



# EQUAL EXCHANGE, INC. BALANCE SHEET

	12/31/91	12/31/90
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash	\$95,902	\$67,471
Accounts Receivable, Trade	\$90,574	\$58,687
Inventory	\$381,126	\$266,386
Prepaid expenses	\$10,876	\$1,194
TOTAL CURRENT ASSETS	\$578,478	\$393,738
<b>PROPERTY &amp; EQUIPMENT</b>		
Equipment	\$40,627	\$16,367
Leasehold improvements	\$3,291	\$2,245
TOTAL	\$43,918	\$18,612
Less Accum. Depreciation	(\$13,441)	(\$5,808)
PROPERTY & EQUIPMENT—NET	\$30,477	\$12,804
<b>OTHER ASSETS</b>		
Organizational Expenses (NET)	\$14,874	\$15,204
Other Assets	\$4,620	\$5,662
TOTAL OTHER ASSETS	\$19,494	\$20,866
<b>TOTAL ASSETS</b>	<b>\$628,449</b>	<b>\$427,408</b>
<b>LIABILITIES &amp; EQUITY</b>		
<b>CURRENT LIABILITIES</b>		
Notes Payable	\$146,418	\$95,000
Current Portion of Long-term Debt	\$30,337	\$26,719
Accounts Payable	\$69,091	\$20,321
Federal & State Income Tax Payable	\$10,527	\$4,241
Accrued Expenses	\$4,785	\$1,913
Patronage Rebate Payable	\$6,064	\$4,246
TOTAL CURRENT LIABILITIES	\$267,222	\$152,440
<b>LONG-TERM LIABILITIES</b>		
Long-term Debt	\$148,239	\$122,207
TOTAL LONG-TERM LIABILITIES	\$148,239	\$122,207
<b>TOTAL LIABILITIES</b>	<b>\$415,461</b>	<b>\$274,647</b>
<b>EQUITY</b>		
Worker Membership Shares	\$8,000	\$8,000
Preferred Shares	\$175,867	\$146,207
Donated Capital	\$1,209	\$1,209
Stock Subscribed	\$0	\$0
Dividends Payable	\$0	\$0
Retained Earnings	(\$10,667)	(\$2,654)
Net Profit (Loss) YTD	\$38,579	\$0
TOTAL EQUITY	\$212,988	\$152,762
<b>TOTAL LIABILITIES &amp; EQUITY</b>	<b>\$628,449</b>	<b>\$427,409</b>



# Annual Report

## 1991: The Year of the Full-Line

The happening of 1991 was becoming a full-line coffee company. Many shoppers browsing for the latest in gourmet coffees to serve for the holidays suddenly faced an entire coffee section from Equal Exchange. The espresso, the Colombian Supremo, the organics, the decafs, and yes, even the hazelnut, *all alternative trade coffees!* Competitively speaking, it was an important corner to turn. As the sun set on 1991, Equal Exchange pushed past the one million dollar mark in gross sales and finished the year with sales of \$1,040,000 and a before-tax profit of \$50,000.

## What's A Full-Line?

Back in 1990, ordering coffee from Equal Exchange was simple. We sold four types of coffee: Peruvian organic, Nicaraguan (*Cafe Nica*), Mexican organic, and *Cafe Libre* from Zimbabwe. There were a few different roasts and a couple of decafs, but, in all, our list consisted of only nine coffees.

In 1991, we introduced a number of new coffees, including Colombian, Costa Rican and flavored coffees. This enabled us to sufficiently expand our line to be able to compete against other full-line gourmet coffee companies. Now, when customers order, they





face a list of forty coffees, including the most popular coffees for sale in the United States.

We've got some holes, mind you. In order to be a complete full-line company, we would also carry *Mocha Java* (a blend of Indonesian and Yemen Mocha coffees), *Guatemalan Antigua* and *Jamaican Blue Mountain* coffee. However, we won't introduce them until we find a direct source from small-scale farmers' cooperatives.

For the first time, Equal Exchange is in a position to service stores as effectively as other coffee companies. An important part of competing in the world of coffee is providing the equipment that stores and restaurants need to display and serve coffee. As part of our full-line effort, we supply custom-designed wood shelving units complete with acrylic gravity-feed bins. To complete the coffee section, we often help stores lease or purchase an industrial coffee grinder. And we supply Equal Exchange coffee bags and a large full-color poster which hangs over the entire section.

If you always wanted to buy Equal Exchange coffee, but simply could not break your addiction to that water-process decaffeinated chocolate raspberry-flavored medium roast coffee, well, hey! Your time has come.

### Cafe Nica, Now Direct and Organic

Equal Exchange introduced our first product, *Cafe Nica*, in 1986, during the U.S. war against the Sandinista government. Changes in Nicaragua have led to changes in Cafe Nica. Thanks to an introduction from Oxfam-America, we've established a new trade relationship with the Segovia Cooperative Development Project (SCDP), a project of *Cenzontle*, a non-profit organization in northwest Nicaragua. We now buy Cafe Nica directly from small coffee farmers who grow by organic production standards.

After ten years of war, the Nicaraguan economy is weak. Conditions for small farmers are more difficult under the new government. Farm inputs are scarce. Credit is more difficult for small farmers to obtain than it was under the Sandinistas. ENCAFE, Nicaragua's coffee export agency, has been seriously defunded and farmers are having a harder time selling their beans. And, even though the war is over, conflicts still arise as former landowners return to recapture land confiscated as part of the 1980s agrarian land reform.

Rink Dickinson and Jonathan Rosenthal visited our trading partners at SCDP in April, 1991. They arrived in Nicaragua on what seemed like the hottest day of the decade and attended a two-day seminar on organic coffee



## EQUAL EXCHANGE, INC. STATEMENT OF INCOME for the period ending 12/31/91

	1/1/90- 12/31/90	1/1/91- 12/31/91
<b>SALES</b>		
Consumers	\$12,134	\$15,775
Wholesalers	\$376,671	\$511,791
Distributors	\$372,870	\$447,508
Manufacturer	\$46,266	\$15,810
Miscellaneous	\$45	\$125
Freight Income	\$20,530	\$48,803
Total Gross Sales	\$828,516	\$1,039,812
Total Sales Discounts	(\$24,502)	(\$23,028)
Net Sales	\$804,014	\$1,016,784
 Gross Profit on Sales	\$291,037	\$328,018
Gross Profit on Brokerage	\$4,054	\$5,436
 Gross Profit	\$295,091	\$333,454
 Total Operating Expenses	\$248,029	\$267,080
 Income from Operations	\$47,062	\$66,374
 Other Income/Expenses		
Interest Income	\$2,132	\$2,745
Misc Income	(\$220)	\$310
Total Other Income	\$1,912	\$3,055
 Interest Expense	\$12,557	\$19,356
Total Other Expense	\$12,557	\$19,356
 Income Before Taxes	\$36,417	\$50,073
Income Taxes	\$8,583	\$11,495
 <b>NET INCOME</b>	\$27,834	\$38,578

organizing work this winter.

### So What Else Is New?

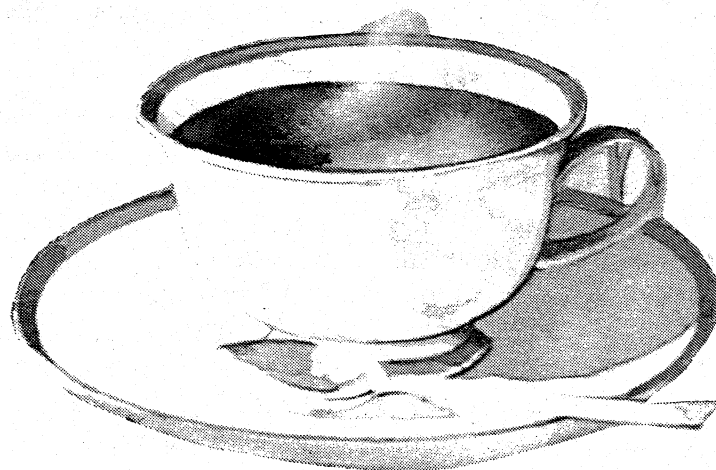
- In an effort to gain efficiency and spread the organizational talent over a wider area, Equal Exchange has trimmed the management team from three to two. Jonathan Rosenthal and Rink Dickinson will continue to manage the business, while Michael Rozyne will focus on board-level work and long-range strategic planning.

- At the request of the United States Office of Technology Assessment, Equal Exchange President Rink Dickinson recently prepared a report on the subject of whether alternative trading can be considered an alternative to growing coca for Third World

peasant farmers. Copies are available upon request.

- Warehouse manager Sue Oppie and Michael Rozyne visited Colombia in November to advance Equal Exchange's work with an emerging cooperative of organic coffee farmers near the city of Cali. They were hosted by Instituto Mayor Campesino, The Peasant Institute of Buga, a Jesuit-sponsored organic farm research center that has been assisting the small group of farmers as they strive to gain legal status and the capability to export coffee directly.

To our friends and shareholders, have a good half year until we meet again.



farming in the coffee-growing province of Nueva Segovia. They also visited with farmers and observed the organic certification of farms. Rink and Jonathan toured the region with Paul Rice, an American who worked with the Ministry of Agriculture for seven years and is now a coordinator of the SCDP project.

SCDP members turned to organic farming as a way to avoid exposure to toxic chemicals and as a way to improve their marketing prospects. The farmers are part of the Nicaraguan Environmental Movement (El MAN in Spanish). With direction from El MAN agronomists, the farmers have learned to make compost, use biological control methods, interplant nitrogen-fixing trees with coffee trees and employ other sustainable farming techniques.

### COOCAFE in Costa Rica— In Defense of the Land

COOCAFE (pronounced co-café) is a coop made up of seven small coffee cooperatives in the department of Guanacaste in northwest Costa Rica. Rink Dickinson visited COOCAFE in early 1991 and established the trade connection. Equal Exchange now sells COOCAFE coffee in an unblended Vienna roast, and also uses the coffee as a base for many of our flavored coffees and blends.

Although Costa Rica is one of the most prosperous countries in Central America, COOCAFE farmers are among the country's most marginal. They suffer from low income, lack of capital and ecological devastation. Their farms are located in a dry tropical forest zone which has



undergone extensive development and deforestation during the last thirty years. Cattle farmers, who are generally wealthier than COOCAFE members, bear major responsibility for this deforestation.

COOCAFE works with the seven community coops to help them solve their problems in the following four areas: (1) accounting/auditing; (2) promotion/training (information); (3) marketing; and (4) investigation and product development. The coops are also assisted by FEDECOOP, a national organization of coops.

Last year, COOCAFE sent over 30 containers of coffee—over one million pounds—to European alternative trade organizations. COOCAFE uses the premiums generated by these sales to help farmers gain more control over marketing their coffee and to experiment with diversification out of coffee.

COOCAFE is Equal Exchange's first trading partner to have full capacity to roast and package its own coffee. In 1991, COOCAFE started importing packaged coffee to the U.S. under its own *Cafe Paz* label. Early this year, they also began distributing their *Pampa Cafe* coffee in Costa Rica. Equal Exchange is considering having some of our best moving coffees (e.g. French Roast and Espresso) roasted and



vacuum-packed in Costa Rica under the management of COOCAFE.

COOCAFE's success in marketing and its commitment to innovation are extremely exciting. Their products are on the cutting edge of alternative trade. They are helping peasant farmers gain more control of the market. For this reason, Equal Exchange has been particularly challenged and rewarded by our relationship with COOCAFE.

#### Alternative Trade Goes Mainstream

In last year's report we noted a surge of new competition in organic coffee. Now we report the emergence of competitors claiming they are doing exactly what Equal Exchange does, that is, alternative trade. The trend is positive in that it represents an opening to involve other companies in fair trade with peasant farmers. However, we know that many of the companies who claim to be doing alternative trade want to appear to be doing good

without being ready to pay the dues.

This year, we have committed major resources toward research and development, represented by new work being done by founders Rink Dickinson and Michael Rozyne. Inspired by a successful program in the Netherlands, our aim is to create a "fair trade" seal of approval which will bring alternative trade coffee to the mainstream market in North America.

Here's how the fair trade seal works in Holland. In November, 1988, the *Max Havelaar* fair trade mark was introduced to the Dutch public when the King was presented with the first package of coffee. Max Havelaar is a fictional hero, as well known in Holland as Tom Sawyer is here, who defended the rights of coffee plantation workers in the Dutch colony of Indonesia. The Max Havelaar seal is available to commercial coffee companies who abide by the principles of fair trade. Within a year, coffee certified with the Max Havelaar mark had captured more than one percent of the national market.

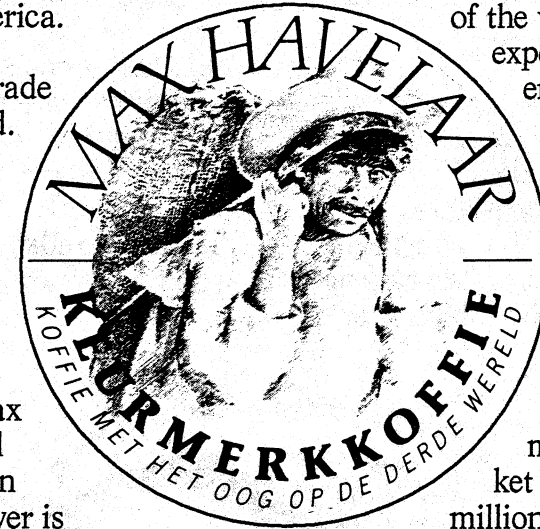
Participating roasters must observe the

following principles of fair trade: (1) Pay a fair price, never to fall below the cost of production which is said to be \$1.26/pound. (Note: The world price today is under \$.75/pound); (2) Establish *direct* relations with coffee cooperatives and establish year-long commitments/contracts for buying, before the harvest begins; and (3) Make credit available to farmers in an amount equal to sixty percent of the value of the year's expected imports. This enables farmers to purchase farm inputs and necessities such as food.

To date, the Havelaar campaign has captured two-and-a-half percent of the Dutch coffee market (the U.S. market equivalent of \$187 million in gross sales). The

coffee can be found in ninety percent of the supermarkets in Holland. It is served in 275 of 600 town halls, 10 of 12 provincial government buildings, and in the Dutch Parliament. Since its inception, the program has transferred five million dollars to coffee farmers in excess of the world market price.

The model is inspirational. The task we face is formidable. We began the







The Equal Exchange, Inc. 1991

# Mid-Annual Report

## The Short Of It

Sales in the first half of 1991 were flat—growth of 7% instead of the 30% we projected. Gross sales were \$421,000, with a profit of \$4,000. This compares with a profit of \$13,250 for the first half of 1990. Nevertheless, this was one of our most eventful periods in recent memory! Read on, read on.

## A Bold New World

It's a whole new world here in the specialty coffee industry. When Equal Exchange introduced our organic Peruvian coffee in 1988, we were one of only four companies offering organic coffee. In the past year, that number has climbed to over thirty. Every month, we learn of one or two new coffee companies selling organic Mexican or Peruvian coffee.

The competition in specialty coffee is escalating. Small regional companies are being bought by national and multinational companies. Supermarket giants like General Foods and Nestle are introducing gourmet coffees. New entrants are popping up all over the place. Some are even appropriating the language of social values marketing!

Equal Exchange is boldly responding to the challenge. Since our last report, we have added three new trading partners, tripled our product list and laid the groundwork to become a "full-line" coffee company.

## New Trading Partners

In March, Michael Rozyne visited a newly-organized cooperative of organic coffee farmers in Colombia. We expect to be buying directly from the group by late spring of 1992. Meanwhile, we are establishing a working capital fund for the farmers by distributing commercial Colombian coffee and setting aside a substantial premium.

In April, Jonathan Rosenthal and Rink Dickinson established direct trade with a cooperative of organic farmers in northern Nicaragua. We bought our first container from the Segovia Cooperative Development Project this spring. *Cafe Nica* is now certified organic!

Rink went on from Nicaragua to Costa Rica, where he negotiated a new trade relationship with COO-CAFE. COO-CAFE is a Costa Rican marketing cooperative that has been trading with the European alternative trade groups for several years. Their beans are the base for our new flavored coffees.

Jonathan went on from Nicaragua to Mexico, where he visited honey-producing cooperatives in the state of Morelos. The coops are affiliated with IDEA, a Mexico City-based non-profit organization providing technical assistance and marketing support. Jonathan purchased 11,000 pounds of honey, which Equal Exchange will test market in 12-ounce honey bears and 2-pound jars.



### **New Strategy**

The flat sales growth during the first six months of the year pushed us towards a strategy we have been discussing for some time. Up until now, we have had to share the coffee section in most of our stores with one or more "full-line" coffee companies. Such companies typically offer anywhere from 20 to 80 styles, blends, flavors and roasts of coffee. They also give stores shelving units, bins for dispensing coffee, a grinder, tin-tie coffee bags and other paraphernalia. In exchange for providing these services, the full-line company is given a valuable piece of "real estate" in the store, and a large percentage of their coffee business. Small companies like Equal Exchange have little control over how our product is displayed and very little space to describe our alternative trade program.





As of July 1, we launched a full-line coffee program in a select group of stores catering to our type of consumers. Our extended line includes more than twenty types of coffee, with new blends, styles and flavors arriving monthly. From Cafe Nica to a Chocolate Macadamia Nut, all of them are alternative trade coffees. We installed custom-built wooden shelf-units in twenty stores. Each unit can hold up to 24 coffee bins and a coffee grinder.

In addition, we are once again working with Gunn Associates, a local advertising agency, to create a full-color 12" x 39" mural depicting the world of alternative trade coffee, from the fields to the cup. The printed mural will be displayed on the shelf unit, along with other point-of-purchase materials.

### New Prices for Customers

In order to become the main coffee section in these stores, we have lowered our margins to make our retail prices competitive with the commercial coffee companies. We are also servicing our best customers directly, bypassing distributors.

The goal of the full-line program is two-fold. First, we hope to renew sales growth, for the health of both Equal Exchange and our trading partners. Second, we will use the valuable real estate we now occupy to promote direct trade with small-scale farmers in the most powerful way possible.

This full-line strategy can only succeed if we build consumer understanding of and loyalty for Equal Exchange and fair trade. We plan to use a variety of point-of-purchase materials, such as coffee bags, brochures, bin cards, signage, and the mural to promote our message. In addition, we are expanding our public relations work to get more media attention for Equal Exchange and alternative trade.

Although we believe that the full-line strategy represents our best hope for promoting alternative trade, it is a risky business. We have already made a



significant financial investment in shelving units, bins and grinders. We still don't understand what it means to have an entire section of alternative trade coffees selling at commercial—e.g. low—prices. Are we “permanent fixtures” in our stores or “just renting” the space until a commercial coffee company comes along that will undersell us in order to evict us?

It is early to make any projections, but our new coffee line is definitely off to a strong start. With the world changing at this ridiculous pace, who knows what we'll be reporting in another six months!

### New Prices for Farmers

Equally important, we have formalized our payment strategy to small farmers. Currently, the world market price for unroasted, green coffee is about \$.85-.90/pound, a fifty-year low in real terms. Most peasant

farmers earn about half of this, \$.40-.60/pound. We are now paying cooperatives \$1.26-1.50/pound, because we believe that farmers deserve a minimum price that meets their basic needs. If the market price exceeds \$1.26, we will pay an additional premium, based on a payment schedule established by the Max Havelaar Foundation in Holland, the world's largest alternative trade coffee program.



*Helping Small Farmers Bring You*  
**THE PERFECT CUP**

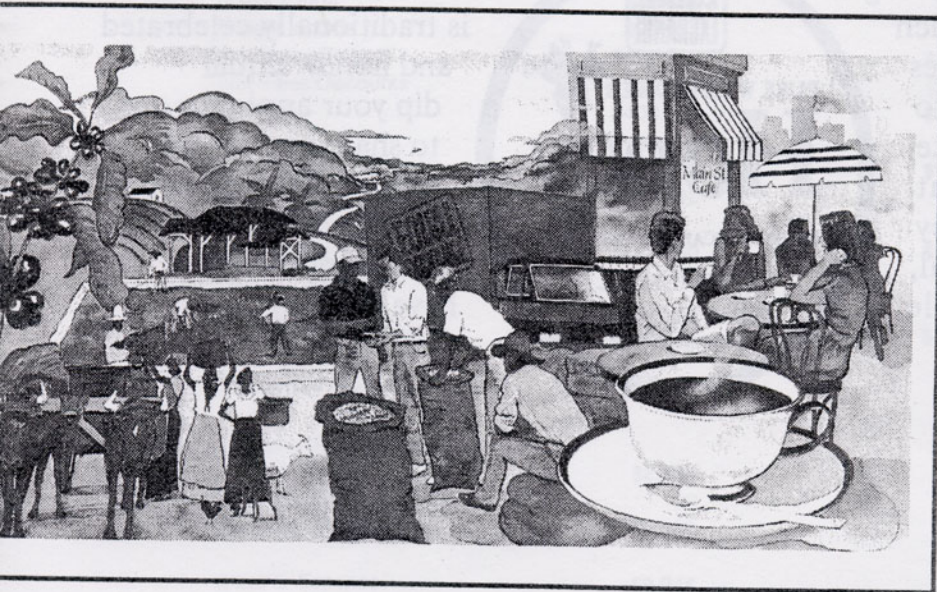




### So What Else Is New?

- The cost of rapid change has been felt most strongly in the area of working capital. To reorganize our marketing effort, we stole hours previously allocated to raising equity, and our equity campaign has suffered greatly. We have commitments for near \$45,000 instead of the \$150,000 we were hoping to bring in by year's end.

- We have been fortunate in receiving two important loans: \$35,000 from the Marianist Sharing Fund of Baltimore, Maryland, and \$25,000 from the Seton Enablement Fund of the Sisters of Charity of Cincinnati, Ohio. We have also been extended a generous short-term loan of \$60,000 from one of our shareholders.



- We celebrated our five-year anniversary with a bash at the Stoughton warehouse in May.

- We hired a new salesperson, Mark Souza of Westport, Mass. Mark became

our sixth employee in February. In addition to sales, he has assumed responsibility for purchasing and maintaining coffee equipment for the full-line program. He is also working with Jonathan to develop our new coffee line. Mark came to Equal Exchange with extensive sales experience in food services—including coffee—and real estate. He also ran his own music production company.

As this report is being Year, an occasion which with the eating of apples Exchange invites you to new honey, but we like plishments without you would like a honey new full-color mural, postcard. Meanwhile,



written, it is the Jewish New is traditionally celebrated and honey. Equal dip your apples in our to share our accom- foisting them on you. If sample or a copy of our just drop Michael a have a happy fall!



**EQUAL EXCHANGE, INC.  
INCOME STATEMENT**

	<u>1/1/91— 6/30/91</u>	<u>1/1/90— 6/30/90</u>
SALES		
Consumers	\$8,280	\$6,041
Wholesalers	\$179,087	\$190,706
Distributors	\$199,864	\$178,991
Manufacturer	\$12,365	\$15,304
Freight Income	\$20,941	\$0
Total Gross Sales	\$420,537	\$391,042
Total Sales Discounts	(\$12,363)	(\$13,855)
Net Sales	\$408,174	\$377,187
 Gross Profit on Sales	 \$127,000	 \$134,926
Gross Profit on Brokerage	\$90	\$0
 Gross Profit	 \$127,090	 \$115,368
 Total Operating Expenses	 \$116,225	 \$117,480
 Income from Operations	 \$10,865	 \$17,446
Other Income/Expenses		
Interest Income	\$2,137	\$356
Misc Income	\$2	\$5
Total Other Income	\$2,139	\$361
 Interest Expense	 \$8,946	 \$4,557
Total Other Expense	\$8,946	\$4,557
 Income before Taxes	 \$4,058	 \$13,250
Income Taxes	\$961	\$2,078
 NET INCOME	 \$3,097	 \$11,172



# Mid-Annual Report September 1991

## EQUAL EXCHANGE, INC BALANCE SHEET

ASSETS	6/30/91	12/31/90
CURRENT ASSETS:		
Cash	54,835.78	67,470.83
Accounts receivable (net)	41,255.06	58,687.10
Inventory	332,164.46	266,385.54
Prepaid expenses	9,845.59	1,194.23
TOTAL CURRENT ASSETS	<u>\$438,100.89</u>	<u>\$393,737.70</u>
PROPERTY AND EQUIPMENT:		
Equipment	19,325.98	16,367.32
Leashold improvements	3,290.51	2,245.17
TOTAL	<u>\$22,616.49</u>	<u>\$18,612.49</u>
Less accumulated depreciation	-7,909.90	-5,807.52
PROPERTY AND EQUIPMENT - NET	<u>\$14,706.59</u>	<u>\$12,804.97</u>
OTHER ASSETS:		
Organizational expense (net)	15,394.95	15,204.31
Other Assets	5,141.00	5,661.86
TOTAL OTHER ASSETS	<u>\$20,535.95</u>	<u>\$20,866.17</u>
TOTAL ASSETS	<u>\$473,343.43</u>	<u>\$427,408.84</u>
LIABILITIES AND EQUITY		
CURRENT LIABILITIES:		
Notes payable	129,254.12	95,000.00
Current portion of long-term debt	29,798.21	26,719.37
Accounts payable	17,099.48	20,321.08
Federal and state income tax payable	-146.78	4,241.22
Accrued expenses	3,403.21	1,913.06
Patronage rebate payable	0.00	4,245.57
TOTAL CURRENT LIABILITIES	<u>\$179,408.24</u>	<u>\$152,440.30</u>
Long-Term Liabilities:		
Long-term Debt	121,464.11	122,206.50
TOTAL LONG-TERM LIABILITIES	<u>\$121,464.11</u>	<u>\$122,206.50</u>
TOTAL LIABILITIES	<u>\$300,872.35</u>	<u>\$274,646.80</u>
EQUITY		
Worker Membership Shares	8,000.00	8,000.00
Preferred Shares	170,832.03	146,207.19
Donated capital	1,208.86	1,208.86
Stock subscribed	0.00	0.00
Dividends Payable	0.00	0.00
Retained Earnings	-10,667.17	-2,654.01
Net Profit (Loss) YTD	3,097.36	0.00
TOTAL EQUITY	<u>\$172,471.08</u>	<u>\$152,762.04</u>
TOTAL LIABILITIES AND EQUITY	<u>\$473,343.43</u>	<u>\$427,408.84</u>