



Equal Exchange
Annual Report 2011

25 Years

Standing with

Small Farmers



OUR MISSION

Equal Exchange's mission is to build long-term trade partnerships that are economically just and environmentally sound, to foster mutually beneficial relationships between farmers and consumers and to demonstrate, through our success, the contribution of worker co-operatives and Fair Trade to a more equitable, democratic and sustainable world.

Above: Gumerindo Calle Quinde, president of CEPICAFE co-op in Montero, Piura, Peru, holds hands with coffee drinkers and Class B shareholders Arun Balasubramaniam and Soumya Ganapathy, Equal Exchange's Capital Coordinator Daniel Fireside, and Trillium Asset Management's Brianna Murphy, in the coffee drying patio of the Montero co-operative.



25 Years Creating Small Farmer Supply Chains

By Rob Everts & Rink Dickinson, Co-Executive Directors

Twenty five years is a great prism through which to assess our biggest successes and most profound challenges moving forward. Ironically, our 25th was the year that witnessed a frontal challenge to small farmers—not only by Dole, or Nestlé, or even climate change—all of which were real, but by none other than the U.S. Fair Trade certifier Fair Trade USA (formerly named TransFair USA).

As you will read later in this report, it has taken decades to build strong supply chains enabling small farmers and their co-operatives to establish a meaningful foothold in the U.S. specialty coffee market. With the support of millions of consumers through their food co-ops, congregations and cafés, farmer co-ops now have a seat at the industry table. Together we have created a public dialogue and the sense of connection with farmers. We have injected more equity into a food system dominated by conglomerates. This is what is threatened by Fair Trade USA's full embrace of plantations into the system created by and for small farmers. In the coming year, we will be deeply involved in efforts to recreate a system of authentic Fair Trade.

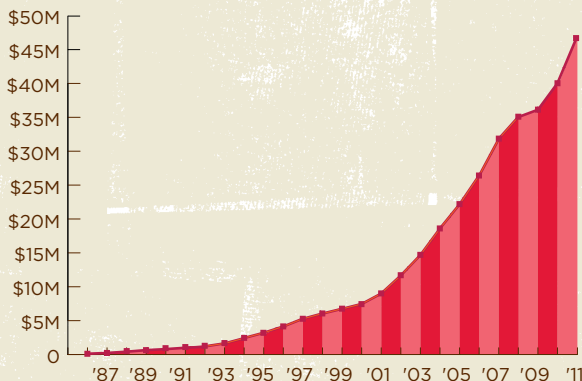
The difficult work of building small farmer supply chains in tea, cacao, sugar and bananas will be a fundamental component to this work. Because of plantations, the Fair Trade system has already undermined small tea producers. The many steps involved in bringing a multi-ingredient product like chocolate bars to market are dominated by large players who have achieved scale without consideration for equity. And scale is just one of the obstacles to small-scale banana growers achieving independence and market control.

High commodity prices and extreme weather were once again significant hurdles to navigate for both our farmer partners and Equal Exchange. While coffee volume barely crept upward, higher prices and careful attention to budget enabled us to grow sales by 28% to \$46.8 million. After charitable contributions and worker-owner patronage disbursements, we realized a net income before taxes of \$1.5 million.

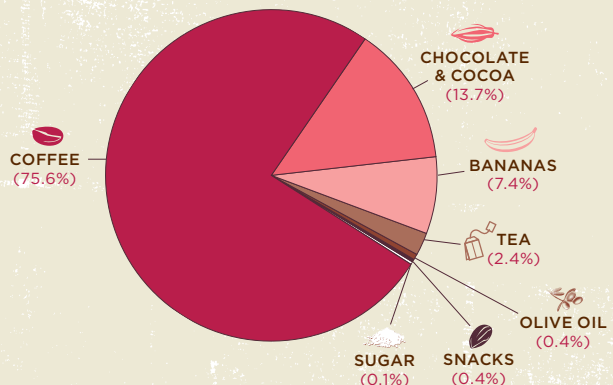
As always, thank you for your partnership. We need it now more than ever as we continue to fight for an authentic Fair Trade movement.

Rob Everts Rink Dickinson

EQUAL EXCHANGE
Sales Growth 1986–2011



EQUAL EXCHANGE
Sales by Product Category 2011





NEW SMALL FARMER TEA LINE

In early 2011, we launched a revamped line of 12 teas. This includes some new teas, like Jasmine Green, Chai, and Vanilla Rooibos, as well as some of our classics. What's really exciting, though, happened behind the scenes. Equal Exchange put significant time into building a small farmer supply chain for Fair Trade tea. It's been a difficult path, primarily because the tea industry, including "Fair Trade tea," has been built on a plantation model that keeps workers powerless. We've sought partnerships with innovative small farmer organizations like the Small Organic Farmers Association in Sri Lanka and the Sanjukta Vikas co-op in India. Our supply chain isn't perfect, but we're making progress. We're proud to be offering small farmer teas that support democracy in a setting where this isn't the norm.



INTRODUCING COFFEE ON WHEELS

Our first two Equal Exchange Free Range Cafés hit the streets of Boston in 2011, making them the first coffee trikes on the East Coast! The buzz has been growing around the city for these cafés-on-wheels. We've had three regular locations: Charles/MGH T-station, Copley Square, and South Station. You can keep up with the trikes and their whereabouts on Twitter: @EEFreeRange

Equal Exchange in the West Bank

By Rob Everts, Co-Executive Director

In early November 2011, Equal Exchange traveled to a part of the world that's new to us. I, along with Co-Executive Director Rink Dickinson and Community Sales Manager Susan Sklar, went to the West Bank to meet with the members of the Palestinian Agricultural Relief Committee (PARC), our new partners for buying organic, fairly traded olive oil.



Above: A handful of Nabali olives. Below: Basila Issa, an olive grower and a board member of the Al Zawyeh olive co-operative in the West Bank.

From the opening minutes of our weeklong trip, it was clear that Equal Exchange and PARC were both grounded in the most fundamental industry on earth: agriculture. It was further evident that in this place, disproportionately steeped in centuries of pain and conflict for its size, olive trees have been central to the culture and economic life of millions of Palestinians.

Equal Exchange began this partnership to develop meaningful trade relationships in the Middle East and to introduce our customers to organic, fairly traded, extra virgin olive oil. To us this is a highly positive way to support the aspirations of a people whose path to independence and economic vitality is highly constrained. It is also a tool to encourage learning and dialogue about the wider issues underlying the seemingly intractable conflict between Palestinians and Israelis.

Our friend Tania Maxwell, who joined us on the trip, introduced us to PARC and their affiliated farmer co-ops. Through persistence and significant donor support, PARC has grown both their human capacity and infrastructure. Democratic co-operatives have been built, cultivating leaders among women, men and young people. The fruits of training and investment in stainless steel storage tanks and modern bottling facilities gave us confidence that we are providing customers with an extremely high-quality product. We met the leaders of the Al Zawyeh co-op, whose Nabali olives are in our oil this year. We picked olives, watched the first pressing, and tasted the robustness of the freshly pressed oil.

It's impossible to separate the struggles of Palestinian olive farmers and our trade relationship from political struggles in the region: access to water, the separation wall, checkpoints, settlements, and frustration with the Palestinian Authority. We returned to the U.S. feeling sober about the prospects for an enduring peace in the region, but also highly motivated that our smallest of roles is a contribution in that direction.





Left: Women from Nasufwa gather with Beth Ann and Lynsey to talk about their roles as women and mothers. Above: Lynsey and a local agronomist with one of the co-op's new pulping stations.

Why Go Co-op? Notes from a Ugandan Coffee Co-op

By Lynsey Miller, Director of Sales & Marketing for Advanced Coffee

In February, Equal Exchange Quality Manager Beth Ann Caspersen traveled to Gumutindo co-op in Uganda. I was able to join her for a return trip in November, and here are the things I saw that the farmers of Gumutindo would not have if they were going at it as single, individual farmers:

THE TANGIBLES

Pulping Stations: Installed during our visit, these machines allow farmers access to this key equipment right in their own community. The alternative would be to travel far (without a car, through very difficult roads) and pay someone else for the service. These machines mean less labor and better quality.

Training: The Gumutindo staff created and debuted a short video in the local language of Lugisu outlining the best practices for the many steps of harvesting and processing that the farmers handle. Knowing the best methods will help farmers produce even better coffee and receive more income.

Direct Access to an International Buyer: Equal Exchange staff visits both the co-op staff and the farmers. On this visit we offered trainings at the farm level and explained what we look for in the coffee we buy, and what farmers can do to increase the amount of quality coffee they produce that will meet these standards. This trip, Beth Ann trained 20 trainers and 95 farmers.

Environmental Stoves: Inspired by the women farmers she met with in February, Beth Ann returned to the U.S. determined to support them beyond our coffee purchases. She raised money that will go toward installing 10 environmental stoves each in two communities. These stoves will help the environment and the health of the women and their families.

THE INTANGIBLES

Direct Relationships: Gumutindo and Equal Exchange share challenges and ideas. We inspire each other. Because this isn't simply a paper relationship, it creates opportunities we'd otherwise miss if we didn't personally understand each other's obstacles and potential.

Women's Empowerment: In two short years, four strong women's groups have emerged and are growing. Five of the nine Gumutindo board members are women.

Youth Staying in Coffee: Co-op support helps to keep coffee farming a viable livelihood option for current farmers and their children. The co-op has just hired about 20 managers (local men and women) who are now living and working with the farmers in their communities. The co-op purposely sought out recent college-educated graduates to bring additional business skills back to the farming communities.

The list above is what I saw, on the ground, that the co-op commitment supports in one area in Uganda. Pretty sweet.

SUPPORTING WOMEN IN THE CONGO

The Congo Coffee Project was created by Equal Exchange in partnership with the Panzi Foundation to support the medical programs of the Panzi Hospital in the Democratic Republic of the Congo, a country plagued by violence. Sales of this blend of East African coffee beans support the Panzi Hospital's crucial work with Congolese women who are survivors of sexual and violent assaults. Learn more at www.equalexchange.coop/congocoffeeproject



REFLECTIONS FROM A FOUNDER:

An Analysis of Fair Trade

By Rink Dickinson, Co-Founder & Co-Executive Director



Modified from a speech given at a conference of the InterReligious Task Force on Central America, on Oct. 22, 2011, in Cleveland, Ohio.

Equal Exchange was started by Jonathan Rosenthal, Michael Rozyne and me. The three of us were all working at a food co-op warehouse in the early 1980s. Working together in an environment that functioned in the food system, but was active in trying to change it, fed our souls and gave us vital experience. We learned how to buy directly from farmers' co-ops—when others weren't doing that—as well as about marketing, customer service, co-op democracy, and building a movement while moving a product.

While starting our own business in the mid '80s, the three of us were able to jump onto the European supply chain. What was more daunting was building alternative trade on U.S. soil. There was no broad network of alternative trade food-friendly stores like there were in Holland and Germany. There were no dominant national level co-ops that were open to co-op-to-co-op trade like there were in Switzerland. There was, in the first few years, a strong Central American solidarity movement. And so in 1986 we sold Nicaraguan coffee, legally

through a loophole in the Reagan administration embargo, in substantial volumes with churches, solidarity groups, natural food stores, and food co-ops.

When the Central American solidarity movement lost its energy, it felt like we were in the woods alone talking about Fair Trade day after day. But the European market kept growing, Fair Trade seals kept spreading, more producers entered the network, more Fair Trade banks developed and we kept telling people about this model of trade that we believed in. And because the specialty coffee market kept growing in the U.S., and it had really high profit margins, we kept growing despite paying farmers dramatically more than the world price.

So a coffee supply chain was slowly built for the purpose of maximizing control, opportunity, democracy and development for small producers. When that chain was so strong that the small farmers' capacity was greater than the alternative trade organizations, those farmers and their allies built a system to bring bigger commercial companies into the Fair Trade system on terms that worked for small farmers. We need to be clear: the idea for controlled mainstreaming of Fair Trade came from the South, from a co-op in southern Oaxaca, Mexico. The idea was not to give control of the Fair Trade system to European non-profits, or bureaucrats, or multinational companies or to plantations, but that is exactly what is happening now.

Fair Trade was intended for small farmers and small producers who are democratically organized. By slowly



SMALL FARMERS LAUNCH THEIR OWN SYMBOL

By Phyllis Robinson,
Education & Campaigns Manager

After five years of discussions and planning, small producer organizations in Latin America and the Caribbean have officially launched their own symbol to help consumers distinguish which Fair Trade products come directly from small farmers.

In April 2011, the Latin American and Caribbean Network of Small Fair Trade Producers (CLAC) officially launched their new *simbolo de los pequenos productores* (small farmer symbol), or SPP. The CLAC hopes that widespread use of their symbol will enable consumers to distinguish between small farmer and plantation Fair Trade products. They have begun certifying producer groups throughout Latin America, Asia, and Africa, and are now turning to the importers to get their help in building this new system. Stay tuned for more information as we make progress supporting the first Fair Trade seal launched by producers.

MEDIA COVERAGE

After Fair Trade USA announced it was leaving the FLO system, several major media outlets picked up the story about the crossroads in the Fair Trade movement. Equal Exchange Co-Founder and Co-Executive Director Rink Dickinson was featured in these two pieces, seen and heard nationally.

The New York Times

A QUESTION OF FAIRNESS

The article appeared in print on November 24, 2011, on page B1 of the New York edition. It was also published online at: www.equalexchange.coop/nytimes

npr

FAIR TRADE LABELING MAY CONFUSE COFFEE DRINKERS

Listen to the story or read the transcript at: www.equalexchange.coop/npr

developing over time at significant risk, small farmers can build solidarity networks and enter commercial supply chains. When they succeed at this there are benefits, such as positive development in their communities. That's what Fair Trade is all about.

If you take the democracy out you have traditional aid or World Bank development or what Fair Trade USA and the European certifiers are now trying to call "Fair Trade." If you want the fastest supply chain that produces the most tea or coffee or bananas at commercial terms you have entered into some socially responsible product world of which there are many examples. It just ain't Fair Trade, and it won't have the same positive benefits.

Fair Trade is about access for small producers.

The gravest threat we're facing now is the ongoing lowering of Fair Trade standards to the point where real Fair Trade groups cannot compete in the market because Fair Trade in name is cheap, and well connected with the market, and access is actually worse than it was before this movement started in earnest in the '80s. This is more or less the current case in tea. It is the coffee producers' greatest fear, and that fear is absolutely justified. This threat played out means fewer and weaker farmer co-ops that are replaced by plantations, unaffiliated small farmers, and fake co-ops.

But, there is an opportunity to connect all of us who are engaged in authentic, small farmer Fair Trade. This is the trade model that actually has impact on lives and creates positive development. It is the model that Americans think they are supporting when they buy Fair Trade. These products can be identified by the companies that support authentic small farmer trade and by a small farmer seal that is being launched by our friends from CLAC (see sidebar on p. 4).

There is an opportunity to keep developing based on the real accomplishments that have been achieved from Peru to South Africa to Massachusetts. Hundreds of organizations have taken risks, created supply chains, gone through powerful development processes, failed and succeeded, and failed and succeeded another time. These organizations and their members and supporters are the real Fair Trade movement.

For us to be on the right path between those threats and opportunities we need each other. Now is not the time to be silent. Let us ask the stores we shop in what type of Fair Trade, if any, they participate in. Let's ask the big guys in coffee to develop their position on small farmers and plantations. Let's describe what happens slowly over time when a real small-farmer-to-consumer-supply-chain is built and how different that is on every level from simply deeming an existing supply chain to be "fair."

We thank all of our customers, activists, friends and allies for your time, your energy, your commitment. We've accomplished great things and we look forward to working together in this vital time for Fair Trade. Keep the faith.

>> [Read Rink's full speech here: www.equalexchange.coop/reflections](http://www.equalexchange.coop/reflections)

REFLECTIONS FROM THE SOUTH *By Santiago Paz, Co-Manager of CEPICAFE in Peru*

The following is an excerpt from an English translation of a video interview with Santiago Paz which first appeared on Progreso Network on June 21, 2011.



Coffee has been, and continues to be, the leading Fair Trade product and whatever happens with coffee will mark the future of Fair Trade. And we are very concerned about what is happening currently.

In the 1990s, around the world and especially in Peru, a process was undertaken to reactivate co-operatives and producer organizations. Fair Trade provided us with an advantage; it allowed us to be more competitive, and this, in turn, enabled us to develop our organizations.

But now, FLO's [Fair Trade Labeling Organization's] incentives and promotion is creating a vision which only considers the importance of gaining market share. The hypothesis is that if we lower prices, and if we lower the standards, we can gain a greater share of the market. I think that this vision [...] has brought us into a new phase [of Fair Trade] that presents a serious threat to our organizations.

On the consumer end, transnational companies are now included in Fair Trade. And for [producers] as well, there are also large companies participating. We will probably not be able to compete with these companies, so I think that now is the time to define the path. If Fair Trade continues to follow a vision exclusively tied to growth, sales and the marketplace, we believe that this is the wrong way to go. The impact and advances that have been achieved are at stake.

Unfortunately, these decisions are not currently being made in the best interest of the producers; they are taking into account the interests of large companies. We propose a return to our origins and suggest that the producer organizations should be the focal point.

[Producer organizations] have become protagonists and politicians; we play an important role in the economy; and we believe that Fair Trade should use its influence to impact regional decisions made by other institutions, by international aid, and by local, regional and national government. I think that this is the role [...] that Fair Trade should be supporting.

Investors Go to Source *By Daniel Fireside, Capital Coordinator*

In August I traveled to the department of Piura in Northern Peru to meet with some of Equal Exchange's producer partners. I was joined by Class B shareholders Arun Balasubramaniam and Soumya Ganapathy, and Brianna Murphy, Vice President for Client Service at Trillium Asset Management, one of the pioneering firms in the field of socially responsible investment advising.

We started our trip with a tour of the giant coffee warehouse and shipping center run by CEPICAFE, one of Equal Exchange's key coffee producer partners. As General Manager José Rojas Hernández explained, CEPICAFE was founded in 1995 with just a few hundred family farmers trying to improve their selling power by joining together as a co-op within the Fair Trade system. Equal Exchange bought the co-op's first container-load of coffee (around 40,000 pounds). Today CEPICAFE has 6,600 members exporting millions of pounds of organic coffee to Fair Trade buyers in the United States and Europe, and it is now one of the largest exporters in the country. The co-op has also successfully diversified into other products including jams, sugar, and award-winning chocolate and cacao.

We arrived near the end of the coffee harvest in Peru, and the CEPICAFE plant was in full swing. Operations Manager Gilmar Castillo showed us how they were able to sort, grade, and load a container of coffee every 10 hours. I had a happy reunion with Rodolfo Cruz García, the head of CEPICAFE's quality control department. I had last seen Rodolfo in our West Bridgewater office where he spent a week training with Equal Exchange's Quality Control team as part of our Cooperation in Quality Program. Quality Manager Beth



Ann Caspersen had helped Rodolfo set up the lab here in Peru. The entire processing facility was funded by over \$6 million in grants and loans from Fair Trade companies and development agencies—a stunning testament to the hard work and vision of the co-op's founders.

The heart of our trip took us several hours into the foothills of the Andes to a primary-level co-op of CEPICAFE's outside the village of Montero. We spent two nights in the houses of some of the first farmers to join CEPICAFE. Arun and Soumya stayed with the co-op's president, Gumercindo Quinde, and his family, while Brianna and I walked up a steep, windy dirt path to the house of Santos Luciano Zapata Girón, his wife, Bonifacia, their visiting daughter, and three grandchildren on vacation from school, as well as various cats, dogs, chickens, ducks, and other livestock. The house would be humble by the standards of Equal Exchange's customers, but Santos was quick to point out that the Fair Trade co-operative market had helped pay for the concrete floors, tin roofs, running water, electricity, and gas stove, as well as the education of his children and grandchildren.

Over the next few days we joined Santos on his small, but carefully tended, shade-grown organic coffee farm. The hike up the steep, rocky footpath to the coffee trees took our breath away, although 70-year-old Santos makes the trip several times a day during the harvest. Santos showed us how to pick only the ripe, red coffee cherries by hand. Our daily effort yielded less than a 100-pound sack full of cherries, while Santos filled up many more. We also got to see how the farmers used the co-op's mill and machinery to depulp the cherries, dry and sort them, and send them off to the processing plant where we had begun our journey.

Arun spoke the words we all had been thinking when he said, "I'll never look at a cup of coffee the same way again."

Left: CEPICAFE member Santos Luciano Zapata Girón shows his organic coffee trees outside of Montero, Peru. Top left: A fresh cacao pod. Top right: Class B shareholders Arun Balasubramaniam and Soumya Ganapathy with co-op member Bonifacia Calle de Zapata and her granddaughter Dianela.



Supporting a Cooperative Economy

At Equal Exchange we've been building an alternative to the prevailing models of business and capital for 25 years. Beyond choosing to work with small farmer co-ops worldwide and food co-ops here in the U.S., here's a snapshot of some of the ways we supported a cooperative economy in 2011:

CHARITABLE CONTRIBUTIONS

Every year we set aside part of our profit to give to organizations that support the Fair Trade or co-operative movements. In 2011, we gave a total of \$60,000 to:

- IDEAS INC.
- Cooperative Fund of New England
- The Labor-Religion Coalition of New York State
- Red Tomato
- Fair Trade Judaica
- Cultural Survival
- Interfaith Business Builders
- U.S. Federation of Worker Cooperatives: Democracy at Work Institute
- Boston Faith & Justice Network
- Circle of Women

OCCUPY WALL STREET

Equal Exchange issued a public statement in support of the Occupy Wall Street movement. Additionally, we donated 15 pounds of coffee and 1,776 Organic Dark Chocolate Minis to energize our local Occupy movement in Boston.

MADISON DEMONSTRATIONS

We teamed up with Michelangelo's and Fair Trade Coffeehouse to hand out free coffee in downtown Madison, Wisc. during the largest protest since the Vietnam War. State workers' collective bargaining rights were under threat, and Equal Exchange was out in the streets every day keeping the thousands of protesters caffeinated and warm with Organic Rabble Rouser.

P6: THE CO-OPERATIVE TRADE MOVEMENT

The Principle Six: Co-operative Trade Movement continued to grow in its second year. The initiative was created by Equal Exchange in collaboration with food co-ops to more effectively market products that are produced by small farmers, a co-op, or locally.

CO-OP MEMBERSHIPS

We're members of national co-operative organizations, including:

- U.S. Federation of Worker Cooperatives
- National Cooperative Business Association



OUR MODEL

Building a Successful Co-op Business Structure

By Esther West, Education Committee Co-Chair & Community Sales Representative



Throughout many histories and in many communities, people have found creative ways to challenge oppressive structures. Recently, Occupy Wall Street has been a vehicle for laying foundations of change

and participating in new ways of doing things. Co-operatives have strong histories in challenging unjust structures as well.

For 25 years, Equal Exchange has been proud to uphold our belief in alternatives through not only our trading practices, but also our co-op business structure. What does creating an alternative look like? Let's see:

One Person, One Vote: Each worker-owner gets one vote. Our voice isn't based on how many shares we own or what position we hold in the company.

Votes: The worker-owner body votes on things like our 4:1 pay ratio, new worker-owners and Board members, and bylaw changes.

Circle of Accountability: The Executive Directors are accountable to the Board, which consists of six worker-owners and three outside directors elected by worker-owners.

Education: An educated worker-owner body means a stronger organization and informed participation, so we have an Education Committee. This year we added a Language Coordinator and Events Coordinator.

While it takes hard work to continue developing our co-op to be the best it can be, Equal Exchange worker-owners are proud to be on this frontier of making work life reflect values of democracy.

WORKER-OWNER REPORT

We're Acting Like Owners

By Kelsie Evans, Worker-Owner Coordinator & Chocolate Products Coordinator



Worker-owners have clearly defined roles and responsibilities that dictate our participation in governance matters and distinguish between co-op decisions and day-to-day management decisions. But being

a worker-owned organization also has a way of influencing our culture and the way we interact with each other and the organization on a daily basis. Ownership is evident in the commitment each worker has to Equal Exchange and its success.

This year, the Worker-Owner Cabinet, a group appointed to support the elected Worker-Owner Coordinator (me), launched the Act Like an Owner campaign. This campaign recognizes fellow worker-owners for their contributions to the co-op. Winning owner-worthy actions over the last year ranged from the small but helpful, such as a worker-owner

stopping by one of our store accounts during his vacation and helping to clean out the coffee bins, to actions such as organizing a lunch to translate an upcoming meeting agenda for those worker-owners for whom English is a second language.

The campaign seeks to remind us that being an owner is about more than our 9-5 workday, and to foster a culture of ownership. When you look at each action on its own, it seems simple. Turning off the lights when you walk by an empty conference room isn't a business-altering action. But when we publicly acknowledge the contributions of one worker-owner, that action is magnified, inspiring others to Act Like an Owner, too.





CONGREGATIONS SUPPORT SMALL FARMERS THROUGH COFFEE PURCHASES

By Anna Utech, Community Sales Manager

When Equal Exchange and coffee drinkers in faith-based congregations get together, things happen. Through our Small Farmer Funds, congregations' coffee habits make icing on the cake. For every pound of Equal Exchange products congregations purchase, we give funds to our Interfaith Program partners for sustainable farming grants around the world. With thousands of congregations full of dedicated coffee drinkers, that meant a total of \$133,571 in funds to partners for 2011.

One example is Gumutindo co-op in Uganda, which you met on p. 3. Equal Exchange started buying coffee from Gumutindo in 2007, and in 2010 we launched a Gumutindo origin coffee with our partner Lutheran World Relief (LWR). Since then congregations have purchased 7.7 tons (15,387 pounds!) of Gumutindo's coffee. In addition to receiving fair prices from Equal Exchange, farmers have also benefited from Small Farmer Funds.

In 2008, LWR began working with Gumutindo. Funded in part by the LWR Small Farmer Fund, LWR's project has helped farmers in the 5,000+ member co-operative learn how to properly care for their trees, use manure as fertilizer, and process their beans to preserve quality. LWR also helped Gumutindo build a warehouse and purchase processing equipment.

<< *Matanda Ahmed, who gathers harvest samples for the quality team at Gumutindo, blows a dry skin called chaff off the coffee beans to prepare them for roasting.*

CAPITAL REPORT

Don't Believe the Textbooks

By Daniel Fireside, Capital Coordinator



Standard economics textbooks tell us that people are always seeking to maximize their own benefit without concern for anyone else—an arrangement that supposedly leads to a better outcome for everyone. The economic crisis of the past few years has shown us the folly of that line of thinking.

If you're an Equal Exchange investor, you are proof that there already is a better way to organize an economy—one where everyone looks out for each other's best interests, and where we measure success beyond just dollars and cents.

At Equal Exchange, we buy our coffee, tea, cocoa, and other products directly from democratically organized small farmer groups, at above-market prices. We arrange for pre-harvest financing and help the farmers produce and market the highest quality products. We also share profits equally within our own worker-controlled co-op. This unconventional business model means we need access to unconventional working capital—the kind that comes from people who support what we do,

and demand that we pursue the highest human values, rather than the fattest profit margins.

Over the past year, Equal Exchange took in \$2 million in new investments. We now have over \$10.5 million in equity investments in preferred stock. In addition, we have over \$300,000 in Class A shares paid in when workers are approved to become owners in the co-op. We can also count on key financing from mission lenders like the Calvert Foundation, Everence, faith groups, and committed individuals. And just a few years after we launched our innovative CD-backed loan program with Eastern Bank, Fair Trade enthusiasts have put over \$1 million of their savings in a program that guarantees a low interest rate line-of-credit to Equal Exchange.

All of these stakeholders have agreed to take on some extra risk, not with the goal of maximizing profits, but rather of building a better trading system—one that works for everyone by design, rather than as a lucky accident. We thank you for your partnership in building this mutually cooperative community.

EQUAL EXCHANGE INTRODUCES A HOT COCOA MIX, THE FIRST U.S. COCOA PRODUCT TO CARRY THE FAIR TRADE CERTIFIED™ SEAL, AND TO USE FAIR TRADE CERTIFIED™ SUGAR.

EQUAL EXCHANGE LAUNCHES BAKING COCOA. A FARMER CO-OP MAKES AN INVESTMENT IN EQUAL EXCHANGE FOR THE FIRST TIME. EQUAL EXCHANGE HELPS PROVIDE \$1 MILLION IN PRE-HARVEST CREDIT FOR PRODUCERS. OVER \$2 MILLION IS INVESTED IN PREFERRED STOCK.

A Year of Progress and Transformation

By Nicholas Reid, Board Chair & Natural Foods Sales Representative



Despite dramatic upheavals in the wider Fair Trade movement, and a major restructuring internally, Equal Exchange continued to grow our sales, turn a profit and further our mission in 2011. From a Board perspective, the past year has been a renaissance; one of remarkable progress and transformation. In May, the Board and worker-owners adopted a new model of governance, and a new approach to our relationship with management and our stakeholders. The Board chartered two new committees: one to oversee and maintain our bylaws and governing policies, and one tasked with developing leaders

and leadership skills. An Implementation Team has been collaborating with the worker-owners and Co-Executive Directors to develop a new set of metrics to evaluate our success. In May, the Board welcomed five new directors to our ranks. The energy, creativity and wisdom they have provided to our work have been indispensable to the process of reinventing ourselves as a board, and improving the quality and tenor of our leadership.

Far from easy, and anything but boring, 2011 confirmed my faith in the power and potential of democracy, co-operatives, and of Equal Exchange itself. With commitment to our mission and trust in one another, I truly believe we are unstoppable.



All Bananas Are Not Created Equal

By Nicole Vitello, President of Oké USA/Equal Exchange Bananas



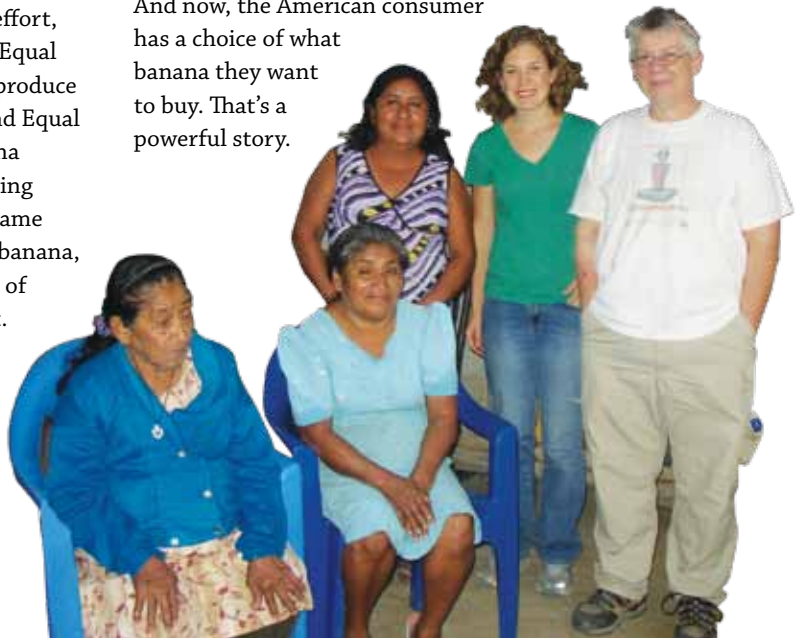
In 2011, Oké USA sold \$3.5 million or roughly seven million pounds of Equal Exchange branded Fair Trade bananas. Sales were down from 2010's \$4.5 million, but profitability and margin were higher due to streamlined staff and operations.

Our primary goal this year was to reinvigorate the banana program with core customers: food co-ops and independent groceries. As part of this effort, the first-ever "banana summit" was held at Equal Exchange headquarters, bringing together produce managers, store managers, and Oké USA and Equal Exchange staff, to discuss the current banana landscape and the challenges in differentiating the Equal Exchange banana. It may be the same yellow, Cavendish variety banana as a Dole banana, but behind it is a completely different story of democracy and small farmer empowerment.

In further pursuit of the story behind Equal Exchange bananas, Oké USA staff brought a delegation of Twin Cities produce managers to Peru to meet

Jean Eilers of Eastside Food Co-operative in Minneapolis, right, and Jessica Jones-Hughes of Oké USA, second from right, staying with the Navarro Pulache family, a member of CEPIBO co-op in Peru.

the banana producers of CEPIBO, and to better understand the challenges of the co-op becoming independent processors and exporters. Meetings with co-op managers, logistics experts and growers highlighted the level of job creation and ownership of all levels of production that these co-ops have seen through their Fair Trade certification and sales. They are part of a growing network that gives growers a choice of where to sell their fruit. And now, the American consumer has a choice of what banana they want to buy. That's a powerful story.



GET INVOLVED WITH EQUAL EXCHANGE

- Organize a fundraiser at your school or organization
- Serve Equal Exchange coffee, hot cocoa and tea during fellowship hour at your place of worship
- Put your savings to work for small farmers with the Equal Exchange CD at Eastern Bank
- Ask your local store or café to carry Equal Exchange products
- Learn about investing in Equal Exchange
- Subscribe to our e-newsletter, *The Exchange*
- Check out our blog: smallfarmersbigchange.coop
- Like us on Facebook: facebook.com/equalexchange
- Follow us on Twitter: @EqExCoop

FINANCIAL REPORT

Profitable Despite High Price of Coffee Beans *By Brian Albert, Director of Finance*



This was one of the more complex years we have faced in our 25-year history. Sure, the early years were tough; who knew whether this radical idea called “Fair Trade” would ever take hold in the U.S.? But the prices commanded by the coffee market early in 2011 offered unprecedented challenges to us all. How much of this high-priced coffee should we buy? How much of the increased price can we absorb? Will the market bear a price increase on our roasted coffee?

It felt like the ink was barely dry on the 2011 budget when we began to wrestle with these questions, and

by March we were working on the second round of revisions. Fortunately, changes that had been implemented over the past several years provided us with the tools we needed to answer these difficult challenges. Having reduced our debt load strengthened our balance sheets and allowed us access to additional lines of credit. A more robust costing structure gave us the ability to accurately forecast the impact of the higher coffee prices. And cost control measures allowed us to meet operating expenses despite a smaller margin percentage, still achieving a level of profitability within our targeted range. With team work, dedication, and hard work, we were able to thrive in this volatile environment.

INCOME STATEMENT

	2011	2010	2009
Total Sales	\$46,820,000	\$36,526,000	\$35,833,000
Cost of Sales (coffee/tea/chocolate, roasting, packaging, shipping)	\$33,618,000	\$23,659,000	\$23,075,000
Operating Expenses (marketing, sales, administration, education)	\$11,350,000	\$11,235,000	\$10,771,000
Other Expenses (primarily interest on loans)	\$382,000	\$309,000	\$619,000
Total Costs	\$45,350,000	\$35,203,000	\$34,465,000
Net Income Before Taxes	\$1,472,000	\$1,323,000	\$1,367,000
Taxes	\$649,000	\$578,000	\$593,000
Shareholder Dividends	\$429,000	\$325,000	\$254,000
Annual Retained Earnings (reinvested in the business)	\$392,000	\$420,000	\$520,000

..... **2006**
 EQUAL EXCHANGE ADDS THREE NEW CHOCOLATE BARS AND THREE NEW TEAS. A FUNDRAISING PILOT PROJECT IS INTRODUCED TO SCHOOLS. EQUAL EXCHANGE ESPRESSO BAR OPENS IN SEATTLE, WASH.

..... **2007**
 EQUAL EXCHANGE LAUNCHES A DOMESTIC FAIR TRADE LINE WITH NUTS AND BERRIES. EQUAL EXCHANGE OPENS A NEW OFFICE IN MINNESOTA AND INSTALLS A NEW ROASTER IN WEST BRIDGEWATER, MASS., TRIPLING OUR ROASTING PRODUCTION.

Equal Exchange Consolidated Financial Statements, 2011 & 2010

These financial statements are extracts from the Audited Financial Statements of Equal Exchange, Inc. for the years ending Dec. 31, 2010 and 2011. This independent audit was conducted in accordance with auditing standards generally accepted in the United States of America by the firm Leone, Morrissey, Henrikson & Synan, PC of Norwell, MA.

STATEMENTS OF EARNINGS AND RETAINED EARNINGS

	<u>2011</u>	<u>2010</u>
NET SALES	\$ 46,819,829	\$ 36,525,856
COST OF SALES	<u>33,617,786</u>	<u>23,659,316</u>
GROSS PROFIT	13,202,043	12,866,540
OPERATING EXPENSES	<u>11,350,116</u>	<u>11,234,758</u>
EARNINGS FROM OPERATIONS	1,851,927	1,631,782
OTHER INCOME AND (EXPENSE):		
Interest Income	7,346	14,832
Interest Expense	<u>(387,182)</u>	<u>(323,662)</u>
	<u>(379,836)</u>	<u>(308,830)</u>
EARNINGS BEFORE INCOME TAXES AND MINORITY INTEREST	1,472,091	1,322,952
INCOME TAXES (CREDIT):		
Current:		
Federal	500,000	336,000
State	<u>189,000</u>	<u>148,000</u>
	689,000	484,000
Deferred:		
Federal	(55,000)	38,000
State	<u>15,000</u>	<u>56,000</u>
	<u>(40,000)</u>	<u>94,000</u>
	649,000	578,000
MINORITY INTEREST IN INCOME OF CONSOLIDATED SUBSIDIARY	<u>2,049</u>	
NET EARNINGS	821,042	744,952
RETAINED EARNINGS, BEGINNING	3,595,014	3,174,783
PREFERRED STOCK DIVIDENDS PAID	<u>(428,917)</u>	<u>(324,721)</u>
RETAINED EARNINGS, ENDING	<u>\$3,987,139</u>	<u>\$3,595,014</u>

BALANCE SHEETS

	<u>2011</u>	<u>2010</u>
ASSETS		
CURRENT ASSETS:		
Cash	\$ 757,429	\$ 823,669
Accounts Receivable	2,849,063	2,655,707
Inventory	15,117,041	8,290,646
Notes Receivable, Current Portion	34,800	17,538
Prepaid Expenses and Other	800,338	535,330
Deferred Income Taxes	<u>367,496</u>	<u>377,496</u>
	19,926,167	12,700,386
PROPERTY AND EQUIPMENT, NET	5,979,771	6,653,683
OTHER ASSETS:		
Intangible Assets, Net	182,212	211,153
Investments	43,360	68,513
Notes Receivable, Net of Current Portion	<u>39,249</u>	<u>38,501</u>
	<u>264,821</u>	<u>318,167</u>
	<u>\$ 26,170,759</u>	<u>\$ 19,672,236</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Notes Payable – Lines of Credit	\$ 3,463,192	\$ 567,952
Current Portion of Long-Term Debt	1,253,534	121,793
Accounts Payable and Accrued Expenses	2,198,802	1,539,374
Corporate Income Taxes Payable	271,632	
Patronage Rebates Payable	<u>376,382</u>	<u>147,000</u>
	7,563,542	2,376,119
LONG-TERM LIABILITIES:		
Long-Term Debt, Net of Current Portion	2,616,521	3,228,784
Deferred Income Taxes	<u>850,000</u>	<u>900,000</u>
	3,466,521	4,128,784
MINORITY INTEREST IN CONSOLIDATED SUBSIDIARY	165,324	163,276
STOCKHOLDERS' EQUITY:		
Preferred Stock, \$1 Par Value; 390,116 Shares Authorized; Issued and Outstanding, 390,116 Shares in 2011 and 333,262 Shares in 2010	10,728,960	9,156,382
Common Stock, \$1 Par Value; 200 Shares Authorized, Issued and Outstanding, 108 Shares in 2011 and 107 Shares in 2010	318,753	313,343
Less: Common Stock Subscriptions Receivable	(59,480)	(60,682)
Retained Earnings	<u>3,987,139</u>	<u>3,595,014</u>
	<u>14,975,372</u>	<u>13,004,057</u>
	<u>\$ 26,170,759</u>	<u>\$ 19,672,236</u>

The Equal Exchange 2011 Annual Report can be downloaded at: www.equalexchange.coop/2011-annual-report

Equal Exchange Consolidated Financial Statements, 2011 & 2010

STATEMENTS OF CASH FLOWS

	<u>2011</u>	<u>2010</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net Earnings	\$ 821,042	\$ 744,952
Noncash Items Included in Net Earnings:		
Deferred Income Taxes (Credit), Net	(40,000)	(132,496)
Depreciation and Amortization	979,992	915,949
(Increase) Decrease in:		
Accounts Receivable	(193,356)	(469,939)
Inventory	(6,826,395)	3,083
Prepaid Expenses and Other	(265,008)	(120,191)
Increase (Decrease) in:		
Accounts Payable and Accrued Expenses	659,428	449,671
Corporate Income Taxes Payable	271,632	
Patronage Rebates Payable	<u>229,382</u>	<u>(274,875)</u>
	(4,363,283)	1,116,154
CASH FLOWS FROM INVESTING ACTIVITIES:		
Additions to Property and Equipment	(275,077)	(531,480)
Increase in Intangible Assets	(2,062)	(203,047)
Decrease in Investments, Net	25,153	313,348
(Increase) Decrease in Notes Receivable, Net	<u>(18,010)</u>	<u>274,996</u>
	(269,996)	(146,183)
CASH FLOWS FROM FINANCING ACTIVITIES:		
New Borrowings:		
Notes Payable - Lines of Credit	5,888,215	500,000
Long-Term Debt	620,000	
Debt Reduction:		
Notes Payable - Lines of Credit	(2,992,975)	(556,976)
Capital Lease Obligations		(1,125,216)
Long-Term Debt	(100,522)	(390,070)
Increase in Minority Interest	2,048	163,276
Proceeds From Common Stock Subscriptions	44,582	47,495
Proceeds From Issuance of Preferred Stock	1,432,684	1,036,500
Proceeds From Dividend Reinvestment	277,169	212,418
Redemption of Preferred Stock	(137,275)	(70,965)
Redemption of Common Stock	(37,970)	(14,710)
Preferred Stock Dividends Paid	<u>(428,917)</u>	<u>(324,721)</u>
	<u>4,567,039</u>	<u>(522,969)</u>
NET INCREASE (DECREASE) IN CASH	(66,240)	447,002
CASH - BEGINNING	<u>823,669</u>	<u>376,667</u>
CASH - ENDING	\$ <u>757,429</u>	\$ <u>823,669</u>

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION

	<u>2011</u>	<u>2010</u>
Cash Paid During The Year For:		
Interest	\$ <u>364,865</u>	\$ <u>334,347</u>
Income Taxes	\$ <u>425,600</u>	\$ <u>445,917</u>



Quality control assistant Kirya Mary roasts green coffee beans on a sample roaster in the quality control lab of Gumutindo co-operative in Mbale, Uganda.

PHOTO CREDITS

Cover Brianna Murphy; Inside cover José Gabriel Guevara Delacruz; p. 2 tea Gary Goodman, trike Joseph Driscoll, olive oil Susan Sklar; p. 3 left Lynsey Miller, right Beth Ann Caspersen; p. 6 Brianna Murphy; p. 7 Lucas Fowler; p. 9 Ashley Symons; p. 10 courtesy of Jessica Jones-Hughes; p. 13 Ashley Symons

2011

25th

WE CELEBRATE 25 YEARS OF SUPPORTING SMALL FARMER ORGANIZATIONS.



SALES PASS \$46 MILLION.



EQUAL EXCHANGE'S PREFERRED STOCK REACHES OVER \$10 MILLION.



MARKET PRICE OF COFFEE HITS A 34-YEAR HIGH.



EQUAL EXCHANGE INTRODUCES FAIRLY TRADED ORGANIC EXTRA VIRGIN OLIVE OIL FROM THE WEST BANK.



EQUAL EXCHANGE HAS OVER 100 WORKER-OWNERS.

2010

EQUAL EXCHANGE BECOMES FAIR TRADE AND SOCIAL CERTIFIED BY IMO. ALSO BECOMES 90% OWNERS OF OKÉ USA.

**MASSACHUSETTS
HEADQUARTERS**



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2011



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OREGON OFFICE

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