

Teavana Holdings Inc
Form 10-K
April 13, 2012
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

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

For the fiscal year ended January 29, 2012

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

for the transition period from to

Commission File Number 001-35248

Teavana Holdings, Inc.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of

Incorporation or Organization)

3630 Peachtree Rd. NE, Suite 1480

20-1946316
(I.R.S. Employer

Identification No.)

30326

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Atlanta, Georgia
(Address of principal executive offices)

(Zip Code)

Registrant's telephone number, including area code:

(404) 995-8200

Securities registered pursuant to Section 12(b) of the Act:

Common Stock, par value \$0.00003 per share
(Title of class)

New York Stock Exchange
(Name of each exchange where registered)

Securities registered pursuant to Section 12(g) of the Act:

None

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

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

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

Indicate by check mark 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 No

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

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

Large accelerated filer Accelerated filer
Non-accelerated filer (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 Act). Yes No

The aggregate market value of common stock held by nonaffiliates of the registrant as of July 29, 2011, the last business day of the registrant's most recently completed second fiscal quarter, was zero as such date was prior to the closing of the registrant's initial public offering (the Offering) on August 2, 2011.

The number of shares of the registrant's common stock outstanding as of April 9, 2012 was 38,306,996.

Documents Incorporated by Reference

Portions of the registrant's Proxy Statement for the Annual Meeting of Stockholders to be held on June 1, 2012 (hereinafter referred to as the Proxy Statement) are incorporated by reference into Part III.

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Cautionary Statement Regarding Forward-Looking Statements

This Annual Report on Form 10-K contains forward-looking statements within the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. All statements other than those that are purely historical are forward-looking statements. Forward-looking statements give our current expectations and projections relating to our financial condition, results of operations, plans, objectives, future performance and business. You can identify forward-looking statements by the fact that they do not relate strictly to historical or current facts. These statements may include words such as anticipate, estimate, expect, project, plan, intend, believe, may, will, should, can have, likely, terms of similar meaning in connection with any discussion of the timing or nature of future operating or financial performance or other events. For example, all statements we make relating to our estimated and projected earnings, revenues, costs, expenditures, cash flows, growth rates and financial results, our plans and objectives for future operations, growth or initiatives, strategies, or the expected outcome or impact of pending or threatened litigation are forward-looking statements. All forward-looking statements are subject to risks and uncertainties that may cause actual results to differ materially from those that we expected, including, but not limited to the following:

our failure to execute successfully our growth strategy;

economic conditions, and their effect on the financial and capital markets, our vendors and business partners, employment levels, consumer demand, spending patterns, inflation and the cost of goods;

our loss of key personnel or our inability to hire additional personnel;

disruptions in our supply chain and our single distribution center;

our failure to identify and respond to new and changing customer tastes, buying and economic trends;

the impact of governmental laws and regulations and the outcomes of legal proceedings;

our failure to maintain comparable levels of same-store sales;

risks and challenges in connection with sourcing merchandise from third party suppliers, including the risk that current or prospective suppliers may be unable or unwilling to supply us with adequate quantities of their teas or merchandise in a timely manner or at acceptable quality or prices, including risks related to natural or manmade causes outside of our control;

the risk of a cyber-security incident or other technological disruption; and

other factors discussed in other reports or filings filed by us with the Securities and Exchange Commission (the SEC).

For a discussion of the risks, uncertainties and assumptions that could affect our future events, developments or results, you should carefully review the Risk Factors described under that heading below, as well as Management's Discussion and Analysis of Financial Condition and Results of Operations under that heading below.

Any forward-looking statement made by us in this Annual Report on Form 10-K speaks only as of the date on which we make it. Factors or events that could cause our actual results to differ may emerge from time to time, and it is not possible for us to predict all of them. We undertake no obligation to publicly update any forward-looking statement, whether as a result of new information, future developments or

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otherwise, except as may be required by any applicable securities laws. You are advised, however, to consult any further disclosures we may make in our future reports to the SEC, on our website, or otherwise.

Investors should also be aware that while we do, from time to time, communicate with securities analysts and others, it is against our policy to selectively disclose to them any material nonpublic information or other confidential commercial information. Accordingly, stockholders should not assume that we agree with any statement or report issued by any analyst regardless of the content of the statement or report, as we have a policy against confirming information issued by others. Thus, to the extent that reports issued by securities analysts contain any financial projections, forecasts or opinions, such reports are not our responsibility.

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Teavana Holdings, Inc.

2011 Annual Report on Form 10-K

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Part I

Item 1. Business.
Our Company

Teavana is a specialty retailer of premium loose-leaf teas, authentic artisanal tea wares and other tea-related merchandise. We offer our products through 200 company-owned stores in 39 states, including one store in Canada, and 18 franchised stores primarily in Mexico, as well as through our website, www.teavana.com.

Our mission is to establish Teavana as the most recognized and respected brand in the specialty tea industry by expanding the culture of tea across the world. We have developed a distinctive strategy that we believe will continue to drive category growth, enhance our brand awareness and encourage product sampling and customer loyalty. Key elements of our business strategy are to:

develop, source and offer our customers the world's finest assortment of premium loose-leaf teas and tea-related merchandise;

create a Heaven of Tea retail experience in which our passionate and knowledgeable teaologists engage and educate customers about the ritual and enjoyment of tea; and

locate our stores in high traffic locations within malls, lifestyle centers and other high-sales-volume retail venues.

Teavana was founded in 1997 by our Chairman and Chief Executive Officer, Andrew Mack, and his wife, Nancy Mack, who were inspired by their international travels and passion for tea. Their vision was to introduce consumers to the global tea lifestyle, highlighting the aromas, textures, tastes and healthful qualities of loose-leaf teas, while enlightening them on the origin of each tea. To further realize the vision, in 2004, we partnered with Parallel Investment Partners (Parallel) to obtain equity capital, strategic advice and other resources to support our accelerated growth plans, and on August 2, 2011, we completed our Offering of 8,214,287 shares of common stock at a price of \$17.00 per share. Our common stock is listed on the New York Stock Exchange (NYSE) under the symbol TEA.

We operate on a fiscal calendar widely used in the retail industry that results in a given fiscal year consisting of a 52- or 53-week period ending on the Sunday closest to January 31 of the following year. For example, references to fiscal 2011 refer to the fiscal year ended January 29, 2012. Fiscal 2011, 2010 and 2009 all contain 52 weeks.

Our Competitive Strengths

We believe that the following strengths differentiate Teavana and create the foundation for continued rapid sales and profit growth:

Market Defining Brand Driving Category Growth. We believe we are one of the world's largest branded multi-channel specialty tea retailers. We believe our leading national presence and focus on educating consumers about the many attractive qualities of loose-leaf tea positions Teavana to drive the continued growth of the loose-leaf tea category in the United States and Canada.

Heaven of Tea Retail Experience. We have created a unique Heaven of Tea retail environment that provides a highly interactive, informative and immersive customer experience and believe this engaging retail experience introduces new customers to the tea lifestyle, encourages product trial and supports repeat visits and strong customer loyalty. This experience is cultivated by a deep rooted passion for tea, extensive training, career development and individual enrichment. To ensure the continuity of our culture and to reward our high performing team members, we typically promote from within our organization. We believe our culture helps build and support a consistent and motivated group of team members that are passionate about providing the Heaven of Tea, retail experience to our customers.

High-Quality Teas and Tea-Related Merchandise. We offer a unique selection of premium loose-leaf teas, authentic artisanal tea wares and other tea-related merchandise in our stores and through our website. Our differentiated offering provides a foundation for our strong brand and will continue to reinforce our market-leading position.

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Powerful and Consistent Store Economics. We have a proven and highly profitable store model that has produced consistent financial results and returns. In the United States, our current store base is balanced across all of our four geographic regions, with each region producing results in line with the company average. We believe our powerful store model, deep-rooted tea enthusiast culture, highly developed store operations and a rigorous store selection process drive our consistent store financial results.

Proven and Experienced Senior Management Team. Since founding our company, Andrew Mack, our Chairman and Chief Executive Officer, has set the vision and strategic direction for Teavana and continues to drive our growth and culture. Since 2004, Mr. Mack has assembled a proven and experienced senior management team that has demonstrated its capabilities at executing our long-term growth plans. In 2005, we hired Daniel Glennon, our Executive Vice President and Chief Financial Officer, and Peter Luckhurst, our Executive Vice President of Operations. We believe our senior management team is a key driver of our success and is well-positioned to execute our strategy.

Our Growth Strategy

We are pursuing several strategies to continue our growth, including:

Expand Our Store Base. We believe there is a significant opportunity to expand our store base in the United States and Canada from 200 locations to at least 500 stores by fiscal 2015, having already identified the malls, lifestyle centers and other high-sales-volume retail venues that are suitable locations in which to open new Teavana stores. We plan to open approximately 60 stores during fiscal 2012.

Drive Comparable Store Sales. We strive to drive our comparable store sales by increasing the size and frequency of purchases by our existing customers and attracting new customers. Our Heaven of Tea retail experience allows us to introduce the benefits and enjoyment of our teas and tea-related merchandise to new customers while encouraging our existing customers to transition to our higher-grade teas and higher-end tea-related merchandise.

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Expand Our Online Presence. Our online platform is an extension of our brand and retail stores, serving as an educational resource and complementary sales channel for our customers.

Selectively Pursue International Expansion. As described under *International* below, given the worldwide popularity of tea, we believe international expansion represents a compelling opportunity for additional growth over the long term.

Our Retail Platform

We currently offer our premium loose-leaf teas and tea-related merchandise through our retail store base in the United States and Canada, online platform, and international and domestic franchised stores.

Our Stores

As of January 29, 2012, we operated 200 stores in 39 states, including one store in Canada. We focus on high traffic locations in malls and lifestyle centers with top-tier co-tenants, and our store base is balanced geographically across the United States. During fiscal 2011, our average store size was approximately 921 square feet; our comparable stores averaged net sales of approximately \$913,000, and our stores averaged sales per gross square foot of \$980.

We have pursued new store growth, having more than tripled our store base from 59 to 200 stores from fiscal 2007 to fiscal 2011. The following table shows the growth in our network of stores from fiscal 2009 through fiscal 2011:

	Fiscal Year		
	2011	2010	2009
Stores open at beginning of year	146	108	87
Stores opened	54	38	21
Stores closed			
Stores open at end of year	200	146	108
Gross square footage (in thousands)	184	130	95

Additionally, we have two franchised stores in the United States and 16 franchised stores in Mexico. Unless otherwise approved by us, our franchisees are required to sell only products purchased from us. Opening new franchise stores in the United States and Canada is not currently a significant part of our future strategy.

Distinctive Store Experience

Our stores offer a unique *Heaven of Tea* retail environment that provides a highly interactive, informative and immersive customer experience. We utilize a consistent store design to create our warm, relaxing ambiance featuring elegant blonde wood fixtures, ceramic tiled floors, soft lighting and soothing Asian music. Our store atmosphere is meant to encourage customers to slow down and interact with our tealogists around the pleasures of tea and enjoy their retail experience.

Site Selection and Expansion

We seek to open stores in locations that reinforce the premium image of our brand and support the consistent execution of our strategy, targeting high traffic locations within malls, lifestyle centers and other high-sales-volume retail venues.

We employ a rigorous analytical process to identify new store locations. We target locations based on market characteristics, mall productivity, demographic characteristics, including income and education levels, the presence of key anchor stores and co-tenants, population density and other key characteristics. We have built a proprietary retail mall database, which we use for comparison purposes and employ a proprietary regression model to evaluate projected store sales and profitability based on a number of critical inputs incorporating trade area demographics, mall tenant productivity and total anchor sales. Members of our real estate team spend considerable time evaluating prospective sites before bringing a proposal to our real estate committee. Our real estate committee, which includes our Chief Executive Officer, our two Executive Vice Presidents and our Vice President of Real Estate, approves all of our locations before a lease is signed.

Store Staffing and Operations

Each of our stores is managed by a general manager, an assistant manager and two team leads who oversee an average of eight to ten team members in each store. Each general manager is responsible for the day-to-day operations of his or her store, including the unit's operating results, maintaining a clean and appealing store environment and the hiring, training and development of personnel. We also employ area managers, who are responsible for overseeing the operations of several stores, and regional directors, who are each responsible for overseeing several area managers and the operation of multiple stores.

We are guided by a philosophy that recognizes performance, allowing us to identify and reward team members who meet our high performance standards. We provide our store general managers with a number of analytical tools to support our store operations and assist them in attaining optimum store performance. These tools include production tools and labor scheduling programs, all of which seek to ensure that we match staffing levels to sales volume. We provide incentive bonuses to team members, assistant managers, general managers and area managers. Bonuses for store personnel, store managers and area managers are based upon achieving specified operating and financial performance goals.

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Our Online Platform

Our online platform is primarily comprised of our website, www.teavana.com, through which we provide educational resources for tea consumers and the ability to purchase the full range of our teas and tea-related merchandise. We established our current online platform in fiscal 2007, and during fiscal 2011, online sales represented 7.6% of net sales.

To replicate our Heaven of Tea retail experience online, our website features our full assortment of premium loose-leaf teas, tea-related merchandise and tea gift sets. Online customers can view our virtual Wall of Tea that allows them to select teas from our assortment and read about the ingredients and healthful qualities that pertain to the tea they have selected. In addition to being able to purchase our premium teas on a one-time basis, our customers can also establish automatic purchase and delivery of their favorite teas through our online replenishment program. To drive increased sales through our online platform, we utilize online-specific marketing and promotional programs. We also utilize various social media and mobile applications as part of our online platform, including a mobile website, iPhone, iPad and Android applications, a Facebook fan page and a presence on Twitter. In addition, we employ banner advertisements, search engine optimization and pay-per-click arrangements to help drive traffic to our website.

Through our online platform, we can target a broader audience of customers and tea enthusiasts who may not live near one of our retail locations. We believe our online platform and our stores are complementary, as our online platform provides our store customers an additional channel through which to purchase our teas and tea-related merchandise while also helping drive awareness of and traffic to our stores.

International

We currently have 16 franchised stores in Mexico through an international development agreement with Casa Internacional del Te, S.A. de C.V. (Casa Internacional). The agreement with Casa Internacional grants the exclusive right to open franchised Teavana locations in that country for a term of 15 years. We also operate one company-owned store in Canada as of January 29, 2012 and on September 2, 2011 entered into an international development agreement with the Alshaya Group to open Teavana-branded stores in the Middle East. We expect to continue to selectively expand our global presence through additional company-owned stores, franchise arrangements and/or acquisition.

Our Culture

We have developed a distinctive culture that inspires in our team members a passion for tea and the tea lifestyle. Our culture is also focused on extensive training, career development and individual enrichment. We seek to attract passionate and motivated team members who are driven to succeed and share our vision of creating in our stores a Heaven of Tea experience for our customers.

To support the tea culture globally, we donate approximately 1% of annual net profits to the Cooperative for Assistance and Relief Everywhere, Inc., or CARE, through our Teavana Equatrade program. CARE seeks to overcome poverty by funding programs supporting dignity, tolerance and social justice. We believe that giving back to tea-growing regions worldwide helps the global tea community thrive.

Our Teas and Tea-Related Merchandise

We offer in our stores and through our website more than 100 varieties of premium loose-leaf teas, tea wares such as handcrafted cast-iron, clay and ceramic tea pots, and other tea-related merchandise. We also offer a selection of fresh-brewed teas. Tea, tea-related merchandise and beverages accounted for 55%, 41% and 4% of total consolidated net sales, respectively, in fiscal 2011.

Teas

We provide our customers a diverse selection of over 100 loose-leaf teas from around the world. Our overall tea selection is comprised of approximately 20% single-estate teas and 80% specially blended teas. Our offering is comprised of teas from the following three main groups:

Single-estate teas. Our single-estate teas, which are the teas that originate wholly from an individual tea plantation, estate or garden, are produced from the *Camellia Sinensis* bush. We offer four types of single-estate teas – white, green, oolong, and black – each with its own distinctive characteristics arising from the climate, soil, altitude, growing conditions, when and how the tea is harvested, and the processing method used.

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Single-estate blended teas. We offer blends that combine our single-estate teas with spices, herbs, flower petals, essential oils of fruits and other flavorings. We work in close collaboration with third-party blenders to develop our specially blended teas, and spend significant amounts of time perfecting the balance of flavors, aromas and colors to create unique teas that we believe will appeal to our customers.

Herbal blended teas. Herbal teas are not technically teas, as they are not produced from the *Camellia Sinensis* bush, but are herbal infusions generally made from other sources such as the Rooibos bush and Honeybush from South Africa, the Maté shrub from Argentina and other ingredients including dried fruits, herbs and even flowers. Herbal teas, aside from Maté, are generally caffeine-free and can be brewed individually or blended with other types of tea to create an aromatic and flavorful beverage.

Tea-Related Merchandise

We offer in our stores and through our website a carefully selected assortment of artisanal tea wares and other tea-related merchandise that provide our customers the ability to brew and consume our premium loose-leaf teas and more broadly experience tea cultures from around the globe. The majority of our tea-related merchandise is Teavana-branded. We also offer a selection of our teas and tea-related merchandise in the form of prepackaged gift sets.

Our tea wares and other tea-related merchandise are grouped into five main categories: (1) teapots, (2) tea cups and mugs, (3) tea accessories, (4) tea décor and media and (5) tea foods.

Beverages

We offer made-to-order fresh-brewed teas in each of our stores. Our customers may select any of the varieties of loose-leaf single-estate and blended teas that we offer. Customers can choose to have their beverage served hot or cold.

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Product Selection, Development and Sourcing

We select and develop an extensive offering of premium loose-leaf teas, authentic artisanal tea wares and other tea-related merchandise. Our merchandising team travels across global tea regions seeking superior teas and high quality traditional tea merchandise. Our product offering reflects tea communities in Japan, China, India, South Korea and Europe, and we often explore different tea cultures from which to introduce new teas and tea-related merchandise to our customers. We also work with our supplier partners to develop special tea blends and innovative products that we sell on an exclusive basis.

Teas

Our merchandising team selects the highest grades of single-estate teas sourced from tea gardens and brokers in tea-producing regions around the world. Although most tea trades in the commodity market, premium loose-leaf teas of the quality we seek trade on a negotiated basis at a substantial premium to commodity tea prices. Tea supply and price can be affected by multiple factors, including weather, political and economic conditions, and currency fluctuations. Our merchandising team also focuses on the creation of our special tea blends using multiple varieties of single-estate teas and herbal teas, which are combined with spices, herbs, flower petals, essential oils of fruits and other natural flavorings. We have long-standing collaborative relationships with tea blenders from across the globe with which we collaborate to develop our blends. Our team spends significant amounts of time tasting, or cupping, blends under development to perfect the balance of flavors, aromas and colors. To provide our customers a fresh tea selection over time, we introduce new teas usually two to three times per year, and seek to replace 10-20% of our Wall of Tea selections every year.

Tea-Related Merchandise

Our merchandising team seeks to select high quality tea-related merchandise to enhance the enjoyment and experience of tea for our customers. We travel throughout the world seeking out what we believe is the finest tea-related merchandise available.

Quality Control

As part of our quality control, we test our teas and tea-related merchandise to ensure compliance with our stringent quality standards. We perform extensive sampling of teas during the buying process. In addition, our teas undergo rigorous testing based on food safety specifications established by European Union regulations for the presence of pesticides. We use a third-party testing program that samples each batch of teas received at our distribution center. We also have strict quality control around the manufacture of our tea-related merchandise.

Sourcing

We do not own or operate any tea estates, blending operations or manufacturing facilities; instead, we source our products from over 100 vendors across the globe. During fiscal 2011, our two largest vendors represented approximately 24% and 16%, respectively, of our total purchases of inventory goods. Approximately 95% of our purchases are paid for in US dollars, with the balance being denominated primarily in Euros and Japanese yen.

Distribution

We distribute our loose-leaf teas and tea-related merchandise to our stores and our e-commerce customers from our distribution center in Stratford, Connecticut. Our products are typically shipped to our stores via a third-party national transportation provider multiple times per week.

We have identified the need to expand our distribution center in order to support our near-term growth. We have signed commitments to expand our distribution center, for a modest capital outlay, during fiscal 2012 to support our growing operations through the first quarter of fiscal 2013. We are continuing to evaluate our long-term distribution needs.

Marketing and Advertising

Our marketing strategy currently emphasizes utilization of our website and social media and mobile applications to create a community of tea enthusiasts, build customer loyalty and promote our brand awareness. For example, we provide updates on teas, tea news, tea-making, tea gift ideas and related topics via our Heaven of Tea blog on our website, our Facebook page and our presence on Twitter. We have introduced our PerfecTea® Touch application, which can be downloaded free of charge on the Apple iPhone and iPad and in the Android market. This

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application enables customers to shop our teas and tea-related merchandise, locate a store and obtain information on blending our teas, and provides them with built-in music-accompanied timers to help brew the perfect cup of tea. Additionally, we utilize banner advertisements, search engine optimization and pay-per-click arrangements to help drive traffic to our website.

Information Technology Systems

Our information technology systems provide a full range of business process support to our stores, our store operations and store support center teams. We utilize a combination of industry standard and customized software systems to provide various functions related to:

point of sale;

inventory management;

warehouse management; and

accounting and financial reporting.

Through our point of sale system, we are able to facilitate the operations of our stores, and through our warehouse management systems, we can efficiently manage our inventory of loose-leaf teas and tea-related merchandise from our store support center.

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Competition

The US tea market is highly fragmented. We compete directly with a large number of relatively small independently-owned tea retailers. Additionally, relatively low barriers to entry in the tea and beverage retail market may encourage other tea and beverage retailers who may have greater financial, marketing and operating resources than we do to enter the specialty tea retail market. As we continue to expand geographically, we expect to encounter additional regional and local competitors. We also compete indirectly with other vendors of loose-leaf, bagged and ready-to-drink teas, such as supermarkets, club stores, wholesalers and internet suppliers, as well as with houseware retailers and suppliers that offer tea wares and related accessories.

In addition, we compete with numerous other mall-based retailers for retail real estate locations for our stores.

Trademarks and Other Intellectual Property

We regard intellectual property and other proprietary rights as important to our success. We own several trademarks and service marks that have been registered with the US Patent and Trademark Office, including Teavana®, Heaven of Tea®, Wall of Tea® and the names of most of the varieties of single-estate teas and specially blended teas that we sell. We have also registered trademarks on our stylized logos. We have applications pending with the US Patent and Trademark Office for a number of additional marks, including additional varieties of our single-estate teas and blended teas. We also own domain names, including www.teavana.com, for our primary trademarks and own unregistered copyright rights in our website content. In addition, we have registered or made application to register one or more of our marks in a number of foreign countries and expect to continue to do so in the future as we expand internationally. There can be no assurance that we can obtain the registration for the marks in every country where registration has been sought or may be sought in the future.

We also rely upon trade secrets and know-how to develop and maintain our competitive position. We protect our intellectual property rights through a variety of methods including trademark and trade secret laws, as well as confidentiality agreements and proprietary information agreements with vendors, team members, consultants and others who have access to our proprietary information.

We must constantly protect against any infringement by competitors. If a competitor infringes on our trademark rights, we may have to litigate to protect our rights, in which case, we may incur significant expenses and divert significant attention from our business operations.

Government Regulation

We are subject to labor and employment laws, laws governing advertising, privacy laws, safety regulations and other laws, including consumer protection regulations that regulate retailers and/or govern the promotion and sale of merchandise and the operation of stores and warehouse facilities. We monitor changes in these laws and believe that we are in material compliance with applicable laws.

Insurance

We use a combination of insurance and self-insurance for a number of risk management activities including workers' compensation, general liability, automobile liability and employee-related health care benefits. We believe that we have adequately reserved for our self-insurance liability related to medical coverage of our team members. We evaluate our insurance requirements on an ongoing basis to ensure we maintain adequate levels of coverage.

Employees

As of January 29, 2012, we employed 473 full-time and 2,179 part-time employees, of whom 2,517 were employed in our retail channel and 135 were employed in corporate, distribution and direct channel support functions. None of our employees are represented by a labor union. We consider our relationship with our employees to be very good.

Properties

We do not own any real property. Our store support center is located in Atlanta, Georgia and is leased under a lease agreement expiring in 2024. The approximately 30,000 square foot space includes a simulated store that provides a forum for training and planning visual and marketing concepts prior to their execution in our stores.

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Our approximately 123,000 square foot distribution center is located in Stratford, Connecticut. Our distribution center is leased under a lease agreement expiring in 2016 and 2020 (as to different portions of the facility).

As of January 29, 2012, we operated 200 company-owned stores in 39 states, including one store in Canada. All of our stores are leased from third parties, and the leases typically have ten-year terms. Some of our leases have early cancellation clauses, which permit the lease to be terminated by us or the landlord if certain sales levels are not met in specific periods or if a shopping center does not meet specified occupancy standards. In addition to future minimum lease payments, some of our store leases provide for additional rental payments based on a percentage of net sales if sales at the respective stores exceed specified levels, as well as the payment of common area maintenance charges, real property insurance and real estate taxes. Many of our lease agreements have defined escalating rent provisions over the initial term and any extensions.

Seasonality

Our business is seasonal and, historically, we have realized a higher portion of our net sales, net income and operating cash flows in the fourth fiscal quarter, due to the impact of the holiday selling season.

Available Information

Our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and all amendments to those reports and the Proxy Statement are made available, free of charge, on our corporate web site, www.teavana.com, as soon as reasonably practicable after such reports have been filed with or furnished to the SEC. We intend to use our website as a means of disclosing material non-public information and for complying with our disclosure obligations under Regulation FD. Such disclosures will be included on our website in the Investor Relations sections. Accordingly, investors should monitor such portions of our website, in addition to following our press releases, SEC filings and public conference calls and webcasts.

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Our Code of Business Conduct and Ethics (the Code) and Board of Directors Committee Charters (for each of our Audit, Compensation and Corporate Governance and Nominating Committees) are also available on our website. The Committee Charters and the Code can be found at www.teavana.com, under the Investor Relations, Corporate Governance tab. Any amendments and waivers to the Code will also be available on our website.

All of these documents are available in print to any stockholder who requests them via our website or by writing to Teavana Holdings, Inc., c/o General Counsel, 3630 Peachtree Rd NE, Suite 1480, Atlanta, Georgia 30326.

The public may also read and copy any materials that we have filed with the SEC at the SEC's Public Reference Room at 100 F Street, NE, Washington, D.C. 20549. In addition, these materials may be obtained at the web site maintained by the SEC at www.sec.gov. The public may obtain information on the operation of the SEC's Public Reference room by calling the SEC at 1-800-SEC-0330.

The content of our web site (www.teavana.com) is not intended to be incorporated by reference in this Annual Report on Form 10-K.

Item 1A. Risk Factors.

We may not be able to implement successfully our growth strategy on a timely basis or at all, which could harm our results of operations.

Our continued growth depends, in large part, on our ability to open new stores and to operate those stores successfully. We believe there is a significant opportunity to expand our store base in the United States and Canada from 200 locations as of January 29, 2012 to at least 500 stores by the end of fiscal 2015. We plan to open approximately 60 stores in fiscal 2012.

Our ability to successfully open and operate new stores depends on many factors, including:

the identification and availability of suitable sites for store locations, primarily in high-traffic shopping malls;

the negotiation of acceptable lease terms;

the maintenance of adequate distribution capacity, information technology systems and other operational system capabilities;

the hiring, training and retention of store management and other qualified personnel;

the effective management of inventory to meet the needs of our stores on a timely basis; and

the availability of sufficient levels of cash flow and financing to support our expansion.

In addition, on a selective basis, we will continue to seek franchisees to operate stores under the Teavana brand in international markets. However, if we are unable to identify suitable franchisees, or if our franchisees fail to operate their stores successfully or consistent with our brand image, our international franchising strategy may not enhance our results of operations. New stores contemplated under our existing international development agreement or any future such agreements may not open on the anticipated development schedule or at all.

Accordingly, we cannot assure you that we will achieve our planned growth or, even if we are able to grow our store base as planned, that any new stores will perform as planned. If we fail to successfully implement our growth strategy, we will not be able to sustain the rapid growth in sales and profits growth that we expect, which would likely have an adverse impact on the price of our common stock.

The planned addition of a significant number of new stores each year will require us to expand and improve our operations and could strain our operational, managerial and administrative resources, which may adversely affect our business.

Our growth strategy calls for the opening of a significant number of new stores each year. Our planned expansion will place increased demands on our operational, managerial, administrative and other resources, which may be inadequate to support our expansion. Our senior management team has limited experience opening the number of new stores annually that we contemplate opening in fiscal 2012 and beyond, and may be unable to effectively address challenges involved with such expansion. Managing our growth effectively will require us to continue to enhance our store management systems, financial and management controls and information technology systems and to hire, train and retain regional directors, area managers, store general managers and other personnel. Our planned near-term store growth will also require expansion of and improvement to our current distribution center. Implementing new systems, controls and procedures and these additions to our infrastructure and any changes to our existing operational, managerial, administrative and other resources could negatively impact our results of operations and financial condition.

As we expand our store base we may not experience the same sales per square foot, increases in comparable store sales or profitability that we have experienced in the past.

As we continue to expand our store base, it may become more difficult to identify additional suitable sites for new stores, and we will target an increasing number of shopping malls with lower average sales per square foot than the malls in which we are currently located. The sales per square foot and net sales from such new locations will likely be lower than our existing stores. While our average sales-per-comparable-store is currently \$913,000 for fiscal 2011, our new store model projects average first year sales per store of \$600,000 to \$700,000. Additionally, new stores generally have lower gross margins and higher operating expenses, as a percentage of sales, than our more mature stores. New stores may not achieve sustained sales and operating levels consistent with our mature store base on a timely basis or at all. There may be a negative impact on our results from a lower level of gross margin contribution by our new stores, along with the impact of related pre-opening costs. Any failure to open and operate successfully new stores in the time frames and at the sales, cost and gross margin levels estimated by us could result in a decline in our operating results and therefore have an adverse impact on the price of our common stock.

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Further, given that we (1) forecast the number of stores that we open each year to become a smaller percentage of our existing store base, (2) first-year sales for new stores to be lower than we have historically experienced, and (3) comparable store sales to grow at less than historical rates, we anticipate that our future sales growth will be at less than historical levels. If our future comparable store sales or average sales per square foot decline or fail to meet market expectations, the price of our common stock could decline. A variety of factors affect comparable store sales and average sales per square foot, including current national and regional economic conditions, pricing, inflation and weather conditions. Many retailers have been unable to sustain high levels of comparable store sales growth during and after periods of substantial expansion.

Any decrease in customer traffic in the shopping malls or other locations in which our stores are located could cause our sales to be less than expected.

Our stores are located primarily in enclosed shopping malls and other shopping centers. Net sales at these stores are derived, to a significant degree, from the volume of traffic in those shopping malls and centers and in the surrounding area. Our stores benefit from the current popularity of shopping malls and centers as shopping destinations and their ability to generate consumer traffic in the vicinity of our stores. Our sales volume and traffic may be adversely affected by, among other things:

economic downturns nationally or regionally;

high fuel prices;

changes in consumer demographics;

a decrease in popularity of shopping malls or of higher-end retail concepts in the shopping malls and centers in which our stores are located;

the closing of a shopping mall's anchor stores or other key tenants; or

deterioration in the financial condition of shopping mall and center operators or developers which could, for example, limit their ability to maintain and improve their facilities.

A reduction in consumer traffic as a result of these or any other factors could have a material adverse effect on us.

In addition, severe weather conditions and other catastrophic occurrences in areas in which we have stores may have a material adverse effect on our results of operations. Such conditions may result in physical damage to our stores, loss of inventory, closure of one or more of our stores or an insufficient labor pool in our markets. Any of these factors may disrupt our business and have a material adverse effect on our financial condition and results of operations.

Our success depends substantially upon the continued retention of our senior management and other key personnel.

Our future success is substantially dependent on the continued service of certain members of our senior management, including Andrew Mack, our founder and Chief Executive Officer, Daniel Glennon, our Executive Vice President and Chief Financial Officer, and Peter Luckhurst, our Executive Vice President of Operations. These executives and other key personnel have been primarily responsible for determining the strategic direction of our business and for executing our growth strategy and are integral to our brand and culture and the positive business reputation we enjoy with our customers and vendors. The loss of the services of any of these executives or other key personnel could have a material adverse effect on our business and prospects, as we may not be able to find suitable individuals to replace them on a timely basis, if at all. In addition, any such departure could be viewed in a negative light by investors and analysts, which could cause the price of our common stock to decline. Additionally, if we are unable to continue to attract or retain highly qualified personnel, the development, growth and future success of our business could be adversely affected.

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If we are unable to attract, assimilate and retain team members that embody our culture, including store personnel and store and area managers and regional directors, we may not be able to grow or successfully operate our business.

Our success depends in part upon our ability to attract, train, assimilate and retain a sufficient number of team members, including store personnel, store managers, area managers and regional directors, who understand and appreciate our culture and are able to represent our brand effectively and establish credibility with our customers. We have historically promoted substantially all of our store managers, area managers and regional directors from our pool of existing team members and expect to continue to rely heavily upon such talent pool to support our growth plans. If we are unable to hire and retain store personnel capable of consistently providing a high level of customer service, as demonstrated by their enthusiasm for our culture, understanding of our customers and knowledge of the loose-leaf tea and tea-related merchandise we offer, our ability to open new stores may be impaired, the performance of our existing and new stores could be materially adversely affected and our brand image may be negatively impacted. Any failure to meet our staffing needs or any material increases in team member turnover rates could have a material adverse effect on our business or results of operations.

We have only one distribution center, and if we encounter difficulties associated with such facility or if it were forced to shut down for any reason, we could face shortages of inventory that would have a material adverse effect on our business operations.

Our only distribution center is located in Stratford, Connecticut. This single distribution center currently supports our entire business. Substantially all of our teas and tea-related merchandise are shipped to the distribution center from our vendors, and then shipped from our distribution center to our stores and e-commerce customers. Our success depends on the timely and frequent receipt of merchandise by our stores, often multiple times per week. The efficient flow of such merchandise requires that we have adequate capacity in our distribution center to support our current level of operations and the anticipated increased levels that may follow from our growth plans. If the operation of our distribution center were to be disrupted or if it were to shut down for any reason or its contents were to be destroyed or damaged, due to fire, severe weather or other natural disaster, we could face shortages of inventory, resulting in out-of-stock conditions in our stores, and would incur additional cost to replace any destroyed or damaged product. Such an event may negatively impact our sales and may cause us to incur significantly higher costs and longer lead times associated with delivering products to our stores and e-commerce customers. This could have a material adverse effect on our business and harm our reputation.

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Any failure to expand our distribution center's capacity on a timely basis would have an adverse effect on our growth strategy and results of operations.

We have identified the need to expand our current distribution center and/or open a second distribution center in order to support our growth. If we are unable to successfully implement our planned near-term and long-term expansion of our distribution capability, the efficient flow of our merchandise could be disrupted, which could materially hurt our business. Our long-term need for increased distribution capacity may require us to obtain additional financing. Appropriate locations or financing for the construction or lease of such additional real estate may not be available at reasonable costs or at all. Our failure to secure additional distribution capacity when necessary could impede our growth plans, as a result of which our financial condition and operating results could be adversely affected.

Because our business is highly concentrated on a single, discretionary product category, premium loose-leaf teas and tea-related merchandise, we are vulnerable to changes in consumer preferences and in economic conditions affecting disposable income that could harm our financial results.

Our business is not diversified and consists primarily of developing, sourcing, marketing and selling premium loose-leaf teas and tea-related merchandise. Consumer preferences often change rapidly and without warning, moving from one trend to another among many retail concepts. Therefore, our business is substantially dependent on our ability to educate consumers on the many positive attributes of tea, anticipate shifts in consumer tastes and help drive growth of the overall tea market. Any future shifts in consumer preferences away from the consumption of beverages brewed from premium loose-leaf teas would also have a material adverse effect on our results of operations.

Consumer purchases of specialty retail products, including our products, are historically affected by economic conditions such as changes in employment, salary and wage levels, the availability of consumer credit, inflation, interest rates, tax rates, fuel prices and the level of consumer confidence in prevailing and future economic conditions. These discretionary consumer purchases may decline during recessionary periods or at other times when disposable income is lower. In addition, increases in utility, fuel, commodity price and corporate income tax levels could affect our cost of doing business, including transportation costs of our third-party service providers, causing our suppliers and such service providers to seek to recover these increases through increased prices charged to us. Our financial performance may become susceptible to economic and other conditions in regions or states where we have a significant number of stores. Our continued success will depend, in part, on our ability to anticipate, identify and respond quickly to changing consumer preferences and economic conditions.

Our success depends, in part, on our ability to source, develop and market new varieties of loose-leaf teas and tea-related merchandise that meet our high standards and customer preferences.

We currently offer more than 100 varieties of loose-leaf teas and a wide assortment of tea-related merchandise. Our success depends in part on our ability to continually innovate, develop, source and market new varieties of loose-leaf teas and tea-related merchandise that both meet our standards for quality and appeal to customers' preferences. Failure to innovate, develop, source, market and price new varieties of tea and tea-related merchandise that consumers want to buy could lead to a decrease in our sales and profitability.

We may experience negative effects to our brand and reputation from real or perceived quality or health issues with our teas and tea-related merchandise, which could have an adverse effect on our operating results.

We believe our customers rely on us to provide them with premi