

STARBUCKS CORP
Form 10-K
November 20, 2009

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**UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549**

Form 10-K

**☐ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934**

For the fiscal year ended September 27, 2009

or

**○ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934**

For the transition period from to .

Commission File Number: 0-20322

Starbucks Corporation

(Exact Name of Registrant as Specified in Its Charter)

Washington

(State of Incorporation)

91-1325671

(IRS Employer ID)

**2401 Utah Avenue South
Seattle, Washington 98134
(206) 447-1575**

(Address of principal executive offices, zip code, telephone number)

Securities Registered Pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock, \$0.001 par value per share	Nasdaq Global Select Market

Securities Registered Pursuant to Section 12(g) of the Act:

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☐ No ○

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ○ No ☐

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☐ No ○

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Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation of S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company
(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

The aggregate market value of the voting stock held by non-affiliates of the registrant as of the last business day of the registrant's most recently completed second fiscal quarter, based upon the closing sale price of the registrant's common stock on March 27, 2009 as reported on the NASDAQ Global Select Market was \$8.4 billion. As of November 13, 2009, there were approximately 740.2 million shares of the registrant's Common Stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the definitive Proxy Statement for the registrant's Annual Meeting of Shareholders to be held on March 24, 2010 have been incorporated by reference into Part III of this Annual Report on Form 10-K.

STARBUCKS CORPORATION

Form 10-K

For the Fiscal Year Ended September 27, 2009

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PART I

Item 1. *Business*

General

Starbucks is the premier roaster and retailer of specialty coffee in the world. Starbucks Corporation was formed in 1985 and its common stock trades on the NASDAQ Global Select Market (NASDAQ) under the symbol SBUX. Starbucks (together with its subsidiaries, Starbucks or the Company) purchases and roasts high-quality whole bean coffees and sells them, along with fresh, rich-brewed coffees, Italian-style espresso beverages, cold blended beverages, a variety of complementary food items, a selection of premium teas, and beverage-related accessories and equipment, primarily through Company-operated retail stores. Starbucks also sells coffee and tea products and licenses its trademark through other channels such as licensed retail stores and, through certain of its licensees and equity investees, Starbucks produces and sells a variety of ready-to-drink beverages. All channels outside the Company-operated retail stores are collectively known as specialty operations.

The Company s objective is to maintain Starbucks standing as one of the most recognized and respected brands in the world. To achieve this goal, the Company plans to continue disciplined global expansion of its retail and licensed store base, to introduce relevant new products in all its channels, and to selectively develop new channels of distribution. The Company s Global Responsibility strategy and commitments related to coffee and the communities it does business in, as well as its focus on being an employer of choice, are also key complements to its business strategies.

Segment Financial Information

Starbucks has three reportable operating segments, and each segment provided the indicated percentage of total net revenues for fiscal year ended September 27, 2009 (fiscal 2009): United States (US) (73%), International (19%) and Global Consumer Products Group (CPG) (8%). In the fourth fiscal quarter of 2009, the Company changed the composition of its reportable segments. The US foodservice business, which was previously reported in the US segment, is now reported in the CPG segment, as a result of internal management realignments within the US and CPG businesses. Segment information for all prior periods presented has been revised to reflect this change.

The US and International segments both include Company-operated retail stores and certain components of specialty operations. Specialty operations within the US include licensed retail stores and other initiatives related to the Company s core business. International specialty operations primarily consist of retail store licensing operations in nearly 40 countries and foodservice accounts in Canada and the United Kingdom (UK). The International segment s largest markets, based on number of Company-operated and licensed retail stores, are Canada, Japan and the UK. The CPG segment includes packaged coffee and tea, and other branded products sold worldwide through channels such as grocery stores, warehouse clubs and convenience stores, and US foodservice accounts. CPG operates a significant portion of its business through licensing arrangements and joint ventures with large consumer products business partners. This operating model leverages the business partners existing infrastructures and as a result, the CPG segment reflects relatively lower revenues, a modest cost structure, and a resulting higher operating margin, compared to the Company s other two reporting segments, which consist primarily of retail stores.

Financial information about Starbucks segments is included in Note 18 to the consolidated financial statements included in Item 8 of this Annual Report on Form 10-K (10-K or Report).

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Revenue components as a percentage of total net revenues and related specialty revenues for the fiscal year ended September 27, 2009:

Revenues	% of Total Net Revenues	% of Specialty Revenues
Company-operated retail	84%	
Specialty:		
Licensing:		
Retail stores	8	50%
Packaged coffee and tea	4	23
Branded products	<1	4
Total licensing	12	77
Foodservice and other:		
Foodservice	4	23
Other initiatives	<1	<1
Total foodservice and other	4	23
Total specialty	16	100%
Total net revenues	100%	

Company-operated and Licensed Retail Store Summary as of September 27, 2009

	As a % of Total		As a % of International Total		As a % of Total Stores	
	US	US Stores	International	Stores	Total	Total Stores
Company-operated stores	6,764	61%	2,068	38%	8,832	53%
Licensed stores	4,364	39	3,439	62	7,803	47
Total	11,128	100%	5,507	100%	16,635	100%

Starbucks mix of Company-operated versus licensed stores in a given market will vary based on several factors. Some of these factors include the ability to access desirable local retail space, the complexity and expected ultimate size of the market for Starbucks, and the ability to leverage the Company's support infrastructure in an existing geographic

region.

Company-operated Retail Stores

The Company's retail goal is to become the leading retailer and brand of coffee in each of its target markets by selling the finest quality coffee and related products, and by providing each customer a unique *Starbucks Experience*. The *Starbucks Experience* is built upon superior customer service as well as clean and well-maintained Company-operated retail stores that reflect the personalities of the communities in which they operate, thereby building a high degree of customer loyalty.

Starbucks disciplined strategy for expanding its global retail business is to increase its market share by selectively opening additional stores in existing markets, opening stores in new markets, and increasing sales in existing stores, to support its long term strategic objectives. Store growth in specific existing markets will vary due to many factors, including the maturity of the market.

As described in more detail in Management's Discussion and Analysis in this 10-K, Starbucks has taken a number of actions in fiscal 2008 and 2009 to rationalize its store portfolio. These actions have included plans (announced in July 2008 and January 2009) to close a total of approximately 800 Company-operated stores in the US, restructure its

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Australia market, and close approximately 100 additional Company-operated stores internationally. As of the end of fiscal 2009, nearly all of the approximately 800 US stores, 61 stores in Australia and 41 stores in other International markets have been closed. The remaining International closures are expected to be completed by the end of fiscal 2010.

Starbucks Company-operated retail stores accounted for 84% of total net revenues during fiscal 2009.

Summary of total Company-operated retail store data for the periods indicated:

	Net Stores Opened (Closed) During the Fiscal Year Ended ⁽¹⁾		Stores Open as of	
	Sep 27, 2009	Sep 28, 2008	Sep 27, 2009	Sep 28, 2008
US ⁽²⁾	(474)	445	6,764	7,238
International ⁽³⁾ :				
Canada	44	104	775	731
United Kingdom	2	84	666	664
China	13	37	191	178
Germany	13	27	144	131
Thailand	4	24	131	127
Singapore	7	12	64	57
Australia		(64)	23	23
Other	6	12	74	68
Total International	89	236	2,068	1,979
Total Company-operated	(385)	681	8,832	9,217

⁽¹⁾ Store openings are reported net of closures.

⁽²⁾ Of the approximately 800 total US stores identified for closure, 566 stores and 205 stores were closed in fiscal 2009 and 2008, respectively.

⁽³⁾ Starbucks restructured its Australia market by closing 61 stores in fiscal 2008. Of the approximately 100 International stores (incremental to the Australia closures in fiscal 2008) identified for closure, 41 stores were closed in various markets in fiscal 2009.

Starbucks retail stores are typically located in high-traffic, high-visibility locations. Because the Company can vary the size and format, its stores are located in or near a variety of settings, including downtown and suburban retail centers, office buildings and university campuses. The Company also locates retail stores in select rural and off-highway locations to serve a broader array of customers outside major metropolitan markets. To provide a greater degree of access and convenience for nonpedestrian customers, the Company continues to selectively expand development of drive-thru retail stores. At the end of fiscal 2009, the Company operated approximately 2,650 drive-thru locations, representing approximately 35% of Company-operated stores in the US and Canada combined.

Starbucks stores offer a choice of regular and decaffeinated coffee beverages, a broad selection of Italian-style espresso beverages, cold blended beverages, iced shaken refreshment beverages, a selection of premium teas, distinctively packaged roasted whole bean coffees, and its recently launched soluble coffee Starbucks VIA™ Ready Brew (VIA). Starbucks stores also offer a variety of fresh food items, including healthier choice selections focusing on high-quality ingredients, nutritional value and great flavor. Food items include pastries, prepared breakfast and lunch sandwiches, oatmeal, and salads as well as sodas, juices and bottled water. Starbucks continues to expand its food warming program in the US and Canada, with approximately three-quarters of the stores in these markets providing warm food items, primarily breakfast sandwiches, as of September 27, 2009. A selection of beverage-making equipment and accessories are also sold in the stores. Each Starbucks store varies its product mix depending upon the size of the store and its location. Larger stores carry a broad selection of the Company's whole bean coffees in various sizes and types of packaging, as well as coffee and espresso-making equipment and accessories. Smaller Starbucks stores and kiosks typically sell a full line of coffee beverages, a limited selection of whole bean coffees and a smaller selection of coffee and beverage-related accessories.

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Retail sales mix by product type for Company-operated stores:

Fiscal Year Ended	Sep 27, 2009	Sep 28, 2008	Sep 30, 2007
Beverages	76%	76%	75%
Food	18%	17%	17%
Coffee-making equipment and other merchandise	3%	4%	5%
Whole bean coffees	3%	3%	3%
Total	100%	100%	100%

Starbucks Card

The Starbucks Card program is designed to increase customer loyalty and the frequency of store visits by cardholders. Starbucks cards can be used in all Company-operated and most licensed stores in North America, and in a growing number of international markets. The cards have no expiration date and do not have any inactivity fees.

Specialty Operations

Specialty operations strive to develop the Company's brands outside the Company-operated retail store environment through a number of channels. Starbucks strategy is to reach customers where they work, travel, shop and dine by establishing relationships with prominent third parties that share the Company's values and commitment to quality. These relationships take various forms, including licensing arrangements, foodservice accounts and other initiatives related to the Company's core businesses. In certain situations, Starbucks has an equity ownership interest in licensee operations. During fiscal 2009, specialty revenues (which include royalties and fees from licensees, as well as product sales derived from specialty operations) accounted for 16% of total net revenues.

Licensing Retail stores

In its licensed retail store operations which include the Starbucks and Seattle's Best Coffee brands, the Company leverages the expertise of its local partners and shares the Company's operating and store development experience. Licensee partners provide improved, and at times the only, access to desirable retail space. Most licensees are prominent retailers with in-depth market knowledge and access. As part of these arrangements, Starbucks receives royalties and license fees and sells coffee, tea and related products for resale in licensed locations. Product sales to and royalty and license fee revenues from US and International licensed retail stores accounted for 50% of specialty revenues in fiscal 2009. Employees working in licensed retail locations are required to follow Starbucks detailed store operating procedures and attend training classes similar to those given to employees in Company-operated stores.

Starbucks total licensed retail stores by region and specific location at fiscal year end 2009:

Asia Pacific		Europe/Middle East/Africa		Americas	
Japan	875	Turkey	123	US	4,364
South Korea	288	United Arab Emirates	91	Canada	262
China	283	Spain	76	Mexico	261

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Taiwan	222	Greece	69	Other	69
Philippines	160	Saudi Arabia	68		
Malaysia	118	Kuwait	62		
Indonesia	74	France	52		
New Zealand	42	Switzerland	47		
		U.K.	46		
		Other	151		
Total	2,062	Total	785	Total	4,956

During fiscal 2009, net licensed store openings included 35 in the US and 305 internationally.

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Licensing Packaged coffee and tea

Through a licensing relationship with Kraft Foods, Inc. (Kraft), the Company sells a selection of Starbucks and Seattle's Best Coffee branded packaged coffees and Taz[®] teas in grocery and warehouse club stores throughout the US. Kraft manages all distribution, marketing, advertising and promotion of these products.

The Company sells packaged coffee and tea internationally both directly to warehouse club stores, such as Costco Wholesale Corporation, and to grocery stores through a licensing relationship with Kraft in Canada, the UK and other European countries.

The Company's coffees and teas are available in approximately 39,000 grocery and warehouse club stores, with 33,500 in the US and 5,500 in International markets. Revenues from this category comprised 23% of specialty revenues in fiscal 2009.

Licensing Branded products

The Company licenses the rights to produce and market Starbucks branded products through several partnerships both domestically and internationally. Significant licensing agreements include:

The North American Coffee Partnership, a joint venture with the Pepsi-Cola Company in which Starbucks is a 50% equity investor, manufactures and markets ready-to-drink beverages, including bottled Frappuccino[®] beverages and Starbucks DoubleShot[®] espresso drinks in US and Canada;

licensing agreements for the manufacturing, marketing and distribution of Starbucks Discoveries[®], a ready-to-drink chilled cup coffee beverage, and Starbucks DoubleShot[®] espresso drinks in Japan and South Korea;

a licensing agreement with a partnership formed by Unilever and Pepsi-Cola Company for the manufacturing, marketing and distribution of Starbucks super-premium Tazo[®] Tea ready-to-drink beverages in the US; and

a licensing agreement with Unilever for the manufacturing, marketing and distribution of Starbucks super-premium ice cream products in the US.

Collectively, the revenues from these branded products accounted for 4% of specialty revenues in fiscal 2009.

Foodservice

The Company sells whole bean and ground coffees, including the Starbucks and Seattle's Best Coffee brands, as well as a selection of premium Tazo[®] teas, VIA and other related products, to institutional foodservice companies that service business and industry, education, healthcare, office coffee distributors, hotels, restaurants, airlines and other retailers. The majority of the Company's sales in this channel come through national broadline distribution networks with SYSCO Corporation, US Foodservice[™], and other distributors. The Company's total foodservice operations had over 21,000 accounts, primarily in the US, at fiscal year end 2009. Revenues from foodservice accounts comprised 23% of total specialty revenues in fiscal 2009.

Product Supply

Starbucks is committed to selling only the finest whole bean coffees and coffee beverages. To ensure compliance with its rigorous coffee standards, Starbucks controls its coffee purchasing, roasting and packaging, and the global

distribution of coffee used in its operations. The Company purchases green coffee beans from coffee-producing regions around the world and custom roasts them to its exacting standards for its many blends and single origin coffees.

The supply and price of coffee are subject to significant volatility. Although most coffee trades in the commodity market, high-altitude *arabica* coffee of the quality sought by the Company tends to trade on a negotiated basis at a substantial premium above commodity coffee prices, depending upon the supply and demand at the time of purchase. Supply and price can be affected by multiple factors in the producing countries, including weather,

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political and economic conditions. In addition, green coffee prices have been affected in the past, and may be affected in the future, by the actions of certain organizations and associations that have historically attempted to influence prices of green coffee through agreements establishing export quotas or by restricting coffee supplies.

To help ensure sustainability and future supply of high-quality green coffees and to reinforce the Company's leadership role in the coffee industry, Starbucks operates Farmer Support Centers in Costa Rica and Rwanda. The Farmer Support Centers are staffed with agronomists and sustainability experts who work with coffee farming communities to promote best practices in coffee production designed to improve both coffee quality and yields.

The Company buys coffee using fixed-price and price-to-be-fixed purchase commitments, depending on market conditions, to secure an adequate supply of quality green coffee. As of September 27, 2009, the Company had \$238 million of purchase commitments which, together with existing inventory, is expected to provide an adequate supply of green coffee through fiscal 2010.

The Company depends upon its relationships with coffee producers, outside trading companies and exporters for its supply of green coffee. The Company believes, based on relationships established with its suppliers, the risk of non-delivery on such purchase commitments is remote.

In addition to coffee, the Company also purchases significant amounts of dairy products, particularly fluid milk, to support the needs of its Company-operated retail stores. The Company's highest volume of dairy purchases are in the US, Canada and the UK. For these markets, Starbucks purchases substantially all of its fluid milk requirements from six dairy suppliers. The Company believes, based on relationships established with these suppliers, the risk of non-delivery of sufficient fluid milk to support these retail businesses is remote.

Products other than whole bean coffees and coffee beverages sold in Starbucks retail stores are obtained through a number of different channels. Beverage ingredients other than coffee and milk, including leaf teas and the Company's selection of ready-to-drink beverages, are purchased from several specialty suppliers, usually under long-term supply contracts. Food products, such as fresh pastries, breakfast sandwiches and lunch items, are purchased from national, regional and local sources. Coffee-making equipment, such as drip and coffee press coffeemakers, espresso machines and coffee grinders, are generally purchased directly from their manufacturers. Beverage-related accessories, including items bearing the Company's logos and trademarks, are produced and distributed through contracts with a number of different suppliers. The Company also purchases a broad range of paper and plastic products, such as cups and cutlery, from several companies to support the needs of its retail stores as well as its manufacturing and distribution operations. The Company believes, based on relationships established with these suppliers and manufacturers, the risk of non-delivery is remote.

Competition

The Company's primary competitors for coffee beverage sales are quick-service restaurants and specialty coffee shops. In almost all markets in which the Company does business, there are numerous competitors in the specialty coffee beverage business, and management expects this situation to continue. The Company believes that its customers choose among specialty coffee retailers primarily on the basis of product quality, service and convenience, as well as price. Starbucks has been experiencing greater direct competition from large competitors in the US quick-service restaurant sector and continues to face competition from well-established companies in many International markets and in the US ready-to-drink coffee beverage market.

The Company's whole bean coffees and ground packaged coffees compete directly against specialty coffees sold through supermarkets, club stores and specialty retailers. The Company's whole bean coffees, its coffee beverages, and its recently launched soluble coffee VIA, compete indirectly against all other coffees on the market. Starbucks

specialty operations face significant competition from established wholesale and mail order suppliers, some of whom have greater financial and marketing resources than the Company.

Starbucks also faces competition from both restaurants and other specialty retailers for prime retail locations and qualified personnel to operate both new and existing stores.

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Patents, Trademarks, Copyrights and Domain Names

The Company owns and has applied to register numerous trademarks and service marks in the US and in many additional countries throughout the world. Some of the Company's trademarks, including Starbucks, the Starbucks logo, Frappuccino, Seattle's Best Coffee and Tazo are of material importance to the Company. The duration of trademark registrations varies from country to country. However, trademarks are generally valid and may be renewed indefinitely as long as they are in use and/or their registrations are properly maintained.

The Company owns numerous copyrights for items such as product packaging, promotional materials, in-store graphics and training materials. The Company also holds patents on certain products, systems and designs. In addition, the Company has registered and maintains numerous Internet domain names, including Starbucks.com, Starbucks.net, and Seattlesbest.com.

Research and Development

Starbucks research and development teams are responsible for the technical development of food and beverage products and new equipment. The Company spent approximately \$6.5 million, \$7.2 million and \$7.0 million during fiscal 2009, 2008 and 2007, respectively, on technical research and development activities, in addition to customary product testing and product and process improvements in all areas of its business.

Seasonality and Quarterly Results

The Company's business is subject to seasonal fluctuations, including fluctuations resulting from the holiday season. The Company's cash flows from operations are considerably higher in the first fiscal quarter than the remainder of the year. This is largely driven by cash received as Starbucks Cards are purchased and loaded during the holiday season. Since r