STARBUCKS CORP
Form 10-K/A
December 21, 2006

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549
Form 10-K/A
Amendment No. 1

þ 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

o 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	**91-1325671**
(State or other jurisdiction of incorporation or organization)	*(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 þ No o

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 o No þ

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 þ No o

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. þ

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 þ Accelerated Filer o Non-Accelerated Filer o

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

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/A.

EXPLANATORY NOTE

Starbucks Corporation is filing this Amendment No. 1 on Form 10-K/A (Form 10-K/A) to its Annual Report on Form 10-K for the fiscal year ended October 1, 2006 as filed with the Securities and Exchange Commission on December 14, 2006 (the Original Filing) solely to correct an administrative error in the content of Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operations. The error appears in the first full paragraph on page 25 of the Original Filing. In the third sentence of that paragraph the 7% increase in comparable store sales growth in fiscal 2006 compared to fiscal 2005 is attributed to a 5% increase in the average value per transaction and a 2% increase in the number of customer transactions. The correct explanation is as follows: The increase in comparable store sales was due to a 5% increase in the number of customer transactions and a 2% increase in the average value per transaction.

This Amendment does not update any disclosures to reflect developments since the filing date of the Original Filing.

In accordance with SEC Rule 12b-15, this Form 10-K/A sets forth the complete text of Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operations , as amended. However, in order to reduce printing and mailing costs, for purposes of providing the disclosure required under SEC rules in the Company s fiscal 2006 Annual Report to Shareholders (the Annual Report), the Company intends to provide shareholders (1) this Form 10-K/A, with only its explanatory note, signatures and certifications, (but excluding the full Item 7 as amended), together with (2) the Original Filing filed on December 14, 2006. The complete Form 10-K/A, including the full Item 7 as amended, will be available at the Company s web site set forth below and on the SEC s web site at www.sec.gov, and will be provided without charge upon written request to the following address:

Investor Relations
Starbucks Corporation
2401 Utah Avenue South, Mail Stop: FP1
Seattle, Washington 98134-1435
(206) 447-1575 x87118
investorrelations@starbucks.com
http://investor.starbucks.com

In addition, we have filed the following exhibits herewith:

31.1 Certification of Principal Executive Officer Pursuant to Rule 13a-14 of the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

31.2 Certification of Principal Financial Officer Pursuant to Rule 13a-14 of the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

32.1 Certification of Principal Executive Officer Pursuant to Rule 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

32.2 Certification of Principal Financial Officer Pursuant to Rule 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

Except as described above, no other changes have been made to the Original Filing and this Form 10-K/A does not amend, update or change the financial statements or any other items or disclosures in the Original Filing.

PART II

Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations

GENERAL

Starbucks Corporation s fiscal year ends on the Sunday closest to September 30. The fiscal years ended on October 1, 2006 and October 2, 2005, included 52 weeks. The fiscal year ended October 3, 2004, included 53 weeks, with the 53rd week falling in the fiscal fourth quarter.

MANAGEMENT OVERVIEW

During the fiscal year ended October 1, 2006, the Company s focus on execution in all areas of its business, from U.S. and International Company-operated retail operations to the Company s specialty businesses, delivered strong financial performance. Management believes that its ability to achieve the balance between growing the core business and building the foundation for future growth is the key to increasing long-term shareholder value. Starbucks fiscal 2006 performance reflects the Company s continuing commitment to achieving this balance.

The primary driver of the Company s revenue growth continues to be the opening of new retail stores, both Company-operated and licensed, in pursuit of the Company s objective to establish Starbucks as one of the most recognized and respected brands in the world. Starbucks opened 2,199 new stores in fiscal 2006 and plans to open approximately 2,400 in fiscal 2007. With a presence in 37 countries, serving customers more than 40 million times per week, management continues to believe that the Company s long-term goal of approximately 20,000 Starbucks retail locations throughout the United States and at least 20,000 stores in International markets is achievable.

In addition to opening new retail stores, Starbucks works to increase revenues generated at new and existing Company-operated stores by attracting new customers and increasing the frequency of visits by current customers. The strategy is to increase comparable store sales by continuously improving the level of customer service, introducing innovative products and improving speed with service through training, technology and process improvement.

Global comparable store sales for Company-operated markets increased by 7%, making fiscal 2006 the 15th consecutive year with comparable store sales growth of 5% or greater. Comparable store sales growth for fiscal 2007 is expected to be in the range of 3% to 7%.

In licensed retail operations, Starbucks shares operating and store development experience to help licensees improve the profitability of existing stores and build new stores. Internationally, the Company s strategy is to selectively increase its equity stake in licensed international operations as these markets develop. In January 2006, the Company increased its equity ownership from 5% to 100% in its operations in Hawaii and Puerto Rico, and subsequent to the end of fiscal 2006 purchased a 90% stake in its previously-licensed operations in Beijing, China.

The combination of more retail stores, comparable store sales growth of 7% and growth in other business channels in the U.S., International, and CPG operating segments resulted in a 22% increase in total net revenues for fiscal 2006, compared to fiscal 2005. The Company expects revenue growth of approximately 20% in fiscal 2007, consistent with its three to five year revenue growth target.

Operating income as a percentage of total net revenues decreased to 11.5% in fiscal 2006 from 12.3% in fiscal 2005, due to the recognition of stock-based compensation. Net earnings increased by 14% in fiscal 2006, compared to fiscal 2005. Reported operating margin and net earnings include the effects of stock-based compensation in fiscal 2006, while stock-based compensation expense was not included in the Company s consolidated financial results in fiscal 2005.

ACQUISITIONS

In January 2006, Starbucks increased its equity ownership to 100% in its operations in Hawaii and Puerto Rico and applied the consolidation method of accounting from the acquisition date. Previously the Company owned 5% of both

Coffee Partners Hawaii and Café del Caribe in Puerto Rico. Because Coffee Partners Hawaii was a general partnership, the equity method of accounting was previously applied. Retroactive application of the equity method of accounting for the Puerto Rico investment, which was previously accounted for under the cost method, resulted in a reduction of retained earnings of $0.5 million as of April 2, 2006. The cumulative effect of the accounting change for financial results previously reported under the cost method and as restated in this report under the equity method reduced net earnings by $97 thousand for the fiscal year ended October 2, 2005 and $93 thousand for the fiscal year ended October 2, 2004. Previously reported earnings per share amounts were not impacted.

On October 18, 2006, the Company acquired 90% equity ownership of the licensed operations of 61 Starbucks retail stores in Beijing and Tianjin, China (See Note 20 Subsequent Event).

RESULTS OF OPERATIONS FISCAL 2006 COMPARED TO FISCAL 2005

The following table presents the consolidated statement of earnings as well as the percentage relationship to total net revenues, unless otherwise indicated, of items included in the Company s consolidated statements of earnings (*amounts in thousands*):

FISCAL YEAR ENDED	Oct 1, 2006 (52 Wks)	% of Revenues	Oct 2, 2005 (52 Wks)	% of Revenues	Oct 3, 2004 (53 Wks)	% of Revenues
STATEMENTS OF EARNINGS DATA						
Net revenues:						
Company-operated retail	$ 6,583,098	84.5%	$ 5,391,927	84.7%	$ 4,457,378	84.2%
Specialty:						
Licensing	860,676	11.1	673,015	10.5	565,798	10.7
Foodservice and other	343,168	4.4	304,358	4.8	271,071	5.1
Total specialty	1,203,844	15.5	977,373	15.3	836,869	15.8
Total net revenues	7,786,942	100.0	6,369,300	100.0	5,294,247	100.0
Cost of sales including occupancy costs	3,178,791	40.8	2,605,212	40.9	2,191,440	41.4
Store operating expenses	2,687,815	40.8 (1)	2,165,911	40.2 (1)	1,790,168	40.2 (1)
Other operating expenses	260,087	21.6 (2)	197,024	20.2 (2)	171,648	20.5 (2)
Depreciation and amortization expenses	387,211	5.0	340,169	5.3	289,182	5.5
General and administrative expenses	473,023	6.1	357,114	5.6	304,293	5.7
Subtotal operating expenses	6,986,927	89.7	5,665,430	88.9	4,746,731	89.7
Income from equity investees	93,937	1.2	76,648	1.2	58,978	1.1
Operating income	893,952	11.5	780,518	12.3	606,494	11.5

Interest and other income, net		12,291	0.1		15,829	0.2		14,140	0.2
Earnings before income taxes		906,243	11.6		796,347	12.5		620,634	11.7
Income taxes		324,770	4.1		301,977	4.7		231,754	4.4
Earnings before cumulative effect of change in accounting principle		581,473	7.5%		494,370	7.8%		388,880	7.3%
Cumulative effect of accounting change for FIN 47, net of taxes		17,214	0.3						
Net earnings	$	564,259	7.2%	$	494,370	7.8%	$	388,880	7.3%

(1) Shown as a percentage of related Company-operated retail revenues.

(2) Shown as a percentage of related total specialty revenues.

CONSOLIDATED RESULTS OF OPERATIONS

Net revenues for the fiscal year ended 2006 increased 22% to $7.8 billion from $6.4 billion for fiscal 2005, driven by increases in both Company-operated retail revenues and specialty operations. Net revenues are expected to grow approximately 20% in fiscal 2007 compared to fiscal 2006.

During the fiscal year ended 2006, Starbucks derived 85% of total net revenues from its Company-operated retail stores. Company-operated retail revenues increased 22% to $6.6 billion for the fiscal year ended 2006, from $5.4 billion for fiscal 2005. This increase was primarily due to the opening of 1,040 new Company-operated retail stores in the last 12 months and comparable store sales growth of 7% in fiscal 2006. The increase in comparable store sales was due to a 5% increase in the number of customer transactions and a 2% increase in the average value per transaction. Management believes increased customer traffic continues to be driven by sustained popularity of core products, new product innovation and a high level of customer satisfaction.

The Company derived the remaining 15% of total net revenues from channels outside the Company-operated retail stores, collectively known as Specialty Operations. Specialty revenues, which include licensing revenues and foodservice and other revenues, increased 23% to $1.2 billion for the fiscal year ended 2006, from $977 million for fiscal 2005.

Licensing revenues, which are derived from retail store licensing arrangements, as well as grocery, warehouse club and certain other branded product operations, increased 28% to $861 million for fiscal 2006, from $673 million for fiscal 2005. The increase is primarily due to higher product sales and royalty revenues from the opening of 1,159 new licensed retail stores in the last 12 months and, to a lesser extent, growth in the licensed grocery and warehouse club business.

Foodservice and other revenues increased 13% to $343 million for fiscal 2006, from $304 million for fiscal 2005. Foodservice and other revenues increased primarily due to growth in new and existing U.S. foodservice accounts.

Cost of sales including occupancy costs decreased slightly to 40.8% of total net revenues for fiscal 2006, from 40.9% in fiscal 2005. The decrease was primarily due to fixed rent costs in fiscal 2006 being distributed over an expanded revenue base, as well as increased occupancy costs in fiscal 2005 resulting from intensified store maintenance activities. These favorable items, combined with lower dairy costs, offset higher green coffee costs for fiscal 2006.

Store operating expenses as a percentage of Company-operated retail revenues increased to 40.8% for fiscal 2006 from 40.2% for fiscal 2005. The increase was due to the recognition of stock-based compensation expense and to higher provisions for incentive compensation.

Other operating expenses, which are expenses associated with the Company s Specialty Operations, increased to 21.6% of specialty revenues in fiscal 2006, compared to 20.2% in fiscal 2005. The increase was primarily due to the recognition of stock-based compensation expense as well as higher payroll-related expenditures to support the expanding licensed store operations, both in the U.S. and in existing and new international markets.

Depreciation and amortization expenses increased to $387 million in fiscal 2006, from $340 million in fiscal 2005. The increase of $47 million was due to the opening of 1,040 new Company-operated retail stores in the last 12 months. As a percentage of total net revenues, depreciation and amortization decreased to 5.0% for fiscal 2006, from 5.3% for fiscal 2005.

General and administrative expenses increased to $473 million in fiscal 2006, compared to $357 million in fiscal 2005. The increase was due to higher payroll-related expenditures from the recognition of stock-based compensation expense, additional employees to support continued global growth, and higher professional fees in support of global systems infrastructure development. As a percentage of total net revenues, general and administrative expenses increased to 6.1% for fiscal 2006, from 5.6% for fiscal 2005.

Income from equity investees increased to $94 million in fiscal 2006, compared to $77 million in fiscal 2005. The increase was primarily due to favorable volume-driven operating results for The North American Coffee Partnership, which produces ready-to-drink beverages which include, among others, bottled Frappuccino® coffee drinks and

Starbucks DoubleShot® espresso drinks, as well as improved operating results from international investees, including Korea and Japan, mainly as a result of new store openings.

Operating income increased 15% to $894 million in fiscal 2006, from $781 million in fiscal 2005. The operating margin decreased to 11.5% of total net revenues in fiscal 2006, compared to 12.3% in fiscal 2005, due to the recognition of stock-based compensation expense.

Net interest and other income, which primarily consists of interest income, decreased to $12 million in fiscal 2006, from $16 million in fiscal 2005. The decrease was primarily due to higher interest expense on the Company s revolving credit facility, as well as lower interest income earned due to lower average investment balances, offset in part by the recognition of $4.4 million of income on unredeemed stored value card balances in fiscal 2006. There was no income recognized on unredeemed stored value card balances in fiscal 2005.

Income taxes for fiscal 2006 resulted in an effective tax rate of 35.8%, compared to 37.9% in fiscal 2005. The decline in the effective tax rate was due to the reversal of a valuation allowance in fiscal 2006 that had been established in fiscal 2005, the settlement in the third quarter of fiscal 2006 of a multi-year income tax audit in a foreign jurisdiction for which the Company had established a contingent liability, and to increased effectiveness of the Company s long-term tax planning strategies. The effective tax rate for fiscal 2007 is expected to be approximately 38%, with quarterly variations.

OPERATING SEGMENTS

Segment information is prepared on the same basis that the Company s management reviews financial information for operational decision-making purposes. Beginning in the fiscal fourth quarter of 2006, the Company increased its reporting segments from two to three to include a Global 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 following tables summarize the Company s results of operations by segment for fiscal 2006 and 2005 (*in thousands*):

	52 Weeks Ended			52 Weeks Ended	
	Oct 1, 2006	Oct 2, 2005	% Change	Oct 1, 2006	Oct 2, 2005
UNITED STATES				As a % of U.S. Total Net Revenues	
Net revenues:					
Company-operated retail	$ 5,495,240	$ 4,539,455	21.1%	88.9%	89.1%
Specialty:					

Licensing	369,155	277,987	32.8	6.0	5.4
Foodservice and other	314,162	280,073	12.2	5.1	5.5
Total specialty	683,317	558,060	22.4	11.1	10.9
Total net revenues	6,178,557	5,097,515	21.2	100.0	100.0
Cost of sales including occupancy costs	2,374,485	1,944,356		38.4	38.1
Store operating expenses	2,280,044	1,848,836		41.5 (1)	40.7 (1)
Other operating expenses	190,624	150,712		27.9 (2)	27.0 (2)
Depreciation and amortization expenses	284,625	250,339		4.6	4.9
General and administrative expenses	93,754	85,362		1.5	1.7
Income from equity investees	151	592			
Operating income	$ 955,176	$ 818,502	16.7%	15.5%	16.1%

(1) Shown as a percentage of related Company-operated retail revenues.

(2) Shown as a percentage of related total specialty revenues.

INTERNATIONAL	52 Weeks Ended Oct 1, 2006	52 Weeks Ended Oct 2, 2005	% Change	52 Weeks Ended Oct 1, 2006	52 Weeks Ended Oct 2, 2005
				As a % of International Total Net Revenues	
Net revenues:					
Company-operated retail	$ 1,087,858	$ 852,472	27.6%	83.5%	83.4%
Specialty:					
Licensing	186,050	145,736	27.7	14.3	14.2
Foodservice and other	29,006	24,285	19.4	2.2	2.4
Total specialty	215,056	170,021	26.5	16.5	16.6
Total net revenues	1,302,914	1,022,493	27.4	100.0	100.0
Cost of sales including occupancy costs	625,008	511,761		48.0	50.1
Store operating expenses	407,771	317,075		37.5 (1)	37.2 (1)