



The Equal Exchange, Inc.

1993 Annual Report

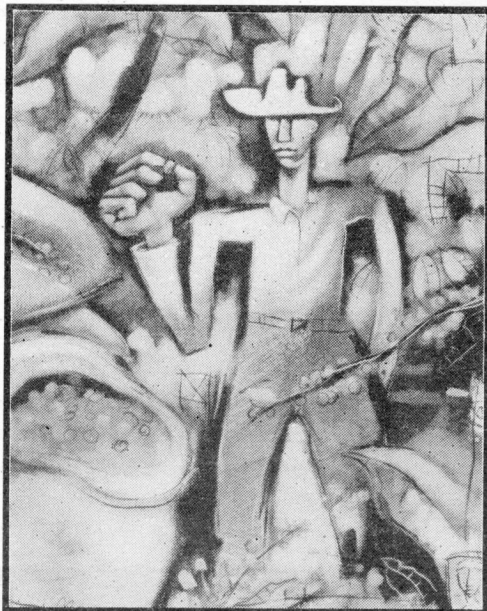
Between 1989 and 1993, Equal Exchange paid \$750,000 in above-market premiums to small farmers' cooperatives. That's 376% of the company's pretax profits over that period of time. For the co-ops we trade with, it's almost double what they would have received on the open market. *That's high social impact.*

This 1993 Annual Report, the publication of our magazine (see below), the celebration of May Day and the election of Nelson Mandela in South Africa all mark the eighth anniversary of Equal Exchange. In the course of our eighth year we invested heavily in training new employees, and we watched proudly as they blossomed into productive alternative traders. We accomplished a smooth change in roasters, moving from upstate New York to within miles of our warehouse. We moved steadily into two new markets: colleges and restaurants,

both categories which now count among our top 50 accounts.

On the downside, the competition intensified greatly in 1993. Organic coffee was sold in parts of the country for the same price as Maxwell House, making it harder for us to support farmers in their transition to sustainable coffee farming. At year's end, we emerged with 21.6% growth and a small pretax profit of \$7,615; we heaved a deep sigh—the journey of fair trading gets no easier. But the team we have built and the commitment we engender is stronger.

Making Coffee Strong



To make the alternative trade difference come to life, we have produced a 36-page color magazine *Making Coffee Strong—Alternative Trading in a Conventional World*, which serves as a companion to this annual report. The magazine tells more about Equal Exchange and alternative trade than anything we've published to date. It is dedicated to the Adrian Dominican Sisters and to our 30 original shareholders who risked their resources in 1986-87 in order to make alternative trade and the start-up of Equal Exchange a reality.

(See letter on page 2)

Joe Fleming's stunning depiction of alternative trade is the cover of Equal Exchange's full-color magazine.

Dear Friends,

As an Adrian Dominican, I am grateful to have the new magazine dedicated to our congregation. When we first invested in Equal Exchange, the company was in the earliest phase of growth. The fair-trade principles resonated with our own values, as did a mutual willingness to take financial risks to create just relationships with cooperative businesses. We also wanted to encourage sustainable methods of coffee production.

The stories in this magazine, such as "A Tree for Román," help me see the human side of our alternative investing. As someone dedicated to earthworms, I loved reading about their role in growing sustainable coffee.

The profiles of the farmers helped me see how the actual producers are treated with dignity and are paid fairly, and how the earth is sustained and revered. They filled me with a sense of hope.

After reading "Getting Good Beans," I'm less bewildered by the variety of coffees offered by Equal Exchange, and I understand better why a Vienna roast tastes different than a French.

Read this magazine—it will make you proud to be connected with Equal Exchange. It will lift your spirits as you lift your coffee cup.

Carol Coston



photo by Susan Klein

Carol Coston is executive director of the Partners for the Common Good Loan Fund. She is an Adrian Dominican Sister, an advisor to Equal Exchange, a national leader in the movement for socially responsible investing, and an organic gardener in Boerne, Texas.

Newsbriefs

• **Student winners join El Salvador delegation:** In conjunction with Oxfam America and Neighbor to Neighbor, Equal Exchange's Café Salvador program has awarded six fellowships in alternative trade to student leaders on campuses where Café Salvador is served. The winners will take part in a two week delegation visiting coffee cooperatives in El Salvador in late May/early June 1994. Equal Exchange bookkeeper Lisa Woodside will be joining the delegation, as will executive director Jonathan Rosenthal. The tour is being organized and led by EE's New York sales representative Hilary Abell. The fellowships and the tour are financed by a generous grant from Neighbor to Neighbor, and have been made possible with support and guidance from the Filene Center for Work and Learning at Wheaton College, Norton, Mass.

• **New worker-owners:** Sales/customer service representative Mark Sweet and capital coordinator Clark Arrington have been voted in as the sixth and seventh employee-owners of Equal Exchange. Both have accepted.



illustration by Shannon Palmer

Equal Exchange, Inc. Statement of Income

for the period ending 12/31/93

	1/1/93— 12/31/93	1/1/92— 12/31/92
SALES		
Consumer	\$12,007	\$11,352
Wholesale	\$1,102,059	\$862,775
Distributor	\$242,227	\$238,004
Freight Income	<u>\$44,446</u>	<u>\$40,041</u>
Gross Sales	\$1,400,739	\$1,152,172
Sales Discounts	<u>(\$27,034)</u>	<u>(\$13,952)</u>
Net Sales	\$1,373,705	\$1,138,220
Total Cost of Sales	<u>(\$860,376)</u>	<u>(\$716,282)</u>
Income from Sales	\$513,329	\$421,938
Income from Brokerage	<u>\$11,539</u>	<u>\$2,945</u>
Gross Income	\$524,868	\$424,883
Total Operating Expenses	(\$494,725)	(\$344,060)
Income from Operations	\$30,143	\$80,823
Other Income/Expenses		
Interest Income	\$904	\$1,466
Miscellaneous Income	\$1,186	\$3,754
Interest Expense	<u>\$24,618</u>	<u>\$20,400</u>
Income Before Taxes	\$7,615	\$65,643
Income Taxes	<u>(\$456)</u>	<u>(\$15,753)</u>
NET INCOME	\$7,159	\$49,890

Statement of Changes in Retained Earnings

for the period ending 12/31/93

Retained Earnings 12/31/92	\$68,271
Net Income 1/1/93—12/31/93	\$7,159
Dividend Paid: Preferred Shares	<u>(\$9,268)</u>
Retained Earnings 12/31/93	\$66,162

An in-depth analysis of the 1993 Financial Statements, prepared by Equal Exchange's executive director, Jonathan Rosenthal, is available upon request.

Equal Exchange, Inc. Balance Sheet

	<u>12/31/93</u>	<u>12/31/92</u>
ASSETS		
<u>CURRENT ASSETS</u>		
Cash	\$100,819	\$84,189
Accounts Receivable	\$140,215	\$106,267
Inventory	\$424,063	\$469,148
Prepaid Expenses	<u>\$11,573</u>	<u>\$11,839</u>
TOTAL CURRENT ASSETS	\$676,670	\$671,443
<u>PROPERTY & EQUIPMENT</u>		
Equipment	\$136,597	\$76,859
Leasehold Improvements	<u>\$9,041</u>	<u>\$9,041</u>
TOTAL	\$145,638	\$85,900
Less Accum. Depreciation	<u>(\$51,310)</u>	<u>(\$30,375)</u>
PROPERTY & EQUIPMENT—NET	\$94,328	\$55,525
<u>OTHER ASSETS</u>		
Organizational Expenses (NET)	\$14,138	\$14,543
Other Assets	<u>\$2,536</u>	<u>\$3,578</u>
TOTAL OTHER ASSETS	\$16,674	\$18,121
TOTAL ASSETS	\$787,672	\$745,089
LIABILITIES & EQUITY		
<u>CURRENT LIABILITIES</u>		
Notes Payable	\$130,200	\$131,119
Current Portion of Long-Term Debt	\$35,996	\$27,693
Current Portion Oblig Under Cap Ls	\$2,164	\$0
Accounts Payable	\$56,448	\$83,123
Federal & State Income Tax Payable	(\$3,215)	\$11,168
Accrued Expenses	\$5,135	\$5,187
Patronage Rebate Payable	<u>\$0</u>	<u>\$8,906</u>
TOTAL CURRENT LIABILITIES	\$226,728	\$267,196
<u>LONG-TERM LIABILITIES</u>		
Long-Term Debt	\$265,961	\$195,196
Patr Rebate Retained - 1992	\$893	\$0
Oblig Under Capital Lease	<u>\$3,503</u>	<u>\$0</u>
TOTAL LONG-TERM LIABILITIES	\$270,357	\$195,196
TOTAL LIABILITIES	\$497,085	\$462,392
<u>EQUITY</u>		
Worker Membership Shares	\$10,000	\$10,000
Preferred Shares	\$213,217	\$203,217
Donated Capital	\$1,208	\$1,209
Stock Subscribed	\$0	\$0
Dividends Payable	\$0	\$0
Retained Earnings	\$59,003	\$68,271
Net Profit (Loss) YTD	<u>\$7,159</u>	<u>\$0</u>
TOTAL EQUITY	\$290,587	\$282,697
TOTAL LIABILITIES & EQUITY	\$787,672	\$745,089

Family Album: New Alternative Traders

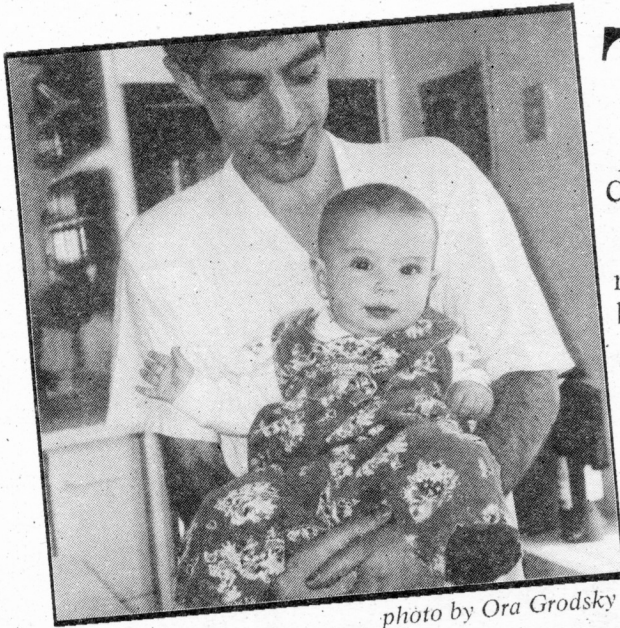


photo by Ora Grodsky

The second generation of alternative traders at Equal Exchange, in sharp contrast to the first, is decidedly female.

In the twelve months since we mailed our last annual report, all three founders of Equal Exchange have become fathers for the first time. No, this is not a case of precision planning. Purely by providence, the EE family grew to include Shaya Regina French (July 6, 1993, daughter of Michael Rozyne and Kimberly French); Sasha Rosenthal Grodsky (December 23, 1993, daughter of Jonathan Rosenthal and Ora Grodsky); and Savanna Dickinson Sklar (January 16, 1994, daughter of Rink Dickinson and Susan Sklar).

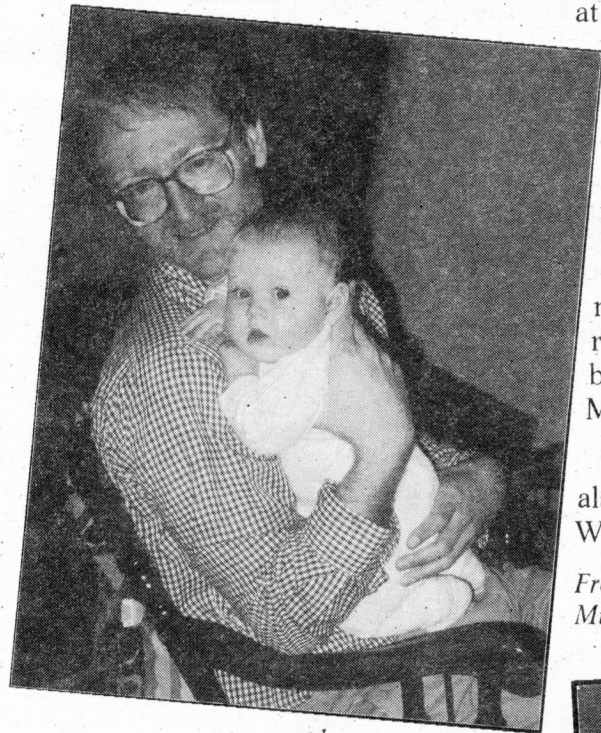


photo by Susan Sklar

Mind you, there was no instant conversion to diapers at Equal Exchange. For years the company has been in transition from childless to child-friendly: purchaser Mark Souza is the father of two and grandfather of one; customer service representative Charlotte Mann is the mother of eight (raised single-handedly!) and grandmother of nine; capital coordinator Clark Arrington is the father of one; and designer Judith Arc is the mother of two.

As if three sequential births were not enough, our newest board member Bob Burke of Stonyfield Yogurt fell right in line with the birth of his third, Devin Christopher, born February 2, 1994. That only leaves board member Jean Mason who has three of her own, plus three grandchildren.

Welcome to the board Jean and Bob (and Mark Sweet, also newly elected, though parenthood awaits him). Welcome to the world Savanna, Sasha, and Shaya!

From top to bottom: Jonathan and Sasha, Rink and Savanna, Michael and Shaya.

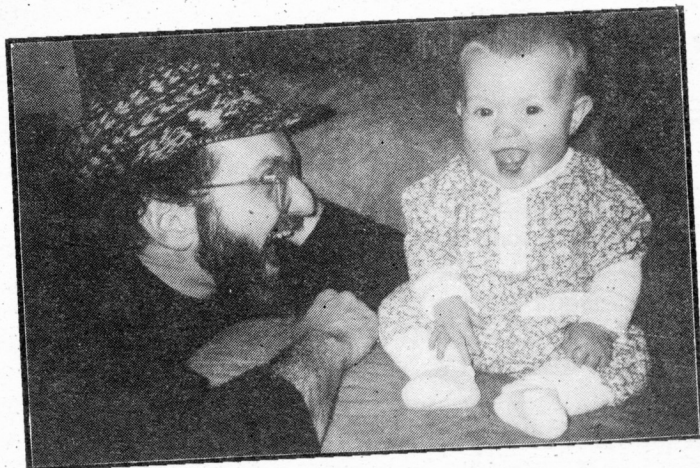


photo by Helen French

Editor: Kent French Writers: Michael Rozyne, Carol Coston



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Accomplishments and Other News

• As part of a Café Salvador delegation, Executive Director Jonathan Rosenthal and Purchaser Mark Souza visited the cooperative coffee sector in El Salvador in January, 1993.

• Communications Manager Myrna Greenfield and Director of Marketing Michael Rozyne spent a week with the Colombian Association of Organic Coffee Growers (ACOC) and the Peasant University of Buga (IMCA) in March.

• Sales Manager Rink Dickinson, on leave for six weeks in March 1993, studied Spanish and visited coffee cooperatives in the mountain region of Antigua, Guatemala.

• Riding on the coattails of her partner Michelle Johnson's prestigious Knight Fellowship award in journalism, Communications Manager Myrna Greenfield is on a one year leave of absence, September 1993-August 1994. She is taking graduate-level business, marketing and writing courses at Stanford University in Palo Alto, California.

• Comings and Goings: Debbie Foss replaced Sue Oppie as Warehouse Manager in April 1993. Lisa Woodside came on deck as Bookkeeper in June. Truc Dang joined the staff in July and is working as Office Manager and in the warehouse fulfilling orders. Kent French began part-time customer service work in September.

• Speaking: Michael Rozyne spoke on a panel at the Specialty Coffee Association of America annual convention in Boston in April; Rink Dickinson and Jonathan Rosenthal conducted two workshops on alternative trade at the North American Alternative

Trade organization's annual meeting in Chicago in July.

• Jonathan Rosenthal lectured at an alternative business training institute at Goddard College in July; Michael Rozyne spoke on a panel at the International Federation of Organic Agricultural Movements meeting in Baltimore in September.

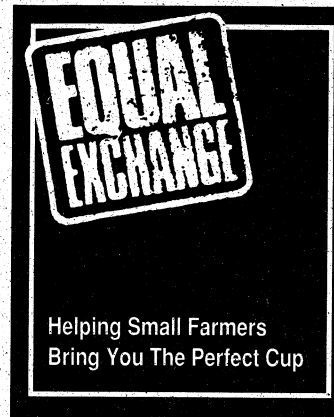


Illustration by Shannon Palmer

Kent M. French, editor
Michael Rozyne,
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The Equal Exchange, Inc.

1993 Mid-Annual Report

The Short of It

Lots of new faces—more than a dozen Equal Exchangers now roam the planet, most of them working from Stoughton. We have taken this new investment in human resources with an eye toward future growth. It marks the transition from an entrepreneurial start-up to a small business with more complex systems and personnel management.

Social responsibility in the world of specialty coffee in North America has come of age, as evidenced by the large number of coffee companies that are donating a portion of their profits to development organizations and charities. It is a sign of the intense competition we face. And it applies positive pressure on us to sharpen our explanation of the advantages of alternative trading.

At a recently concluded planning retreat, the entire staff examined the viability of roasting. Will we undertake roasting and packaging for ourselves, or will we continue to contract this out to another business as we have since our inception in 1985? This remains the most important strategic choice we face in 1993/94.

Growth in the first half of 1993 was healthy: 28% ahead of 1992. On gross sales of \$676,155, we earned an after tax profit of \$36,034. Growth is coming from both increasing sales to our current accounts as well as the addition of new natural food stores, restaurants and college food services.

The End of a Relationship in Peru

We evaluate our trading partners on the basis of four criteria:
1) *Need* - small-scale, poor farmers who are excluded from access to markets;
2) *Democracy* - farmers need to have authentic control over the organization.
3) *Commitment* - sustainable agriculture and stewardship; and 4) *Strategy* - plans for long-term development.

For six years, the Ashaninkas Association of Peru was one of our most important trading partners. Their organic coffee beans have been the basis of Cafe Peru, as well as a part of other popular blends we offer.

Throughout these six years, life in the Peruvian rainforest was entirely clouded by a violent civil war between the treacherous revolutionary group Sendero

Luminoso (the Shining Path) and the Peruvian government. Since the Association's inception in 1987, members and their families have been among those slaughtered. Living in fear, coffee farmers looked to the Association for hope and an opportunity to earn above-market prices for their coffee.

The Association was founded by Peruvian visionary and entrepreneur Luis Jimenez and Canadian organic farmer Jerzy Przytyk. Their dream was to enable farmers to live better by growing a high-quality, certified organic coffee which would earn a premium in the marketplace. They had plans to build a combination warehouse/guesthouse/school. They purchased their own truck for picking up beans and delivering supplies to

The Coffee Crisis

In early October, over twenty coffee producing countries implemented an agreement to "retain" a certain percentage of their coffee when the market price falls below minimum prices. The goal of this new coffee retention plan is to increase the price from the historic low range it has been since the summer of 1989.

In many ways, the coffee retention plan is a less effective version of the price and quota controls that were a part of the International Coffee Agreement from 1963 to the summer of 1989. The goal of the International Coffee Agreement (ICA)

was to promote the trade of coffee at a fair and reasonable price to both the producing and consuming countries. To regulate this, the Agreement allowed for a supply management system that held back supply when prices were low (thus increasing prices) and released supply when prices

were high (thus reducing prices).

In July of 1989 the United States (the world's largest coffee consumer), and Brazil (the world's largest coffee producer) agreed to suspend the supply and price component of the ICA. Coffee prices immediately plummeted, dropping from \$1.30 to 80¢ per pound. Since that time, prices have generally stayed in the range of 60-75¢ per pound. In real terms these are the lowest prices since the Great Depression, often below the cost of production. The coffee producing countries have lost billions of dollars in income since the suspension of the ICA.

Small-scale farmers have suffered dis-

proportionately because of their lack of capital and control over processing. The farmers Equal Exchange trades with have been protected due to our commitment to pay a minimum price of \$1.20 per pound.

Prospects for the Coffee Retention Plan

The view of coffee brokers, roasters and traders is that this fall's coffee retention plan will work for awhile but will ultimately unravel under the divergent interests of producing countries. As Phil Doueck, a coffee trader in Montreal, says, "Everything is moving towards free markets and there is too much at stake to believe the producers can work together indefinitely." The major weaknesses of the plan are:

- 1) Not all the producing countries are part of the agreement. The notable holdouts are Mexico and Indonesia.
- 2) The likelihood of cheating. The signatory countries are competitors and most are in economic straits.
- 3) The producing nations lack the capital to finance their retention plan.

The impact on small-scale farmers of the continuing move towards "free trade" will be increased marginalization, more competition, lower prices, less land under their control, and less food on the table. Most small-scale coffee farmers have few alternatives. In some cases, they will be able to produce another agricultural crop for the national or international market. In some cases they will be forced to move towards growing illicit drugs because of the extraordinarily high potential earnings. In most cases, the options are simply to earn less or move to an urban slum and search for work.

Equal Exchange, Inc. Balance Sheet

	6/30/93	12/31/92
ASSETS		
CURRENT ASSETS		
Cash	\$112,882	\$84,189
Accounts Receivable, Trade	\$107,731	\$106,267
Inventory*	\$504,322	\$469,148
Prepaid expenses	<u>\$8,643</u>	<u>\$11,839</u>
TOTAL CURRENT ASSETS	\$733,578	\$671,443
PROPERTY & EQUIPMENT		
Equipment	\$111,076	\$76,859
Leasehold improvements	<u>\$9,041</u>	<u>\$9,041</u>
TOTAL	\$120,117	\$85,900
Less Accum. Depreciation	<u>(\$43,510)</u>	<u>(\$30,375)</u>
PROPERTY & EQUIPMENT—NET	\$76,607	\$55,525
OTHER ASSETS		
Organizational Expenses (NET)	\$14,340	\$14,543
Other Assets	<u>\$3,057</u>	<u>\$3,578</u>
TOTAL OTHER ASSETS	\$17,397	\$18,121
TOTAL ASSETS	\$827,582	\$745,089
LIABILITIES & EQUITY		
CURRENT LIABILITIES		
Notes Payable	\$130,200	\$131,119
Current Portion of Long-term Debt	\$32,164	\$27,693
Accounts Payable	\$60,453	\$83,123
Federal & State Income Tax Payable	\$6,376	\$11,168
Accrued Expenses	\$11,378	\$5,187
Patronage Rebate Payable	<u>\$8,906</u>	<u>\$8,906</u>
TOTAL CURRENT LIABILITIES	\$249,477	\$267,196
LONG-TERM LIABILITIES		
Long-term Debt	<u>\$249,374</u>	<u>\$195,196</u>
TOTAL LONG-TERM LIABILITIES	\$249,374	\$195,196
TOTAL LIABILITIES	\$498,851	\$462,392
EQUITY		
Worker Membership Shares	\$10,000	\$10,000
Preferred Shares	\$213,217	\$203,217
Donated Capital	\$1,209	\$1,209
Stock Subscribed	\$0	\$0
Dividends Payable	\$0	\$0
Retained Earnings	\$68,271	\$68,271
Net Profit (Loss) YTD	<u>\$36,034</u>	<u>\$0</u>
TOTAL EQUITY	\$328,731	\$282,697
TOTAL LIABILITIES & EQUITY	\$827,582	\$745,089

* Due to an inventory costing error, inventory value and gross profit figures for 6/30/93 are overstated by approximately \$18,000. These figures will be corrected in the 12/31/93 statements.



The End of a Relationship

(Continued from Page 1)

farmers. The Association was the mechanism for farmer cooperation. Their hope was to make coffee processing and direct marketing a reality. From the onset, the farmers were certified by the Organic Crop Improvement Association, an independent third-party certifier in Bellefontaine, Ohio.

On a trip to Satipo in 1989, Equal Exchange founder Michael Rozyne flew over the rainforest to the mountain village of Obenteni. The plane was greeted by many Ashaninka tribal members and one visitor from the Shining Path, a young man named Cristiano who accompanied Rozyne and Jimenez for a week. On that trip, Rozyne saw the desperate poverty and illiteracy of the coffee farmers. Their interest in organic was both environmentally and financially motivated. No chemical fertilizers or pesticides were used in the area since supplies had to be carried by air or a twelve-hour burro ride through the mountains. However, the Ashaninkas had little tradition or knowledge of modern organic farming methods.

In Satipo, where the Association stored its coffee beans, Rozyne found reason for hope. Their clean warehouse was loaded with organic coffee beans. Records were thorough and well organized. The warehouse manager maintained a simple but adequate system of quality control, inspecting and weighing beans as they entered the facility. And the Association stored only organic coffee. Jimenez explained that most of the contact and education between the group's leadership and the farmers happened right in the warehouse. The rest happened when the agronomist/organic farm inspector Victor Olivera visited farmers every year.

For years, it seemed miraculous that the farmers could export their crop amid the war. The beans always arrived. The quality varied from good to excellent.

For Equal Exchange, however, a trading relationship rests on both good product *and* good process, that is, small farmer democratic control over the coffee trading. From the start, the Ashaninka's Association was weak on accountability. The few reports we received did not adequately answer our fundamental questions about decision-making and distribution of profits.

We spent more than a year evaluating the situation.

We hired an alternative trade organization named CANDELA to provide a Peruvian perspective and analysis. In the end, we sadly concluded that the Ashaninkas Association did not have

sufficient farmer control nor a planning process for economic development. It lacked a program to move toward sustainable coffee agriculture (as opposed to mere abstinence from chemicals and pesticides).

Although the farmers were doing better economically than they would have on their own, the project was too entrepreneurial and too dependent on the leadership of one individual. It was not alternative trading.

It puts us in a difficult place. We will sell our inventory of Ashaninkas' coffee beans in the remainder of 1993 and early 1994. We are in the midst of a search for a new trading partner in Peru, and hope to introduce their product to customers by mid-year, 1994.



Illustration by Shannon Palmer

Equal Exchange, Inc. Statement of Income

for the period ending 6/30/93

	<u>1/1/93— 6/30/93</u>	<u>1/1/92— 6/30/92</u>
SALES		
Consumers	\$5,603	\$5,998
Wholesale	\$529,443	\$382,066
Distributors	\$116,699	\$119,519
Freight Income	<u>\$24,410</u>	<u>\$18,610</u>
Total Gross Sales	\$676,155	\$526,193
Total Sales Discounts	<u>\$8,961</u>	<u>(\$7,111)</u>
Net Sales	\$667,194	\$519,082
Gross Profit on Sales	\$283,373	\$194,324
Gross Profit on Brokerage	\$8,586	\$977
Gross Profit*	\$291,959	\$195,301
Total Operating Expenses	\$233,904	\$149,744
Income from Operations	\$58,055	\$45,557
Other Income/Expenses		
Interest Income	\$616	\$562
Miscellaneous Income	<u>\$66</u>	<u>\$1,611</u>
Total Other Income	\$682	\$2,173
Interest Expense	<u>\$11,408</u>	<u>\$10,302</u>
Total Other Expense	\$11,408	\$10,302
Income Before Taxes	\$47,329	\$37,428
Income Taxes	\$11,295	\$10,219
NET INCOME	\$36,034	\$27,209

Statement of Changes in Retained Earnings

for the period ending 6/30/93

Retained Earnings 12/31/92	\$68,271
Net Income 1/1/93—6/30/93	\$36,034
Dividend Paid: Preferred Shares	<u>(\$0)</u>
Retained Earnings 6/30/93	\$104,305