-time employees, one in summer, the other in November, increasing our staff from 4.5 to 6.5 full-time equivalents.
- We will be visiting farmer cooperatives in Mexico (March) and in Zimbabwe and Tanzania (spring/summer) in search of new direct trade partners growing coffee.
- The most important part of Equal Exchange's R&D work is constantly improving our knowledge of what alternative trade is and learning how to do it better. In 1990, for the first time, we will allocate part of one staff person's time specifically for this purpose.
- We want alternative trade to be a familiar concept to millions of U.S. citizens by the turn of the century. To accomplish this, we are committed to growth of 40-50% per year throughout the next five years. The strategic debate that emerges from this commitment is whether to focus entirely on the specialty and natural food market for growth, or whether to develop a coffee we could sell through supermarkets.

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- We will launch our second private placement offering in early summer. We seek to raise working capital to finance growth through 1993. This offering was planned to begin January 1, but was delayed due to staff illness.

Enclosed are samples of our new bin cards. Stores use these cards to label their bulk coffee bins. Our new graphic look was designed with assistance from Gunn Associates and our in-house designer, Sue Niewiarowski.

Thank you for your ongoing support and interest.

EQUAL EXCHANGE, INC.
INCOME STATEMENT

	<u>1/1-6/30/89</u>	<u>7/1-12/31/89</u>	<u>Year Ending 12/31/89</u>
SALES			
Sales: Consumers	6,841	7,153	13,994
: Wholesale	137,890	160,893	298,783
: Distributor	127,538	165,600	293,138
: Manufacturers	11,031	43,155	54,186
: Misc	<u>0</u>	<u>0</u>	<u>0</u>
Total Gross Sales	283,300	376,801	660,101
Less: Total Sales Discounts	<u>6,183</u>	<u>6,375</u>	<u>12,558</u>
Net Sales	277,117	370,426	647,543
Less: Cost of Goods Sold	<u>188,204</u>	<u>261,409</u>	<u>449,613</u>
Gross Margin on Sales	88,913	109,017	197,930
Gross margin on brokerage	<u>1,108</u>	<u>0</u>	<u>1,108</u>
Gross Mrgn. on Sales and Brokerage	90,021	109,017	199,038
EXPENSES			
Less: Total Operating Expense	<u>84,797</u>	<u>86,121</u>	<u>170,919</u>
Income (Loss) from Operations	5,224	22,896	28,119
Plus Total Other Income	799	971	1,770
Less: Interest Expense	<u>2,225</u>	<u>3,934</u>	<u>6,159</u>
INCOME (LOSS) PRETAX	3,798	19,933	23,730
Less: Income Taxes	<u>683</u>	<u>4,236</u>	<u>4,919</u>
NET INCOME (LOSS)	3,115	15,697	18,811

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EQUAL EXCHANGE, INC. BALANCE SHEET

	<u>12/31/89</u>	<u>6/30/89</u>	<u>12/31/88</u>
ASSETS			
<u>CURRENT ASSETS</u>			
Cash	\$21,451	\$7,162	\$29,270
Accounts Receivable, Trade	\$48,926	\$41,520	\$31,193
Less Allowance for Bad Debt	(\$980)	(\$1,744)	(\$1,529)
Inventory, Goods for Resale	\$201,394	\$168,835	\$124,889
Inventory, Supplies	\$0	\$0	\$636
Prepaid expenses	<u>\$2,599</u>	<u>\$939</u>	<u>\$733</u>
Total Current Assets	\$273,390	\$216,712	\$185,192
<u>OTHER ASSETS</u>			
Equipment	\$8,365	\$6,616	\$5,725
Less Accum. Depreciation	(\$3,116)	(\$2,417)	(\$1,763)
Leasehold improvements	\$1,561	\$1,561	\$1,561
Less Accum. Amortization	(\$1,218)	(\$705)	(\$533)
Organizational Expenses	\$13,231	\$13,231	\$13,231
Less Accum. Amortization	(\$662)		
Other Assets	<u>\$4,546</u>	<u>\$1,073</u>	<u>\$1,040</u>
Total Other Assets	\$22,707	\$19,359	\$19,261
Total Assets	\$296,097	\$236,071	\$204,453
LIABILITIES AND SHAREHOLDERS EQUITY			
<u>CURRENT LIABILITIES</u>			
Accounts Payable, Trade	\$35,012	\$22,333	\$4,052
Accrued Payroll Taxes	\$2,736	\$3,330	\$3,232
Notes Payable: Bank L.O.C.	\$23,000	\$9,000	\$0
: Computer	\$0	\$200	\$800
: Other	<u>\$65,044</u>	<u>\$45,940</u>	<u>\$47,144</u>
Total Current Liabilities	\$125,792	\$80,803	\$55,228
<u>OTHER LIABILITIES</u>			
Note Payable: Computer	\$0	\$0	\$0
Notes Payable: Other	<u>\$55,210</u>	<u>\$55,870</u>	<u>\$52,940</u>
Total Other Liabilities	\$55,210	\$55,870	\$52,940
Total Liabilities	\$181,002	\$136,673	\$108,168
<u>STOCKHOLDERS' EQUITY</u>			
Paid in on capital stock common \$1.00 par value issued and outstanding:			
Series A (voting)	\$3	\$3	\$3
Series B (nonvoting)	\$6,017	\$6,017	\$6,017
Additional Capital: Series A	\$72	\$72	\$72
: Series B	<u>\$136,115</u>	<u>\$136,115</u>	<u>\$136,115</u>
Donated Capital	\$1,209	\$1,209	\$1,209
Retained Earnings	(\$47,132)	(\$47,132)	(\$43,844)
Profit or Loss This Year	<u>\$18,811</u>	<u>\$3,114</u>	<u>(\$3,287)</u>
Total Stockholders' Equity	\$115,095	\$99,398	\$96,285
Total Liabilities and Stockholders' Equity	\$296,097	\$236,071	\$204,453