

STARBUCKS CORP  
Form 10-K  
December 14, 2006

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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 October 1, 2006**

**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 or other jurisdiction of incorporation or organization)*

**91-1325671**

*(IRS Employer Identification No.)*

**2401 Utah Avenue South  
Seattle, Washington 98134**

*(Address of principal executive offices, zip code)*

**(REGISTRANT'S TELEPHONE NUMBER, INCLUDING AREA CODE):  
(206) 447-1575**

**SECURITIES REGISTERED PURSUANT TO SECTION 12(G) OF THE ACT:  
Common Stock, \$0.001 Par Value Per Share**

**SECURITIES REGISTERED PURSUANT TO SECTION 12(B) 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

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, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one)  
Large Accelerated Filer  Accelerated Filer  Non-Accelerated Filer

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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 31, 2006 as reported on the National Market tier of The NASDAQ Stock Market, Inc. was \$28.2 billion.

As of December 8, 2006, there were 754,857,728 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 21, 2007 have been incorporated by reference into Part III of this Annual Report on Form 10-K.

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**STARBUCKS CORPORATION**  
**FORM 10-K**  
**For the Fiscal Year Ended October 1, 2006**

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**PART I**

**Item 1. Business**

**GENERAL**

Starbucks Corporation (together with its subsidiaries, Starbucks or the Company ) was formed in 1985. Starbucks 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, coffee-related accessories and equipment, a selection of premium teas and a line of compact discs, primarily through Company-operated retail stores. Starbucks also sells coffee and tea products and licenses its trademark through other channels and, through certain of its equity investees, Starbucks produces and sells ready-to-drink beverages which include, among others, bottled Frappuccino® coffee drinks and Starbucks DoubleShot® espresso drinks, and a line of superpremium ice creams. All channels outside the Company-operated retail stores are collectively known as Specialty Operations. The Company's objective is to establish Starbucks as one of the most recognized and respected brands in the world. To achieve this goal, the Company plans to continue rapid expansion of its retail operations, to grow its Specialty Operations and to selectively pursue other opportunities to leverage the Starbucks brand through the introduction of new products and the development of new channels of distribution. The Company's brand portfolio includes superpremium Tazo® teas, Starbucks Hear Music® compact discs, Seattle's Best Coffee® and Torrefazione Italia® coffee.

**SEGMENT FINANCIAL INFORMATION**

Beginning in the fiscal fourth quarter of 2006, the Company increased its reporting segments from two to three to include a Global Consumer Products Group ( CPG ) segment in addition to the United States and International segments. This additional operating segment reflects the culmination of internal management realignments in fiscal 2006, and the successful development and launch of certain branded products in the United States and internationally commencing in fiscal 2005 and continuing throughout fiscal 2006. Additionally, with the 100% acquisition of the Company's operations in Hawaii in fiscal 2006 and the shift in internal management of this market to the United States, these operations have been moved from the International segment into the United States segment. Segment information for all prior periods presented has been revised to reflect these changes.

The United States and International segments both include Company-operated retail stores and certain components of Specialty Operations. Specialty operations within the United States include licensed retail stores, foodservice accounts and other initiatives related to the Company's core business. International specialty operations primarily include retail store licensing operations in more than 25 countries and foodservice accounts in Canada and the United Kingdom. The CPG segment includes the Company's grocery and warehouse club business as well as branded products operations worldwide. Information about Starbucks revenues, earnings before income taxes, depreciation and amortization, income from equity investees, equity method investments, identifiable assets, net impairment and disposition losses and capital expenditures by segment is included in Note 19 Segment Reporting to the consolidated financial statements included in Item 8 of this Annual Report on Form 10-K ( Form 10-K or Report ).

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The following table shows the Company's revenue components for the fiscal year ended October 1, 2006:

REVENUES	% of Total Net Revenues	% of Specialty Revenues
Company-operated retail	85%	
Specialty:		
Licensing:		
Retail stores	7%	45%
Grocery and warehouse club	4%	24%
Branded products	<1%	2%
Total licensing	11%	71%
Foodservice and other:		
Foodservice	4%	27%
Other initiatives	<1%	2%
Total foodservice and other	4%	29%
Total specialty	15%	100%
Total net revenues	100%	

**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*, or third place after home and work, 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 strategy for expanding its retail business is to increase its market share primarily by opening additional stores in existing markets and to open stores in new markets where the opportunity exists to become the leading specialty coffee retailer. In support of this strategy, Starbucks opened 1,040 new Company-operated stores during the fiscal year ended October 1, 2006 (fiscal 2006). Starbucks Company-operated retail stores, including 11 Seattle's Best Coffee® (SBC) stores and 4 Hear Music retail stores, accounted for 85% of total net revenues during fiscal 2006.

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The following table summarizes total Company-operated retail store data for the periods indicated:

	Net Stores Opened During the Fiscal Year Ended		Stores Open as of	
	Oct 1, 2006	Oct 2, 2005	Oct 1, 2006	Oct 2, 2005
United States <sup>(1)</sup>	810	580	5,728	4,918
International:				
United Kingdom	47	45	514	467
Canada	74	62	508	434
Thailand	22	14	85	63
Australia	25	14	83	58
Germany	24	9	68	44
China	14	18	38	24
Singapore	5	(3)	37	32
Puerto Rico <sup>(1)</sup>	6	5	17	11
Chile	6	1	16	10
Ireland	7	1	8	1
Total International	230	166	1,374	1,144
Total Company-operated	1,040	746	7,102	6,062

(1) International store data has been adjusted for the acquisitions of the Puerto Rico and Hawaii operations by reclassifying historical information from Licensed stores to Company-operated stores. United States store data was also adjusted to align with the Hawaii operations segment change by reclassifying historical information from International Company-operated stores to the United States.

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. While the Company selectively locates stores in shopping malls, it focuses on locations that provide convenient access for both pedestrians and drivers. With the flexibility in store size and format, the Company also locates retail stores in select rural and off-highway locations to serve a broader array of customers outside major metropolitan markets and further expand brand awareness. To provide a greater degree of access and convenience for nonpedestrian customers, the Company has increased development of Drive-Thru retail stores. At the end of fiscal 2006, the Company operated approximately 1,600 Drive-Thru locations.

All 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 teas and distinctively packaged roasted whole bean coffees. Starbucks stores also offer a selection of fresh pastries and other food items,



sodas, juices, bottled water, coffee-making equipment and accessories, a selection of compact discs, games and seasonal novelty items. 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 an assortment of coffee and espresso-making equipment and accessories such as coffee grinders, coffee filters, storage containers, travel tumblers and mugs. Smaller Starbucks stores and kiosks typically sell a full line of coffee beverages, a limited selection of whole bean coffees and a few accessories such as travel tumblers and logo mugs. In the United States and in International markets, approximately 3,800 stores and 1,300 stores, respectively, carry a selection of prepared sandwiches and salads. Starbucks continues to expand its food warming program in select markets in the United States, with approximately 640 stores as of October 1, 2006 providing warm food items including breakfast sandwiches.

The Company's retail sales mix by product type during fiscal 2006 was as follows: 77% beverages, 15% food, 3% whole bean coffees and 5% coffee-making equipment and other merchandise.

### **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

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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 2006, specialty revenues (which include royalties and fees from licensees, as well as product sales derived from Specialty Operations) accounted for 15% of total net revenues.

*Licensing Retail stores*

In its licensed retail store operations, the Company leverages the expertise of its local partners and shares Starbucks operating and store development experience. Licensee partners are typically master concessionaires, which can provide improved access to desirable retail space, or prominent retailers with in-depth market knowledge and access. As part of these arrangements, Starbucks receives license fees and royalties and sells coffee, tea, compact discs and related products for resale in licensed locations. 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.

During fiscal 2006, 733 new Starbucks licensed retail stores were opened in the United States and, as of October 1, 2006, the Company's licensees operated 3,168 stores. During fiscal 2006, 426 new International licensed stores were opened. At October 1, 2006, the Company's International operating segment had a total of 2,170 licensed retail stores. Product sales to and royalty and license fee revenues from U.S. and International licensed retail stores accounted for 45% of specialty revenues in fiscal 2006.

At fiscal year end 2006, Starbucks total licensed retail stores by region and specific location were as follows:

Asia Pacific		Europe/Middle East/Africa		Americas	
Japan	650	Spain	55	United States	3,168
China	223	Turkey	51	Canada	178
Taiwan	175	Greece	50	Mexico	101
South Korea	174	Saudi Arabia	46	Peru	9
Philippines	98	United Arab Emirates	44	The Bahamas	5
Malaysia	71	Kuwait	36		
New Zealand	45	Switzerland	27		
Indonesia	45	France	26		
		Austria	11		
		Lebanon	11		
		Bahrain	8		
		Qatar	8		
		Cyprus	7		
		UK	6		
		Jordan	5		
		Oman	4		
		Ireland	1		
<b>Total</b>	<b>1,481</b>	<b>Total</b>	<b>396</b>	<b>Total</b>	<b>3,461</b>

*Licensing Grocery and warehouse club*

In grocery and warehouse club stores throughout the United States, the Company sells a selection of Starbucks® whole bean and ground coffees, as well as Seattle's Best Coffee and Torrefazione Italia branded coffees and a selection of premium Tazo® teas through a licensing relationship with Kraft Foods Inc. ( Kraft ). Kraft manages all distribution, marketing, advertising and promotion of these products. In International markets, Starbucks also has licensing arrangements with other grocery and warehouse club stores. By the end of fiscal 2006, the Company's coffees and teas were available in approximately 31,900 grocery and warehouse club stores, with 30,000 in the United States and 1,900 in International markets. Revenues from this category comprised 24% of specialty revenues in fiscal 2006.

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### *Licensing Branded products*

The Company has licensed the rights to produce and distribute Starbucks branded products to two partnerships in which the Company holds 50% equity interests. The North American Coffee Partnership with the Pepsi-Cola Company develops and distributes ready-to-drink beverages which include, among others, bottled Frappuccino® coffee drinks and Starbucks DoubleShot® espresso drinks. The Starbucks Ice Cream Partnership with Dreyer's Grand Ice Cream, Inc., develops and distributes superpremium ice creams.

Starbucks and Jim Beam Brands Co., a unit of Fortune Brands, Inc., manufacture and market Starbucks-branded premium coffee liqueur products in the United States and Canada. The Company introduced a coffee liqueur product nationally during the fiscal second quarter of 2005, and launched a coffee and cream liqueur product in the second quarter of fiscal 2006 in restaurants, bars and retail outlets where premium distilled spirits are sold. During the fiscal fourth quarter of 2006, the Company launched Starbucks™ Coffee Liqueur and Cream Liqueur in Canada. The Company does not and will not sell the liqueur products in its Company-operated or licensed retail stores.

In September 2005, the Company launched Starbucks Discoveries™, a ready-to-drink chilled cup coffee beverage in refrigerated cases of convenience stores in Japan, through a manufacturing and distribution agreement with Suntory Limited, and in Taiwan, through separate co-packing and distribution agreements with Uni-President Enterprises Corporation and the Company's equity investee, President Starbucks Coffee Taiwan Ltd. In fiscal 2006, the Company entered the ready-to-drink coffee category in South Korea through a licensing agreement with Dong Suh Foods Corporation to import bottled Starbucks Frappuccino® coffee drinks produced in the United States.

Collectively, the revenues from these branded products accounted for 2% of specialty revenues in fiscal 2006.

### *Foodservice*

The Company sells whole bean and ground coffees, including the Starbucks, Seattle's Best Coffee and Torrefazione Italia brands, as well as a selection of premium Tazo® teas, to institutional foodservice companies that service business, industry, education and healthcare accounts, office coffee distributors, hotels, restaurants, airlines and other retailers. The majority of the Company's direct distribution accounts are with SYSCO Corporation and U.S. Foodservice's national broadline distribution networks and Starbucks foodservice sales, customer service and support resources are aligned with those of SYSCO Corporation and U.S. Foodservice. Starbucks and Seattle's Best Coffee are the only superpremium national-brand coffees actively promoted by SYSCO Corporation. The Company's total worldwide foodservice operations had approximately 16,200 accounts at fiscal year end 2006, and revenues from these accounts comprised 27% of total specialty revenues.

### *Other Initiatives*

Included in this category is the Company's emerging entertainment business, which encompasses multiple music and technology based initiatives designed to appeal to new and existing Starbucks customers. Among these initiatives are strategic marketing and co-branding arrangements, such as the 24-hour Starbucks Hear Music™ digital music channel 75 available to all XM Satellite Radio subscribers, and the availability of wireless broadband Internet service in Company-operated retail stores located in the United States and Canada. Additionally, the entertainment business includes the innovative partnerships of Starbucks Hear Music with other music labels for the production, marketing and distribution of both exclusive and nonexclusive music, music programming for Starbucks stores worldwide, and CD sales through the Company's website at Starbucks.com/hearmusic. In the first quarter of fiscal 2007, Starbucks and Apple® announced the availability of the Starbucks Hear Music catalog on the iTunes® Store, giving iTunes users the ability to preview, buy and download a wide variety of popular Starbucks Hear Music® titles.

The Company has a strategic agreement with Chase Bank USA, N.A. and Visa to issue the Starbucks Card Duetto™ Visa® (the Duetto Card ) in the United States, and a similar arrangement with Royal Bank of Canada and Visa Canada Association to issue the Duetto Card in Canada. The Duetto Card is a first-of-its-kind card, combining the functionality

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of a credit card with the convenience of a reloadable Starbucks Card. Through these arrangements, Starbucks primarily receives commissions for each activated customer account and payments based on credit card usage.

Collectively, the operations of these other initiatives accounted for 2% of specialty revenues in fiscal 2006.

## **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 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, 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, 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.

The Company depends upon its relationships with coffee producers, outside trading companies and exporters for its supply of green coffee. With green coffee commodity prices at relatively low levels in recent years, the Company has used fixed-price purchase commitments in order to secure an adequate supply of quality green coffee, bring greater certainty to the cost of sales in future periods, and promote sustainability by paying a fair price to coffee producers. As of October 1, 2006, the Company had \$546 million in fixed-price purchase commitments which, together with existing inventory, is expected to provide an adequate supply of green coffee through fiscal 2007. The Company believes, based on relationships established with its suppliers, the risk of non-delivery on such purchase commitments is remote. During the first few months of fiscal 2006, green coffee commodity prices increased moderately. Since then, commodity prices have stabilized but still remain above the historically low levels experienced in recent years. Based on its market experience, the Company believes that fixed-price purchase commitments are less likely to be available on favorable terms when commodity prices are high. If prices were to move higher during fiscal 2007, Starbucks would likely return to its previous practice of entering into price-to-be-fixed purchase contracts to meet a large part of its demand. These types of contracts state the quality, quantity and delivery periods but allow the price of green coffee over a market index to be established after contract signing. The Company believes that, through a combination of fixed-price and price-to-be-fixed contracts it will be able to secure an adequate supply of quality green coffee. However, an increased use of price-to-be-fixed contracts instead of fixed-price contracts would decrease the predictability of coffee costs in future periods.

During fiscal 2004, Starbucks established the Starbucks Coffee Agronomy Company S.R.L., a wholly owned subsidiary located in Costa Rica, to reinforce the Company's leadership role in the coffee industry and to help ensure sustainability and future supply of high-quality green coffees from Central America. Staffed with agronomists and sustainability experts, this first-of-its-kind Farmer Support Center is designed to proactively respond to changes in coffee producing countries that impact farmers and the supply of green coffee.

In addition to coffee, the Company also purchases significant amounts of dairy products to support the needs of its Company-operated retail stores. Dairy prices in the United States, which closely follow the monthly Class I fluid milk base price as calculated by the U.S. Department of Agriculture, rose in both fiscal 2004 and 2005, then declined in

2006. Should prices rise significantly in the future, Starbucks profitability could be adversely affected. In the United States, the Company purchases substantially all of its fluid milk requirements from two dairy suppliers. The Company believes, based on relationships established with these suppliers, that the risk of non-delivery of enough fluid milk to support its U.S. retail business is remote.

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The Company also purchases a broad range of paper and plastic products, such as cups, lids, napkins, straws, shopping bags and corrugated paper boxes from several companies to support the needs of its retail stores as well as its manufacturing and distribution operations. The cost of these materials is dependent in part upon commodity paper and plastic resin costs, but the Company believes it mitigates the effect of short-term raw material price fluctuations through strategic relationships with key suppliers. In the United States, the Company is contractually required to purchase all of its cups, lids, straws and cutlery from a single supplier. Any material interruption in the supply of these products to the Company, if not offset by sufficient purchases from other suppliers, could materially adversely affect the Company's supply chain and its ability to serve its U.S. retail customers. The Company believes, based on its relationship with this supplier, that the risk of non-delivery of enough of these products to support its U.S. retail business 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 menu of ready-to-drink beverages, are purchased from several specialty manufacturers, usually under long-term supply contracts. Food products, such as fresh pastries and lunch items, are generally purchased from both regional and local sources. Coffee-making equipment, such as drip and French press coffeemakers, espresso machines and coffee grinders, are generally purchased directly from their manufacturers. Coffee-related accessories, including items bearing the Company's logos and trademarks, are produced and distributed through contracts with a number of different suppliers.

## **COMPETITION**

The Company's primary competitors for coffee beverage sales are restaurants, specialty coffee shops and doughnut 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. Although competition in the beverage market is currently fragmented, competition is increasing, particularly from competitors in the quick-service restaurant sector who are focusing on growing the specialty coffee part of their business. A major competitor with substantially greater financial, marketing and operating resources than the Company could enter this market at any time and compete directly against Starbucks.

The Company's whole bean coffees compete directly against specialty coffees sold through supermarkets, specialty retailers and a growing number of specialty coffee stores. Both the Company's whole bean coffees and its coffee beverages compete indirectly against all other coffees on the market. The Company believes that its customers choose among retailers primarily on the basis of product quality, service and convenience, and, to a lesser extent, on price.

Starbucks believes that supermarkets are the most competitive distribution channel for specialty whole bean coffee, in part because supermarkets offer customers a variety of choices without having to make a separate trip to a specialty coffee store. A number of coffee manufacturers are distributing premium coffee products in supermarkets. Regional specialty coffee companies also sell whole bean coffees in supermarkets.

In addition to the competition generated by supermarket sales of coffee, Starbucks competes for whole bean coffee sales with franchise operators and independent specialty coffee stores. In virtually every major metropolitan area where Starbucks operates and expects to expand, there are local or regional competitors with substantial market presence in the specialty coffee business. Starbucks Specialty Operations also face significant competition from established wholesale and mail order suppliers, some of whom have greater financial and marketing resources than the Company.

Starbucks faces intense competition from both restaurants and other specialty retailers for suitable sites for new stores and qualified personnel to operate both new and existing stores. There can be no assurance that Starbucks will be able



to continue to secure adequate sites at acceptable rent levels or that the Company will be able to attract a sufficient number of qualified personnel.

**PATENTS, TRADEMARKS, COPYRIGHTS AND DOMAIN NAMES**

The Company owns and/or has applied to register numerous trademarks and service marks in the United States and in nearly 180 additional countries throughout the world. Rights to the trademarks and service marks in the United

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States are generally held by a wholly owned affiliate of the Company and are used by the Company under license. 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 and Starbucks.net.

## **RESEARCH AND DEVELOPMENT**

Starbucks research and development efforts are led by food scientists, engineers, chemists and culinarians in the Research and Development department. This team is responsible for the technical development of food and beverage products and new equipment. The Company spent approximately \$6.5 million, \$6.2 million and \$4.7 million during fiscal 2006, 2005 and 2004, 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**

Starbucks business is subject to seasonal fluctuations. Significant portions of the Company's net revenues and profits are realized during the first quarter of the fiscal year, which includes the holiday season. In addition, quarterly results are affected by the timing of the opening of new stores, and the Company's rapid growth may conceal the impact of other seasonal influences. Because of the seasonality of the business, results for any quarter are not necessarily indicative of the results that may be achieved for the full fiscal year.

## **EMPLOYEES**

As of October 1, 2006, the Company employed approximately 145,800 people worldwide. In the United States, Starbucks employed approximately 123,600 people, with 116,100 in Company-operated retail stores and the remainder in the Company's administrative and regional offices, and store development, roasting and warehousing operations. Approximately 22,200 employees were employed in International, with 21,200 in Company-operated retail stores and the remainder in the Company's regional support facilities and roasting and warehousing operations. At fiscal year end, employees at nine of the Company's Canadian stores were represented by a union. Starbucks believes its current relations with its employees are good.

## **AVAILABLE INFORMATION**

Starbucks Form 10-K reports, along with all other reports and amendments filed with or furnished to the Securities and Exchange Commission (SEC), are publicly available free of charge on the Investor Relations section of Starbucks website at <http://investor.starbucks.com> or at [www.sec.gov](http://www.sec.gov) as soon as reasonably practicable after these materials are filed with or furnished to the SEC. The Company's corporate governance policies, ethics code and Board of Directors committee charters are also posted within this section of the website. The information on the Company's website is not part of this or any other report Starbucks files with, or furnishes to, the SEC.

Starbucks demonstrates its commitment to corporate social responsibility (CSR) by conducting its business in ways that produce social, environmental and economic benefits to the communities in which Starbucks operates. The Company aligns its principles for social responsibility with its overall strategy and business operations. As a result,

Starbucks believes it delivers benefits to the Company and its stakeholders — partners, customers, suppliers, shareholders, community members and others — while distinguishing Starbucks as a leader within the coffee industry. Providing open communication and transparency helps the Company be accountable to its stakeholders. To support this goal, Starbucks publishes a CSR Annual Report. Starbucks fiscal 2006 CSR Annual Report will be available online at

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www.starbucks.com/csr beginning March 14, 2007. To request a printed copy of the report, which will be available in late March 2007, please call 1-800-23-LATTE (1-800-235-2883) or email your request to info@starbucks.com.

**Item 1A. Risk Factors**

This Annual Report on Form 10-K includes forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements generally are identified by words such as believe , expect , anticipate , estimate , intend , strategy , may , will likely and similar words or phrases. A forward-looking statement is neither a prediction nor a guarantee of future events or circumstances, and those future events or circumstances may not occur. Investors should not place undue reliance on the forward-looking statements, which speak only as of the date of this Report. Starbucks is under no obligation to update or alter any forward-looking statements, whether as a result of new information, future events or otherwise. These forward-looking statements are all based on currently available operating, financial and competitive information and are subject to various risks and uncertainties. The Company&#146