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Tully's selling wholesale business to Green Mountain Coffee Roasters

By **Melissa Allison**
Seattle Times business reporter

New England came calling in Seattle again and snagged the Tully's Coffee brand along with its wholesale business for \$40.3 million in cash.

The suitor is Green Mountain Coffee Roasters of Vermont, and if the deal gains approval from Tully's shareholders, it is expected to close by the end of the year.

It is at least the third time this year that publicly traded Seattle companies have succumbed to wooing from New Englanders. Safeco's sale to Liberty Mutual of Boston is expected to close this month. Pyramid Breweries sold this summer to Magic Hat Brewing Co. & Performing Arts Center of Vermont.

Green Mountain is mostly an East Coast wholesale business, and Tully's wholesale business distributes coffee and other products to office coffee services, food-service distributors and more than 5,000 supermarkets mostly in Western states.

Tully's will pay Green Mountain a dollar a year to use the Tully's name on its 150-some retail stores in the U.S. and for international stores, said founder and chairman Tom O'Keefe. An international joint venture is scheduled to open its first two Tully's stores in Singapore this year. There are about 350 Tully's shops in Japan, but the Seattle company sold that business and does not receive royalties from it.

O'Keefe said he expects no layoffs because of the deal. Green Mountain will employ the roughly 70 people who work for Tully's wholesale business, and it will lease the roasting and distribution center in Seattle.

Everyone will continue working together at Tully's headquarters, the brightly colored building with the neon green "T" that rises above Interstate 5 south of downtown Seattle.

"My mother wouldn't like it, but we're going to cohabitate," O'Keefe joked.

He said he's "thrilled that Green Mountain is the kind of company we are, very concerned with their employees and what goes on in their community."



JOHN LOK / THE SEATTLE TIMES

Tully's headquarters is a familiar landmark on Interstate 5.

Cash from the sale will pay off about \$8.5 million that Tully's owes Benaroya Capital, O'Keefe said. The company has not decided yet whether to distribute any money to shareholders or use it all to strengthen and grow the business.

The deal comes seven months after Tully's announced it had hired D.A. Davidson & Co. to "explore strategic and financial alternatives."

After that announcement, O'Keefe said, "a large number of people came out of the woodwork, because there's great respect for Tully's brand and product in the marketplace."

Tully's postponed an initial public offering last year, citing turmoil in the stock market. It had hoped to raise about \$34 million, which would have helped open new stores and repay debt.

Last winter, Chief Executive John Buller and Chief Financial Officer Kristopher Galvin left the company, and Tully's laid off about 14 headquarters employees. Buller had been Tully's sixth top executive since O'Keefe relinquished the CEO title in 2001.

Tully's has lost money for years, with total losses of more than \$88 million.

A little more than half its sales come from the coffee shops. O'Keefe said Tully's will consider whether to keep the retail operation or opt for "a better value proposition for shareholders with some alternative."

He said it's too soon to tell whether another company or companies might buy the coffee shops.

Tully's has delayed filing its 10-K, an annual report required by securities regulators, since June. In delay notifications, the company said it could not gather information necessary for filing in time "without unreasonable effort and expense."

Green Mountain began in 1981 with a small café in Vermont that roasted its own coffee. The company began selling to other restaurants and launched a mail-order business for consumers. It went public in 1993 and had sales of \$341.7 million for the fiscal year ended Sept. 29, 2007. Net income was \$12.8 million.

With more than 1,000 employees, Green Mountain sells whole bean and ground coffee, hot cocoa and teas, mostly to wholesale customers in the eastern U.S. In 2006, it bought a company called Keurig that sells single-cup coffee brewers and accessories. Keurig receives royalties from other coffee roasters that sell coffee for its single-cup brewers, including Tully's.

Green Mountain CEO Lawrence Blanford said in a release that Tully's "will provide GMCR with a complementary West Coast brand and business infrastructure, furthering our plans to establish the company, and its proprietary Keurig single-cup brewing system, throughout North America."

Green Mountain shares rose \$1.13 to \$33.60 during regular trading on Monday. The agreement with Tully's was announced after the market closed, and shares fell 50 cents to \$33.10 in after-hours trading.

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