

EQUAL EXCHANGE, INC
BALANCE SHEET

	12/31/90	12/31/89	12/31
ASSETS			
CURRENT ASSETS			
Cash	\$67,471	\$21,451	\$29,270
Accounts Receivable, Trade	\$59,276	\$48,926	\$31,193
Less Allowance for Bad Debt	(\$980)	(\$980)	(\$1,529)
Inventory, Goods for Resale	\$266,386	\$201,394	\$124,889
Inventory, Supplies	\$0	\$0	\$636
Prepaid expenses	\$1,194	\$2,599	\$733
Total Current Assets	\$393,347	\$273,390	
OTHER ASSETS			
Equipment	\$16,367	\$8,365	\$5,725
Less Accum. Depreciation	(\$5,410)	(\$3,116)	(\$1,763)
Leasehold Improvements	\$2,245	\$1,561	\$1,561
Less Accum. Amortization	(\$398)	(\$1,218)	(\$533)
Organizational Expenses	\$16,197	\$13,231	\$13,231
Less Accum. Amortization	(\$992)	(\$662)	
Other Assets	\$5,662	\$4,546	\$1,040
Total Other Assets	\$33,671	\$22,707	
Total Assets	\$427,018	\$296,097	
LIABILITIES/SHAREHOLDERS EQUITY			
CURRENT LIABILITIES			
Accounts Payable, Trade	\$17,599	\$35,012	\$4,052
Accrued Payroll Taxes	\$2,693	\$2,736	\$3,232
Accrued Interest	\$1,913	\$0	\$0
Notes Payable: Bank L.O.C.	\$0	\$23,000	\$0
: Other	\$121,719	\$65,044	\$47,944
Total Current Liabilities	\$143,924	\$125,792	
OTHER LIABILITIES			
Notes Payable: Other	\$122,207	\$55,210	\$52,940
Total Other Liabilities	\$122,207	\$55,210	
Total Liabilities	\$266,131	\$181,002	
STOCKHOLDERS' EQUITY			
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	\$136,115	\$136,115	\$136,115
Donated Capital	\$1,209	\$1,209	\$1,209
Equity Collected for Stock	\$12,000	\$0	\$0
Retained Earnings	\$5,862	(\$47,132)	(\$43,844)
Profit or Loss This Year	\$0	\$18,811	(\$3,287)
Total Stockholders' Equity	\$161,278	\$115,095	
Total Liabilities and Stockholders' Equity	\$427,409	\$296,097	



Annual Report

The Short Of It

In 1990, Equal Exchange earned a before-tax profit of \$36,418. In January, the Board of Directors voted to pay out a 5% dividend to shareholders, which will be mailed in early April. Gross sales were \$844,000, compared with \$660,000 in 1989, growth of 28%. The big events of the year were moving operations south to Stoughton, Mass., computerizing our bookkeeping systems, hiring a full-time warehouse manager, introducing *Organic Cafe Mexico* from the UCIRI peasant farmers' cooperative, and reorganizing and expanding the sales team. Cafe Nica sales declined. Organic Cafe Peru sales grew strongly, making it our best-selling coffee.

Growing Pains

Pushing the \$1 million milestone in sales, 1990 was largely a year about growing and learning how

to control growth. We built Equal Exchange on a strong dose of fiscal conservatism, if not thrift, providing balance for the great risk we take on by trading with peasant farmers. Now entering our sixth year, it is no longer appropriate or efficient to run our business on a shoestring budget. We face the challenge of building an organization that does an increasingly better job of fulfilling its mission—that is, improving trade conditions for Third World farmers—while at the same time maintaining the lively, informal, and interactive culture of the workplace.

The move to Stoughton was the centerpiece of the growth plan. It was also the most divisive issue we faced since incorporating in 1986. Half the staff wanted Equal Exchange in Boston; the other half wanted it in Providence, Rhode Island. And that's how we got to Stoughton—the midway point between the two cities.

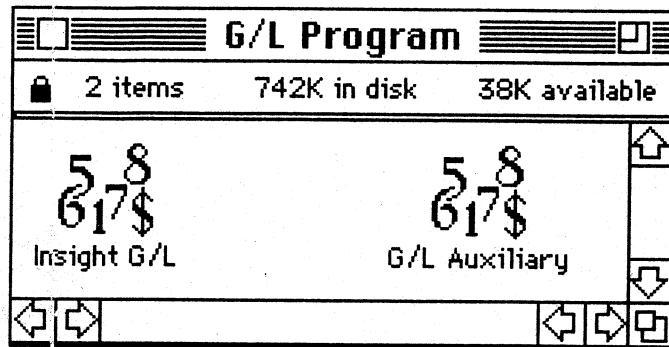
Yo  lo orgánico.
UCIRI 90

This bumper sticker from UCIRI reads, "Organic! I love it."



Our new warehouse has modern offices, a kitchen, two loading docks and 4,000 square feet of floor space. It also has high ceilings, which will enable us to expand upward when need be, room enough for at least the next three years.

Putting technology to work, we computerized much of our bookkeeping systems, and we added an electric pallet jack in the warehouse. In June, Sue Oppie became our first full-time warehouse manager. All these changes have built our capability to handle significantly larger quantities of food, and to handle them more efficiently.



A sample "window" from Insight, our new Macintosh-based accounting software.

That's where the sales effort kicks in. Though we are steadily building more and better quality relationships with peasant farmers, the pressure is constantly on us to sell *more*. From the farmer's perspective, volume is as important as getting a fairer price.

Rink Dickinson and Michael Rozyne are now sharing the position of sales manager at Equal Exchange. Myrna Greenfield is in charge of sales support and public relations, a widely defined role including design and production of promotional materials, customer service work and promotion of Equal Exchange to the media. In February, 1991, we hired Mark Souza to be a full-time salesperson. Overall, we will be putting three times as many hours into sales each week in 1991 as we did last year.

In 1990 we financed growth largely from loans. The Adrian Dominican Sisters and Coop Fund of New England continued their strong support of Equal Exchange by refinancing up to \$70,000 and \$40,000, respectively. Two new lenders to Equal Exchange were the Sisters of Charity of St. Elizabeth (New Jersey) and the Sisters



**EQUAL EXCHANGE, INC.
INCOME STATEMENT**

	1/1-12/31/89	1/1-12/31/90
SALES		
Consumer	\$13,994	\$12,134
Wholesale	\$298,783	\$376,671
Distributor	\$293,138	\$372,870
Manufacturer	\$54,186	\$46,266
Miscellaneous	\$0	\$45
Freight Income	\$0	\$20,530
Total Gross Sales	\$660,101	\$828,516
Total Sales Discounts	\$12,558	\$24,502
Net Sales	\$647,543	\$804,014
Gross Profit on Sales	\$197,930	\$291,037
Gross Margin on Sales	30.6%	36.2%
Gross Margin on Brokerage	\$1,108	\$4,054
GROSS PROFIT	\$199,038	\$295,091
TOTAL OPERATING EXPENSES	\$170,919	\$248,029
INCOME FROM OPERATIONS	\$28,119	\$47,062
OTHER INCOME/EXPENSES		
Interest Income		\$2,132
Misc. Income		(\$220)
Total Other Income	\$1,770	\$1,912
Interest Expense	\$6,159	\$12,557
Total Other Expenses	\$6,159	\$12,557
INCOME BEFORE TAXES	\$23,730	\$36,417
Income Taxes	\$4,919	\$8,583
NET INCOME	\$18,811	\$27,834



So Long, (for now) Shareholders

In May, we celebrate our five-year anniversary. FIVE YEARS! We hope that those of you who have been shareholders the full five years feel proud of your investment. Your support has been crucial in building this alternative trade food business!

To all of our shareholders: many thanks. Best wishes in 1991.



of St. Francis of Philadelphia. They loaned \$25,000 and \$15,000, respectively. Generous loans were also received from a current shareholder and from one of our most successful distributors.

The second limited offering was begun in November and is proceeding slowly. To date, we've brought in \$27,000 in new equity.

Opening Doors In 1991

We are striving to begin two new relationships with producers in 1991. We plan for one to be in coffee, another in a food product. In March, Michael Rozyne is visiting a group of farmers who have begun growing coffee organically in Colombia. Other recent coffee producer contacts include cooperatives in Costa Rica, Haiti and one producing organically in Nicaragua. Possible sources for a food product include honey producers in Mexico and cashew farmers in Honduras.

During the U.S. trade embargo against Nicaragua, Nicaraguan coffee had to be roasted outside the U.S. in order for Equal Exchange to import it legally. We originally roasted all of our coffee in Holland. In 1987, we were fortunate to find a company in Canada that was able to roast to our specifications, and we transferred most of our operations to A. L. Van Houtte in Montreal. When the embargo ended last year, Jonathan Rosenthal commenced a months-long search for a U.S. coffee roaster that could meet our needs. Beginning in Spring, we will shift our roasting back across the Canadian border, *just barely*, to a gourmet coffee roaster in upstate New York called River Road. Roasting at River Road will enable us to turn our inventory faster, avoid bureaucratic problems associated with the border, and lower our costs of production slightly.

We have several goals for the area of sales. We want to achieve greater control over the selling environment so we can better communicate our ideas. In March, we are conducting a test of door-to-door selling, a form of direct-to-consumer sales. In the world of retailing, we are considering ways to capture a larger portion of the total coffee sales of some of our accounts. Finally, as we build our relationship with River Road, we hope to expand our coffee line to include new alternative trade coffees and possibly flavored coffees such as Hazelnut or Vanilla.

Success for Equal Exchange will mean achieving a balance in the *quality* of relationships we can build with Third World farmers, and the *quantity* of food we are able to market on their behalf. The ultimate test will be how well we are able to communicate our idea to a growing number of consumers in the U.S.

Board Expands to Include Non-Staffers

In 1990, Equal Exchange welcomed its first non-staff board members. The Board now consists of three staffers—founders Rink Dickinson, Jonathan Rosenthal and Michael Rozyne—and two outside members—Carol Coston and Clark Arrington.

Our new board members have been close associates of Equal Exchange for years in different professional capacities. We met Carol Coston in her coordinating role on the Adrian Dominican Sisters' alternative investment fund, the first church group to invest in Equal Exchange. She is one of the leading alternative investment activists in the U.S. church world, and has since lead us to several other funders, all of whom have come through for us. Most recently she founded and now directs the Partners for the Common Good loan fund, a new fund investing \$4 million in community projects and worker cooperatives in the U.S.

Clark Arrington is our attorney and is the staff attorney for the Industrial Cooperative Association, a Boston-based organization that assists workers in organizing cooperatives and converting businesses to worker ownership. He guided us through conversion of our own worker-owner structure in 1990. He has been an attorney at the Securities and Exchange Commission (SEC) in Washington, making him a rare commodity among progressive lawyers. Most of the knowledgeable securities lawyers work for big companies and charge \$200 an hour. Clark is also a longtime civil rights activist.

So Long, Coyote—A True Story. Lachivizá, Mexico.

Who puts advertisements in annual reports? We do, in order to familiarize you further with UCIRI, the farmers' cooperative we trade with in Mexico. This also gives you an example of our communications with retail managers. This ad first appeared in the Northeast Cooperatives catalog for food coop stores and buying clubs in Winter 1991.

— ADVERTISEMENT —

So Long, Coyote

A True Story. Lachivizá, Mexico.

The coyote is an animal that lives by preying off of others. Coyote is also what Mexican coffee farmers call the middlemen who buy their coffee.

This coyote is howling because he's hungry. Ever since the *campesinos* organized themselves, he hasn't had much to eat. Time was, he could buy coffee beans from the farmers dirt cheap. He would drive to the *cafetals* (coffee farms) and pay the farmers cash up front. The farmers sold to him because they needed the money right away and they had no other way to bring their coffee to the market.

One day, farmers in the mountains of southern Oaxaca (wa-HAH-ka) decided to market their coffee as a group. They formed a marketing cooperative, called UCIRI (the Union of Indigenous Communities of the Region of the Isthmus), and started selling their coffee to sympathetic alternative trade groups.

The coyotes got scared. When UCIRI started running public buses in the region, the coyotes disguised themselves as soldiers and tried to scare the *campesinos* from riding. In the ensuing violence, four people were killed.

The coyotes' threats didn't stop UCIRI. They developed an organic farming program which enabled farmers to double their annual income. In addition, UCIRI established health clinics, communal stores, community grain mills, and a network of social services. The coyotes are still stalking the *cafetals*, looking for *campesinos* to exploit, but they have fewer takers nowadays. More and more people are marketing their coffee through UCIRI.

Equal Exchange buys coffee directly from UCIRI, and offers it to you as *Organic Cafe Mexico*. Help the *campesinos* fight off the coyotes: drink Cafe Mexico!





Miscellaneous (but interesting!) Business Notes

- After months of indecision, fierce fighting and debate, we finally compromised on a new site for the Equal Exchange warehouse. Our new warehouse, office and mailing address are in Stoughton, a suburb of Boston twenty miles to the south. The new facility offers 2-1/2 times the space we had in Boston, plus two loading docks (all ours!!), a kitchen, private bathrooms, air-conditioned offices, and peace and quiet. Sound luxurious? Not really. But it's a humane workplace!
- Jonathan Rosenthal, co-founder and manager of Equal Exchange, returned to work full-time in early summer after an extended illness which kept him out during the winter months of 1990. Welcome back, Jonathan!
- Our newest employee is Sue Oppie, a native of Texas, who comes to us after two years spent traveling in Asia and teaching English as a second language in Taiwan. Sue is Equal Exchange's warehouse manager in charge of shipping and receiving.
- We have recently launched our second campaign to raise working capital in the form of equity—stock. Our goal is to raise \$300,000. The minimum investment is \$3,000.
- Sad but true, we discontinued *Samusala Ceylon Tea* in early 1990. We purchased the tea from the *Sarvodaya Shramadana* grassroots development group in Sri Lanka, but it never sold well. In addition, our progress in finding new products grown by Sarvodaya farmers was clouded by the horrible civil war in Sri Lanka and communication problems. We are still in contact with Sarvodaya, but new products seem distant at this point.
- We recently introduced a Swiss water-processed decaf version of our *Organic Cafe Peru* (formerly *Cafe Organico*), available now in five pound bags of whole bean coffee.

The busy Fall approaches: our first trip to Africa, another to Mexico, our first trade show in November, the hiring of a national sales manager, and of course, holiday sales—always the busiest time of the year. Thanks for your support.



Mid-Annual Report

The Short of It

During the first half of 1990, Equal Exchange earned a profit of \$13,250 before taxes. Gross sales were \$391,042 compared with \$283,300 for the same period in 1989—growth of 38%. We moved our warehouse and office to Stoughton, 20 miles south, midway between Boston and Providence. We sent two representatives on an extensive cooperative tour of Mexico. We hired a full-time warehouse manager in charge of shipping and receiving. And we received new low-interest loans totaling \$85,000.

Mexican Organic Coffee

In March 1990, Rink Dickinson and Michael Rozyne visited cooperatives in three different coffee-growing regions in Mexico. On the last leg of the journey, we visited UCIRI, an association of 2,000 Indian coffee farmers. The farmers live in 28 villages in the high mountains surrounding Ixtepec in the state of Oaxaca. UCIRI stands for *Unión de Comunidades de Indígenas de la Región del Istmo*, the Union of Indigenous Communities of the Isthmus.

UCIRI was founded in 1983 by farmers of *Chontal*, *Zapotec* and *Mixe* heritage. Each farmer works 5-10 acres of mountainous land at an elevation of 4,000 feet above sea level. Each farmer completes the critical wet processing and fermentation of their own coffee beans using the traditional hand-operated *despulpadora* (pulp removing machine). Farmers then transport the *pergamino* coffee beans by truck or donkey to Lachiviza, where UCIRI has its headquarters and dry processing facility.

Farmers are organized at the local village level, and each village sends an elected representative to the UCIRI central decision-making body. In 1986, the cooperative began the process of organic certification. The Indian farmers desperately needed to increase their yields and earn a higher price for their coffee. They had relied on natural methods of cultivation ever since coffee was planted in their region, but it

was not clear if a more intentional and intensive approach to organic farming would be worth the trouble. In 1989, after three years of experimentation, the farmers voted to commit the cooperative to handling only organically grown coffee.

The coffee was certified by an independent agency in West Germany called *Naturland*. The organic coffee was initially sold to a German alternative trade organization called GEPA.

UCIRI's commitment to organic goes well beyond the avoidance of pesticides and chemical fertilizer. Farmers are being trained in (a) the production and use of compost, (b) erosion prevention, (c) use of shade trees for weed control, and (d) production and selection of higher-quality seedling varieties.

They've established the *Centro de Educación Campesino (CEC)*, a training facility for farmers and their children. A supplementary course in agriculture is offered by UCIRI to children who have finished the elementary school level. Beginning this year, farmers' daughters will be included in this training program.

Equal Exchange will introduce *Organic Cafe Mexico* from UCIRI in a medium roast and a dark roast in mid-September. In October, we are sending two representatives to the annual harvest festival in Lachiviza, marking the onset of the 1990/91 coffee harvest.

Mandela Is Free! Supporting FreeSA's Work In South Africa With Cafe Libre.

Equal Exchange contributes twenty cents from every pound of *Cafe Libre* sold to an organization called Fund for a Free South Africa (FreeSA). FreeSA is a Boston-based foundation, started in 1986 by a small group of South African exiles. It supports grassroots organizations inside South Africa, in the frontline states surrounding South Africa, and a few anti-apartheid groups in the United States. FreeSA projects include daycare facilities, trade unions, a hospital for South African refugees and numerous health care organizing groups, women's organizations, artist's groups, and an educational farm. All projects are staffed by activists whose organizations are part of the international movement to end apartheid.



Equal Exchange staff stop for teatime in front of our new warehouse. Pictured above (from left to right): Sue Oppie, Jonathan Rosenthal, Myrna Greenfield, Michael Rozyne and Rink Dickinson.

Mid-Annual Report September 1990

IGE, INC. BALANCE SHEET

	6/30/90	6/30/89
Current Assets	\$331,003	\$216,712
Other Assets	\$28,929	\$19,359
Assets	\$359,932	\$236,071
D SHAREHOLDERS EQUITY		
Current Liabilities	\$138,397	\$80,802
Other Liabilities	\$93,268	\$55,800
Liabilities	\$231,665	\$136,673
EQUITY		
Equity	\$145,416	\$143,416
Earnings	(\$28,321)	(\$47,132)
Losses) this Year	\$11,172	\$3,114
Shareholders' Equity	\$128,267	\$99,398
Liabilities and Equity	\$359,932	\$236,071

Mid-Annual Report September 1990

JGE, INC. INCOME STATEMENT

	<u>1/1-6/30/90</u>	<u>1/1-6/30/89</u>
umer	\$6,041	\$6,841
esale	\$190,706	\$137,890
ributor	\$178,991	\$127,538
ufacturer	\$15,304	\$11,031
	<u>\$0</u>	<u>\$0</u>
s Sales	\$391,042	\$283,300
s Discounts	<u>\$13,855</u>	<u>\$6,192</u>
	\$377,187	\$277,118
it on Sales	\$134,926	\$88,914
gin on Sales	35.8%	32.1%
gin on brokerage	\$0	\$1,109
	\$134,926	\$90,022
ING EXPENSES	\$117,480	\$84,799
oss) from Operations	\$17,446	\$5,223
EXPENSES		
icome	\$356	\$607
ne	<u>\$5</u>	<u>\$192</u>
r Income	\$361	\$799
pense	<u>\$4,557</u>	<u>(\$2,225)</u>
r Expense	<u>\$4,557</u>	<u>(\$2,225)</u>
BEFORE TAXES	\$13,250	\$3,797
xes	\$2,078	\$683
LOSS)	\$11,172	\$3,114