REGAL BELOIT CORP
Form 10-Q
November 07, 2012

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

ý QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
for the quarterly period ended September 29, 2012
or

¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
Commission file number 001-07283

REGAL BELOIT CORPORATION
(Exact name of registrant as specified in its charter)

Wisconsin	39-0875718
(State of other jurisdiction of incorporation)	(IRS Employer Identification No.)

200 State Street, Beloit, Wisconsin 53511
(Address of principal executive office)
(608) 364-8800
Registrant’s telephone number, including area code

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 ý NO ¨
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 during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
YES ý NO ¨
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	ý	Accelerated Filer	¨
Non-accelerated filer	o (Do not check if a smaller reporting company)	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 ý
As of November 2, 2012 there were 41,741,606 shares of the registrant’s common stock, $.01 par value per share, outstanding.

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CAUTIONARY STATEMENT

Certain statements made in this Quarterly Report on Form 10-Q are “forward-looking statements” intended to qualify for the safe harbor from liability established by the Private Securities Litigation Reform Act of 1995. Forward-looking statements are based on management’s expectations, beliefs, current assumptions, and projections. When used in this Quarterly Report on Form 10-Q, words such as “may,” “will,” “expect,” “intend,” “estimate,” “anticipate,” “believe,” “should,” “project” or “plan” or the negative thereof or similar words are intended to identify forward-looking statements. These forward-looking statements are not guarantees of future performance and are subject to risks, uncertainties, assumptions and other factors, some of which are beyond our control, which could cause actual results to differ materially from those expressed or implied by such forward-looking statements. Those factors include, but are not limited to:

- actions taken by our competitors and our ability to effectively compete in the increasingly competitive global electric motor, power generation and mechanical motion control industries;
- our ability to develop new products based on technological innovation and the marketplace acceptance of new and existing products;
- fluctuations in commodity prices and raw material costs;
- our dependence on significant customers;
- issues and costs arising from the integration of recently acquired companies and businesses, including the timing and impact of purchase accounting adjustments;
- our dependence on key suppliers and the potential effects of supply disruptions;
- infringement of our intellectual property by third parties, challenges to our intellectual property, and claims of infringement by us of third party technologies;
- increases in our overall debt levels as a result of acquisitions or otherwise and our ability to repay principal and interest on our outstanding debt;
- product liability and other litigation, or the failure of our products to perform as anticipated, particularly in high volume applications;
- unanticipated costs or expenses that could be incurred relating to product warranty matters;
- economic changes in global markets where we do business, such as reduced demand for the products we sell, currency exchange rates, inflation rates, interest rates, recession, foreign government policies and other external factors that we cannot control;
- unanticipated liabilities of recently acquired businesses;
- cyclical downturns affecting the global market for capital goods;
- difficulties associated with managing foreign operations; and
- other risks and uncertainties including but not limited to those described in “Risk Factors” in this Quarterly Report on Form 10-Q and from time to time in our reports filed with Securities and Exchange Commission.

Shareholders, potential investors, and other readers are urged to consider these factors in evaluating the forward-looking statements and cautioned not to place undue reliance on such forward-looking statements. The forward-looking statements included in this Quarterly Report on Form 10-Q are made only as of the date of this report, and we undertake no obligation to update these statements to reflect subsequent events or circumstances. Additional information regarding these and other risks and factors is included in Item 1A - Risk Factors in our Annual Report on Form 10-K filed with the Securities and Exchange Commission on February 29, 2012.

PART I—FINANCIAL INFORMATION
ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

REGAL BELOIT CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(Unaudited)
(Dollars in Millions, Except Cash Dividends Declared and Per Share Data)

	Three Months Ended		Nine Months Ended	
	September 29, 2012	October 1, 2011	September 29, 2012	October 1, 2011
Net Sales	$779.5	$736.9	$2,451.3	$2,081.3
Cost of Sales	586.9	557.3	1,841.0	1,586.2
Gross Profit	192.6	179.6	610.3	495.1
Operating Expenses	109.3	101.5	344.6	298.0
Income From Operations	83.3	78.1	265.7	197.1
Interest Expense	10.6	10.5	33.6	20.4
Interest Income	0.4	0.5	1.2	1.2
Income Before Taxes	73.1	68.1	233.3	177.9
Provision For Income Taxes	17.9	20.6	63.9	53.6
Net Income	55.2	47.5	169.4	124.3
Less: Net Income Attributable to Noncontrolling Interests	0.9	1.8	3.7	5.5
Net Income Attributable to Regal Beloit Corporation	$54.3	$45.7	$165.7	$118.8
Earnings Per Share Attributable to Regal Beloit Corporation:				
Basic	$1.30	$1.14	$3.98	$3.04
Assuming Dilution	$1.29	$1.13	$3.94	$3.00
Cash Dividends Declared	$0.19	$0.18	$0.56	$0.53
Weighted Average Number of Shares Outstanding (in millions):				
Basic	41.7	39.9	41.7	39.1
Assuming Dilution	42.0	40.4	42.0	39.6

See accompanying Notes to Condensed Consolidated Financial Statements

REGAL BELOIT CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(Unaudited)
(Dollars in Millions)

	Three Months Ended		Nine Months Ended	
	September 29, 2012	October 1, 2011	September 29, 2012	October 1, 2011
Net Income	$55.2	$47.5	$169.4	$124.3
Other Comprehensive Income (Loss)				
Change in pension benefits, net of tax effects of $2.4 million and $(2.0) million for the three months ended September 29, 2012 and October 1, 2011, and $1.5 million and $(1.3) million for the nine months ended September 29, 2012 and October 1, 2011, respectively	3.9	(3.3)	2.4	(2.2)
Foreign currency translation adjustments	20.0	(51.2)	13.3	(32.7)
Change in fair value of hedging activities, net of tax effects of $6.2 million and $(31.4) million for the three months ended September 29, 2012 and October 1, 2011, and $11.8 million and $(30.3) million for the nine months ended September 29, 2012 and October 1, 2011, respectively	10.2	(51.2)	19.3	(49.5)
Hedging activities reclassified into earnings from Other Comprehensive Income (Loss), net of tax effects of $3.0 million and $(1.3) million for the three months ended September 29, 2012 and October 1, 2011, and $8.6 million and $(6.6) million for the nine months ended September 29, 2012 and October 1, 2011, respectively	4.9	(2.1)	14.0	(10.8)
Total Other Comprehensive Income (Loss)	39.0	(107.8)	49.0	(95.2)
Comprehensive Income (Loss)	94.2	(60.3)	218.4	29.1
Less: Comprehensive Income Attributable to Noncontrolling Interests	1.7	1.6	4.1	4.9
Comprehensive Income (Loss) Attributable to Regal Beloit Corporation	$92.5	$(61.9)	$214.3	$24.2

See accompanying Notes to Condensed Consolidated Financial Statements

REGAL BELOIT CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)
(Dollars in Millions, Except Per Share Data)

	September 29, 2012	December 31, 2011
ASSETS		
Current Assets:		
Cash and Cash Equivalents	$185.8	$142.6
Trade Receivables, less Allowances of $12.0 million in 2012 and $13.6 million in 2011	466.5	424.2
Inventories	594.9	575.8
Prepaid Expenses and Other Current Assets	108.5	99.9
Deferred Income Tax Benefits	42.9	48.6
Total Current Assets	1,398.6	1,291.1
Net Property, Plant, and Equipment	566.8	534.0
Goodwill	1,144.9	1,117.6
Intangible Assets, Net of Amortization	302.5	316.3
Other Noncurrent Assets	10.9	7.5
Total Assets	$3,423.7	$3,266.5
LIABILITIES AND EQUITY		
Current Liabilities:		
Accounts Payable	$292.7	$249.4
Dividends Payable	7.9	7.5
Hedging Obligations	6.1	26.1
Accrued Compensation and Employee Benefits	88.1	81.7
Other Accrued Expenses	124.3	149.8
Current Maturities of Debt	83.8	10.0
Total Current Liabilities	602.9	524.5
Long-Term Debt	781.7	909.2
Deferred Income Taxes	131.3	100.1
Hedging Obligations	39.6	55.1
Pension and Other Post Retirement Benefits	52.3	60.6
Other Noncurrent Liabilities	39.0	40.6
Commitments and Contingencies (see Note 13)		
Equity:		
Regal Beloit Corporation Shareholders' Equity:		
Common Stock, $.01 par value, 100.0 million shares authorized, 41.7 million shares and 41.6 million shares issued in 2012 and 2011, respectively	0.4	0.4
Additional Paid-In Capital	697.6	689.4
Retained Earnings	1,093.7	951.3
Accumulated Other Comprehensive Loss	(56.6)	(105.2)
Total Regal Beloit Corporation Shareholders' Equity	1,735.1	1,535.9
Noncontrolling Interests	41.8	40.5
Total Equity	1,776.9	1,576.4
Total Liabilities and Equity	$3,423.7	$3,266.5

See accompanying Notes to Condensed Consolidated Financial Statements.

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REGAL BELOIT CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF EQUITY
(Unaudited)
(Dollars in Millions, Except Per Share Data)

	Common Stock $.01 Par Value	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Non-controlling Interests	Total Equity
Balance as of January 1, 2011	$0.4	$535.8	$827.5	$ (1.7)	$35.2	$1,397.2
Net Income	—	—	118.8	—	5.5	124.3
Other Comprehensive Loss	—	—	—	(94.6)	(0.6)	(95.2)
Dividends Declared ($0.53 per share)	—	—	(21.0)	—	—	(21.0)
Issuance of 2,834,026 shares of Common Stock for Acquisition	—	140.9	—	—	—	140.9
Stock Options Exercised, including income tax benefit and share cancellations	—	1.2	—	—	—	1.2
Share-based Compensation	—	10.1	—	—	—	10.1
Balance as of October 1, 2011	$0.4	$688.0	$925.3	$ (96.3)	$40.1	$1,557.5

	Common Stock $.01 Par Value	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Non-controlling Interests	Total Equity
Balance as of December 31, 2011	$0.4	$689.4	$951.3	$ (105.2)	$40.5	$1,576.4
Net Income	—	—	165.7	—	3.7	169.4
Other Comprehensive Income (Loss)	—	—	—	48.6	0.4	49.0
Dividends Declared ($0.56 per share)	—	—	(23.3)	—	—	(23.3)
Stock Options Exercised, including income tax benefit and share cancellations	—	1.5	—	—	—	1.5
Share-based Compensation	—	6.7	—	—	—	6.7
Dividends declared to Non-controlling Interests	—	—	—	—	(2.8)	(2.8)
Balance as of September 29, 2012	$0.4	$697.6	$1,093.7	$ (56.6)	$41.8	$1,776.9

See accompanying Notes to Condensed Consolidated Financial Statements.

REGAL BELOIT CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)
(Dollars in Millions)

	Nine Months Ended	
	September 29, 2012	October 1, 2011
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$169.4	$124.3
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	95.0	69.7
Excess tax benefits from share-based compensation	(1.7)	(1.0)
(Gain) loss on disposition of assets, net	(1.7)	(5.6)
Share-based compensation expense	6.7	10.1
Change in assets and liabilities, net of acquisitions	8.5	(21.3)
Net cash provided by operating activities	276.2	176.2
CASH FLOWS FROM INVESTING ACTIVITIES:		
Additions to property, plant and equipment	(66.1)	(44.3)
Purchases of investment securities	(4.7)	—
Sales of investment securities	1.5	56.0
Business acquisitions, net of cash acquired	(103.0)	(764.9)
Grants received for capital expenditures	7.1	—
Proceeds from sale of assets	2.7	15.1
Net cash used in investing activities	(162.5)	(738.1)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Borrowings under revolving credit facility	281.0	200.0
Repayments under revolving credit facility	(263.0)	(172.0)
Proceeds from short-term borrowings	36.4	21.5
Repayments of short-term borrowings	(32.9)	(17.3)
Proceeds from long-term borrowings	—	500.0
Repayments of long-term debt	(75.2)	(0.1)
Dividends paid to shareholders	(22.9)	(20.1)
Proceeds from the exercise of stock options	3.5	1.9
Excess tax benefits from share-based compensation	1.7	1.0
Financing fees paid	—	(2.8)
Net cash (used in) provided by financing activities	(71.4)	512.1
EFFECT OF EXCHANGE RATES ON CASH	0.9	(0.3)
Net increase (decrease) in cash and cash equivalents	43.2	(50.1)
Cash and cash equivalents at beginning of period	142.6	174.5
Cash and cash equivalents at end of period	$185.8	$124.4

See accompanying Notes to Condensed Consolidated Financial Statements.

REGAL BELOIT CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
September 29, 2012
(Unaudited)

1. BASIS OF PRESENTATION

The accompanying (a) condensed consolidated balance sheet of Regal Beloit Corporation (the “Company”) as of December 31, 2011, which has been derived from audited financial statements, and (b) unaudited interim condensed consolidated financial statements as of September 29, 2012 and for the three and nine months ended September 29, 2012 and October 1, 2011, have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and note disclosures normally included in annual financial statements prepared in accordance with accounting principles generally accepted in the United States have been condensed or omitted pursuant to those rules and regulations, although the Company believes that the disclosures made are adequate to make the information not misleading.

It is suggested that these condensed consolidated financial statements be read in conjunction with the financial statements and the notes thereto included in the Company’s 2011 Annual Report on Form 10-K filed on February 29, 2012.

In the opinion of management, all adjustments considered necessary for a fair presentation of financial results have been made. Except as otherwise discussed, such adjustments consist of only those of a normal recurring nature. Operating results for the three and nine months ended September 29, 2012 are not necessarily indicative of the results that may be expected for the entire fiscal year ending December 29, 2012.

The Company operates on a 52/53 week fiscal year ending on the Saturday closest to December 31.

On January 1, 2012, the Company adopted new guidance which changes the presentation of comprehensive income. Under the new guidance, the Company has reported a separate Condensed Consolidated Statement of Comprehensive Income for all periods presented.

On January 1, 2012, the Company adopted new guidance which provides an option to first assess qualitative factors in determining whether is more likely than not that the fair value of a reporting unit is less than the carrying amount as a basis for determining whether it is necessary to perform the two-step goodwill impairment test. The Company will perform its annual goodwill impairment test in the fourth quarter and does not expect the adoption of the guidance to have a material impact on its consolidated financial statements.

2. OTHER FINANCIAL INFORMATION

Inventories

Cost for approximately 41% and 45% of the Company’s inventory is determined using the last-in, first-out (LIFO) inventory valuation method as of September 29, 2012 and December 31, 2011, respectively. The approximate percentage distribution between major classes of inventories was as follows:

	September 29, 2012	December 31, 2011
Raw Material and Work in Process	42 %	38 %
Finished Goods and Purchased Parts	58 %	62 %

Investments

Investments consist of term deposits of $3.2 million with original maturities of greater than three months. Investments with maturities greater than one year may be classified as short term based on their highly liquid nature and their availability to fund future investing activities. Term deposits are included in Prepaid Expenses and Other Current Assets. The fair value of term deposits approximates their carrying value.

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Property, Plant and Equipment

Property, plant, and equipment by major classification was as follows (in millions):

	September 29, 2012	December 31, 2011
Land and Improvements	$76.2	$74.1
Buildings and Improvements	200.0	189.3
Machinery and Equipment	740.5	667.2
Property, Plant and Equipment	1,016.7	930.6
Less: Accumulated Depreciation	(449.9)	(396.6)
Net Property, Plant and Equipment	$566.8	$534.0

3. ACQUISITIONS

The results of operations for acquired businesses are included in the Condensed Consolidated Financial Statements from the dates of acquisition. Acquisition-related expenses, which were recorded in operating expenses, were immaterial for the three and nine months ended September 29, 2012. Acquisition-related expenses were $5.6 million and $16.0 million for the three and nine months ended October 1, 2011, respectively.

2012 Acquisitions

During the nine months ended September 29, 2012, the Company acquired a Mexico based electrical products company for $1.6 million. The Company also acquired assets from a Canadian affiliate of its Elco B.V. joint venture for $1.4 million. These are reported as a part of the Company's Electrical segment.

On February 3, 2012, the Company acquired Milwaukee Gear Company (“MGC”), a Wisconsin-based leading manufacturer of highly engineered gearing components for oil and gas applications as well as a wide variety of other commercial and industrial applications. The purchase price of MGC was $80.3 million paid in cash, net of cash acquired. MGC is reported as a part of the Company’s Mechanical segment.

2011 EPC Acquisition

On August 22, 2011, the Company completed its acquisition of the Electrical Products Company (“EPC”) of A.O. Smith Corporation (NYSE: AOS). EPC manufactures and sells a full line of motors for hermetic, pump, distribution, HVAC, and general industrial applications. EPC is based in Tipp City, Ohio and has operations in the United States, Mexico, China, and the United Kingdom. The purchase price included $756.1 million in cash and non-cash consideration of $140.9 million comprised of 2,834,026 shares of Company common stock. EPC is reported as part of the Company’s Electrical segment.

Pro Forma Financial Information

The following pro forma financial information shows the results of continuing operations for the three and nine months ended October 1, 2011 as though the acquisition of EPC occurred at the beginning of the 2011 fiscal year. The pro forma financial information includes, where applicable, adjustments for: (i) the amortization of acquired intangible assets, (ii) additional interest expense on acquisition related borrowings and (iii) the income tax effect on the pro forma adjustments. The pro forma financial information is presented for illustrative purposes only and is not necessarily indicative of the operating results that would have been achieved had the acquisition been completed as of the date indicated above or the results that may be obtained in the future (in millions, except per share amounts):

	Three Months Ended October 1, 2011	Nine Months Ended October 1, 2011
Pro forma net sales	$847.0	$2,615.6
Pro forma net income	58.5	164.9
Basic earnings per share as reported	$1.14	$3.04
Pro forma basic earnings per share	1.41	3.97
Diluted earnings per share as reported	1.13	3.00
Pro forma diluted earnings per share	1.39	3.92

Other 2011 Acquisitions

On June 1, 2011, the Company acquired Australian Fan and Motor Company ("AFMC") located in Melbourne, Australia. AFMC manufactures and distributes a wide range of direct drive blowers, fan decks, axial fans and sub fractional motors for sales in Australia and New Zealand. The purchase price of $5.7 million was paid in cash, net of acquired debt and cash. AFMC is reported as part of the Company's Electrical segment.

On April 5, 2011, the Company acquired Ramu, Inc. ("Ramu") located in Blacksburg, Virginia. Ramu is a motor and control technology company with a research and development team dedicated to the development of switched reluctance motor technology. The purchase price included $5.3 million paid in cash, net of acquired debt and cash and an additional amount should certain future performance expectations be met. At September 29, 2012, the Company has recorded a liability of $13.7 million for this deferred contingent purchase price. Ramu is reported as part of the Company's Electrical segment.

On March 7, 2011, the Company acquired Hargil Dynamics Pty. Ltd. ("Hargil") located in Sydney, Australia. Hargil is a distributor of mechanical power transmission components and solutions. Hargil is reported as part of the Company's Mechanical segment.

4. COMPREHENSIVE INCOME

As required, the Company adopted new guidance on the presentation of comprehensive income during 2012. Condensed Consolidated Statements of Comprehensive Income are included in the Company's Condensed Consolidated Financial Statements for all periods presented.

Foreign currency translation adjustments, hedging activities on derivative instruments and pension benefit adjustments are included in Equity in Accumulated Other Comprehensive Loss. The components of the ending balances of Accumulated Other Comprehensive Loss are as follows (in millions):

	September 29, 2012	December 31, 2011
Foreign currency translation adjustments	$(7.1)	$(20.0)
Hedging activities, net of tax	(17.5)	(50.8)
Pension benefits, net of tax	(32.0)	(34.4)
	$(56.6)	$(105.2)

5. WARRANTY COSTS

The Company generally recognizes the cost associated with its standard warranty on its products at the time of sale. The amount recognized is based on historical experience. The following is a reconciliation of the changes in accrued warranty costs for the three and nine months ended September 29, 2012 and October 1, 2011 (in millions):

	Three Months Ended		Nine Months Ended	
	September 29, 2012	October 1, 2011	September 29, 2012	October 1, 2011
Beginning balance	$26.0	$40.9	$24.2	$12.8
Deduct: Payments	(5.9)	(5.8)	(19.3)	(11.7)
Add: Provision	7.1	2.5	22.3	36.4
Acquisition	—	3.9	0.1	3.9
Translation Adjustments	0.1	(0.1)	—	—
Ending balance	$27.3	$41.4	$27.3	$41.4

The warranty provision for the nine months ended October 1, 2011 included $28.0 million in accrued costs due to the previously disclosed warranty expense item.

Accrued warranty costs are included with Other Accrued Expenses on the Condensed Consolidated Balance Sheets.

6. BUSINESS SEGMENTS

The Company has two reportable segments, Mechanical and Electrical (in millions):

	Electrical	Mechanical	Eliminations	Total
Three months ended September 29, 2012				
External sales	$708.3	$71.2	$—	$779.5
Intersegment sales	0.9	1.3	(2.2)	—
Total sales	709.2	72.5	(2.2)	779.5
Segment income from operations	73.2	10.1	—	83.3
Identifiable assets	3,216.1	207.6	—	3,423.7
Depreciation and amortization	32.3	2.1	—	34.4
Three months ended October 1, 2011				
External Sales	$667.5	$69.4	$—	$736.9
Intersegment sales	2.1	0.7	(2.8)	—
Total sales	669.6	70.1	(2.8)	736.9
Segment income from operations	69.4	8.7	—	78.1
Identifiable assets	3,259.5	113.1	—	3,372.6
Depreciation and amortization	24.7	1.4	—	26.1

	Electrical	Mechanical	Eliminations	Total
Nine months ended September 29, 2012				
External sales	$2,223.3	$228.0	$—	$2,451.3
Intersegment sales	2.7	2.9	(5.6)	—
Total sales	2,226.0	230.9	(5.6)	2,451.3
Segment income from operations	234.1	31.6	—	265.7
Identifiable assets	3,216.1	207.6	—	3,423.7
Depreciation and amortization	87.3	7.7	—	95.0
Nine months ended October 1, 2011				
External Sales	$1,873.1	$208.2	$—	$2,081.3
Intersegment sales	7.2	1.9	(9.1)	—
Total sales	1,880.3	210.1	(9.1)	2,081.3
Segment income from operations	169.8	27.3	—	197.1
Identifiable assets	3,259.5	113.1	—	3,372.6
Depreciation and amortization	65.3	4.4	—	69.7

7. GOODWILL AND OTHER INTANGIBLES

Goodwill

As required, the Company performs an annual impairment test of goodwill during the fourth quarter or more frequently if events or circumstances change that would more likely than not reduce the fair value of its reporting units below their carrying value.

At September 29, 2012, most of the Company's goodwill is attributable to the Electrical segment and the Company believes that substantially all of the goodwill is deductible for tax purposes. The following information presents changes to goodwill during the periods indicated (in millions):

	Total	Electrical Segment	Mechanical Segment
Balance as of December 31, 2011	$1,117.6	$1,105.0	$12.6
Acquisitions and Valuation Adjustments	21.7	0.3	21.4
Foreign Currency Translation Adjustments	5.6	5.6	—
Balance as of September 29, 2012	$1,144.9	$1,110.9	$34.0

Intangible Assets

Intangible assets consisted of the following (in millions):

		September 29, 2012		December 31, 2011	
	Useful Life (years)	Gross Value	Accumulated Amortization	Gross Value	Accumulated Amortization
Customer Relationships	3 - 14	$243.0	$(72.8)	$227.5	$(56.4)
Technology	3 - 9	130.1	(37.4)	128.2	(24.7)
Trademarks	3 - 20	32.5	(14.9)	30.9	(12.8)
In-process Research and Development	N/A	17.2	—	17.2	—
Patent and Engineering Drawings	10	16.6	(12.9)	16.6	(11.7)
Non-compete Agreements	3 - 5	8.1	(7.0)	8.1	(6.6)
		$447.5	(145.0)	$428.5	(112.2)
Net Values			$302.5		$316.3

The estimated expected future annual amortization for intangible assets is as follows (in millions):

Year	Estimated Amortization
2012	$44.4
2013	43.6
2014	42.4
2015	34.7
2016	30.9

Amortization expense recorded for the three and nine months ended September 29, 2012 was $11.1 million and $32.8 million respectively. Amortization expense recorded for the three and nine months ended October 1, 2011 was $8.7 million and $23.1 million, respectively.

In-process research and development projects are estimated to be completed by the end of 2013 and amortization will begin upon project completion.

8. DEBT AND BANK CREDIT FACILITIES

The Company’s indebtedness as of September 29, 2012 and December 31, 2011 was as follows (in millions):

	September 29, 2012	December 31, 2011
Senior notes	$750.0	$750.0
Term loan	70.0	145.0
Revolving credit facility	27.0	9.0
Other	18.5	15.2
	865.5	919.2
Less: Current maturities	(83.8)	(10.0)
Non-current portion	$781.7	$909.2

At September 29, 2012, the Company had $750.0 million of senior notes (the “Notes”) outstanding. Details on the senior notes are (in millions):

	Principal	Interest Rate	Maturity
Floating Rate Series 2007A	$150.0	Floating (1)	August 2014
Floating Rate Series 2007A	100.0	Floating (1)	August 2017
Fixed Rate Series 2011A	100.0	4.1%	July 2018
Fixed Rate Series 2011A	230.0	4.8 to 5.0%	July 2021
Fixed Rate Series 2011A	170.0	4.9 to 5.1%	July 2023
	$750.0		

(1) Interest rates vary as LIBOR varies. At September 29, 2012, the interest rate was between 1.0% and 1.2%.

In 2008, the Company entered into a Term Loan Agreement (“Term Loan”) with certain financial institutions, whereby it borrowed an aggregate principal amount of $165.0 million. During 2011, the Company repaid $20.0 million of the Term Loan. In the third quarter of 2012, the Company repaid an additional $75.0 million of the Term Loan. The Term Loan matures in June 2013, and borrowings generally bear interest at a variable rate equal to a margin over LIBOR. The margin varies with the ratio of the Company’s total funded debt to consolidated earnings before interest, taxes, depreciation, and amortization (“EBITDA”) as defined in the Loan Agreement. These interest rates also vary as LIBOR varies. At September 29, 2012, the interest rate of 1.2% was based on a margin over LIBOR.

The Company also has a $500.0 million revolving credit facility (the “Facility”) that matures in June 2016. The Facility permits the Company to borrow at interest rates based upon a margin above LIBOR. The margin varies with the ratio of total funded debt to EBITDA, net of specified cash, as defined in the Facility. These interest rates also vary as LIBOR varies. At September 29, 2012, there was $27.0 million outstanding on the Facility and the interest rate was 1.7%. The Company pays a commitment fee on the unused amount of the Facility, which also varies with the ratio of total funded debt to EBITDA.

Based on rates for instruments with comparable maturities, credit risks, and terms, which are classified as Level 2 inputs, the approximate fair value of the Company's debt was $899.2 million and $951.0 million as of September 29, 2012 and December 31, 2011, respectively.

The Notes, the Term Loan, and the Facility require the Company to meet specified financial ratios and to satisfy certain financial condition tests. The Company was in compliance with all financial debt covenants as of September 29, 2012.

The Company entered into interest rate swap agreements to manage fluctuations in cash flows resulting from interest rate risk. (See also Note 14 of Notes to Condensed Consolidated Financial Statements.)

At September 29, 2012, other notes payable of approximately $18.5 million were outstanding with a weighted average interest rate of 2.5%.

9. PENSION PLANS

The Company’s net periodic defined benefit pension cost is comprised of the following components (in millions):

	Three Months Ended		Nine Months Ended	
	September 29, 2012	October 1, 2011	September 29, 2012	October 1, 2011
Service cost	$0.6	$0.6	$1.8	$1.9
Interest cost	1.9	1.7	5.6	5.7
Expected return on plan assets	(1.8)	(1.6)	(5.5)	(5.2)
Amortization of prior service cost and net actuarial loss	0.9	0.9	2.8	2.7
Net periodic benefit expense	$1.6	$1.6	$4.7	$5.1

The estimated net actuarial loss and prior service cost for defined benefit pension plans that will be amortized from Accumulated Other Comprehensive Loss into net periodic benefit cost during the 2012 fiscal year is $3.6 million and $0.2 million, respectively.

During the first nine months of 2012 and 2011, the Company contributed $10.9 million and $5.7 million, respectively, to defined benefit pension plans. The Company expects to make an additional contribution of $0.5 million in 2012. The Company contributed a total of $6.5 million in 2011. The assumptions used in the valuation of the Company's pension plans and in the target investment allocation have remained the same as those disclosed in the Company's 2011 Annual Report on Form 10-K filed on February 29, 2012.

10. SHAREHOLDERS' EQUITY

The Company recognized approximately $2.3 million and $4.0 million in share-based compensation expense for the three month period ended September 29, 2012 and October 1, 2011, respectively. Share-based compensation expense for the nine month period ended September 29, 2012 and October 1, 2011 was $6.7 million and $10.2 million, respectively. The total excess income tax benefit recognized relating to share-based compensation for the nine months ended September 29, 2012 and October 1, 2011 was approximately $1.7 million and $1.0 million, respectively. The Company recognizes compensation expense on grants of share-based compensation awards on a straight-line basis over the vesting period of each award. As of September 29, 2012, total unrecognized compensation cost related to share-based compensation awards was approximately $24.4 million, net of estimated forfeitures, which the Company expects to recognize over a weighted average period of approximately 2.9 years.

The Company was authorized, as of September 29, 2012, to deliver up to 5.0 million shares of common stock upon exercise of non-qualified stock options or incentive stock options, or upon grant or in payment of stock appreciation rights, restricted stock and restricted stock units. Approximately 1.0 million shares were available for future grant or payment under the various plans at September 29, 2012.

Share-based Incentive Awards

The Company uses several forms of share-based incentive awards, including non-qualified stock options, incentive stock options, and stock appreciation rights ("SARs"). All grants are made at prices equal to the fair market value of the stock on the grant dates, and expire ten years from the grant date.

The majority of the Company's annual share-based incentive awards are made in the fiscal second quarter. For the nine months ended September 29, 2012 and October 1, 2011, 255,225 and 289,612 share-based incentive awards were granted, respectively. The per share weighted average fair value of share-based incentive awards granted during those respective periods was $22.45 and $26.81.

The assumptions used in our Black-Scholes valuation related to grants were as follows:

	September 29, 2012	October 1, 2011
Risk-free interest rate	1.3 %	2.6 %
Expected life (years)	7.0	7.0
Expected volatility	37.6 %	35.5 %
Expected dividend yield	1.2 %	1.0 %

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A summary of share-based awards (options and SARs) as of September 29, 2012 follows below. Forfeitures of share-based awards during the nine months ended September 29, 2012 totaled 23,640.

Number of Shares	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (years)	Aggregate Intrinsic Value (in millions)
Outstanding	1,634,030	$ 53.35	6.7	$ 28.2
Exercisable	711,815	41.47	4.7	20.7

Restricted Stock and Restricted Stock Units

The Company also grants restricted stock awards and values such awards at the closing market value of its common stock on the date of grant and restrictions generally lapse three years after the date of grant.

Changes in restricted stock awards for the nine months ended September 29, 2012 were as follows:

	Shares		Weighted Average Value
Unvested restricted stock awards, December 31, 2011	138,330		$60.67
Granted	95,916		63.72
Vested	(32,640	)	43.68
Forfeited	(1,345	)	57.05
Unvested restricted stock awards, September 29, 2012	200,261		$64.92

11. INCOME TAXES

The effective tax rate for the three months ended September 29, 2012 was 24.5% versus 30.3% for the three months ended October 1, 2011. The effective tax rate for the nine months ended September 29, 2012 was 27.4% versus 30.1% for the nine months ended October 1, 2011. The change in the third quarter effective rates was driven primarily by the qualification in China of a high technology tax incentive for two of our facilities that resulted in a retroactive benefit of $2.3 million.

As of September 29, 2012 and December 31, 2011, the Company had approximately $5.8 million and $7.1 million, respectively, of unrecognized tax benefits, all of which would affect its effective tax rate if recognized. The Company recognizes interest and penalties related to uncertain tax positions in income tax expense.

The Company files income tax returns in the U.S. federal jurisdiction, and various state and foreign jurisdictions. U.S. federal tax returns from 2009 through 2011 and various state tax returns remain subject to income tax examinations by tax authorities.

12. EARNINGS PER SHARE ("EPS")

The numerator for the calculation of basic and diluted earnings per share is Net Income Attributable to Regal Beloit Corporation. The denominator is computed as follows (in millions):

	Three Months Ended		Nine Months Ended	
	September 29, 2012	October 1, 2011	September 29, 2012	October 1, 2011
Denominator for basic EPS (weighted average)	41.7	39.9	41.7	39.1

		15.23	11/20/13		
9/30/02(9)	15,000	15,000		10.32	9/30/12
10/1/01(9)	6,666	6,666		7.40	10/1/11

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		Option Awards						Stock Awards	
ne	Grant Date	Number of Securities Underlying Options (#) Total Grant	Number of Securities Underlying Unexercised Options (#) Exercisable	Number of Securities Underlying Unexercised Options (#) Unexercisable	Number of Securities Underlying Options (#) Previously Exercised	Option Exercise Price ($)	Option Expiration Date	Number of Shares or Units of Stock that Have Not Vested (#)	Mark Value Shares Units Stock t Have N Veste ($)[1
in Coles	11/17/08(2)	115,741		115,741		8.64	3/1/10(9)		
	11/17/08(7)							52,257(10)	1,036,2
	11/19/07(2)	249,859	62,465	187,394		22.87	3/1/10(10)		
	9/18/07(2)	114,856	57,428	57,428		27.83	3/1/10(10)		
	11/20/06(2)	132,167	66,084	66,083		36.75	3/1/10(10)		
	11/16/05(3)	120,808	120,808			30.42	3/1/10(10)		
	11/16/04(4)	100,000	100,000			27.32	3/1/10(10)		
	4/12/04(9)	400,000	300,000		100,000	19.60	3/1/10(10)		
ur Rubinfeld	11/17/08(2)	132,275		132,275		8.64	11/17/18		
	11/17/08(7)							59,722	1,184,2
	3/18/08(2)	145,000	36,250	108,750		18.24	3/18/18		
r J. Bocian[11]	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N

(1) Value is calculated by multiplying the number of restricted stock units that have not vested by the closing market price of our stock ($19.83) as of the close of trading on September 25, 2009 (the last trading day prior to our September 27, 2009 fiscal year-end).

(2) Options vest in four equal annual installments (subject to rounding of partial shares), beginning on the first anniversary of the grant date.

(3) Options vested in three equal annual installments (subject to rounding of partial shares), beginning on the first anniversary of the grant date.

(4) Options vested in three equal annual installments (subject to rounding of partial shares) on October 1, 2005, 2006 and 2007.

(5) Options vested in full on October 1, 2006.

(6) Options vested in full on the third anniversary of the grant date.

(7) Earned Performance RSUs vest 50% on the second anniversary of the grant date and 50% on the third anniversary of the grant date.

(8) Time-based RSUs vest 50% on the second anniversary of the grant date and 50% on the fourth anniversary of the grant date.

(9) Options vested in full on the fourth anniversary of the grant date.

(10) Pursuant to the terms of the applicable equity plans, these options will expire three months after Mr. Coles separation date of December 1, 2009. Additionally, any restricted stock units not vested at the time of separation were forfeited upon the separation date.

(11) Pursuant to the terms of the applicable equity plans, all of Mr. Bocian s options expired on February 25, 2009, three months after the date of his separation.

2009 Fiscal Year-End Option Values

The table below shows the total value of both vested and unvested in-the-money stock options for each named executive officer as of the end of fiscal 2009. Value is calculated as the difference between the aggregate exercise price of the options and the aggregate market value of the shares of underlying common stock as of the close of trading on September 25, 2009 (the last trading day prior to our September 27, 2009 fiscal year-end) calculated based on the closing market price of our stock on that day ($19.83). There is no guarantee that, if and when these options are exercised, they will have this value.

Name	Vested ($)	Unvested ($)
Howard Schultz	47,956,336	30,380,257
Troy Alstead	2,742,645	1,281,882
Clifford Burrows	517,080	1,524,543
Martin Coles	69,000	1,295,142
Arthur Rubinfeld	57,638	1,653,070
Peter J. Bocian[(1)]	N/A	N/A

(1) Mr. Bocian separated from the Company effective November 25, 2008. As such, he did not have any vested and unvested options as of September 25, 2009.

Fiscal 2009 Option Exercises and Stock Vested

The following table provides information regarding stock options that were exercised by our named executive officers and stock awards (restricted stock units) that vested during fiscal 2009. Option award value realized is calculated by subtracting the aggregate exercise price of the options exercised from the aggregate market value of the shares of common stock acquired on the date of exercise. Stock award value realized is calculated by multiplying the number of shares shown in the table by $20.76, which was the closing price of our stock on September 18, 2009, the date the stock awards vested. Value realized represents long-term gain over many years; we do not consider it part of fiscal 2009 compensation.

		Option Awards		Stock Awards	
Name	Grant Date	Number of Shares Acquired on Exercise (#)	Value Realized on Exercise ($)	Number of Shares Acquired on Vesting (#)	Value Realized on Vesting ($)
Howard Schultz	11/13/98	3,181,376	12,607,157		
	10/4/99	982,792	14,021,985		
Troy Alstead	10/4/99	40,000	449,124		
Clifford Burrows	9/18/07			17,966	372,974

Martin Coles
Arthur Rubinfeld
Peter J. Bocian

Management Deferred Compensation Plan

The named executive officers are eligible to participate in the Management Deferred Compensation Plan, an unfunded, non-qualified plan, the benefits of which are paid by Starbucks out of our general assets. The plan is subject to the requirements of Section 409A of the Internal Revenue Code. In September 2008, the board of directors approved an amended and restated plan document to conform it to Section 409A requirements effective January 1, 2009. Deferred compensation earned prior to 2005 is not subject to Section 409A requirements and continues to be governed under the terms of the plan and the tax laws in effect on or before December 31, 2004, as applicable.

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Deferrals

Participants may defer up to 70% of base salary and 95% of annual incentive bonus. In addition, participants may receive matching contributions from Starbucks to replace the similar benefits not available to them under our 401(k) plan due to limitations imposed by the Internal Revenue Code. For the match made in December 2008, the matching contributions equaled from 25% to 150% of the first 4% of eligible pay deferred into the Management Deferred Compensation Plan. The actual amount of matching contributions was based on the participant s credited months of service with Starbucks under the same formula under our 401(k) plan. The participant generally must be employed on the last day of the calendar year to receive matching contributions, unless he or she retires at or after age 65, becomes disabled or dies during the year, in which case we will contribute a prorated amount. No named executive officer was retirement-eligible. In December 2008, the board of directors approved changing the matching contributions under the Management Deferred Compensation Plan (and our 401(k) plan) from the fixed formula described above to a discretionary arrangement effective January 1, 2009. Accordingly, any future matching contributions to either plan will be made at the discretion of the board of directors.

Earnings

As an unfunded, non-qualified plan, the Management Deferred Compensation Plan uses measurement benchmarks to credit earnings on compensation deferred under the plan. Those measurement benchmarks are based on the investment funds listed below and are the same ones available under our 401(k) plan. Participants select which measurement funds they wish to have their account allocated to and may change how deferred compensation is allocated to the measurement funds at any time, subject to certain redemption fees and other limitations imposed by plan rules. Changes generally become effective as of the first trading day following the change.

Management Deferred Compensation Plan Measurement Funds

SEI Stable Asset Fund	Morgan Stanley Institutional Fund, Inc.
Dodge & Cox Income Fund	Small Company Growth Portfolio Class P**
American Funds® Fundamental Investor Fund Class R4*	Fidelity Diversified International Fund
Vanguard Institutional Index Fund Institutional Class	Conservative Blend***
American Funds® Growth Funds of America® Class R4	Moderate Blend***
Vanguard FTSE Social Index Fund Investor Class	Growth Blend***
Harbor Small Cap Value Fund Institutional Class	Aggressive Blend***

* Replaced the American Century Value Fund Investor Class effective as of August 2008.

** Class B shares were renamed to Class P shares effective January 2008.

*** Each blend investment option contains a diversified mix of the other individual investment options.

In-Service Withdrawals and Distributions

At the time of making the deferral election for a year, a participant elects when the resulting deferred compensation account will be distributed to himself or herself. In general, the participant can receive scheduled in-service or hardship withdrawals while still employed or have distributions paid on separation from service. The specific distribution options depend on whether the deferred compensation was earned on or after 2005 and is subject to other plan rules, including those discussed below. A participant may receive potentially three types of in-service withdrawals:

1. A participant may designate a scheduled payment date at the time of his or her deferral election. The scheduled payment date cannot occur until after the deferred compensation has been in the plan for three years (if deferred compensation earned on and after January 1, 2005) or five years (if pre-2005 deferred compensation).

2. A participant may request an in-service withdrawal if he or she experiences a qualifying hardship.

3. Only with respect to pre-2005 deferred compensation, a participant may request an in-service withdrawal for any reason by paying a 10% penalty.

For separation from service distributions, account balances resulting from the Company match and deferred compensation earned on and after January 1, 2005 can be paid either in a lump sum or in up to 10 annual installments, in each case beginning within 60 days of separation or one year after separation. If a participant is considered a specified employee on his or her separation date, Section 409A requires the suspension of payments for six months after such separation date. Account balances resulting from pre-2005 deferred compensation can be distributed either in a lump sum within 60 days of separation or, if the participant is at least age 65 on his or her separation date, in up to 10 annual installments.

Distribution elections with respect to account balances from deferred compensation earned on and after January 1, 2005 can be changed up to two times, provided the new election occurs at least one year prior to the original payment date and results in an additional payment delay of five years. The participant also must make a one-year advance election to change distribution elections for pre-2005 deferred compensation.

Fiscal 2009 Nonqualified Deferred Compensation

The following table shows contributions and earnings during fiscal 2009 and the account balances as of September 27, 2009 for our named executive officers under the Management Deferred Compensation Plan. In addition, the table shows the aggregate balance at fiscal year-end of Mr. Schultz s deferred stock units under the 1997 Deferred Stock Plan as described on page 35. None of the other named executive officers have deferred stock units.

Name	**Executive Contributions in Fiscal 2009 ($)[1]**	**Starbucks Contributions in Fiscal 2009 ($)[2]**	**Aggregate Earnings (Loss) in Fiscal 2009 ($)[3]**	**Aggregate Withdrawals/ Distributions in Fiscal 2009 ($)**	**Aggregate Balance at Fiscal Year-End ($)[4]**
Howard Schultz	25,758	13,800	9,440		202,397
deferred stock units	N/A	N/A	N/A	N/A	67,306,669(5)
Troy Alstead			(50,173)		770,571
Clifford Burrows	17,392		3,447		20,840
Martin Coles	29,000	4,600	(6,375)		106,839
Arthur Rubinfeld					
Peter J. Bocian	3,692		(2,990)	(16,204)	

(1) These amounts were also included in Salary and/or Non-Equity Incentive Plan Compensation in the Summary Compensation Table on page 40.

(2) These amounts were reported as All Other Compensation in the Summary Compensation Table on page 40 and as Retirement Plan Contributions in the Fiscal 2009 All Other Compensation Table on page 41.

(3) We do not provide above-market or preferential earnings on Management Deferred Compensation Plan contributions, so these amounts were not reported in the Summary Compensation Table. Management Deferred Compensation Plan participants can select only from among the same investment funds as are available under our 401(k) plan.

(4) Of these balances, the following amounts were reported in Summary Compensation Tables in prior-year proxy statements: Mr. Schultz $165,210; Mr. Alstead N/A; Mr. Burrows $31,357; Mr. Coles $89,678; Mr. Rubinfeld N/A; and Mr. Bocian $17,539. The information in this footnote is provided to clarify the extent to which amounts payable as deferred compensation represent compensation reported in our prior proxy statements, rather than additional currently earned compensation.

(5) The aggregate balance at fiscal year-end for deferred stock units is calculated by multiplying deferred stock units of 3,394,184 by the closing market price of our stock on September 25, 2009 ($19.83).

Potential Payments Upon Termination or Change in Control

We do not provide special change-in-control benefits to executives. Our only change-in-control arrangement, which applies to all partners, is accelerated vesting of certain equity awards. We do, however, occasionally offer a severance benefit arrangement for new senior executives to provide for one year s base salary if we terminate his or her employment for any reason other than cause (which generally requires misconduct) within one year of the executive s hire date. We may also offer a severance benefit arrangement for terminated or separated executives as part of a negotiated termination of employment in exchange for release of claims against the Company and other covenants in the best interests of the Company. Other than as described below, none of our named executive officers for fiscal 2009 had any such severance benefit arrangement.

On November 30, 2009, in connection with Mr. Coles separation, the Company entered into a Separation Agreement and Release with Mr. Coles. Pursuant to the agreement, we agreed to pay Mr. Coles a lump sum payment equal to 12 months of his base salary, subject to customary tax and other withholdings. The agreement also provides that (i) the Company will provide Mr. Coles with a lump sum payment equal to the cost of COBRA continuation coverage under the applicable Starbucks medical, dental and vision programs for a period of 12 months, less applicable withholding taxes; (ii) Mr. Coles vested stock options will expire or be exercisable pursuant to the terms and conditions of the applicable plan documents; (iii) Mr. Coles participation in all equity compensation, incentive compensation and all other compensation and benefits plans, programs and agreements will terminate effective as of his separation from the Company; (iv) the Company will provide Mr. Coles with 12 months of outplacement services up to a maximum of $14,000; and (v) Mr. Coles is not entitled to any compensation or benefits from and after his separation from the Company, except as provided in the agreement, the terms of the our 401(k) plan or the Management Deferred Compensation Plan. In the agreement, Mr. Coles also provided a general release of claims against the Company, agreed to certain confidentiality obligations and reaffirmed his obligations under a non-competition agreement with the Company. The Compensation Committee believes that the separation amount was appropriate and in the best interests of the Company in exchange for certain covenants and the release provided by Mr. Coles.

As noted above, Mr. Bocian separated from the Company effective November 25, 2008. He did not receive any separation compensation in connection with his resignation.

Equity Acceleration

Acceleration Upon Change in Control. No named executive officer is entitled to any payment or accelerated benefit in connection with a change in control of Starbucks, or a change in his responsibilities following a change in control, except for accelerated vesting of stock options and restricted stock units granted under our 2005 Key Employee Plan. The 2005 Key Employee Plan has a complex definition of change in control and resigning for good reason. Generally speaking, a change in control occurs if (i) we sell or liquidate all our assets; (ii) someone acquires 25% or more of our stock without prior approval of our board of directors; (iii) a majority of our directors is replaced in any 36-month period other than by new directors approved by existing directors; or (iv) Starbucks is not the surviving company after any merger.

The 2005 Key Employee Plan is a double trigger plan, meaning that unvested stock options and unvested restricted stock units vest immediately only if (i) there is a change in control and (ii) if stock options and restricted stock units are assumed or substituted with stock options or restricted stock units of the surviving company, the partner is terminated or resign for good reason within one year after the change in control. Generally speaking, a resignation is for good reason if it results from the resigning partner: (i) having materially reduced responsibilities; (ii) being placed in a new role that is inconsistent with the pre-change-in-control role; (iii) having his or her base salary or target incentive compensation reduced; or (iv) having his or her primary work location moved by more than 50 miles. If stock options or restricted stock units are not assumed or substituted with stock options or restricted stock units of the surviving company, they vest immediately upon a change in control. We believe double-trigger acceleration is appropriate because vesting is accelerated only if the retention purpose of time-vested equity compensation is defeated. This occurs upon a change in control only for partners who lose their long-term incentive compensation opportunity, which results if the acquiring company does not assume or substitute awards, or if the partners lose their jobs or resign for good reason. Performance RSUs, which were awarded in fiscal 2009, are treated in the same manner as restricted stock units noted above once the performance period is complete and the amount of award is determined. Prior to completion of the performance period, performance RSUs do not accelerate upon a change in control and are forfeited if not assumed or substituted with awards of the surviving company.

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Acceleration Upon Retirement or Death. The vesting of all options accelerates in full upon the voluntary termination of employment of any partner who is at least 55 years old and has a minimum of 10 years of credited service with Starbucks, unless otherwise provided in the grant agreement. Vesting also accelerates upon the partner s death. Restricted stock units do not accelerate upon retirement or death.

The following table shows the estimated potential incremental value of additional stock options and restricted stock units that would have vested for our named executive officers as of September 25, 2009 (the last business day of fiscal 2009) under the acceleration scenarios described above. For stock options, the value is based on the difference between the aggregate exercise price of all accelerated options and the aggregate market value of the underlying shares as of September 25, 2009 calculated based on the closing market price of our stock on that day ($19.83). Accelerated restricted stock unit award value is calculated by multiplying the number of accelerated shares by the closing market price of our stock on September 25, 2009 ($19.83). Of the named executive officers, only Mr. Schultz satisfied the criteria for retirement as of September 25, 2009. Mr. Schultz has voluntarily waived accelerated vesting of options upon termination of employment at or after the age 55 and with at least 10 years of service for each stock option grant he has received since he has been retirement eligible. Mr. Schultz agreed to forgo this accelerated retirement vesting so we would not be required to similarly accelerate the recognition of expense for the award in our financial statements.

	Value of Accelerated Equity Awards ($)				
Name	**Change in Control Only**	**Change in Control with No Replacement Equity**	**Change in Control plus Qualifying Termination**	**Death**	**Retirement**
Howard Schultz		30,380,257	30,380,257	30,380,257	N/A
Troy Alstead		2,314,411	2,314,411	1,281,882	N/A
Clifford Burrows		3,065,096	3,065,096	1,524,543	N/A
Martin Coles(1)		2,331,398	2,331,398	1,295,142	N/A
Arthur Rubinfeld		2,837,357	2,837,357	1,653,070	N/A
Peter J. Bocian(2)	N/A	N/A	N/A	N/A	N/A

(1) Mr. Coles separated from the Company effective December 1, 2009.

(2) Mr. Bocian was not employed as of fiscal 2009 year-end.

The following table shows the estimated potential aggregate amounts our named executive officers could have realized from stock options, restricted stock units and Management Deferred Compensation Plan account distributions if their employment terminated as of the last business day of fiscal 2009, other than for misconduct (which could cause forfeiture of all vested stock options and Company match contributions under the Management Deferred Compensation Plan), both including and excluding amounts from accelerated vesting of stock options and restricted stock units as detailed in the table above. The Total No Acceleration column assumes none of the acceleration scenarios covered above has occurred. The Total With Acceleration column assumes acceleration of all unvested stock options and restricted stock units under one or more of the scenarios covered above.

Management
Deferred

Name	Aggregate Value of Vested Equity Awards ($)	Compensation Plan Account Balances ($)[1]	Total No Acceleration ($)	Aggregate Value of Unvested Equity Awards ($)	Total With Acceleration ($)
Howard Schultz	47,956,336	202,397	48,158,733	30,380,257	78,538,990
Troy Alstead	2,742,645	770,571	3,513,216	2,314,411	5,827,627
Clifford Burrows	517,080	20,840	537,920	3,065,096	3,603,016
Martin Coles[2]	69,000	106,839	175,839	2,331,398	2,507,237
Arthur Rubinfeld	57,638		57,638	2,837,357	2,894,995
Peter J. Bocian[3]	N/A	N/A	N/A	N/A	N/A

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(1) These amounts are also shown in the Aggregate Balance at Fiscal Year-End column of the Fiscal 2009 Nonqualified Deferred Compensation table on page 48 and are shown in a single lump sum regardless of individual elections to receive payment over time.

(2) Mr. Coles separated from the Company effective December 1, 2009.

(3) Mr. Bocian was not employed as of fiscal 2009 year-end.

Certain Relationships and Related Transactions

During fiscal 2009, Mr. Schultz made personal use of corporate aircraft, for which he reimbursed us at our aggregate incremental cost. Mr. Schultz s reimbursements for flights taken during fiscal 2009 totaled $65,148. The Audit Committee approved aircraft reimbursements in accordance with its charter, before the board of directors adopted the Policy for the Review and Approval of Related-Person Transactions Required to Be Disclosed in Proxy Statements, described in more detail beginning on page 6.

On August 20, 2009, we entered into a sub-lease agreement with The Essential Baking Company, Inc., a Washington corporation (Essential Baking Co.), pursuant to which we will pay Essential Baking Co. approximately $422,000 in base rent over the term of the sub-lease. The sub-lease will run through May 2014 and includes provisions for additional payments above base rent if gross sales exceed certain thresholds. In connection with the sub-lease agreement, we also entered into a vendor agreement on July 17, 2009, pursuant to which Essential Baking Co. will be the exclusive provider of baked goods, desserts, sandwiches and salads for the retail store operating within the sub-leased property and also provide similar food items for certain other retail stores on a non-exclusive basis. Through December 31, 2009, we have paid Essential Baking Co. approximately $47,896 under the vendor agreement. Arthur Rubinfeld, our president, Global Development, serves on the board of Essential Baking Co. and also owns approximately 26% of Essential Baking Co. s outstanding common stock. Mr. Rubinfeld also holds a promissory note from Essential Baking Co. for $60,992 and has options to acquire additional shares of common stock of Essential Baking Co. The Audit Committee has reviewed these transactions pursuant to our Policy for the Review and Approval of Related-Person Transactions Required to Be Disclosed in Proxy Statements and has determined that such transactions were in the Company s best interests and that the terms are competitive with terms available from unaffiliated third parties.

Equity Compensation Plan Information

The following table provides information as of September 27, 2009 regarding total shares subject to outstanding stock options and rights and total additional shares available for issuance under our existing equity incentive and employee stock purchase plans.

	(a)	(b)	(c)
	Number of Securities to be Issued Upon Exercise of Outstanding Options,	**Weighted-Average Exercise Price of Outstanding Options,**	**Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities**

Plan Category	Warrants and Rights	Warrants and Rights	Reflected in Column (a))
Equity compensation plans approved by security holders	63,638,639	$13.73(1)	46,663,138(2)
Equity compensation plans not approved by security holders	4,368,623	$14.53	1,310,781
Total	68,007,262	$13.78(1)	47,973,919(3)

(1) The weighted-average exercise price takes into account 4,445,821 shares under approved plans issuable upon vesting of outstanding restricted stock units, which have no exercise price. The weighted average exercise price for options only with respect to the approved plans is $14.76.

(2) Shares available for issuance under the 2005 Long-Term Equity Incentive Plan may be issued pursuant to stock options, restricted stock, restricted stock units and stock appreciation rights.

(3) Includes 38,163,649 shares under equity incentive plans and 9,810,270 shares remaining available for issuance under employee stock purchase plans.

The shares to be issued under plans not approved by shareholders relate to our 1991 Company-Wide Bean Stock Option Plan (the 1991 Bean Stock Plan) and our UK Share Incentive Plan.

The 1991 Bean Stock Plan is our former broad-based stock option plan and provided for the annual issuance of stock options to eligible partners. The 1991 Bean Stock Plan was approved and adopted by our board of directors in 1991 and did not require shareholder approval. Generally, options were granted annually under the 1991 Bean Stock Plan. These grants required board approval, were linked to overall Company performance in the prior year and were granted to partners as a percentage of base salary. The 1991 Bean Stock Plan was effectively replaced by the 2005 Company-Wide Sub-Plan to the Starbucks Corporation 2005 Long-Term Equity Incentive Plan. The Starbucks Corporation 2005 Long-Term Equity Incentive Plan was approved by our shareholders on February 9, 2005.

Our UK Share Incentive Plan, which is a plan approved by Her Majesty s Revenue & Customs of the United Kingdom, allows eligible partners in the United Kingdom to purchase shares of our common stock through payroll deductions during six-month offering periods at the lower of the market price at the beginning and the market price at the end of the offering period. We award one matching share for each six shares purchased under the UK Share Incentive Plan. The total number of shares issuable under the UK Share Incentive Plan is 1,400,000, of which 89,219 were issued as of September 27, 2009. The UK Share Incentive Plan was suspended in May 2009.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Securities Exchange Act of 1934, as amended, requires our directors and executive officers, and persons who beneficially own more than 10% of our common stock, to file reports of beneficial ownership and changes in beneficial ownership with the SEC. Our directors, executive officers and greater-than-10% shareholders are required by SEC rules to furnish us with copies of all Section 16(a) reports that they file. We file Section 16(a) reports on behalf of our directors and executive officers to report their initial and subsequent changes in beneficial ownership of our common stock. To our knowledge, based solely on a review of the reports we filed on behalf of our directors and executive officers, written representations from these persons that no other reports were required and all Section 16(a) reports provided to us, all Section 16(a) filing requirements applicable to our directors and executive officers were complied with for fiscal 2009.

PROPOSAL 2 RATIFICATION OF SELECTION OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Independent Registered Public Accounting Firm Fees

The following table sets forth the aggregate fees billed to us by Deloitte for fiscal 2009 and fiscal 2008:

	Fiscal 2009	Fiscal 2008
Audit Fees	$ 4,736,000	$ 4,927,000
Audit-Related Fees	82,000	112,000
Tax Fees	96,000	156,000
All Other Fees		

Total	$ 4,914,000	$ 5,195,000

Audit Fees consist of fees paid to Deloitte for:

the audit of the Company s annual financial statements included in the Annual Report on Form 10-K and review of financial statements included in the Quarterly Reports on Form 10-Q;

the audit of the Company s internal control over financial reporting with the objective of obtaining reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects; and services that are normally provided by the independent registered public accounting firm in connection with statutory and regulatory filings or engagements.

Audit-Related Fees consist of fees for assurance and related services that are reasonably related to the performance of the audit or review of the Company s financial statements and are not reported under *Audit Fees*. This category includes fees related to audit and attest services not required by statute or regulations, due diligence related to mergers, acquisitions and investments and consultations concerning financial accounting and reporting standards.

Tax Fees consist of fees for professional services for tax compliance, tax advice and tax planning. These services include assistance regarding federal, state and international tax compliance, return preparation, tax audits and customs and duties.

The Audit Committee has considered whether the provision of non-audit services is compatible with maintaining the independence of Deloitte and has concluded that it is.

Policy on Audit Committee Pre-Approval of Audit and Permissible Non-Audit Services of the Independent Registered Public Accounting Firm

The Audit Committee is responsible for appointing, setting compensation for and overseeing Deloitte s work. The Audit Committee has established a policy requiring its pre-approval of all audit and permissible non-audit services provided by Deloitte. The policy is available at www.starbucks.com/aboutus/corporate_governance.asp. The policy provides for the general pre-approval of specific types of services and gives detailed guidance to management as to the specific services that are eligible for general pre-approval, and provides specific cost limits for each such service on an annual basis. The policy requires specific pre-approval of all other permitted services. For both types of pre-approval, the Audit Committee considers whether such services are consistent with the rules of the SEC on auditor independence. The Audit Committee s charter delegates to its chair the authority to address any requests for pre-approval of services between Audit Committee meetings, and the chair must report any pre-approval decisions to the Audit Committee at its next scheduled meeting. The policy prohibits the Audit Committee from delegating to management the Audit Committee s responsibility to pre-approve any permitted services.

Requests for pre-approval for services that are eligible for general pre-approval must be submitted to our controller and be detailed as to the services to be provided and the estimated total cost. The controller then determines whether the services requested fall within the detailed guidance of the Audit Committee in the policy as to the services eligible for general pre-approval. Deloitte and management must report to the Audit Committee on a timely basis regarding the services provided by Deloitte in accordance with general pre-approval.

None of the services related to the *Audit-Related Fees* or *Tax Fees* described above was approved by the Audit Committee pursuant to the waiver of pre-approval provisions set forth in applicable rules of the SEC.

The Audit Committee requests that shareholders ratify its selection of Deloitte to serve as our independent registered public accounting firm for fiscal 2010. Deloitte audited our consolidated financial statements for fiscal 2009 and audited our internal control over financial reporting with the objective of obtaining reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects for fiscal 2009. Representatives of Deloitte will be present at the annual meeting and will have an opportunity to make a statement if they so desire and to respond to questions by shareholders.

THE BOARD OF DIRECTORS RECOMMENDS A VOTE FOR THE RATIFICATION OF THE SELECTION OF DELOITTE & TOUCHE LLP AS OUR INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

FOR FISCAL 2010.

PROPOSAL 3 SHAREHOLDER PROPOSAL NO. 3

Mr. John C. Harrington has notified the Company that he intends to submit the following proposal at this year s annual meeting. Mr. Harrington beneficially owns 1,000 shares of Starbucks common stock. We will provide the address of the individual submitting this proposal promptly upon a shareholder s oral or written request.

Recycled Container Content and Container Recovery Goals

WHEREAS Starbucks Corp. has repeatedly emphasized its commitment to environmental leadership, yet has no comprehensive recycled content or container recovery strategy for the plastic, glass, paper and metal containers its beverages are sold in.

Society has been inundated with recyclable materials that are not being recycled. Two-thirds of beverage containers in the U.S. are not recycled but discarded in landfills, incinerated or littered, and thereby diverted from recycling streams. The U.S. recycling rate for beverage containers declined from 53 percent in 1992 to 34 percent in 2006, while sales continued to grow.

We congratulate the company for using 10% recycled paper fiber in its hot coffee cups. But 3 billion Starbucks coffee cups end up in landfills annually because they can t be composted or recycled due to their plastic coating. (*Greenbiz.com*, Sept. 15, 2009)

Starbuck[s] received failing grades for its performance on beverage container recycled content and recycling policies in a 2008 scorecard and report published by As You Sow Foundation.

The company has made no commitment to use recycled content in its Ethos brand water bottles or to specific measures designed to increase rates of bottle recovery. Starbucks lags behind competitors who sell bottled beverages, including Coca-Cola Co. and PepsiCo which both use a significant percentage of recycled polyethylene terephthalate (PET) resin in plastic bottles sold in the U.S. Nestle Waters North America has introduced *re-source*, a brand of bottled water with 25% recycled PET content. Pepsi s Naked Juice brand will use 100% recycled PET plastic in its bottles in 2010.

Significant container recovery rates are possible. In U.S. states with container deposit laws, and countries like Germany and Sweden, beverage container recovery rates of 70 to 80 percent have been achieved. Coca-Cola has set a goal to recover 50% of all plastic and aluminum containers it sells annually by 2015. Nestle Waters has pledged to recover 60% of the plastic bottles it sells by 2018. Starbucks has made no such commitment. Increased recovery can reduce reliance on virgin resins and metals and make more materials available to provide recycled content in new containers.

Increased recycling of containers can also reduce carbon footprint. If all U.S. beverage containers sold in 2005 had been recovered, an estimated 15.6 million metric tons of greenhouse gases could have been avoided. (*Waste & Opportunity*, As You Sow, 2008)

BE IT RESOLVED THAT Shareowners of Starbucks request that the board of directors adopt a comprehensive recycling strategy for beverage containers sold by the company. The strategy should include consideration of aggressive recycled content goals, and container recovery goals for plastic, glass, paper and metal containers. The board shall prepare a report by October 1, 2010 on the company s efforts to achieve this strategy. The report to be prepared at reasonable cost, may omit confidential information.

SUPPORTING STATEMENT

We believe the requested report is in the best interest of Starbucks and its shareholders. Leadership in this area will protect our brands and enhance the company s reputation.

BOARD RECOMMENDATION

The Starbucks Board of Directors recommends that shareholders vote AGAINST this proposal for the following reasons:

Starbucks believes in the importance of caring for our planet and has a longstanding commitment to environmental stewardship. Our focus on recycling is an essential part of this commitment. To that end, Starbucks has developed a comprehensive recycling strategy to minimize the environmental impacts of the Company s products. Information on our recycling strategy, as well as other aspects of the Starbucks[tm] Shared Planet[tm] initiative, is publicly available at *www.starbucks.com/sharedplanet*.

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Starbucks continuously evaluates the environmental footprint of our beverage containers and has taken definitive actions to mitigate the environmental impacts of the Company s single-use packaging. For example, Starbucks has worked with supply chain partners who manufacture our packaging and disposable products to maximize post consumer recycled content in our paper goods, minimized the number of different resins in our plastic products to enhance recycling and even reduced the carbon footprint of our cold cups by 45% through materials changes and cup weight reduction. Starbucks has also established significant, relevant, quantitative forward looking goals to further mitigate the impact of the Company s packaging through increased recycling and a reduction in the overall quantity of packaging by increasing the number of beverages served in reusable cups and mugs.

A sampling of Starbucks current initiatives includes:

Packaging innovation: Introduction of the recycled-content cup sleeve as a way to reduce double cupping ; launch of the industry s first paper beverage cup containing post-consumer recycled fiber (PCF); maximizing post-consumer recycled content in the Company s non-cup paper goods, with an average of 65% recycled fibers in 2008; and encouraging customers to choose reusable cup options by rewarding those who bring in their own travel tumblers with a $0.10 discount off the price of their beverages.

Industry Leadership: Starbucks is active in the Sustainable Packaging Coalition, an industry collaborative effort to drive innovation in packaging design across all materials; Starbucks is also a founding member of the Paper Working Group, contributing to the development of the Environmental Paper Assessment Tool. We hosted a cup summit in May 2009, bringing stakeholders from the entire value chain together for the first time to develop systems-based solutions to increase cup recycling globally.

Quantitative Targets Moving Forward: Starbucks has implemented specific goals to reduce the environmental impact of serving our beverages, including 100% recyclable or compostable cups by 2012, in-store recycling for customers in 100% of the stores where Starbucks controls waste management by 2015, and 25% of the Company s beverages served in reusable containers by 2015, which would decrease Starbucks paper cup usage by approximately one billion cups annually using current sales data.

This resolution asks Starbucks to develop comprehensive plans for recycling and the use of recycled content materials in our packaging. We have already done this and have publicly stated aggressive targets to demonstrate a commitment to lead the specialty coffee and retail industry in ensuring that comprehensive recycling opportunities for single use paper and plastic cups come about over the next three years.

Although Starbucks also sells a number of ready to drink (RTD) beverages in glass, aluminum and plastic containers, and is consistently working with our suppliers to mitigate the environmental impact of those bottles and cans, these RTDs represent less than 4% of Starbucks total retail beverage sales. Consequently, Starbucks believes it is most appropriate to focus primarily on sustainable packaging for paper and plastic cups, where we have the largest market share in the specialty coffee industry and the greatest potential to achieve success in changing the entire business sector for the better.

This resolution also asks Starbucks to set quantitative goals for the diversion of single use packaging from landfill disposal to recycling. Starbucks believes it is appropriate for the Company to set targets for customer access to recycling in Starbucks stores. We have also committed to work with local regulators and recycling companies to increase access in homes, offices and public spaces. However, actual rates at which Starbucks customers choose to recycle their products are highly dependent upon the shared actions of other stakeholders outside Starbucks influence. We therefore believe that measuring against these rates, as the proposal requests, would provide a poor indicator of our performance.

Sustainable packaging is an explicit priority for Starbucks and is incorporated into the everyday packaging design and purchasing decisions of the Company. We have set specific targets that maintain Starbucks leadership role as an industry innovator in minimizing the environmental footprint of our most important and greatest volume packaging our paper hot cups and plastic cold cups.

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We remain committed to being an environmentally responsible business. Starbucks will continue striving to find innovative ways to minimize the environmental impacts of our products. Implementation of this proposal will not further the Company s environmental or recycling goals in any meaningful respect. On the contrary, this proposal would result in the Company incurring unnecessary costs and expenses by duplicating efforts that are already underway and providing additional reports with information that is already available to shareholders.

FOR THESE REASONS, THE BOARD OF DIRECTORS RECOMMENDS THAT SHAREHOLDERS VOTE AGAINST PROPOSAL NUMBER 3.

OTHER BUSINESS

The board of directors knows of no other matters to be brought before the annual meeting. If any other matters are properly brought before the annual meeting, however, the persons appointed in the accompanying proxy intend to vote the shares represented thereby in accordance with their best judgment.

PROPOSALS OF SHAREHOLDERS

Pursuant to SEC Rule 14a-8, shareholder proposals intended for inclusion in our fiscal 2010 proxy statement and acted upon at our 2011 Annual Meeting of Shareholders (the 2011 Annual Meeting) must be received by us at our executive offices at 2401 Utah Avenue South, Mail Stop S-LA1, Seattle, Washington 98134, Attention: Corporate Secretary, on or prior to September 24, 2010.

Shareholder proposals submitted for consideration at the 2011 Annual Meeting of Shareholders but not submitted for inclusion in our fiscal 2010 proxy statement pursuant to SEC Rule 14a-8, including shareholder nominations for candidates for election as directors, generally must be delivered to the Corporate Secretary at our executive offices not less than 120 days nor more than 150 days before the first anniversary of the date of the 2010 Annual Meeting of Shareholders. As a result, any notice given by a shareholder pursuant to the provisions of our bylaws (other than notice pursuant to SEC Rule 14a-8) must be received no earlier than October 25, 2010, and no later than November 24, 2010. However, if the date of the 2011 Annual Meeting occurs more than 30 days before or more than 60 days after March 24, 2011, notice by the shareholder of a proposal must be delivered no earlier than the close of business on the 150th day prior to the date of such annual meeting and no later than the close of business on the later of the 120th day prior to the date of such annual meeting or, if the first public announcement of the date of the annual meeting is less than 100 days prior to the date of such annual meeting, the 10th day following the day on which we first make a public announcement of the date of the annual meeting. Shareholder proposals must include the specified information concerning the proposal or nominee as described in our bylaws.

INTERNET VOTING

The Company is incorporated under Washington law, which specifically permits electronically transmitted proxies, provided that the transmission set forth or be submitted with information from which it can reasonably be determined that the transmission was authorized by the shareholder. The electronic voting procedures provided for the Annual Meeting are designed to authenticate each shareholder by use of a control number to allow shareholder to vote their shares and to confirm that their instructions have been properly recorded.

SHAREHOLDERS SHARING THE SAME ADDRESS

We have adopted a procedure called householding, which has been approved by the SEC. Under this procedure, we will deliver only one copy of our Notice of Internet Availability of Proxy Materials, and for those shareholders that received a paper copy of proxy materials in the mail, one copy of our fiscal 2009 annual report to shareholders and this proxy statement, to multiple shareholders who share the same address (if they appear to be members of the same family) unless we have received contrary instructions from an affected shareholder. Shareholders who participate in householding will continue to receive separate proxy cards if they received a paper copy of proxy materials in the mail. This procedure reduces our printing costs, mailing costs and fees, and also supports our environmental goals set forth in our annual report on Global Responsibility.

The fiscal 2009 annual report to shareholders and this proxy statement are available at our website at http://investor.starbucks.com. Additionally, and in accordance with SEC rules, shareholders as of the record date may access our proxy statement at www.proxyvote.com, which does not have cookies that identify visitors to the site. We will deliver promptly upon written or oral request a separate copy of the annual report and this proxy statement to any shareholder at a shared address to which a single copy of either of those documents was delivered. To receive a separate copy of the annual report or this proxy statement, contact us at:

Investor Relations
Starbucks Corporation
2401 Utah Avenue South, Mail Stop: SR1
Seattle, Washington 98134-1435
(206) 318-7118
investorrelations@starbucks.com
http://investor.starbucks.com

If you are a shareholder, share an address and last name with one or more other shareholders and would like to revoke your householding consent or you are a shareholder eligible for householding and would like to participate in householding, please contact Broadridge, either by calling toll free at (800) 542-1061 or by writing to Broadridge, Householding Department, 51 Mercedes Way, Edgewood, New York 11717. You will be removed from the householding program within 30 days of receipt of the revocation of your consent.

A number of brokerage firms have instituted householding. If you hold your shares in street name, please contact your bank, broker or other holder of record to request information about householding.

ANNUAL REPORT TO SHAREHOLDERS AND FORM 10-K

The fiscal 2009 annual report to shareholders, including our 2009 10-K (which is not a part of our proxy soliciting materials), is being mailed with this proxy statement to those shareholders that received a copy of the proxy materials in the mail. For those shareholders that received the Notice of Internet Availability of Proxy Materials, this proxy statement and our fiscal 2009 annual report to shareholders are available at our website at http://investor.starbucks.com. Additionally, and in accordance with SEC rules, you may access our proxy statement at www.proxyvote.com, which does not have cookies that identify visitors to the site. The 2009 10-K and the exhibits filed with it are available at our website at http://investor.starbucks.com. Upon request by any shareholder to Investor Relations at the address listed above, we will furnish a copy of any or all exhibits to the 2009 10-K.

By order of the board of directors,

Paula E. Boggs
secretary

Seattle, Washington
January 22, 2010

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Ticketing and Transportation Information for the Starbucks Corporation 2010 Annual Meeting of Shareholders

on

Wednesday, March 24, 2010

at

10 a.m. (Pacific Time)

Marion Oliver McCaw Hall at Seattle Center

321 Mercer Street, Seattle, Washington 98109

As noted in this document, if you received the Notice of Internet Availability of Proxy Materials, the Notice will serve as an admission ticket for one shareholder to attend the Annual Meeting of Shareholders. If you received a paper copy of the proxy materials by mail, the proxy statement includes an admission ticket for one shareholder to attend the Annual Meeting of Shareholders. Each shareholder must present the Notice, an admission ticket or other proper form of documentation (as noted in the section Annual Meeting Information) to be admitted. Doors open at 8 a.m. (Pacific Time).

Please note: As always, we anticipate a large number of attendees at the Annual Meeting of Shareholders. Again this year, seating will be limited to McCaw Hall ***only***, and we cannot guarantee seating for all shareholders. Shareholders may also log onto a live webcast of the meeting; please see details on our Investor Relations website at http://investor.starbucks.com.

Directions from Interstate 5 (I-5) to the Mercer Street Garage: Take Exit 167, the Mercer Street/Seattle Center exit. Following the signs to Seattle Center, turn right onto Fairview Avenue; turn left onto Valley Street, stay in the center or left lanes; Valley Street becomes Broad Street; turn right on Fifth Avenue North; turn left on Roy Street; turn left on Third Avenue North and left into the parking garage.

Parking: Parking is available in the Mercer Street Garage, which is located directly across from McCaw Hall. Please refer to the map below for additional parking locations at Seattle Center.

For more information on local transportation to the Annual Meeting of Shareholders, please visit www.seattlecenter.com/transportation.

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STARBUCKS CORP.
2401 UTAH AVE. SOUTH
SEATTLE, WA 98134

VOTE BY INTERNET - www.proxyvote.com

Use the Internet to transmit your voting instructions and for electronic delivery of information up until 11:59 PM Eastern Time the day before the meeting date. Have your proxy card in hand when you access the web site and follow the instructions to obtain your records and to create an electronic voting instruction form.

ELECTRONIC DELIVERY OF FUTURE PROXY MATERIALS

If you would like to reduce the costs incurred by our company in mailing proxy materials, you can consent to receiving all future proxy statements, proxy cards and annual reports electronically via e-mail or the Internet. To sign up for electronic delivery, please follow the instructions above to vote using the Internet and, when prompted, indicate that you agree to receive or access proxy materials electronically in future years.

VOTE BY PHONE - 1-800-690-6903

Use any touch-tone telephone to transmit your voting instructions up until 11:59 PM Eastern Time the day before the meeting date. Have your proxy card in hand when you call and then follow the instructions.

VOTE BY MAIL

Mark, sign and date your proxy card and return it in the postage-paid envelope provided, or return it to Vote Processing, c/o Broadridge, 51 Mercedes Way, Edgewood, NY 11717.

TO VOTE, MARK BLOCKS BELOW IN BLUE OR BLACK INK AS FOLLOWS:

M18795-P86444 KEEP THIS PORTION FOR YOUR RECORDS

DETACH AND RETURN THIS PORTION ONLY

THIS PROXY CARD IS VALID ONLY WHEN SIGNED AND DATED.

STARBUCKS CORPORATION

THIS PROXY IS SOLICITED ON BEHALF OF THE BOARD OF DIRECTORS.

The Board of Directors recommends you vote FOR the following proposals:

		For	Against	Abstain
1.	Election of Directors:			
	Nominees:			
1a.	Howard Schultz	o	o	o

For Against Abstain

1b.	Barbara Bass	o	o	o	1i.	Javier G. Teruel	o	o	o
1c.	William W. Bradley	o	o	o	1j.	Myron E. Ullman, III	o	o	o
1d.	Mellody Hobson	o	o	o	1k.	Craig E. Weatherup	o	o	o
1e.	Kevin R. Johnson	o	o	o	2.	Ratification of Deloitte & Touche LLP as the independent registered public accounting firm for the fiscal year ending October 3, 2010	o	o	o
1f.	Olden Lee	o	o	o					
1g.	Sheryl Sandberg	o	o	o		**The Board of Directors recommends you vote AGAINST the following proposal:**			
1h.	James G. Shennan, Jr.	o	o	o	3.	Shareholder proposal regarding recycling strategy for beverage containers	o	o	o

For address changes and/or comments, please check this box and write them on the back where indicated. o

Please sign exactly as your name(s) appear(s) hereon. When signing as attorney, executor, administrator, or other fiduciary, please give full title as such. Joint owners should each personally sign. All holders must sign. If a corporation or partnership, please sign in full corporate or partnership name, by authorized officer.

Signature [PLEASE SIGN WITHIN BOX] Date

Signature (Joint Owners) Date

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Important Notice Regarding the Availability of Proxy Materials for the Annual Meeting of Shareholders:
The Notice and Proxy Statement and Fiscal 2009 Annual Report are available at www.proxyvote.com.

M18796-P86444

Proxy
STARBUCKS CORPORATION

Annual Meeting of Shareholders

March 24, 2010 10:00 AM

This Proxy is Solicited on Behalf of the Board of Directors

The undersigned hereby appoint(s) Howard Schultz and Paula E. Boggs, or either of them, as proxies, each with the power to appoint (his/her) substitute, and hereby authorizes them to represent and to vote, as designated on the reverse side of this proxy, all of the shares of stock of STARBUCKS CORPORATION that the shareholder(s) is/are entitled to vote at the Annual Meeting of Shareholder(s) to be held at 10:00 AM, (Pacific Time) on Wednesday, March 24, 2010 at the Marion Oliver McCaw Hall, Seattle, Center 321 Mercer Street Seattle, WA 98109, and any adjournment or postponement thereof.This proxy, when properly executed, will be voted in the manner directed herein. **If no such direction is made, this proxy will be voted in accordance with the Board of Directors recommendations.**

Address Changes/Comments:

(If you noted any Address Changes/Comments above, please mark corresponding box on the reverse side.)

Continued and to be signed on reverse side

At their discretion, the proxies are authorized to vote on such other matters as may properly come before the meeting or any postponements(s) or adjournment(s) thereof.