

A BIG YEAR

FOR

SMALL FARMERS



2014 ANNUAL REPORT

SALES BY PRODUCT CATEGORY 2014



OUR MISSION

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.

Cover: Coffee Quality Manager Beth Ann Caspersen greets a member of the women's group in the Nasufwa community of Gumutindo Co-op in Uganda.

Embracing Our Connections

From the Office of the Executive Directors

In 2014, Equal Exchange sales grew nine percent, while at the same time we advanced our incipient efforts to develop an international network of worker co-operative alternative trade organizations.

On sales of \$61.1 million, after charitable contributions and worker-owner patronage disbursements, we realized net income before taxes of \$2.2 million. Perhaps more interesting than the headlines are the details and challenges underpinning them.

The encouraging aspect of the sales growth was the strong performance of chocolate, tea, and nuts. Food co-ops moved 75,676 pounds of cashews alone, helping establish real market access for these farmers. Chocolate and tea reached consumers via these food co-ops, as well as distributors and our network of 8,000 faith congregations.

Coffee, on the other hand, was challenging both on the supply side and our selling side. Sales grew, but only slightly, as the market saw more “ethically sourced” coffee competing with our brand and with Fair Trade in general. Farmers in Latin America, meanwhile, are waging valiant efforts to stave off the ravages of *roya*, or Coffee Leaf Rust, a fungus exacerbated by climate change that essentially starves the coffee cherries of nutrients. We have and will continue to steer new resources to farmer partners to mitigate the losses from *roya*. (See more on p.6.)

Our new cooperative partner, Equal Exchange Ltd. in the U.K., struggled to turn around a very difficult few years and ultimately did make a tiny year-end profit. They are piloting two of our product lines—chocolate and tea—in the U.K. market to learn if these integrated supply chains can bring mutual gain.



RINK DICKINSON
Co-Executive Director

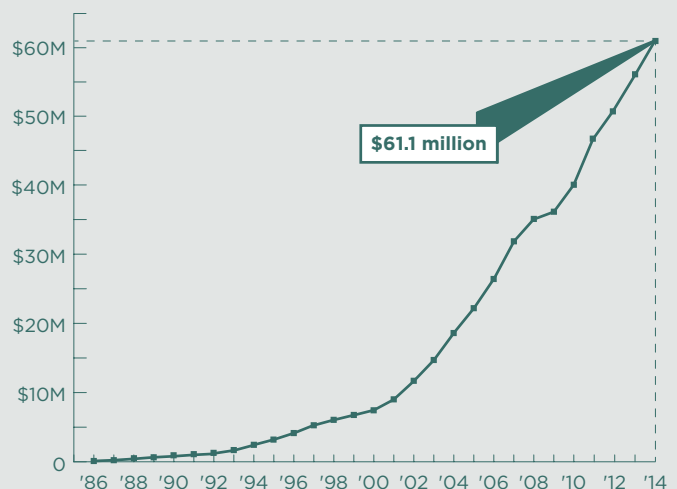


ROB EVERTS
Co-Executive Director

In addition, in 2014 we invested in La Siembra, a sister co-op in Ottawa, Ontario. Much as Equal Exchange U.K. had connected us with small-scale tea farmers many years ago, La Siembra similarly helped launch our cocoa and chocolate lines. This historic tie was pivotal to our decision to invest in them at a time of great need, and our hope is that all three co-ops can build an enduring model that benefits workers and farmers for many years to come. Thank you for your partnership as we build toward this future.

Rink Dickinson *Rob Everts*

SALES GROWTH 1986-2014



Growing Closer to Customers

By Jessie Myszka, Co-Director of Operations

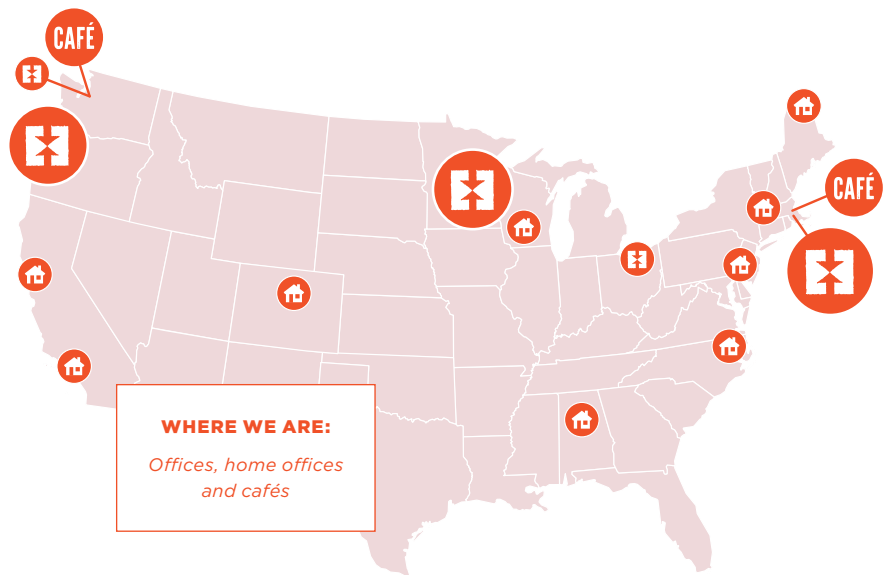
Why grow? At Equal Exchange, it's not to create more profit. It's for two reasons: to move more volume for farmers and engage more consumers in alternative trade. Since the recession subsided, we have grown—but in a context of more uncertainty. So, we chose to push our current infrastructure to its limits.

First, we rented temporary cold storage locally after outgrowing our refrigerated space in Massachusetts. Meanwhile, we considered a bigger long-term question: should we add space nearby, in other regions, or move entirely to some “Eden” that is more cost-effective for both workers and the business?

Eventually we came to embrace a growth pattern that we have cultivated organically since the mid-1990s—go to our customers. We intend to grow in the metro areas where we already have a presence: Boston, Portland, Seattle, the Twin Cities, and Cleveland. Now we call it multi-nodal, cultivating a more balanced distribution of work.

During 2014, we made major investments to boost our operational systems in order to better sustain past sales growth as well as support our future expansion:

- **PEOPLE POWER:** We created Co-Directors of Operations (I am one of them). I moved to the Portland facility and we hired Denise Abbott in the Northeast. I attend to the nodes and she focuses on the Massachusetts sites.



- **PHYSICAL FACILITIES:** We secured a long-term lease on an additional warehouse a few miles away from our production site in West Bridgewater. In Cleveland we graduated from a storage unit to a small leased warehouse/office space.
- **TECHNOLOGY:** A cross-departmental team selected a new enterprise resource planning software system that can accommodate our more sophisticated manufacturing, food safety, and inventory requirements.
- **FOOD SAFETY:** We engaged a consultant group to identify the food safety systems and staffing investments to handle our growing product lines, particularly of foods that are directly ingested.

Thanks to our dedicated worker-owners and our network of customers, allies, and investors, we are now set for our next stage of mission-driven growth.



SMALL FARMER FUNDS 2014

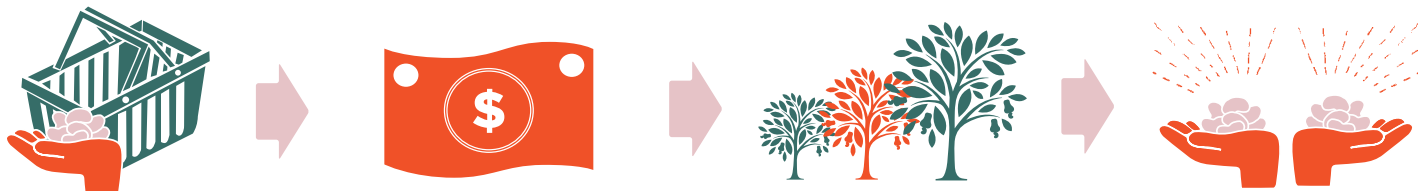
Equal Exchange partners with a vibrant network of thousands of faith communities working to make a difference, together. Through our Community Sales program, we partner with faith-based relief, development, and human rights organizations, and work with communities of faith as they learn about and promote Fair Trade. In 2014, Equal Exchange generated \$110,598 for our Small Farmer Fund through our 12 faith-based partnerships. Learn more: equalexchange.coop/our-partners

American Friends Service Committee	\$1,442
Baptist Peace Fellowship of North America	\$936
Church of the Brethren	\$1,271
Catholic Relief Services	\$14,415
Disciples of Christ	\$1,635
Jewish Fair Trade Project	\$915
Lutheran World Relief	\$34,435
Mennonite Central Committee	\$2,797
Presbyterian Church (U.S.A.)	\$14,801
United Church of Christ	\$7,309
United Methodist Committee on Relief	\$16,332
Unitarian Universalist Service Committee	\$14,309

Jaydee Hanson, right, of Mount Olivet United Methodist Church in Arlington, Va., with a coffee farmer and member of Tierra Nueva Co-op during an Equal Exchange-led delegation to Nicaragua.

Supporting Small Farmer Supply Chains Through the Grow Together Fund

By Phyllis Robinson, Education & Campaigns Manager



Building a supply chain is really hard. It's even more difficult if, instead of profits, your mission is to build a different kind of supply chain, one that tries to:

- Pay farmers the highest possible price.
- Work directly with farmer co-ops to help them find a caring market.
- Preserve fragile ecosystems around the world.
- Support farmer co-op development projects that go beyond business-as-usual.

But that's our mission. And being able to bridge the gap between innovative farmers in remote places and shoppers who are looking for fair, sustainable food options makes it all worth it.

In 2014, we created the Grow Together Fund, so that Equal Exchange and food co-ops across the country could unite with small farmer co-ops to create and strengthen this alternative supply chain that puts people before profits. Our first Grow Together Fund project supports APRAINORES, an inspiring co-op of cashew farmers in El Salvador.

During the first phase of the campaign, Equal Exchange and six participating co-op grocery stores donated to the Grow Together Fund. In total, we raised \$50,000 for APRAINORES. The funds are being used to plant new cashew trees, provide technical assistance, and create a revolving loan fund which the co-op will manage to make short-term loans to the farmers who would otherwise be forced to borrow from unscrupulous middlemen.



Education & Campaigns Manager Phyllis Robinson, front right, with members of APRAINORES Co-op in El Salvador. For more information on the Grow Together Fund go to equalexchange.coop/growtogether



Left: The flavor potential of these raw cacao beans begins with the genetic variety of the fruit.
Below: University student Lizeth Kokalli explains her initial findings on diverse drying methods for cacao and their effects on quality.



Sweet Success: Helping Small Farmers Raise the Bar for Quality Cacao

By Cristina Liberati, Grant Projects Coordinator

The Peruvian small farmer co-operative ACOPAGRO was one of the first grant partners that Equal Exchange started working with on the USAID Co-operative Development Program (CDP) back in 2010, in collaboration with our implementing partner, TCHO. Since that time, ACOPAGRO staff and members have consistently shown tremendous leadership and vision. They have taken full advantage of the grant to experiment, explore, innovate, and share their knowledge.

In 2014, the co-op published *Best Practices for Cacao Processing*. This concise and user-friendly guide represents four years of trials and research led by the quality manager and CDP grant manager at ACOPAGRO, David Contreras. David and consultant Aldo Reyes mentored several local university students to investigate temperature curves, pH, and humidity levels during the fermentation and drying processes of the cacao. What they ended up with was a pattern by which they can tailor these processes to their different buyers' needs.

Why is this important? Imagine that you are going to bake an apple pie (stick with me here). Recently I was speaking to my grandmother and she was complaining that my grandfather, who does the shopping, insists on buying McIntosh apples. McIntosh apples are delicious, but in apple pie they turn into applesauce. She also prefers the flavor of an Empire or Fuji. Nonetheless, she manages to make a delicious pie with the

MacIntosh apples. There are two points to this story. First, the variety of apples matters for the final product, and the same applies for cacao. Different varieties of cacao will result in different flavors in your chocolate bar, and every chocolate maker has unique preferences.

Second, the recipe that is used and the attention to detail in the preparation matter, too. You could start with great apples and ruin them by cooking them improperly, but even mediocre apples will be delicious with the right recipe. When cacao is removed from pods, beans are fermented and dried to reduce bitterness and astringency, and to develop the fudgy flavor notes as well as other flavors like nut or dried fruit notes. In other words, the recipe that is used to ferment and dry, and the science used to develop that recipe, are crucial. Yet very little of this science exists, and where it does it is not generally shared.

So, ACOPAGRO designed a CDP project to collect the data they needed, to analyze it, and to develop the recipes that would allow them to optimize quality and deliver consistently great cacao to their buyers. Seeing real value in what they have learned, they have now trained all of their processing managers in these protocols and they have even made the *Best Practices for Cacao Processing* available for download on their website. The co-op has also

taken model fermentation boxes and drying racks and other infrastructure created through the CDP program and built over 30 replicas on their own.

When the CDP project started, ACOPAGRO received no market premiums for quality for their cacao. In 2012, they received a total of \$1,800, and in 2014, quality premiums totaled more than \$54,000. To quote Matt Damon's character from the movie *Good Will Hunting*, "How do you like them apples?"

COOPERATIVA AGRARIA CACAOTERA ACOPAGRO

Country: **Peru**
Founded: **1997** with **27 members**
Members in 2014: **2,000**
Commercial Products: **Cacao**
Production: **5,000 MT** dried cacao
sold annually
www.acopagro.com.pe



Find cacao from ACOPAGRO in these Equal Exchange products: Organic Bittersweet and Organic Semisweet Chocolate Chips

UPDATES FROM EAST AFRICA

By Beth Ann Caspersen, Coffee Quality Manager

Training in the DRC

Helping to build the capacity and quality of our co-operative partners has been a key strategy for our coffee buying team for years. One example of this work is in the Democratic Republic of the Congo (DRC), where I helped to identify and train a coffee cupper for SOPACDI in South Kivu. Thanks to a grant from longtime partner United Methodist Committee on Relief through our Small Farmer Fund program, I was able to travel to the DRC and work with the very same cupper I helped to identify previously in 2012.

Our workshop was intended to expand on some of the key concepts needed in quality control for coffee, but was fraught with challenges that are part of everyday life in the DRC, like having access to regular electricity. It took some creative problem solving and late hours to get through all of the training content I had planned, including roasting by flashlight and driving more than two hours to get another grinder to conduct our coffee cuppings. But we did it!

Dunia “Moises” Muhindo was selected for the coffee quality control position at SOPACDI right after graduating from college, when he was unsure about his future, and said he felt especially thankful for our help and persistence with training. “My life has completely changed,” he told me. “I am grateful for the opportunity to work with buyers like Equal Exchange.”

Spending scarce resources on salaries for coffee quality personnel can be a hard call for newer co-ops. In the case of Joachim Munganga, the general manager of SOPACDI, he was initially unsure about the investment, but shared an example of the important role that Moises played in the co-op.

Some coffee had been poorly processed and remained in the fermentation tank for an extended period of time, which produced a vinegary flavor on the cupping table. If SOPACDI did not have Moises working as a cupper, they would not have discovered this defect, nor would they have understood the reason that a buyer would reject their coffee. Understanding the quality of their coffee highlighted the important role of quality control to identify problems and inevitably helped them to understand the actual value of the coffee as well.



Coffee Quality Manager Beth Ann Caspersen visits with SOPACDI farmers in the Democratic Republic of the Congo.

Over \$50K Raised for the Panzi Foundation

Over the last few years, we’ve worked in various ways to raise money for the Panzi Foundation in the Democratic Republic of the Congo (DRC). Equal Exchange started the Congo Coffee Project in September 2011, and since then we have raised more than \$50,000 for the Panzi Foundation to support the Panzi Hospital aftercare program, Maison Dorcas, for survivors of sexual violence. We raised \$12,000 in 2014 alone through Congo Coffee Project sales.

During my second visit to the Panzi Hospital, in November 2014, I had the pleasure of spending time with the always inspirational Zawadi Nabintu, known fondly as Mama Zawadi, the manager of Maison Dorcas and the sister of Panzi founder, Dr. Denis Mukwege. It was only my second time meeting her, but her presence always fills me with renewed energy and fight for the women at Maison Dorcas. Her words are strong and clear, her eyes are full of pain and hope.

I also met with the women involved in the Panzi bag project, a program made possible due to the funds we raised in 2013, which provides the women with weaving skills that they can use when they leave Maison Dorcas. To date, Equal Exchange has purchased more than 250 of these bags to resell to our customers. Women that make the bags are paid \$10 for each one, of which they are paid \$5 for the bag immediately, and \$5 is held in a savings account that the women receive when they leave the aftercare program.

The women were very grateful for all of our work and contributions to Maison Dorcas and they specifically asked me to return to the U.S. and continue to tell their story.



In the spring of 2014, the Equal Exchange Community Sales team raised \$4,720 to fund the second phase of an energy-efficient stove project at Gumutindo Co-op in Uganda. During my trip to Uganda in November, we reviewed the progress from the initial phase of the stove project that took place in 2012-2013, and created a joint strategy for three different communities in which this second set of stoves will be installed.

Members of the co-op wanted more training on constructing the energy-efficient stoves and so we altered our thinking to include a strong training element in phase two. In early 2015, more than nine different trainings will be conducted by a local stovemaker to farmers in three different communities. Once trained, the farmers will utilize these skills to construct 75 stoves in the communities. Transparency is of the utmost importance in the co-operative system, so it was important to create a clear and fair system to choose who would get the stoves.

Beneficiaries will be chosen by the elected committee members for each community based on this criteria: they must be an active member of Gumutindo that supplies coffee, attends meetings, and complies with Gumutindo standards. The stove project is scheduled to be completed by August 2015.

Learn more: equalexchange.coop/congo-coffee-project

COFFEE LEAF RUST

The Ongoing Crisis

A Q&A with Our Coffee Buyer, Carly Kadlec



Right: The impact of roya on the underside of coffee leaves on a farm in Guatemala, as seen by the yellow-orange stains.

As part of our purchasing team at Equal Exchange, Carly Kadlec regularly travels to visit coffee producers in Central and South America. She sees firsthand the challenges presented by Coffee Leaf Rust—and the innovative ways farmers are fighting it.

Q: What is Coffee Leaf Rust and why is it a problem?

A: Coffee Leaf Rust, or *roya* in Spanish (scientific name *Hemileia vastatrix*), is a fungus that overtakes coffee plants and cuts off their nutrient supply, eventually stripping them of reproductive ability or even killing them. Over the past several harvest seasons in Central America, *roya* has profoundly impacted farmers' livelihoods as the fungus has thrived and spread between periods of unusually heavy rainfalls, dry spells, and waves of intense heat. Among some coffee partners in our supply chain, the impact of *roya* has been brutal and swift—co-operatives from Guatemala to Peru have experienced 80 percent drops in productivity over the past three harvests directly due to the fungus.

Q: Have our farmer partners been successful in combating roya?

A: Clear and permanent success is elusive in fighting *roya*. The experience of our farmer partners shows that *roya* is nearly impossible to eradicate. Because of its nature, you have to coexist with the fungus. Co-operatives and associations in our supply chain

have had varying degrees of success when dealing with *roya*. Depending on the severity of the crisis and the resources available, certain regions and co-operatives have been more effective than others in fighting the fungus. The groups that have had success in controlling Coffee Leaf Rust have also faced increased costs for the labor and materials required to properly renovate and fertilize their farms. Especially in the world of organic production, without the use of synthetic chemical inputs, soil health and quality are the key to recovering from *roya* and preventing future outbreaks. Secondary co-operatives such as Manos Campesinas in

Quetzaltenango, Guatemala, have developed a stronger network of community-based technical assistants to increase farmer knowledge about farm renovation and management. These techniques are part of a larger effort, stemming from the *roya* crisis, to increase farm resilience through better on-farm practices.

For other co-operatives, the *roya* crisis has revealed the ongoing precarious position of small landholders in the coffee economy and the need for solidarity from trading partners, NGOs, government organizations, and credit providers. Access to affordable medium- and long-term credit for renovation is one of the most important factors in recovery from *roya*. Co-operatives seek out small landholder-friendly lending institutions to provide low-interest medium and long-term loans to finance the renovation of members' farms. Because it takes three years to go from coffee seedling to the first full harvest, farmers must have access to affordable medium-term credit as they begin replanting their farms with younger, more vigorous plants and *roya*-resistant varieties. Equal Exchange has collaborated with allies across the coffee industry,

“The experience of our farmer partners shows that *roya* is nearly impossible to eradicate. Because of its nature, you have to coexist with the fungus.”



RED CHERRY CHALLENGE

In response to the crop damage and income loss due to Coffee Leaf Rust, Equal Exchange launched the Red Cherry Challenge, a yearlong initiative running in 2014-2015 to raise \$15,000 for farmer-led resiliency and recovery efforts. Churches, individuals and community groups around the country are joining the Red Cherry Challenge and pledging to educate themselves and their communities about the difficulties that farmers are facing. In turn, Equal Exchange donates 10 cents for every pound of coffee that they buy to the Red Cherry Fund. Together, we're connecting coffee drinkers and coffee farmers to make a measurable difference. Learn more at equalexchange.coop/rcc

such as Root Capital, in supporting their Coffee Farmer Resilience Initiative which provides annual grants to farmer groups focusing on plant renovation and increasing technical capacity.

Q: What is the role of Fair Trade coffee buyers in supporting farmers' efforts?

A: During our frequent visits to producer partners, I often ask the members and staff: what do you think Equal Exchange as buyers can do to support recovery efforts? The most common response I get is: keep doing what you are doing. They place high importance on us as buyers communicating often, having flexibility, providing pre-harvest financing, and supporting co-operative-based efforts at renovation. They need trade partners who believe in solidarity and can make medium- and long-term investments in their supply chain. In 2014, we focused a lot on understanding where each group stands in regards to combating *roya* and the resources available to them. In 2015, we hope to facilitate more farmer-to-farmer exchanges on productivity and dedicate more resources toward supporting what the producer groups are already pursuing on the ground: farm renovation and plant resilience.

Q: What impact is Coffee Leaf Rust having on our coffee supply chain?

A: I have heard this question in various forms: Are we running out of coffee? Is Equal Exchange able to get all the coffee it needs? The majority of the burden of *roya* has fallen on the shoulders of our farmer partners. They produce less coffee, have lower yields, and must invest in expensive farm renovation. For Equal Exchange, the difficulties in this crisis have been ensuring that we will have enough high-quality coffee to roast while also supporting our long-term farmer partners. We have managed to maintain our relationships and even expand our trade relationships with certain groups. I believe that thanks to our strong relationships with farmer organizations, we have been able to navigate this crisis and we will continue to act as Fair Traders and allies of small landholders throughout the coffee-growing world.



Right: Carly Kadlec with Hugo Vasquez Peres, right, and Miguel del Aguila, left, two staff members of Manos Campesinas visiting farms of Flor del Cafe in Santa Rita, Guatemala, to see the work and renovations being done to help combat *roya*.



Transforming the Avocado Industry

By Jennie Msall, Oké USA Supply Chain Coordinator

What do we mean when we talk about building a transformative trade model versus reforming the current model? Reform means taking what already exists, and then tweaking it. It means making amendments and revisions until it is better. But when we transform something, we start from scratch, moving beyond what has worked in the past and completely reconstructing the system. Reform is easier, safer, and faster; transformation is harder, riskier, and happens over time.

At Oké USA, Equal Exchange's fresh fruit subsidiary, our work partnering with PRAGOR, a co-operative of small-scale avocado farmers in Michoacán, Mexico, produce distributors, and natural food stores to build a more just and sustainable avocado supply chain has been incredibly challenging. For the past year, we have all taken tremendous risks, and while our first season was successful in many ways, we are still slowly figuring out how to make this a sustainable program for all stakeholders.

There are days when this work feels small. PRAGOR represents just 20 farmers. We import small volumes of avocados for only a portion of the year. We sell these avocados to small stores. Operating on a small scale means our supply chain has some challenges. But the basic ideas behind this model are big ideas, and they are the foundation for what our food system should—and can—look like. These ideas include:

- 1. Farmers own their own land.** PRAGOR is a co-operative of 20 farming families who each own an average of 10 acres of land, all 100 percent organic. Many of the members transitioned to organic 10 or more years ago, a revolutionary move at the time. At Equal Exchange, we have seen that when farmers own their own land, they are more likely to take measures to ensure the environmental sustainability of the land. Owning land is inherently more empowering than working as a laborer on a plantation, and provides producers with greater economic security and opportunity.
- 2. Small-scale farmers have access to the global marketplace.** Avocado agribusinesses have a heavy presence in the region where PRAGOR members farm. For many avocado farmers, their only option is to sell their avocados to big companies. The price fluctuates greatly throughout the season. Producers do not have enough information, power, or volume to negotiate an appropriate price. By organizing into a co-operative, PRAGOR has built power for these 20 producers. They now have the infrastructure to export their avocados on their own, instead of being at the mercy of middlemen or corporate buyers. As a result, more money goes back to each farmer.
- 3. The real cost of food is reflected in consumer prices.** To keep farmers farming, we must recognize the need to pay higher prices for our food. In the United States, consumers expect cheap produce year-round. But poverty level wages in Mexico are the cost of this relentless emphasis on bargains. It is critical that we start factoring the true costs of social and environmental sustainability into the price of our food. Fair Trade certification, which guarantees a minimum floor price for producers, is one way to guarantee that farmers receive an adequate price for their product.
- 4. Consumers are connected to producers around transparent supply chains.** A recent *LA Times* exposé illustrates the lack of transparency in global supply chains. At Equal Exchange, our mission has always been to connect farmers and consumers through our supply chain. We are committed to the integrity of our supply chains, and we have open and transparent conversations with our customers about our work.





Opposite page: An Equal Exchange avocado display at Greenbelt Co-op in Maryland. Above left: Salvador Romero Lozoya, the general manager of PRAGOR, cuts into an avocado on a producer's farm. Above right: Jose Hernandez and his son, Juan Carlos Hernandez, each manage farms that are part of PRAGOR. Here they demonstrate how to graft a severed stem to another stem's rootstock, in order to produce new avocados.

When we think about a thriving Fair Trade avocado program, we think about the local produce programs that so many co-ops, natural food stores, and distributors have committed to. Through local programs, stores support farmers who are operating on a smaller scale than large agribusinesses in Mexico. Stores have relationships with their local farmers, and are able to ask them questions about their products. And consumers have been educated to understand how local produce is different from global produce, and they know to expect different quality, availability, and pricing on local products.

With Equal Exchange's avocado program, we're hoping to bring these local values into global supply chains. What would it look like for people to commit to sourcing and purchasing only Fair Trade, organic avocados from small-scale farmers? What would it look like for consumers to recognize the difference between that avocado and a conventional avocado, and be willing to pay more for it? What would it look like to ask questions about conventional avocado suppliers, growers, and their supply chains?

These aren't easy questions, and we don't expect to transform the avocado industry overnight. But if we really want to build a successful model for small farmer, Fair Trade avocados, we have to take risks as importers, distributors, and stores. Instead of merely responding to consumer demand, we must actively work together to educate consumers and generate demand for alternatives. This is the only way to turn our vision for a more just and sustainable food system into a reality.

It's All a Little Bananas

By Nicole Vitello, Oké USA President

With rain and snow beating down on the container ports of the Northeast, 2014 kicked off with its share of challenges. The most resilient Oké staff I have ever had the pleasure of working alongside forged ahead in order to distribute the world's most fragile fruit. Farmers, distributors, and stores all demonstrated loyalty at its best by rolling with the punches alongside us.

Despite its snowy start, 2014 marked Oké USA's third straight year of profitability, due in part to a more diversified product offering of fresh bananas, banana puree, and avocados. Our avocado program reached stores in the Pacific Northwest and the Southwest—farther geographically than our banana program—while adding almost \$1 million to total sales. We're happy to report that Oké USA surpassed its 2014 budget goals, reaching \$4.8 million in sales of 100 percent organic, Fair Trade, small farmer produce.



Our Co-op Model

By Sarah Hrisak, Lead Coffee Roaster & Worker-Owner Coordinator

What makes a co-op? The members! At its heart, a co-op is a group of people democratically working together to achieve a goal through shared principles and values. Membership in Equal Exchange comes with rights and privileges like amending and voting on our bylaws, running for and electing our Board of Directors, and running for and electing our Worker-Owner Coordinator (that's me!).

Each of our 114 members has one vote and one share in the company, which also entitles members to sharing in our profits. Because members share these responsibilities, I think the most important decisions we've made this past year as a co-op were to invite 21 worker-owner track employees to become members. (Employees are worker-owner track their first year, during which they are trained on how to be effective members of the co-op.)

These new members represent the diversity of our work at Equal Exchange—from baristas at our Boston café, to members of the packaging team in West Bridgewater, to sales reps in Portland, Ore. Their energy and commitment to the co-op regularly inspire me, as they have gone beyond their daily work responsibilities to engage with the co-op.

When I look to the future of our co-op, I'm assured that it's bright because of our members and the 26 employees on the worker-owner track. Of course, such fast growth presents challenges to maintaining an informed and engaged membership. To that end, in 2014, we updated our worker-owner curriculum for worker-owner track employees to make sure new members are prepared to fully participate in our democracy. We also hired consultants to conduct a comprehensive survey of our membership to assess our strengths and weaknesses as a co-op. The final report will serve as a roadmap for work in the coming year.

We will face new challenges as we open an additional office/warehouse in 2015, but with challenges come opportunities, and I'm looking forward to seeing what we'll accomplish together.

BOARD REPORT

Intentional Movement

By LJ Taylor, Sales Representative & Board of Directors Chair

It has been an incredible year for the Board of Directors here at Equal Exchange. From navigating the waters of investing in other Fair Trade organizations to stewarding our piece of Equal Exchange governance, our work has been engaging and meaningful.

In order to be intentional in our work, the Board of Directors adopted goals for 2014. We used these goals to help us prioritize our time and to be accountable to the worker-owners who elected us. We focused on two goals:

- Financial training for Board members and prospective Board members.
- Completion of the reviews prescribed by our governance model.

I am happy to report that we completed an extensive financial training in the spring of 2014. It truly changed the conversation around the financial reports we receive and engaged us in elevating the talent level across all of Equal Exchange. On the review side, we took on the professional review of our Co-Executive Directors, evaluated our Measures of Success reporting, and the worker-owners completed a co-op survey.

It is through this type of work that we will continue to be proactive instead of reactive in all that we do. We are truly looking forward to 2015 equipped with the knowledge of 2014.

FINANCIAL REPORT

Banking with a Mission

By Brian Albert, Director of Finance

For the Equal Exchange finance department, this was a bittersweet year as we made the difficult choice to restructure our financing needs. We had enjoyed a solid relationship with a business partner that provided invaluable support over 10 years of steady growth for us both as a business and on a personal level. That firm offered scale which covered the full range of our banking and lending services, strength through its size and multinational reach, and learning opportunities that could continue to serve us well for years to come. So why change?

For many years, I heard variations on the question, "Why do we, as a co-op, not do our banking with a co-operative bank?" It is a simple question, but one that did not have a simple answer. Imagining some substantial lending needs, multinational transactions, and foreign currency exchange, one would begin to see that we had grown to a scale that many co-operative banks simply could not handle on their own. There is also something to be said about a long-standing relationship, whether that be on a personal level, with a trading partner, or a lender. Yet the question remained unanswered.

Cooperative Capital

By Daniel Fireside, Capital Coordinator

Every business needs capital in order to operate and to grow. In our line of work, it's what pays for things like roasting equipment, warehouses and offices, packaging machinery, forklifts, and the coolers for our chocolate.

As a Fair Trade business—the first in the U.S., and the largest 100 percent Fair Trade company—we have a major additional need for capital that our conventional competitors don't: our inventory. A regular business would keep their inventory low by buying from brokers who can demand deep discounts from cash-strapped farmers.

Our Fair Trade model plays by a different set of rules—one that puts the farmers' interests first. It means that we buy directly from the small farmer co-operatives when *they* are ready to sell, help them get affordable credit before the harvest,

and give them training and resources so that we both thrive as partners.

The rules we follow respect the farmers' timetable rather than our needs—and they don't come cheap. It means we have to pay for a lot of inventory long before we can sell it. Some of this financing comes from the ownership shares of the workers and our retained earnings. Some comes from socially conscious lenders like the Calvert Foundation, RSF Social Finance, the National Cooperative Bank, and others. But by far the largest portion, nearly \$15 million at the moment, comes from our Class B preferred stockholders. These funds are essential to our farmer-centric business model.

As we continue to grow in size and expand our Fair Trade products and services, we increasingly rely on this community of committed activists and funders who provide key financing for our Fair Trade and cooperative business model. In 2014, we took in over \$2.5 million in new investments and added dozens of new faces to our family of investors. Without this access to committed capital we wouldn't be able to expand our Fair Trade model to benefit more people. With it, there's no stopping us.

As we neared the end of a 10-year mortgage on the building housing our main office, I felt we had the opportunity to reassess our needs to determine whether they might be met by one or more financial institutions whose missions were deemed to be more closely aligned with ours. While we are happy that we

were able to have assembled a package that includes a mortgage with RSF Financial, welcomes National Cooperative Bank back into our world, and increases our relationship with Eastern Bank, it was difficult to say farewell to the entity that had served us so well for so long.

INCOME STATEMENT	2014	2013	2012
Total Sales	\$61,084,000	\$56,141,000	\$51,046,000
Cost of Sales (coffee/tea/chocolate, roasting, packaging, shipping)	\$43,753,000	\$38,803,000	\$37,343,000
Operating Expenses (marketing, sales, administration, education)	\$14,762,000	\$14,310,000	\$11,800,000
Other Expenses (primarily interest on loans)	\$383,000	\$378,000	\$475,000
Total Costs	\$58,898,000	\$53,491,000	\$49,618,000
Net Income Before Taxes	\$2,186,000	\$2,650,000	\$1,428,000
Taxes	\$1,001,000	\$1,108,000	\$648,000
Shareholder Dividends	\$690,000	\$554,000	\$511,000
Annual Retained Earnings (reinvested in the business)	\$495,000	\$988,000	\$269,000

Equal Exchange, Inc. and Subsidiary Audited Consolidated Financial Statements and Supplementary Information
Years Ended December 31, 2014 and 2013.

EQUAL EXCHANGE, INC. AND SUBSIDIARY CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2014 AND 2013

	<u>2014</u>	<u>2013</u>
ASSETS		
CURRENT ASSETS:		
Cash	\$ 878,753	\$ 1,129,025
Accounts Receivable	4,049,055	3,554,608
Inventory	20,220,632	15,730,476
Notes Receivable, Current Portion		3,230
Prepaid Expenses and Other	1,102,341	894,268
Prepaid Corporate Income Taxes	73,205	
Deferred Income Taxes	<u>196,616</u>	<u>323,616</u>
	26,520,602	21,635,223
PROPERTY AND EQUIPMENT, NET	6,156,951	5,980,500
OTHER ASSETS:		
Intangible Assets, Net	42,904	6,041
Investments	521,907	494,910
Notes Receivable, Net of Current Portion	<u>400,000</u>	
	<u>964,811</u>	<u>500,951</u>
	\$ <u>33,642,364</u>	\$ <u>28,116,674</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Notes Payable – Lines of Credit	\$ 2,946,336	\$ 1,613,671
Current Portion of Long-Term Debt	156,556	2,152,851
Accounts Payable and Accrued Expenses	3,904,919	3,330,095
Corporate Income Taxes Payable		421,459
Patronage Rebates Payable	<u>500,286</u>	<u>681,725</u>
	7,508,097	8,199,801
LONG-TERM LIABILITIES:		
Long-Term Debt, Net of Current Portion	3,846,795	1,670,000
Deferred Income Taxes	<u>1,239,000</u>	<u>1,030,000</u>
	5,085,795	2,700,000
MINORITY INTEREST IN CONSOLIDATED SUBSIDIARY	170,235	166,286
STOCKHOLDERS' EQUITY:		
Preferred Stock, \$1 Par Value; 9,999,500 Shares Authorized; Issued and Outstanding, 539,446 Shares in 2014 and 418,562 Shares in 2013	14,834,776	11,521,896
Common Stock, \$1 Par Value; 500 Shares Authorized, Issued and Outstanding, 123 Shares in 2014 and 110 Shares in 2013	376,748	329,558
Less: Common Stock Subscriptions Receivable	(73,449)	(45,982)
Retained Earnings	<u>5,740,162</u>	<u>5,245,115</u>
	<u>20,878,237</u>	<u>17,050,587</u>
	\$ <u>33,642,364</u>	\$ <u>28,116,674</u>

EQUAL EXCHANGE, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF EARNINGS AND RETAINED EARNINGS
YEARS ENDED DECEMBER 31, 2014 AND 2013

	<u>2014</u>	<u>2013</u>
NET SALES	\$ 61,083,820	\$ 56,140,856
COST OF SALES	<u>43,752,928</u>	<u>38,803,018</u>
GROSS PROFIT	17,330,892	17,337,838
OPERATING EXPENSES		
Bad Debt Expense (Recovery)	23,800	4,646
General and Administrative Expenses	<u>14,738,371</u>	<u>14,305,839</u>
	<u>14,762,171</u>	<u>14,310,485</u>
EARNINGS FROM OPERATIONS	2,568,721	3,027,353
OTHER INCOME AND (EXPENSE):		
Interest Income	8,351	12,497
Interest Expense	<u>(382,484)</u>	<u>(381,875)</u>
	<u>(374,133)</u>	<u>(369,378)</u>
EARNINGS BEFORE INCOME TAXES AND MINORITY INTEREST	2,194,588	2,657,975
INCOME TAXES:		
Current:		
Federal	400,000	730,113
State	<u>265,000</u>	<u>300,000</u>
	665,000	1,030,113
Deferred:		
Federal	255,000	77,605
State	<u>81,000</u>	<u>—</u>
	<u>336,000</u>	<u>77,605</u>
	1,001,000	1,107,718
EARNINGS BEFORE MINORITY INTEREST	1,193,588	1,550,257
MINORITY INTEREST IN EARNINGS OF CONSOLIDATED SUBSIDIARY	<u>8,514</u>	<u>8,455</u>
NET EARNINGS	1,185,074	1,541,802
RETAINED EARNINGS, BEGINNING	5,245,115	4,256,952
PREFERRED STOCK DIVIDENDS PAID	<u>(690,027)</u>	<u>(553,639)</u>
RETAINED EARNINGS, ENDING	<u>\$5,740,162</u>	<u>\$5,245,115</u>

EQUAL EXCHANGE, INC. AND SUBSIDIARY CONSOLIDATED STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2014 AND 2013

	<u>2014</u>	<u>2013</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net Earnings	\$ 1,185,074	\$ 1,541,802
Noncash Items Included in Net Earnings:		
Deferred Income Taxes, Net	336,000	77,605
Depreciation and Amortization	965,639	1,032,262
(Increase) Decrease in:		
Accounts Receivable	(494,447)	(431,427)
Inventory	(4,490,156)	(1,032,039)
Prepaid Expenses and Other	(208,073)	(38,664)
Prepaid Corporate Income Taxes	(73,205)	49,800
Increase (Decrease) in:		
Accounts Payable and Accrued Expenses	574,824	60,164
Corporate Income Taxes Payable	(421,459)	421,459
Patronage Rebates Payable	<u>(181,439)</u>	<u>351,980</u>
	(2,807,242)	2,032,942
CASH FLOWS FROM INVESTING ACTIVITIES:		
Additions to Property and Equipment	(1,139,724)	(947,705)
Disposals of Property and Equipment, Net		1,721
Increase in Intangible Assets	(39,229)	(5,001)
Increase in Investments, Net	(26,997)	(411,550)
(Increase) Decrease in Notes Receivable, Net	<u>(396,770)</u>	<u>131,836</u>
	(1,602,720)	(1,230,699)
CASH FLOWS FROM FINANCING ACTIVITIES:		
New Borrowings:		
Notes Payable - Lines of Credit	17,346,663	9,165,741
Long-Term Debt	2,230,000	1,350,000
Debt Reduction:		
Notes Payable - Lines of Credit	(16,013,998)	(9,298,336)
Long-Term Debt	(2,049,500)	(1,364,965)
Increase (Decrease) in Minority Interest	3,949	6,123
Proceeds From Common Stock Subscriptions	42,233	31,494
Proceeds From Issuance of Preferred Stock	2,975,393	236,450
Proceeds From Dividend Reinvestment	454,118	349,333
Redemption of Preferred Stock	(116,631)	(63,276)
Redemption of Common Stock	(22,510)	(21,960)
Preferred Stock Dividends Paid	<u>(690,027)</u>	<u>(553,639)</u>
	<u>4,159,690</u>	<u>(163,035)</u>
NET INCREASE (DECREASE) IN CASH	(250,272)	639,208
CASH - BEGINNING	<u>1,129,025</u>	<u>489,817</u>
CASH - ENDING	\$ <u>878,753</u>	\$ <u>1,129,025</u>

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION

	<u>2014</u>	<u>2013</u>
Cash Paid During The Year For:		
Interest	\$ <u>390,163</u>	\$ <u>385,737</u>
Income Taxes	\$ <u>1,159,664</u>	\$ <u>558,854</u>



South Mountain Company

By Daniel Fireside, Capital Coordinator

Back in 1987, South Mountain Company was a successful architectural, building, and renewable energy company on Martha's Vineyard. Some of the longest-tenured employees considered starting their own company but first asked co-founder John Abrams (pictured above, far right) if there was an alternative path. "We could have just made them partners," Abrams recalls, "but we wanted to create a structure that could welcome people in over and over." They went exploring for a business model that enabled a more meaningful and participatory relationship among workers. "When we found the co-op model we stopped and said, "This is us!"

Until then, the company had always aspired to be familial and democratic, so converting into a co-op seemed like it would merely institutionalize what had already existed. "Turned out, nothing could have been further from the truth," Abrams says. "Extending ownership changed much more than we could have predicted. Ownership means a lot to people. Even though it felt like it was democratic, it really wasn't. So the ownership created a much higher level of commitment, engagement and participation."

Twenty seven years on, the company is nationally recognized as a pioneer in high performance and zero energy design and building, as well as a successful democratic co-operative, with dozens of employees and co-owners, and over \$10 million in annual revenue.

Lately the company has been re-evaluating how it uses its money. It has an owner's equity fund that pays out departing co-op members. Although the funds have gone into so-called "socially responsible" stocks and bonds and divested from oil companies, the co-op wanted to align its money more deeply with its values. "We've crossed paths with Equal Exchange over the past 25 years, but only really connected with it more recently," says Abrams. "We've come to realize, 'Hey, there's this wonderful co-op right down the road from us!' When the opportunity to become direct investors came up, it was just a natural move for us."

Equal Exchange proudly welcomes the co-operative members of South Mountain Company, and the dozens of others who have joined us as investors during 2014, to our cooperative community.

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