

EQUAL EXCHANGE

2002 annual report

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earthworms pre-harvest financing education health-clinic water self
customized education point of sale face-to-face producer tours tasting
motivations value-driven cutting-edge of social responsibility to family
value-consensus culture exchange time community 10% time innovation entry
retreat spirit mission driven coffee crisis solar espresso van tours partnership
body acidity flavor rich french roast full city vienna medium espresso
sustainability community-based supporting co-family ops supporting families
relationships partnerships co-op to co-op collaboration matching value
community-based ownership rights and responsibilities 3-to-1 pay ratio lunch club
ownership rights a sustainable growth fair trade friends green beans arabica organic
cupping quality control earthworms cooperative earthworms pre
congregation demo zealots working together customized
to investment consistent returns stakeholders motivation
transparency health care worker-owned benefits consensus culture
mentorship cooperative lunch club partnerships co-op to co-op



TRAINING QUALITY

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annual report 2002

LIVING QUALITY

Equal Exchange

251 Revere Street

Canton, MA 02021

781.830.0303

www.equalexchange.com

by rob everts and rink dickinson, CO-DIRECTORS

FROM THE DIRECTORS

Arnaldo Neira Camizán

co-founder of CEPICAFE

Piura, Peru

“The (co-op) growers

in Peru get two and a

half times more than

what the non-Equal

Exchange farmers do,”

he explained. “This

helps the Peruvians and

their families to

educate each other

about organic farming

and helps them

live better and at

higher standards.”

In an industry still reeling from persistent low commodity prices, a path to survival for some small-scale coffee farmers has been access to the Fair Trade market. As many of our trading partners have recounted, if it weren't for Equal Exchange, their cooperatives would have gone under. Another strategy – while difficult at times of low prices – is investing in an array of cultivation improvements in hopes of receiving a premium for quality in the marketplace. Our commitment to quality – in our products, in our trade relationships, and in our dealings with all of our stakeholders – is the theme of this year's annual report.

2002 was arguably the most successful year in our history. We achieved \$10.4 million in sales – a growth of 35 percent from the previous year. Our profits were \$213,000. To achieve this success when competitors are paying far less to farmers (or brokers), we count on the depth of relationships that we've cultivated over the years. For example, we saw strong retention and growth among our traditional account base while our Interfaith program grew by more than a hundred percent. For farmers, this translated into above-market premiums of \$1.6 million on the purchase of 2.6 million pounds of coffee beans.



**Phyllis (Felicia) Robinson, Equal Exchange's
Producer Relations Coordinator, picks coffee
in El Salvador**

As can be expected, this rate of growth significantly tests our operational systems and capacity. It also requires real stamina from our people. We are proud that our cooperative governance structure has so far stood the test of evolution from a small entrepreneurial enterprise to a not-so-small – and still innovative – business. Equal Exchange continues to attract smart, mission-driven staff. Participation is high while turnover remains low.

Over the past year we have begun to really feel the value behind the Equal Exchange brand.

More stores and restaurants are contacting us.

We believe that the integrity associated with our brand combined with our commitment to quality products was responsible for the early success of our new Fairly Traded, organic Hot Cocoa mix. To build new markets for our growing number of trading partners we must challenge ourselves to anticipate and adapt to the rapidly changing world around us.

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two BEANS reside in the middle of each coffee cherry.

When the coffee cherries reach a deep red color,

they are mature and ready to be harvested

atching valves to investment consistent returns stakeholders motivations value-driven cutting-edge of social responsibility to family community-based supporting co-family ops supporting families transparency health care worker-owned benefits consensus culture exchange time community 10% time innovation entry ownership rights and responsibilities 3-to-1 pay ratio lunch club mentorship cooperative lunch club delegations retreat spirit mission driven coffee crisis solar espresso van tours green beans arabica organic shade-grown high-grown hand-picked gourmet body acidity flavor rich french roast full city vienna medium espresso cupping quality control earthworms cooperative earthworms pre-harvest financing education health-clinic water self-sustainability compost rich soil non-toxic fair trade dividends personal congregation demo zealots working together customized education point of sale face-to-face producer to consumer



by jessie myszka, CHAIR OF THE BOARD



Jessie Myszka and Mark Sweet meeting with a member of a farmer co-op

How can 1,673,396 people fit in our boardroom? Here's the count: nine board members; 34 worker-owners; 56 employees; 297 investors; 6,500 wholesale customers; 191,500 farmers; 575,000 children of farmers; 900,000 consumers.

Equal Exchange's nine-person board is composed of six worker-owner directors and three outside directors – but we work as one body with a unified purpose. Our charge is twofold: ensuring that Equal Exchange continues to exist as a living organization, and that the mission we've articulated continues to thrive.

How can a written statement 'thrive'? Unlike a typical corporate mission statement which might be typed up and filed away, our mission statement has taken on a life of its own. Ask any of us why Equal Exchange exists and the essence of our response would be: "We work to improve the lives of small farmers – and to be a model of workplace democracy."

Our mission statement exhibits the characteristics of a high-quality product – the product, in fact, of a staff retreat in 1995. It is appealing, enduring, and retains its value. For the past seven years we have used it

again and again as the context for decision-making and to remind us of our fundamentals. Board, co-op, and management decisions have been examined side by side with the mission statement for consistency and to test how a given action will further our purpose.

Our duty as a Board is to the mission: protect it; nurture it; challenge it; make it productive. In practical terms, we have four categories of responsibilities. The Board must protect the company's financial and human resources. We must oversee the objectives and policies that guide the organization, evaluate the performance of the executive directors in meeting those objectives, and link Equal Exchange stakeholders to the governance of the cooperative.

This brings us back to the 1,673,396 people in the boardroom. We are not a "representative" Board; we cannot govern the company by catering to each special interest group. On the contrary, we cater to the mission. The mission encircles the stakeholders and attempts to speak to their needs and responsibilities. The mission aims to improve the quality of life for each stakeholder, with particular emphasis the lives of producers and worker-owners.

The challenge for the Board is to interpret the mission and apply it to practical situations. To that end, the Equal Exchange Board created what we call "Measures of Success." We've been developing the Measures for several years, but 2002 was the first year that we judged our fulfillment of the Measures in the same manner as we judged our financial performance. The greater detail of the Measures allows us to use the mission statement as a tool for evaluation.

The Measures of Success include five groups of quantitative measures that the Board chose in

an effort to capture the quality of Equal Exchange's performance. We set financial targets for profitability and efficiency. To represent both the impact on farmers' incomes and our Fair-Trade commitment, we look at the dollars spent in above-market farmer premiums and the frequency of supplying pre-shipment credit to co-ops. Measures for "mission-driven staff" evaluate retention, a three-to-one pay ratio, and 10 percent of paid time for mission-building work. Non-financial business measures track our role in the coffee market and also our program innovation.

Reviewing the Measures shines a light on the interplay of Equal Exchange's many ambitions and, in the process, helps unite the Board and Executive Directors in serving both the mission and all the diverse stakeholders in our increasingly crowded boardroom.

2002 Board of Directors

Worker-Owner Directors

Erbin Crowell

Tom Hanlon-Wilde

Beth Ann Milardo

Jessie Myszka

Julie Petot

Delilah Pigott

Outside Directors

Jerry Gordé

Jean Mason

Sue Meehan

LOVE IS A TWO-WAY STREET

by **todd caspersen**, DIRECTOR OF PURCHASING AND PRODUCER RELATIONS

From small farmers with love...

You've seen it on our shipping boxes, read it in our materials, and – most importantly – you've tasted it in the cup. Thanks to our faithful customers and fearless investors it also goes the other way: To small farmers with love...

For Equal Exchange, 2002 was a record year for sharing the love. Like me, you may have wondered what the nature of this love is, and what it represents. We purchased a record 75 containers or 1,456 tons of green coffee from 22 coffee cooperative exporters in 12 countries on three continents and two islands. We also bought tons of tea and cocoa from two exporters representing four producer groups in four more countries, strengthening our commitment to growers throughout the world and helping to share the love with more small farmers in need. In concrete terms, it means the expansion of our purchasing efforts in size and scope.

In the relationships with our newest groups – in Haiti, Peru, Ecuador, and the Dominican Republic – we are only beginning to take the measure of each other to learn if the other is up to the challenge of the long, hard journey that lies ahead in these uncertain times – tougher import/export regulation, more complex social and organic-certification issues, low commodity prices, and numerous sophisticated competitors in the global market.

The cooperatives that we have traded with for several crop cycles have proven their capacity, commitment, and trustworthiness during Equal Exchange's fantastic growth by providing the volume and quality necessary to compete. These groups are our proven companions in the struggle for social and economic justice. It is

the work of these groups that will bring us to the next level. After years of fair trading many of these cooperatives have acquired the dry processing facilities that they previously rented from local elites. The quality of our beans depends on the quality of our relationship, which is why we are investing time and resources to help them improve their quality yet further.

As always, we strive to bring our relationships beyond the quotidian commercial interaction and make connections between consumers, retailers, and farmers. This year we sent people – consumers, buyers, partners, and staff – to every country we trade with in Central America. This summer, our West Coast office will again lead Northern consumers on a journey to understand the invisible chain that links consumers to the peoples of the Andes by leading a group to Peru. As it should, love goes both ways: in 2002 we brought farmers to consumers across the country in Oregon, California, Wisconsin, Kentucky, and Massachusetts to spread their message that the best farmers are small farmers.

Our recipe for quality beans and relationships? Long-term commitment; pre-harvest financing; and exchanges between people – cuppers, farmers, consumers, retailers, and investors. This blend provides us with the quality of beans and relationships necessary to grow and cooperate in this global village.

The humble coffee bean acts as the messenger for all of us, the stakeholders in Equal Exchange. We use it to spread our message of a different vision for the global village, one based on the qualities of equitable relationships and sustainability.



José Luis Castillo Vasquez, a member of the Las Colinas Cooperative, with his family in El Salvador

by rodney north, THE ANSWER MAN

We are often told that a no-holds barred, free market system offers the greatest efficiency, thereby creating more wealth and, in turn, the highest possible standard of living. Well, yes and no.

Its efficiency is often real, yet intolerable and unevenly distributed since it flows from ruthless cost-cutting. That often means squeezing those in the supply chain who are most vulnerable, regardless of the quality of their work, the sustainability of their methods, or any other concern. The result can be ever cheaper consumer goods for some, and greater profits for others, but hidden costs as well that don't show up on the price tag.

Fair Trade, as opposed to free trade, takes a more holistic approach and explicitly includes a better quality of life for small-scale farmers as central to its purpose, not as an expense that hurts the bottom line.

In that way we at Equal Exchange trade one kind of quality for another. We get the farmers' best beans, and they get the best prices and other forms of support with which they can create a greater quality of life for themselves, their families, and their communities. For example, in 2002 we paid our coffee-farmer partners \$1,643,066 in above-market Fair Trade premiums. For the farmer cooperatives this was income above and beyond what they would have normally received for their exports, and constituted a critical source of funds that helped to ameliorate the impact of the ever-deepening coffee crisis.

The benefits are manifest in many ways and are in every case dictated by the farmers themselves – according to their own needs and wishes. The gains from Fair Trade also run the gamut from tangible investments in infrastructure to intangible improvements in organizational development and in a community's sense of hope and confidence.

For example, in El Salvador our pre-financing program enabled the Las Colinas co-op to offer affordable loans to its members. Fair trade premiums helped Las Colinas build an elementary school open to everyone in the community – co-op members and non-members alike. In Guatemala the APECAFOM co-op used their premiums to buy land and build a coffee processing facility, which will help the farmers to become more self-sufficient and improve the quality of their coffee. Another initiative in Guatemala supported by Fair Trade funds was the creation of a special women's leadership development program that will strengthen the role of women in their cooperative, Manos Campesinas.



members of CEPICAFE voting in an election

The additional revenues earned under Fair Trade do not go only to communal projects. Often what farmers need most is simply more income to pay for food, housing, clothing, medical care, school fees, and other essentials. Therefore co-op members sometimes vote to receive directly some or all of the Fair Trade premium – money their families can use to cushion the effects of the collapsed coffee market. This extra income can be the difference between staying on the land and migrating to the city, or what allows their children to remain in school. It can mean a small amount of savings or an investment in new seedlings. It always means a little more fairness and a renewed hope that something better is possible.

2002 Milestones

January

First Interfaith delegation visits El Salvador

March

Equal Exchange launches 12oz. packaged coffee line at Natural Products Expo West, in Anaheim, CA

May

Interfaith partner gathering at Equal Exchange

KNCU visits Equal Exchange

August

Equal Exchange introduces the country's first hot cocoa with the Fair Trade Certified label

September

Interfaith Coffee Program gets 5000th customer!

CEPICAFE co-founder Arnaldo Neira Camizán spends 10 days with Equal Exchange customers on the West Coast

Equal Exchange is featured on "Chronicle," the daily news magazine on Boston's ABC affiliate, WCVB-TV

November

Equal Exchange coffee is approved at all 140 Pacific Northwest Albertsons stores

December

Sales reach \$10 million for the first time

IT'S ALL IN THE CUP!

by beth ann milardo, QUALITY CONTROL MANAGER

Equal Exchange is committed to bringing our customers the best cup of coffee and the finest food experience possible. Because the relationship between a person and his or her java is so intimate, it is critical to find a variety of beans to suit a wide range of palates. The hunt for quality beans takes us from the foothills of the Andes to the slopes of Mt. Kilimanjaro. We search for a diverse variety of beans with characteristics unique to different regions or countries. Sumatran beans, for example, should produce a coffee with deep, earthy flavor, heavy body, and fruit-like undertones whereas Bolivian beans should be smooth and mild in flavor, with medium body and light acidity.

As the leading Fair Trade coffee importer in the U.S., Equal Exchange has an ongoing dialogue about quality with our producer partners. We evaluate samples on a daily basis, and provide producers with information about cup quality. We discuss the overall bean profile with them, thereby enabling farmers to understand our needs

and to make adjustments in the areas of harvesting and processing the crop. Last year we formalized our quality control standards to match the guidelines set by the Specialty Coffee Association of America, a trade organization that is internationally recognized as a leader in coffee standards and education. These standards enable us to identify distinctive qualities within each cup of coffee.

We begin the quality analysis by evaluating the green beans according to their shade of color. Next, we assess the aroma of the green coffee, checking for freshness and possible contamination or "taint." We sort the beans according to size and shape, examining closely for defects. We measure the moisture content of the beans and then roast the coffee to a color that will accentuate its characteristics. Finally, we complete the first phase by comparing the sample to other coffees.



Beth Ann roasting



the cupping table is prepared for the "cupping"



each cup is agitated to assess the intensity of the fragrance



water is poured onto the ground coffee

The next phase of the process involves “cupping” the brew. Much like wine tasting, coffee cupping is a practice that evaluates the flavor profile of a particular origin, through a technique of “sipping and spitting” from samples. The goal is to evaluate each coffee by saturating one’s mouth with flavor, forcing air and liquid simultaneously up and over one’s tastebuds, and then discarding the coffee into a spittoon. The coffee is scored using a complex rating system based on cleanliness, sweetness, acidity, body, flavor, aftertaste and balance. The overall score of the coffee in combination with the physical evaluation determines whether the coffee is acceptable.

Throughout the entire quality assessment Equal Exchange’s task is to provide our customers with specialty grade coffee. Given the complexity of coffee, there are many variables that require attention and many adjustments that must be made along the way. Our relationship with our farmer partners permits an unusually active dialogue about quality. This keeps our practices, and theirs, constantly improving and unsurpassed.



breaking the crust and evaluating the aroma



“sipping and spitting” to evaluate the flavor profile



each sample is awarded points for cleanliness, sweetness, acidity, body, aftertaste, and balance

COMMITMENT TO...

...Customer Service

by Keith Olcott,

ACCOUNT DEVELOPMENT MANAGER

The goal of Account Development is to enhance the connection that consumers make with us and, through us, with our producer groups and families. It begins with a commitment to customer service and extends to having producers visit accounts or taking account representatives to visit producers. Within that range there is ample room for enhancing the quality of our relationships.

For example, we responded to individual consumer needs in 2002 by launching a new Web store. Not only does the store make ordering easier, it allows us to provide more information about our products and the producers behind them. Another example: to better serve our retail customers we have added two new account development people to our home office and added account development staff to our regional offices in Wisconsin and Oregon. As we gain more customers we are working to maintain the intimacy that promotes dialogue and deepens the commitment to Fair Trade.

In 2002 we took retail buyers to Nicaragua and El Salvador for a firsthand experience of Fair Trade. They visited the families, farms, and facilities that are the source of our high-quality beans, gaining valuable insight into the challenges confronting producers. Participants returned to their stores better able to spread the story of Fair Trade to their communities. We are mindful that many of our best salespeople are our customers – whether it's the individual requesting Equal Exchange at his or her local café, or a store employee introducing our product to a shopper. We will continue to provide the tools and the time it takes to nurture that connection.



Lynsey Miller hands out samples and talks to potential customers at the Stop & Shop supermarket in Franklin, MA

...Consumer Education

by Lynsey Miller, ORGANIZER

“Good morning. Would you like to help small-scale coffee farmers stay on their land?” This question is not the usual small talk of the supermarket aisle, but when the Equal Exchange Organizing team is around, conversation tends to move beyond the ordinary. Many of today's grocery items are pre-packaged and ready to serve, requiring little thought about a product's history and little thought about the people who produce these products. As workers and owners of Equal Exchange, we are in a unique position to change shoppers' perceptions by telling them the farmers' stories.

By meeting consumers in their own neighborhoods – at food co-ops, grocery stores, and community events – we make information available in a powerful way: in person. Through one-on-one conversations, we have learned that the news of coffee farmers' struggles often does not reach the U.S. public. We've also learned that shoppers are eager for more information about the products they use, and want to make informed choices.

Through photos, stories, and live music, the Organizing Department brings the coffee lands to life right in the coffee aisle. Drawing on our personal conversations with producers and visits to their cooperatives, we relay to consumers the challenges facing farmers in the global market; the hope that Fair Trade offers to their communities; and the key role that U.S. consumers play in making the Fair Trade model succeed.

Because of our direct relationships with both farmers and consumers, we close an information circuit that not only satisfies shoppers' curiosity, but also inspires action. Equipped with facts and evidence that their daily choices do influence lives and small businesses, shoppers leave our sample table with more than a caffeine buzz.

They take away tangible nuggets of information – from brochures to business cards to bags of organic coffee. They often leave committed to supporting Fair Trade, vowing to tell friends and local businesses how to take global trade into their own hands.

We enter communities with information to give. We leave with new relationships and new partners in the movement to build the Fair Trade model.

...Interfaith Partnerships

by erbin crowell,

INTERFAITH DIRECTOR

On a recent delegation to El Salvador, I had the opportunity to spend the night in the home of one of our farmer partners. José Luis Castillo Vasquez, a member of the Las Colinas cooperative in El Salvador, shares a small, two-room home with his wife, Reyna, and four young boys. He manages the wet *beneficio* at the co-op – an enormous piece of machinery that washes and depulps the coffee cherries hauled down from the surrounding mountains, sending them down long sluices to the drying patios. Here they are spread out under the sun, carefully turned so that they dry evenly. After the long journey north, the coffee that we purchase from Las Colinas is blended with other beans, roasted and packaged as “Fellowship Blend,” which is shared at coffee hour in thousands of places of worship across the country. Gathered around an open fire, we shared a simple meal of beans and squash, and talked. I asked José if he had a message for the thousands of people in the U.S who drink his coffee.

“Thanks to God and to Equal Exchange, we will not die of hunger,” he said. “We will not lose our land and our children can attend school.”



Gail Matheson, from Bethany Lutheran Church in Englewood, CO, inspects coffee trees with Jorge Garcia Rojas from El Pinal Co-op in El Salvador

I was surprised and humbled by the quick answer. I scrambled to explain how thankful we are at Equal Exchange for the opportunity to work with co-ops such as Las Colinas. That their hope for the future, their commitment to their communities, and their courage strengthens and supports us as much as we hope to strengthen them through Fair Trade.

That we are partners – each cannot exist without the other – in building a more just economic system.

But Equal Exchange and Las Colinas are not the only partners who make this work possible. Without our lenders and investors, Equal Exchange would not have been able to grow the way we have in the past year. Without our organizational partners – Lutheran World Relief, the American Friends Service Committee, the Presbyterian Church (USA), the Unitarian Universalist Service Committee, the United Methodist Committee on Relief, and the Church of the Brethren – we would not have been able to reach so many congregations with the message of Fair Trade. Without these thousands of congregations we would not be able to purchase coffee from Las

Colinas and our other trading partners. And without the many people who are taking the message of Fair Trade beyond the walls of their place of worship and into their communities, we would not be able to reach so many cafés and grocery stores, colleges and seminaries.

In 2002, as the world coffee market continued to sag, exposing countless coffee farmers and their families to a crisis of historic proportions, the volume of fairly traded products sold through Equal Exchange’s Interfaith Program and our partnerships grew more than one hundred percent. For the many congregations involved in these programs, their contribution may seem small. But together they purchased more than 125 tons of fairly traded coffee, tea, and cocoa, making an enormous difference in the lives of farming families across Latin America, Africa, and Asia.

In 2002, Equal Exchange bought about half of the coffee exported from Las Colinas, paying the guaranteed minimum price of \$1.26 per pound. The other half was sold on the conventional market for \$0.45 per pound. While the financial difference made by Fair Trade is clear, there is another benefit that can be harder to quantify:

“I want to send my thanks to all of the congregations that purchase our coffee,” José continued. “It is thanks to them that we have a seed of hope in our lives.” For the members of Las Colinas, hope is a very real product of Fair Trade. And for José and Reyna, their fondest hope is that all of their children will be able to attend school and decide for themselves where their lives will lead them. For now, this is a dream that may come true: they will be able to hold on to their land, pay their children’s school fees, and look toward the future.

OWNERS AT WORK

by jill wenke, WORKER-OWNER COORDINATOR

While Equal Exchange is known to many for its pioneering role in the Fair Trade movement, the employees who work here know that that is not the end of the story. In addition to working on behalf of small farmers, we take seriously our responsibility for our own quality of life and empowerment as employees. Part of our mission is to prove that there is a viable alternative to “business as usual,” which we do by operating a democratically run, worker-owned cooperative where employees have the ultimate say.

The importance of the quality of our work experience is evident in daily life at Equal Exchange. Ten percent of our time is set aside for education and projects of our choosing. This is to encourage entrepreneurship as well as participation in the co-op. The time can be used for working on new products and ideas or for participation in committees, such as the education, personnel, or governance committees. Educational opportunities for staff include a weekly, ninety-minute class, called “Exchange Time;” a mentorship program pairing experienced worker-owners with new employees to assist them on the path to worker-ownership; and access to a training budget that can be used for language, skill-building, or travel to producer countries.

After buying one share of Class A stock, worker-owners become part of a “one share, one vote” system that sets everyone on equal ground – from the company founders to newcomers. The worker-owners’ approval is required for major decisions that will ultimately affect our lives, such as a change in the company’s location or the addition of a new operation. We have the power to amend the company’s by-laws, through which we can affect company policies and structure. Worker-owners also elect the company’s board of directors and hold six of the nine board seats. In these many ways worker-owners are the ultimate decision-makers of Equal Exchange.

Effective debate and decision-making among dozens of empowered owners has evolved over time. Despite our growth, I would argue that Equal Exchange has successfully maintained everyone’s right to be both informed and heard, and to exercise influence. Ultimately, I believe the growth and vibrancy of this organization can be attributed to the empowerment and entrepreneurship of the people who work at and own Equal Exchange. And it is our hope that we are offering a modest example of how the principles and rights of civic democracy can be brought into the American workplace.



Keith Olcott, Account Development Manager, picks coffee at a co-op in Mexico

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by tracey denton, EQUAL EXCHANGE INVESTOR

I discovered Equal Exchange in 1999 and immediately became a loyal customer. It is truly the best tasting coffee I have ever had! I decided to invest in Equal Exchange in December of 2001. I had read many news articles about the growing concept of "Socially Responsible Investing," or SRI and I was looking for ways to ensure that my investment dollars would have a positive impact on the world's economy. Then, as I nervously watched the Nasdaq in 2002, I felt better about having a significant part of my investment portfolio in a company that produces a quality product and markets that product well.

Equal Exchange is a worker-owned cooperative, another reason I feel confident about my investment in an era where many large public companies are plagued by corruption and mismanagement. At Equal Exchange, the success of all stakeholders is taken into account – from farmers to employees to investors to consumers – and business decisions benefit everyone, not just a few managers at the top.

Fair Trade coffee is a growing segment of the coffee industry. In these troubling economic times, I feel more confident when I research and understand an industry from many perspectives, including trends within an industry and how industries interact in the marketplace. One important trend in the coffee industry is that sales of Fair Trade coffee have been consistently increasing. In addition to this increase in the amount of fairly traded coffee sold, there has been a proportional increase in market share – each year, fairly traded coffee makes up a larger portion of overall coffee sales.

After I initially purchased stock in Equal Exchange, I was happy to read Oxfam America's report that Fair Trade coffee sales grew by 12 percent in 2001, while world coffee consumption grew just one and a half percent. Equal Exchange is at the forefront of this market segment – offering many different blends of Fair Trade coffee and finding new and innovative ways to market their coffee to individual and organizational consumers. Equal Exchange has also had the foresight to break out into related industries. This past year they began offering fairly traded hot cocoa. The human rights issues involved in cacao production have recently received media attention – especially with regard to enslavement of children in the Ivory Coast. By diversifying its product line to include fairly traded chocolate products, Equal Exchange will help, alleviate human rights abuses in this industry and gain visibility in the process.

Investors have a unique power to improve the business world by choosing to invest in companies that treat all stakeholders with respect. By owning stock in Equal Exchange, I can be certain that my investment reflects my values.



Rosario Castellon inspects green beans with members of the KOPKAB Co-op in Thioffe, Haiti

Dona Blanca Rosa Morales

President of CECOCAFEN
Matagalpa, Nicaragua

"We're a business, but we see ourselves as a social business. We must know how to generate income, but we also have to know how to make progress in social areas. Our efforts to improve the quality of our coffee must be accompanied by similar efforts to improve the quality of life for each person, family, and community."

FINANCIAL STATEMENTS

balance sheets

	DEC. 31, 2001	DEC. 31, 2002		DEC. 31, 2001	DEC. 31, 2002
ASSETS			STOCKHOLDERS' EQUITY		
Current Assets:			Preferred Stock: Authorized 299,800 shares; Issued and Outstanding: 59,986 shares in 2002 and 54,282 shares in 2001		
Cash	\$ 824,679	\$ 965,829		\$ 1,492,793	\$ 1,649,619
Accounts Receivable	659,890	971,354	Common Stock: Authorized 200 shares; Issued and Outstanding: 37 shares in 2002 and 33 shares in 2001	84,469	96,219
Note Receivable other		50,000	Less: Common Stock Subscriptions Receivable	(32,286)	(31,495)
Inventories	1,942,905	2,359,808	Retained Earnings	468,528	489,392
Prepaid Expenses and Other Current Assets	34,202	57,963			
Deferred Income Tax Asset	46,500	65,000	Total Stockholders' Equity	<u>2,013,504</u>	<u>2,203,735</u>
Total Current Assets	<u>3,508,176</u>	<u>4,469,954</u>	Total Liabilities & Stockholders' Equity	<u>\$ 3,829,791</u>	<u>\$ 4,795,169</u>
Property and Equipment, at Cost	828,499	873,495			
Less: Accumulated Depreciation and Amortization	(531,553)	(565,578)			
	296,946	307,917			
Deferred Income Tax Asset	8,500	-			
Other Assets	16,169	17,298			
Total Assets	<u>\$ 3,829,791</u>	<u>\$ 4,795,169</u>			
LIABILITIES					
Current Liabilities:					
Notes Payable – Lines of Credit	\$ 1,179,722	\$ 1,558,241			
Notes Payable – Current	9,000	9,000			
Notes Payable – Stockholders	9,600	9,600			
Current Portion of Long-Term Debt	50,145	95,400			
Accounts Payable – Trade	174,407	241,573			
Accrued Expenses and Other Current Liabilities	54,729	358,404			
Patronage Rebates Payable	34,284	40,216			
Total Current Liabilities	<u>1,511,887</u>	<u>2,312,434</u>			
Long-Term Debt, <i>Less</i> Current Portion	304,400	279,000			
Commitments and Contingencies	-	-			
	<u>\$ 1,816,287</u>	<u>\$ 2,591,434</u>			

income statements

	DEC. 31, 2001	DEC. 31, 2002
Sales	\$ 7,721,042	\$ 10,425,154
Cost of Sales	<u>4,688,046</u>	<u>6,420,700</u>
Gross Profit	3,032,996	4,004,454
Operating Expenses	<u>2,761,165</u>	<u>3,699,370</u>
Income from Operations	<u>271,831</u>	<u>305,084</u>
Other (Expense) Income:		
Interest Expense	(107,860)	(117,383)
Charitable Contributions Expense	(18,476)	(30,900)
Loss on Disposal of Equipment	-	-
Interest Income	4,268	10,873
Other Income	3,007	-
	<u>(119,061)</u>	<u>(137,410)</u>
Income before income taxes	<u>152,770</u>	<u>167,674</u>
Provision (credit) for income taxes:		
Current	55,000	85,000
Deferred	-	(10,000)
	<u>55,000</u>	<u>75,000</u>
Net Income	97,770	92,674
Retained Earnings, Beginning of Year	433,218	468,528
Less Preferred Stock Dividends	(62,460)	(71,810)
Retained Earnings, End of Year	<u>\$ 468,528</u>	<u>\$ 489,392</u>

2002 FINANCIAL SUPPORTERS

Adrian Dominican Sisters

Cooperative Fund of New England

Dominican Sisters of Hope

School Sisters of St. Francis

Seton Enablement Fund

Shared Interest Society, Ltd.

Sinsinawa Dominican Sisters

Sisters of Charity, Bronx, NY

Sisters of Charity of the Blessed Virgin Mary

Sisters of Charity of the Incarnate Word

Sisters of Mercy of the Holy Cross, Merrill, WI

Sisters of St. Francis, Philadelphia, PA

Sisters of St. Joseph, Boston, MA

WELCA – Women of the Evangelical

Lutheran Church in America

Ursuline sisters of Tildonk

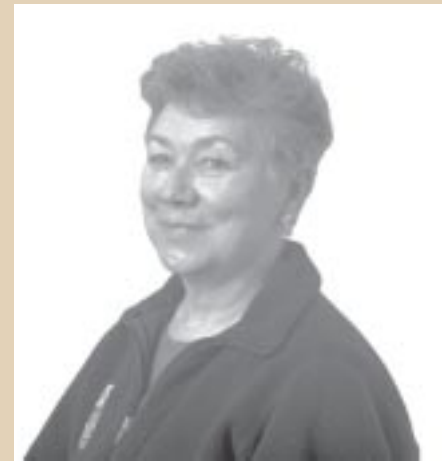
...and our 297 shareholders.

statement of cash flow

	DEC. 31, 2001	DEC. 31, 2002
Cash Flow from Operating Activities:		
Cash Received from Customers	\$ 7,789,224	\$ 10,113,690
Cash Paid to Vendors and Employees	(7,259,678)	(10,122,719)
Interest Paid	(107,860)	(117,383)
Income Taxes (Paid)	(19,153)	(5,009)
Interest Received	4,268	10,873
Net Cash (Used for) Provided by Operating Activities	<u>406,801</u>	<u>(120,548)</u>
Cash Flows from Investing Activities:		
Cash Paid for Purchase of Property and Equipment	(174,639)	(184,233)
Cash Advance on Not Receivable	-	(50,000)
Net Cash (Used for) Investing Activities	<u>(174,639)</u>	<u>(234,233)</u>
Cash Flows from Financing Activities:		
Proceeds from Sale of Preferred Stock	235,246	125,049
Proceeds Received from New Long-Term Debt Borrowings	85,000	40,000
Proceeds Received from Dividend Reinvestment	38,892	49,704
Proceeds Received from Common Stock Subscriptions Receivable	13,233	14,541
Net Cash Advances (Payments) Under Notes Payable – Lines of Credit	347,898	378,519
Repayments of Notes Payable – Current	-	-
Preferred Stock Dividends Paid	(62,460)	(71,810)
Repayment of Current Portion of Long-Term Debt	(84,310)	(20,145)
Cash Paid to Retire Preferred Stock	(60,243)	(17,927)
Cash Paid to Retire Common Stock	(12,092)	(2,000)
Net Cash Provided by (Used For) Financing Activities	<u>501,164</u>	<u>495,931</u>
Net Increase in Cash	733,326	141,150
Cash, Beginning of Year	91,353	824,679
Cash, End of Year	<u>\$ 824,679</u>	<u>\$ 965,829</u>

OUR MISSION STATEMENT

Equal Exchange's mission is to build long-term trade partnerships that are economically just and environmentally sound, to foster mutually beneficial relations between farmers and consumers, and to demonstrate, through our success, the viability of worker cooperatives and fair trade.



OUR FIRST RETIREE:

In October of 2002, after spending 10 years with Equal Exchange, Charlotte Mann became the first person to retire from our company. In addition to coordinating coffee donations to countless shelters, soup kitchens, and other community organizations, Charlotte personally introduced thousands of consumers to Equal Exchange and fair trade at coffee tastings in food co-ops, natural food stores, and public events throughout the country. Thank you, Charlotte, and good luck!

"We will never forget your warmth, love, and sense of family. Thanks for being such a strong part of Equal Exchange."

Rink Dickinson

"Charlotte, you are all about people and life and love; it was a privilege to work with you and a whole lot of fun."

Michael Rozyne

"What more can I say but I love you to death? Glad we got to dance a little."

Erbin Crowell

"Charlotte was a teacher, a friend, a straight-talking co-worker, and the cheerful public face of Equal Exchange all wrapped up in one."

Rodney North



EQUAL EXCHANGE



account development and sales



interfaith



operations, producer relations,
and quality control



marketing and organizing



office of executive directors,
finance and capital



west coast sales office

2002 STAFF LIST

- | | |
|--------------------|------------------------|
| Denise Abbott | Julie Petot |
| Mike Allen | Lila Pigott |
| Juvenal Alves | Greg Richards |
| Virginia Berman | Phyllis Robinson |
| Terry Boisclair | Cara Ross |
| Alison Booth | Lisa Russell |
| Peter Buck | Beth Sheaff |
| Joao P. Cardoso | Ian Sitton |
| Todd Caspersen | Mark Souza |
| Rosario Castellon | Micah Steinhilb |
| Dia Cheney | Katie Storey |
| Erbin Crowell | Forrest Sutton |
| Anna Daigle | Mark Sweet |
| Rink Dickinson | Mario Jose Teixeira |
| Rob Everts | Anna Utech |
| Bernardo Fernandes | Jill Wenke |
| Subashini Ganesan | Lilla Woodham |
| Gary Goodman | <i>Annual Report</i> |
| Dary Goodrich | <i>Committee:</i> |
| Kendra Gray | Dia Cheney |
| Tom Hanlon-Wilde | Rob Everts |
| Laura Hardester | Gary Goodman |
| Kevin Hollender | Dwayne Martin |
| Bill Holt | Jill Wenke |
| Kristin Howard | <i>Designed by</i> |
| Meghan Hubbs | Jill Parker |
| Jeanne Hunt | <i>Photos Credits:</i> |
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