

STARBUCKS CORP  
Form 10-Q  
July 29, 2014  
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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, DC 20549  
FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the Quarterly Period Ended June 29, 2014

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_.

Commission File Number: 0-20322

Starbucks Corporation

(Exact Name of Registrant as Specified in its Charter)

Washington

91-1325671

(State or Other Jurisdiction of

(IRS Employer

Incorporation or Organization)

Identification No.)

2401 Utah Avenue South, Seattle, Washington 98134

(Address of principal executive offices)

(206) 447-1575

(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  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 (§232.405 of this chapter) 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 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.

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 Exchange Act):

Yes  No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Title  
Common Stock, par value \$0.001 per share

Shares Outstanding as of July 23, 2014  
751.2 million

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## PART I — FINANCIAL INFORMATION

## Item 1. Financial Statements

## STARBUCKS CORPORATION

## CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS

(in millions, except per share data)

(unaudited)

|  | Quarter Ended   |                 | Three Quarters Ended |                 |
|--|-----------------|-----------------|----------------------|-----------------|
|  | Jun 29,<br>2014 | Jun 30,<br>2013 | Jun 29,<br>2014      | Jun 30,<br>2013 |
| Net revenues:  |                 |                 |                      |                 |
| Company-operated stores                                      | \$3,290.5       | \$2,986.3       | \$9,702.3            | \$8,783.7       |
| Licensed stores  | 408.1           | 342.0           | 1,166.1              | 1,014.2         |
| CPG, foodservice and other                                   | 455.1           | 407.0           | 1,398.7              | 1,280.2         |
| Total net revenues   | 4,153.7         | 3,735.3         | 12,267.1             | 11,078.1        |
| Cost of sales including occupancy costs                      | 1,711.5         | 1,597.6         | 5,135.7              | 4,748.6         |
| Store operating expenses                                     | 1,176.5         | 1,084.1         | 3,486.1              | 3,212.2         |
| Other operating expenses                                     | 120.6           | 98.9            | 346.3                | 330.8           |
| Depreciation and amortization expenses                       | 180.1           | 153.3           | 524.2                | 455.3           |
| General and administrative expenses                          | 269.4           | 249.6           | 752.6                | 711.7           |
| Litigation charge/(credit)                                   | —               | —               | (20.2                | ) —             |
| Total operating expenses                                     | 3,458.1         | 3,183.5         | 10,224.7             | 9,458.6         |
| Income from equity investees                                 | 72.9            | 63.4            | 183.9                | 170.4           |
| Operating income   | 768.5           | 615.2           | 2,226.3              | 1,789.9         |
| Interest income and other, net                               | 19.4            | 3.5             | 57.0                 | 51.4            |
| Interest expense   | (16.4           | ) (6.3          | ) (47.7              | ) (19.0         |
| Earnings before income taxes                                 | 771.5           | 612.4           | 2,235.6              | 1,822.3         |
| Income taxes   | 259.0           | 194.6           | 755.4                | 581.4           |
| Net earnings including noncontrolling interests              | 512.5           | 417.8           | 1,480.2              | 1,240.9         |
| Net earnings/(loss) attributable to noncontrolling interests | (0.1            | ) —             | (0.1                 | ) 0.6           |
| Net earnings attributable to Starbucks                       | \$512.6         | \$417.8         | \$1,480.3            | \$1,240.3       |
| Earnings per share - basic                                   | \$0.68          | \$0.56          | \$1.96               | \$1.66          |
| Earnings per share - diluted                                 | \$0.67          | \$0.55          | \$1.94               | \$1.63          |
| Weighted average shares outstanding:                         |                 |                 |                      |                 |
| Basic  | 751.8           | 749.7           | 753.9                | 748.3           |
| Diluted  | 761.0           | 761.9           | 763.9                | 761.5           |
| Cash dividends declared per share                            | \$0.26          | \$0.21          | \$0.78               | \$0.63          |
| See Notes to Condensed Consolidated Financial Statements     |                 |                 |                      |                 |

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STARBUCKS CORPORATION  
 CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME  
 (in millions, unaudited)

|  | Quarter Ended   |                 | Three Quarters Ended |                 |
|--|-----------------|-----------------|----------------------|-----------------|
|  | Jun 29,<br>2014 | Jun 30,<br>2013 | Jun 29,<br>2014      | Jun 30,<br>2013 |
| Net earnings including noncontrolling interests  | \$512.5         | \$417.8         | \$1,480.2            | \$1,240.9       |
| Other comprehensive income/(loss), net of tax:   |                 |                 |                      |                 |
| Unrealized holding gains/(losses) on available-for-sale securities   | 1.7             | (0.3            | ) 0.8                | (0.3            |
| Tax (expense)/benefit  | (0.6            | ) 0.1           | (0.2                 | ) 0.1           |
| Unrealized gains/(losses) on cash flow hedging instruments   | (13.8           | ) 55.6          | 6.1                  | 34.9            |
| Tax (expense)/benefit  | 3.6             | (20.0           | ) (2.4               | ) (19.7         |
| Unrealized gains/(losses) on net investment hedging instruments  | (0.7            | ) 7.9           | 5.2                  | 34.3            |
| Tax (expense)/benefit  | 0.3             | (2.9            | ) (1.9               | ) (12.7         |
| Reclassification adjustment for net (gains)/losses realized in net earnings for cash flow hedges and available-for-sale securities | (2.6            | ) 11.1          | 2.8                  | 27.3            |
| Tax expense/(benefit)  | 1.1             | (0.5            | ) 2.0                | (1.9            |
| Translation adjustment   | 19.8            | (25.0           | ) (2.9               | ) (74.7         |
| Tax (expense)/benefit  | (2.2            | ) 5.8           | (5.6                 | ) 4.5           |
| Other comprehensive income/(loss)  | 6.6             | 31.8            | 3.9                  | (8.2            |
| Comprehensive income including noncontrolling interests  | 519.1           | 449.6           | 1,484.1              | 1,232.7         |
| Comprehensive income/(loss) attributable to noncontrolling interests   | (0.1            | ) —             | (0.1                 | ) 0.6           |
| Comprehensive income attributable to Starbucks   | \$519.2         | \$449.6         | \$1,484.2            | \$1,232.1       |

See Notes to Condensed Consolidated Financial Statements

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CONDENSED CONSOLIDATED BALANCE SHEETS

(in millions, except per share data)

(unaudited)

|   | Jun 29,<br>2014    | Sep 29,<br>2013    |
|---|--------------------|--------------------|
| <b>ASSETS</b>   |                    |                    |
| Current assets:   |                    |                    |
| Cash and cash equivalents   | \$ 1,019.4         | \$ 2,575.7         |
| Short-term investments  | 176.9              | 658.1              |
| Accounts receivable, net  | 580.9              | 561.4              |
| Inventories   | 1,025.8            | 1,111.2            |
| Prepaid expenses and other current assets   | 289.4              | 287.7              |
| Deferred income taxes, net  | 264.5              | 277.3              |
| Total current assets  | 3,356.9            | 5,471.4            |
| Long-term investments   | 832.7              | 58.3               |
| Equity and cost investments   | 541.5              | 496.5              |
| Property, plant and equipment, net  | 3,373.7            | 3,200.5            |
| Deferred income taxes, net  | 947.1              | 967.0              |
| Other assets  | 193.0              | 185.3              |
| Other intangible assets   | 278.7              | 274.8              |
| Goodwill  | 861.7              | 862.9              |
| <b>TOTAL ASSETS</b>   | <b>\$ 10,385.3</b> | <b>\$ 11,516.7</b> |
| <b>LIABILITIES AND EQUITY</b>   |                    |                    |
| Current liabilities:  |                    |                    |
| Accounts payable  | \$ 474.5           | \$ 491.7           |
| Accrued litigation charge   | —                  | 2,784.1            |
| Accrued liabilities   | 1,376.0            | 1,269.3            |
| Insurance reserves  | 202.6              | 178.5              |
| Deferred revenue  | 830.8              | 653.7              |
| Total current liabilities   | 2,883.9            | 5,377.3            |
| Long-term debt  | 2,048.1            | 1,299.4            |
| Other long-term liabilities   | 382.5              | 357.7              |
| Total liabilities   | 5,314.5            | 7,034.4            |
| Shareholders' equity:   |                    |                    |
| Common stock (\$0.001 par value) — authorized, 1,200.0 shares; issued and outstanding,<br>751.0 shares and 753.2 shares, respectively | 0.8                | 0.8                |
| Additional paid-in capital  | 39.4               | 282.1              |
| Retained earnings   | 4,957.7            | 4,130.3            |
| Accumulated other comprehensive income  | 70.9               | 67.0               |
| Total shareholders' equity  | 5,068.8            | 4,480.2            |
| Noncontrolling interest   | 2.0                | 2.1                |
| Total equity  | 5,070.8            | 4,482.3            |
| <b>TOTAL LIABILITIES AND EQUITY</b>   | <b>\$ 10,385.3</b> | <b>\$ 11,516.7</b> |
| See Notes to Condensed Consolidated Financial Statements  |                    |                    |

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STARBUCKS CORPORATION  
 CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
 (in millions, unaudited)

|  | Three Quarters Ended |                 |
|--|----------------------|-----------------|
|  | Jun 29,<br>2014      | Jun 30,<br>2013 |
| <b>OPERATING ACTIVITIES:</b>   |                      |                 |
| Net earnings including noncontrolling interests  | \$1,480.2            | \$1,240.9       |
| Adjustments to reconcile net earnings to net cash (used)/provided by operating activities: |                      |                 |
| Depreciation and amortization  | 554.0                | 479.3           |
| Deferred income taxes, net   | 32.1                 | 3.9             |
| Income earned from equity method investees, net of distributions                           | (37.3)               | (42.6)          |
| Gain resulting from sale of equity in joint venture  | —                    | (35.2)          |
| Stock-based compensation   | 142.6                | 105.6           |
| Other  | 33.5                 | 18.3            |
| Cash (used)/provided by changes in operating assets and liabilities:                       |                      |                 |
| Accounts receivable  | (19.0)               | (20.3)          |
| Inventories  | 85.2                 | 88.8            |
| Accounts payable   | (3.1)                | 20.8            |
| Accrued litigation charge  | (2,763.9)            | —               |
| Accrued liabilities and insurance reserves   | 195.3                | 38.1            |
| Deferred revenue   | 177.0                | 168.1           |
| Prepaid expenses, other current assets and other assets                                    | (10.0)               | (27.9)          |
| Net cash (used)/provided by operating activities   | (133.4)              | 2,037.8         |
| <b>INVESTING ACTIVITIES:</b>   |                      |                 |
| Purchase of investments  | (1,545.2)            | (495.8)         |
| Sales, maturities and calls of investments   | 1,257.9              | 803.2           |
| Acquisitions, net of cash acquired   | —                    | (576.9)         |
| Additions to property, plant and equipment   | (811.2)              | (782.2)         |
| Proceeds from sale of equity in joint venture  | —                    | 50.3            |
| Other  | (24.4)               | 3.0             |
| Net cash used by investing activities  | (1,122.9)            | (998.4)         |
| <b>FINANCING ACTIVITIES:</b>   |                      |                 |
| Proceeds from issuance of long-term debt   | 748.5                | —               |
| Principal payments on long-term debt   | —                    | (35.2)          |
| Proceeds from issuance of common stock   | 117.6                | 199.5           |
| Excess tax benefit on share-based awards   | 101.6                | 229.2           |
| Cash dividends paid  | (587.8)              | (470.9)         |
| Repurchase of common stock   | (595.2)              | (588.1)         |
| Minimum tax withholdings on share-based awards   | (76.8)               | (120.6)         |
| Other  | (3.6)                | 2.3             |
| Net cash used by financing activities  | (295.7)              | (783.8)         |
| Effect of exchange rate changes on cash and cash equivalents                               | (4.3)                | (13.4)          |
| Net (decrease)/increase in cash and cash equivalents                                       | (1,556.3)            | 242.2           |
| <b>CASH AND CASH EQUIVALENTS:</b>  |                      |                 |
| Beginning of period  | 2,575.7              | 1,188.6         |
| End of period  | \$1,019.4            | \$1,430.8       |
| <b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:</b>                                   |                      |                 |

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Cash paid during the period for:

|                                       |         |         |
|---------------------------------------|---------|---------|
| Interest, net of capitalized interest | \$39.2  | \$17.2  |
| Income taxes                          | \$548.0 | \$417.3 |

See Notes to Condensed Consolidated Financial Statements

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STARBUCKS CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

Note 1: Summary of Significant Accounting Policies

Financial Statement Preparation

The unaudited condensed consolidated financial statements as of June 29, 2014, and for the quarter and three quarters ended June 29, 2014 and June 30, 2013, have been prepared by Starbucks Corporation under the rules and regulations of the Securities and Exchange Commission ("SEC"). In the opinion of management, the financial information for the quarter and three quarters ended June 29, 2014 and June 30, 2013 reflects all adjustments and accruals, which are of a normal recurring nature, necessary for a fair presentation of the financial position, results of operations and cash flows for the interim periods. In this Quarterly Report on Form 10-Q ("10-Q") Starbucks Corporation is referred to as "Starbucks," the "Company," "we," "us" or "our."

The financial information as of September 29, 2013 is derived from our audited consolidated financial statements and notes for the fiscal year ended September 29, 2013 ("fiscal 2013") included in Item 8 in the Fiscal 2013 Annual Report on Form 10-K (the "10-K"). The information included in this 10-Q should be read in conjunction with the footnotes and management's discussion and analysis of the financial statements in the 10-K.

The results of operations for the quarter and three quarters ended June 29, 2014 are not necessarily indicative of the results of operations that may be achieved for the entire fiscal year ending September 28, 2014 ("fiscal 2014").

Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board ("FASB") issued guidance outlining a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers that supersedes most current revenue recognition guidance. This guidance requires an entity to recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Additionally, this guidance expands related disclosure requirements. The guidance will become effective for us at the beginning of our first quarter of fiscal 2018 and will require full or modified retrospective application. We are currently evaluating the impact this guidance will have on our financial statements as well as the expected adoption method.

In April 2014, the FASB issued guidance that changes the criteria for reporting discontinued operations. To qualify as a discontinued operation under the amended guidance, a component or group of components of an entity that has been disposed of or is classified as held for sale must represent a strategic shift that has or will have a major effect on the entity's operations and financial results. This guidance also expands related disclosure requirements. The guidance will become effective for us at the beginning of our first quarter of fiscal 2016. We do not expect the adoption of this guidance will have a material impact on our financial statements.

In July 2013, the FASB issued guidance on the financial statement presentation of an unrecognized tax benefit when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists. This guidance requires the unrecognized tax benefit to be presented in the financial statements as a reduction to a deferred tax asset. When a deferred tax asset is not available, or the asset is not intended to be used for this purpose, the unrecognized tax benefit should be presented in the financial statements as a liability and not netted with a deferred tax asset. The guidance will become effective for us at the beginning of our first quarter of fiscal 2015. We do not expect the adoption of this guidance will have a material impact on our financial statements.

In March 2013, the FASB issued guidance on a parent's accounting for the cumulative translation adjustment upon derecognition of certain subsidiaries or groups of assets within a foreign entity or of an investment in a foreign entity. This guidance requires a parent to release any related cumulative translation adjustment into net income only if the sale or transfer results in the complete or substantially complete liquidation of the foreign entity in which the subsidiary or group of assets had resided. The guidance will become effective for us at the beginning of our first quarter of fiscal 2015. We do not expect the adoption of this guidance will have a material impact on our financial statements.

In February 2013, the FASB issued guidance that adds additional disclosure requirements for items reclassified out of accumulated other comprehensive income. This guidance requires the disclosure of significant amounts reclassified

from each component of accumulated other comprehensive income and the income statement line items affected by the reclassification. The guidance became effective for us at the beginning of our first quarter of fiscal 2014 and the additional disclosures are provided in Note 7 of this 10-Q.

In January 2013, the FASB issued guidance clarifying the scope of disclosure requirements for offsetting assets and liabilities. The amended guidance limits the scope of balance sheet offsetting disclosures to derivatives, repurchase agreements, and

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securities lending transactions to the extent that they are offset in the financial statements or subject to an enforceable master netting arrangement or similar agreement. The guidance became effective for us at the beginning of our first quarter of fiscal 2014 and did not have a material impact on our financial statements.

## Correction of an Immaterial Error

Effective at the beginning of fiscal 2014, we reclassified certain fees related to our US and Seattle's Best Coffee foodservice operations in our Channel Development segment and All Other Segments, respectively, from other operating expenses to foodservice revenues included in CPG, foodservice and other net revenues in our consolidated statements of earnings. This reclassification results from a correction of an error in our prior period financial statements which we have determined to be immaterial. In order to align prior period classifications with the current period presentation, the historical consolidated financial statements have been corrected, resulting in reclassifications of \$25.4 million and \$22.7 million for fiscal years 2013 and 2012, respectively. The reclassifications for the quarter and three quarters ended June 30, 2013 were \$6.4 million and \$19.1 million, respectively. The consolidated statements of earnings as corrected are presented below (in millions):

|   | Fiscal 2013 |           |           |             |            | Fiscal 2012 |
|---|-------------|-----------|-----------|-------------|------------|-------------|
|   | Q1          | Q2        | Q3        | Q4          | Full Year  | Full Year   |
| Net revenues  |             |           |           |             |            |             |
| Company-operated stores                               | \$2,989.6   | \$2,807.7 | \$2,986.3 | \$3,009.6   | \$11,793.2 | \$10,534.5  |
| Licensed stores                                       | 350.2       | 322.1     | 342.0     | 346.3       | 1,360.5    | 1,210.3     |
| CPG, foodservice and other                            | 453.4       | 419.8     | 407.0     | 432.9       | 1,713.1    | 1,532.0     |
| Total net revenues                                    | 3,793.2     | 3,549.6   | 3,735.3   | 3,788.8     | 14,866.8   | 13,276.8    |
| Cost of sales including occupancy costs               | 1,620.7     | 1,530.4   | 1,597.6   | 1,633.7     | 6,382.3    | 5,813.3     |
| Store operating expenses                              | 1,089.5     | 1,038.4   | 1,084.1   | 1,073.9     | 4,286.1    | 3,918.1     |
| Other operating expenses                              | 126.1       | 105.8     | 98.9      | 101.1       | 431.8      | 407.2       |
| Depreciation and amortization expenses                | 148.9       | 153.1     | 153.3     | 166.1       | 621.4      | 550.3       |
| General and administrative expenses                   | 231.9       | 230.3     | 249.6     | 226.1       | 937.9      | 801.2       |
| Litigation charge                                     | —           | —         | —         | 2,784.1     | 2,784.1    | —           |
| Total operating expenses                              | 3,217.1     | 3,058.0   | 3,183.5   | 5,985.0     | 15,443.6   | 11,490.1    |
| Income from equity investees                          | 54.5        | 52.5      | 63.4      | 81.0        | 251.4      | 210.7       |
| Operating income/(loss)                               | 630.6       | 544.1     | 615.2     | (2,115.2)   | (325.4)    | 1,997.4     |
| Interest income and other, net                        | (2.9)       | ) 50.8    | 3.5       | 72.1        | 123.6      | 94.4        |
| Interest expense                                      | (6.6)       | ) (6.1)   | ) (6.3)   | ) (9.1)     | ) (28.1)   | ) (32.7)    |
| Earnings/(loss) before income taxes                   | 621.1       | 588.8     | 612.4     | (2,052.2)   | (229.9)    | 2,059.1     |
| Income taxes  | 188.7       | 198.1     | 194.6     | (820.1)     | (238.7)    | 674.4       |
| Net earnings including noncontrolling interests       | 432.4       | 390.7     | 417.8     | (1,232.1)   | 8.8        | 1,384.7     |
| Net earnings attributable to noncontrolling interests | 0.2         | 0.3       | —         | (0.1)       | ) 0.5      | 0.9         |
| Net earnings attributable to Starbucks                | \$432.2     | \$390.4   | \$417.8   | \$(1,232.0) | \$8.3      | \$1,383.8   |

There was no impact on operating income or net earnings as a result of the error correction, nor any impact on our consolidated statements of comprehensive income, consolidated balance sheets or consolidated statements of cash flows. Additional disclosure regarding this change as it relates to our segment results is included at Note 11, Segment

Reporting.

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## Note 2: Derivative Financial Instruments

## Interest Rates

Depending on market conditions, we enter into interest rate swap agreements to hedge the variability in cash flows due to changes in the benchmark interest rate related to anticipated debt issuances. These agreements are cash settled at the time of the pricing of the related debt. The effective portion of the derivative's gain or loss is recorded in accumulated other comprehensive income ("AOCI") and is subsequently reclassified to interest expense over the life of the related debt.

## Foreign Currency

To reduce cash flow volatility from foreign currency fluctuations, we enter into forward and swap contracts to hedge portions of cash flows of anticipated revenue streams and inventory purchases in currencies other than the entity's functional currency. The effective portion of the derivative's gain or loss is recorded in AOCI and is subsequently reclassified to revenue or cost of sales when the hedged exposure affects net earnings.

We also enter into forward contracts to hedge the foreign currency exposure of our net investment in certain foreign operations. The effective portion of the derivative's gain or loss is recorded in AOCI and will be subsequently reclassified to net earnings when the hedged net investment is either sold or substantially liquidated.

To mitigate the translation risk of certain balance sheet items, we enter into foreign currency forward contracts that are not designated as hedging instruments. Gains and losses from these derivatives are largely offset by the financial impact of translating foreign currency denominated payables and receivables; both are recorded in net interest income and other.

## Commodities

Depending on market conditions, we enter into coffee futures contracts and collars (the combination of a purchased call option and a sold put option) to hedge a portion of anticipated cash flows under our price-to-be-fixed green coffee contracts, which are described further in Note 4, Inventories. The effective portion of the derivative's gain or loss is recorded in AOCI and is subsequently reclassified to cost of sales when the hedged exposure affects net earnings.

To mitigate the price uncertainty of a portion of our future purchases of dairy products and diesel fuel, we enter into dairy and diesel fuel swap contracts, as well as dairy futures and collars that are not designated as hedging instruments. Gains and losses from these derivatives are recorded in net interest income and other. Gains and losses from dairy swaps, futures and collars largely offset price fluctuations on our dairy purchases, which are included in cost of sales. Gains and losses from diesel fuel swaps largely offset the financial impact of diesel fuel fluctuations on our shipping costs, which are included in operating expenses.

Gains and losses on derivative contracts designated as hedging instruments included in AOCI and expected to be reclassified into earnings within 12 months, net of tax (in millions):

|                        | Net Gains/(Losses)<br>Included in AOCI |                 | Net<br>Gains/(Losses)<br>Expected to be<br>Reclassified from<br>AOCI into<br>Earnings within 12<br>Months | Contract<br>Remaining<br>Maturity<br>(Months) |
|------------------------|--|-----------------|---|---|
|                        | Jun 29,<br>2014                        | Sep 29,<br>2013 |   |   |
| Cash Flow Hedges:      |  |                 |   |   |
| Interest rates         | \$37.2                                 | \$41.4          | \$3.2   |   |
| Foreign currency       | 1.3                                    | (0.3            | ) 1.2   | 34  |
| Coffee                 | (3.4                                   | ) (12.2         | ) (3.3  | ) 14  |
| Net Investment Hedges: |  |                 |   |   |
| Foreign currency       | (9.6                                   | ) (12.9         | )   | 33  |

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Pretax gains and losses on derivative contracts designated as hedging instruments recognized in other comprehensive income ("OCI") and reclassifications from AOCI to earnings (in millions):

|                        | Quarter Ended                              |              | Gains/(Losses)    |              | Three Quarters Ended                       |              | Gains/(Losses)    |              |
|------------------------|--|--------------|-------------------|--------------|--|--------------|-------------------|--------------|
|                        | Gains/(Losses)                             |              | Reclassified from |              | Gains/(Losses)                             |              | Reclassified from |              |
|                        | Recognized in OCI Before Reclassifications |              | AOCI to Earnings  |              | Recognized in OCI Before Reclassifications |              | AOCI to Earnings  |              |
|                        | Jun 29, 2014                               | Jun 30, 2013 | Jun 29, 2014      | Jun 30, 2013 | Jun 29, 2014                               | Jun 30, 2013 | Jun 29, 2014      | Jun 30, 2013 |
| Cash Flow Hedges:      |  |              |                   |              |  |              |                   |              |
| Interest rates         | \$—  | \$49.3       | \$1.3             | \$—          | \$0.5                                      | \$49.3       | \$3.8             | \$—          |
| Foreign currency       | (10.8 )                                    | 5.6          | 2.2               | 2.4          | 7.8  | 12.0         | 5.5               | 3.0          |
| Coffee                 | (3.0 )                                     | 0.7          | (0.9 )            | (13.3 )      | (2.2 )                                     | (26.4 )      | (11.8 )           | (29.6 )      |
| Net Investment Hedges: |  |              |                   |              |  |              |                   |              |
| Foreign currency       | (0.7 )                                     | 7.9          | —                 | —            | 5.2  | 34.3         | —                 | —            |

Pretax gains and losses on derivative contracts not designated as hedging instruments recognized in earnings (in millions):

|                  | Gains/(Losses) Recognized in Earnings |              |                      |              |
|------------------|---------------------------------------|--------------|----------------------|--------------|
|                  | Quarter Ended                         |              | Three Quarters Ended |              |
|                  | Jun 29, 2014                          | Jun 30, 2013 | Jun 29, 2014         | Jun 30, 2013 |
| Foreign currency | \$(1.0 )                              | \$0.4        | \$(2.0 )             | \$2.6        |
| Coffee           | —                                     | —            | —                    | (2.1 )       |
| Dairy            | 0.8                                   | (2.0 )       | 12.7                 | (4.6 )       |
| Diesel fuel      | 0.6                                   | 0.1          | 0.6                  | 0.2          |

Notional amounts of outstanding derivative contracts (in millions):

|                  | Jun 29, 2014 | Sep 29, 2013 |
|------------------|--------------|--------------|
| Foreign currency | \$664        | \$452        |
| Coffee           | 36           | —            |
| Dairy            | 17           | 38           |
| Diesel fuel      | 26           | 17           |

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## Note 3: Fair Value Measurements

Assets and Liabilities Measured at Fair Value on a Recurring Basis (in millions):

|  | Balance at<br>Jun 29, 2014 | Fair Value Measurements at Reporting Date Using<br>Quoted Prices<br>in Active<br>Markets for<br>Identical<br>Assets<br>(Level 1) | Significant<br>Other<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) |
|--|----------------------------|--|---|--|
| Assets:                                    |                            |  |   |  |
| Cash and cash equivalents                  | \$1,019.4                  | \$ 1,019.4   | \$ —  | \$ —   |
| Short-term investments:                    |                            |  |   |  |
| Available-for-sale securities              |                            |  |   |  |
| Corporate debt securities                  | 14.3                       | —  | 14.3  | —  |
| Foreign government obligations             | 45.8                       | —  | 45.8  | —  |
| US government treasury securities          | 11.0                       | 11.0   | —   | —  |
| State and local government obligations     | 12.0                       | —  | 12.0  | —  |
| Certificates of deposit                    | 20.0                       | —  | 20.0  | —  |
| Total available-for-sale securities        | 103.1                      | 11.0   | 92.1  | —  |
| Trading securities                         | 73.8                       | 73.8   | —   | —  |
| Total short-term investments               | 176.9                      | 84.8   | 92.1  | —  |
| Prepaid expenses and other current assets: |                            |  |   |  |
| Derivative assets                          | 18.1                       | 0.3  | 17.8  | —  |
| Long-term investments:                     |                            |  |   |  |
| Available-for-sale securities              |                            |  |   |  |
| Agency obligations                         | 10.7                       | —  | 10.7  | —  |
| Corporate debt securities                  | 342.5                      | —  | 342.5   | —  |
| Auction rate securities                    | 13.6                       | —  | —   | 13.6   |
| Foreign government obligations             | 85.6                       | —  | 85.6  | —  |
| US government treasury securities          | 243.5                      | 243.5  | —   | —  |
| State and local government obligations     | 11.2                       | —  | 11.2  | —  |
| Mortgage and asset-backed securities       | 125.6                      | —  | 125.6   | —  |
| Total long-term investments                | 832.7                      | 243.5  | 575.6   | 13.6   |
| Other assets:                              |                            |  |   |  |
| Derivative assets                          | 6.2                        | —  | 6.2   | —  |
| Total                                      | \$2,053.3                  | \$ 1,348.0   | \$ 691.7  | \$ 13.6  |
| Liabilities:                               |                            |  |   |  |
| Accrued liabilities:                       |                            |  |   |  |
| Derivative liabilities                     | \$3.8                      | \$ 1.3   | \$ 2.5  | \$ —   |
| Other long-term liabilities:               |                            |  |   |  |
| Derivative liabilities                     | 1.9                        | —  | 1.9   | —  |
| Total                                      | \$5.7                      | \$ 1.3   | \$ 4.4  | \$ —   |

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|   | Balance at<br>Sep 29, 2013 | Fair Value Measurements at Reporting Date Using<br>Quoted Prices<br>in Active<br>Markets for<br>Identical<br>Assets<br>(Level 1) | Significant<br>Other<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) |
|---|----------------------------|--|---|--|
| <b>Assets:</b>                                    |                            |  |   |  |
| Cash and cash equivalents                         | \$2,575.7                  | \$ 2,575.7   | \$ —  | \$ —   |
| <b>Short-term investments:</b>                    |                            |  |   |  |
| Available-for-sale securities                     |                            |  |   |  |
| Agency obligations                                | 20.0                       | —  | 20.0  | —  |
| Commercial paper                                  | 127.0                      | —  | 127.0   | —  |
| Corporate debt securities                         | 57.5                       | —  | 57.5  | —  |
| US government treasury securities                 | 352.9                      | 352.9  | —   | —  |
| Certificates of deposit                           | 34.1                       | —  | 34.1  | —  |
| Total available-for-sale securities               | 591.5                      | 352.9  | 238.6   | —  |
| Trading securities                                | 66.6                       | 66.6   | —   | —  |
| Total short-term investments                      | 658.1                      | 419.5  | 238.6   | —  |
| <b>Prepaid expenses and other current assets:</b> |                            |  |   |  |
| Derivative assets                                 | 12.5                       | —  | 12.5  | —  |
| <b>Long-term investments:</b>                     |                            |  |   |  |
| Available-for-sale securities                     |                            |  |   |  |
| Agency obligations                                | 8.1                        | —  | 8.1   | —  |
| Corporate debt securities                         | 36.8                       | —  | 36.8  | —  |
| Auction rate securities                           | 13.4                       | —  | —   | 13.4   |
| Total long-term investments                       | 58.3                       | —  | 44.9  | 13.4   |
| <b>Other assets:</b>                              |                            |  |   |  |
| Derivative assets                                 | 11.4                       | —  | 11.4  | —  |
| Total   | \$3,316.0                  | \$ 2,995.2   | \$ 307.4  | \$ 13.4  |
| <b>Liabilities:</b>                               |                            |  |   |  |
| <b>Accrued liabilities:</b>                       |                            |  |   |  |
| Derivative liabilities                            | \$3.5                      | \$ —   | \$ 3.5  | \$ —   |
| <b>Other long-term liabilities:</b>               |                            |  |   |  |
| Derivative liabilities                            | 0.5                        | —  | 0.5   | —  |
| Total   | \$4.0                      | \$ —   | \$ 4.0  | \$ —   |

There were no material transfers between levels and there was no significant activity within Level 3 instruments during the periods presented. In the second quarter of fiscal 2014, we revised the classification of coffee and dairy futures from Level 2 to Level 1, as we use quoted prices in active markets for identical assets to determine fair value. The fair values of any financial instruments presented above exclude the impact of netting assets and liabilities when a legally enforceable master netting agreement exists.

Gross unrealized holding gains and losses on investments were not material as of June 29, 2014 and September 29, 2013.

#### Assets and Liabilities Measured at Fair Value on a Nonrecurring Basis

Assets and liabilities recognized or disclosed at fair value in the financial statements on a nonrecurring basis include items such as property, plant and equipment, goodwill and other intangible assets, equity and cost method investments, and other assets. These assets are measured at fair value if determined to be impaired. During the the quarter and three quarters ended June 29, 2014 and June 30, 2013, there were no material fair value adjustments.

The estimated fair value of our long-term debt based on the quoted market price (Level 2) is included at Note 6, Debt.



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## Note 4: Inventories

| (in millions)                   | Jun 29, 2014 | Sep 29, 2013 | Jun 30, 2013 |
|---------------------------------|--------------|--------------|--------------|
| Coffee:                         |              |              |              |
| Unroasted                       | \$442.3      | \$493.0      | \$605.1      |
| Roasted                         | 215.1        | 235.4        | 229.9        |
| Other merchandise held for sale | 213.8        | 243.3        | 204.2        |
| Packaging and other supplies    | 154.6        | 139.5        | 134.6        |
| Total                           | \$1,025.8    | \$1,111.2    | \$1,173.8    |

Other merchandise held for sale includes, among other items, tea and serveware. Inventory levels vary due to seasonality, commodity market supply and price fluctuations.

As of June 29, 2014, we had committed to purchasing green coffee totaling \$398 million under fixed-price contracts and an estimated \$753 million under price-to-be-fixed contracts. As of June 29, 2014, approximately \$33 million of our price-to-be-fixed contracts were effectively fixed through the use of futures contracts and approximately \$3 million were price-protected through the use of collar instruments. Price-to-be-fixed contracts are purchase commitments whereby the quality, quantity, delivery period, and other negotiated terms are agreed upon, but the date, and therefore the price, at which the base "C" coffee commodity price component will be fixed has not yet been established. For these types of contracts, either Starbucks or the seller has the option to "fix" the base "C" coffee commodity price prior to the delivery date. Until prices are fixed, we estimate the total cost of these purchase commitments. We believe, based on relationships established with our suppliers in the past, the risk of non-delivery on these purchase commitments is remote.

## Note 5: Supplemental Balance Sheet Information (in millions)

|                                      | Jun 29, 2014 | Sep 29, 2013 |
|--------------------------------------|--------------|--------------|
| Property, Plant and Equipment, net   |              |              |
| Land                                 | \$46.9       | \$47.0       |
| Buildings                            | 278.2        | 259.6        |
| Leasehold improvements               | 4,744.2      | 4,431.6      |
| Store equipment                      | 1,456.7      | 1,353.9      |
| Roasting equipment                   | 408.4        | 397.9        |
| Furniture, fixtures and other        | 1,045.9      | 949.7        |
| Work in progress                     | 389.8        | 342.4        |
| Property, plant and equipment, gross | 8,370.1      | 7,782.1      |
| Accumulated depreciation             | (4,996.4)    | (4,581.6)    |
| Property, plant and equipment, net   | \$3,373.7    | \$3,200.5    |

|  | Jun 29, 2014 | Sep 29, 2013 |
|--|--------------|--------------|
| Accrued Liabilities                    |              |              |
| Accrued compensation and related costs | \$427.7      | \$420.2      |
| Accrued occupancy costs                | 119.0        | 120.7        |
| Accrued taxes                          | 150.8        | 125.0        |
| Accrued dividend payable               | 195.2        | 195.8        |
| Other                                  | 483.3        | 407.6        |
| Total accrued liabilities              | \$1,376.0    | \$1,269.3    |

## Note 6: Debt

In December 2013, we issued \$400 million of 3-year 0.875% Senior Notes ("the 2014 3-year notes") due December 2016, and \$350 million of 5-year 2.000% Senior Notes ("the 2014 5-year notes") due December 2018, in an underwritten registered public offering. Interest on both of these notes is payable semi-annually on June 5 and December 5 of each year, commencing on June 5, 2014.

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Components of long-term debt including the associated interest rates and related fair values (in millions, except interest rates):

| Issuance                       | Due Date      | Jun 29, 2014 |                      | Sep 29, 2013 |                      | Stated Interest | Effective Interest Rate <sup>(1)</sup> |               |
|--------------------------------|---------------|--------------|----------------------|--------------|----------------------|-----------------|--|---------------|
|                                |               | Face Value   | Estimated Fair Value | Face Value   | Estimated Fair Value |                 | Rate                                   | Interest Rate |
| 2014 3-year notes              | December 2016 | \$400.0      | \$401                | \$—          | \$—                  | 0.875           | %0.941                                 | %             |
| 2007 notes                     | August 2017   | 550.0        | 633                  | 550.0        | 644                  | 6.250           | %6.292                                 | %             |
| 2014 5-year notes              | December 2018 | 350.0        | 353                  | —            | —                    | 2.000           | %2.012                                 | %             |
| 2013 notes                     | October 2023  | 750.0        | 791                  | 750.0        | 762                  | 3.850           | %2.860                                 | %             |
| Total                          |               | 2,050.0      | 2,178                | 1,300.0      | 1,406                |                 |  |               |
| Aggregate unamortized discount |               | 1.9          |                      | 0.6          |                      |                 |  |               |
| Total                          |               | \$2,048.1    |                      | \$1,299.4    |                      |                 |  |               |

<sup>(1)</sup> Includes the effects of the amortization of any premium or discount and any gain or loss upon settlement of related treasury locks or forward-starting interest rate swaps utilized to hedge the interest rate risk prior to the debt issuance.

The indentures under which the above notes were issued also require us to maintain compliance with certain covenants, including limits on future liens and sale and leaseback transactions on certain material properties. As of June 29, 2014, we were in compliance with all applicable covenants.

## Note 7: Equity

Changes in total equity (in millions):

|   | Three Quarters Ended |              |
|---|----------------------|--------------|
|   | Jun 29, 2014         | Jun 30, 2013 |
| Beginning balance of total equity               | \$4,482.3            | \$5,114.5    |
| Net earnings including noncontrolling interests | 1,480.2              | 1,240.9      |
| Other comprehensive income/(loss)               | 3.9                  | (8.2)        |
| Stock-based compensation expense                | 144.0                | 107.0        |
| Exercise of stock options/vesting of RSUs       | 126.3                | 293.6        |
| Sale of common stock                            | 16.5                 | 15.1         |
| Repurchase of common stock                      | (595.2)              | (544.1)      |
| Cash dividends declared                         | (587.2)              | (471.2)      |
| Ending balance of total equity                  | \$5,070.8            | \$5,747.6    |

Changes in accumulated other comprehensive income ("AOCI") by component, for the quarter and three quarters ended June 29, 2014, net of tax:

| (in millions)   | Quarter Ended                 |                  | Three Quarters Ended  |                        | Total  |
|---|-------------------------------|------------------|-----------------------|------------------------|--------|
|   | Available-for-Sale Securities | Cash Flow Hedges | Net Investment Hedges | Translation Adjustment |        |
| Net gains/(losses) in AOCI at March 30, 2014                  | \$ (0.8)                      | \$46.8           | \$(9.2)               | \$27.5                 | \$64.3 |
| Net gains/(losses) recognized in OCI before reclassifications | 1.1                           | (10.2)           | (0.4)                 | 17.6                   | 8.1    |
| Net (gains)/losses reclassified from AOCI to earnings         | —                             | (1.5)            | —                     | —                      | (1.5)  |
| Other comprehensive income/(loss)                             | 1.1                           | (11.7)           | (0.4)                 | 17.6                   | 6.6    |
| Net gains/(losses) in AOCI at June 29, 2014                   | \$ 0.3                        | \$35.1           | \$(9.6)               | \$45.1                 | \$70.9 |

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## Three Quarters Ended

| (in millions)   | Available-for-Sale Securities | Cash Flow Hedges | Net Investment Hedges | Translation Adjustment | Total  |
|---|-------------------------------|------------------|-----------------------|------------------------|--------|
| Net gains/(losses) in AOCI at September 29, 2013              | \$ (0.5 )                     | \$26.8           | \$(12.9 )             | \$53.6                 | \$67.0 |
| Net gains/(losses) recognized in OCI before reclassifications | 0.6                           | 3.7              | 3.3                   | (8.5 )                 | (0.9 ) |
| Net (gains)/losses reclassified from AOCI to earnings         | 0.2                           | 4.6              | —                     | —                      | 4.8    |
| Other comprehensive income/(loss)                             | 0.8                           | 8.3              | 3.3                   | (8.5 )                 | 3.9    |
| Net gains/(losses) in AOCI at June 29, 2014                   | \$ 0.3                        | \$35.1           | \$(9.6 )              | \$45.1                 | \$70.9 |

Impact of reclassifications from AOCI on the consolidated statements of earnings related to cash flow hedges for the quarter and three quarters ended June 29, 2014:

## Quarter Ended

| AOCI Components                    | Amounts Reclassified from AOCI (in millions) | Affected Line Item in the Statements of Earnings |
|------------------------------------|--|--|
| Gains/(losses) on cash flow hedges |  |  |
| Interest rate hedges               | \$1.3  | Interest expense                                 |
| Foreign currency hedges            | 0.9  | Revenue  |
| Foreign currency/coffee hedges     | 0.4  | Cost of sales including occupancy costs          |
|                                    | 2.6  | Total before tax                                 |
|                                    | (1.1 )                                       | ) Tax (expense)/benefit                          |
|                                    | \$1.5  | Net of tax                                       |

## Three Quarters Ended

| AOCI Components                    | Amounts Reclassified from AOCI (in millions) | Affected Line Item in the Statements of Earnings |
|------------------------------------|--|--|
| Gains/(losses) on cash flow hedges |  |  |
| Interest rate hedges               | \$3.8  | Interest expense                                 |
| Foreign currency hedges            | 3.2  | Revenue  |
| Foreign currency / coffee hedges   | (9.5 )                                       | ) Cost of sales including occupancy costs        |
|                                    | (2.5 )                                       | ) Total before tax                               |
|                                    | (2.1 )                                       | ) Tax (expense)/benefit                          |
|                                    | \$4.6  | ) Net of tax                                     |

In addition to 1.2 billion shares of authorized common stock with \$0.001 par value per share, the Company has authorized 7.5 million shares of preferred stock, none of which was outstanding as of June 29, 2014.

We repurchased 8.2 million shares of common stock at a total cost of \$595.2 million, and 10.8 million shares at a total cost of \$544.1 million for the three quarters ended June 29, 2014 and June 30, 2013, respectively. As of June 29, 2014, 18.1 million shares remained available for repurchase under current authorizations.

During the third quarter of fiscal 2014, our Board of Directors declared a quarterly cash dividend to shareholders of \$0.26 per share to be paid on August 22, 2014 to shareholders of record as of the close of business on August 7, 2014.

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## Note 8: Employee Stock Plans

As of June 29, 2014, there were 56.5 million shares of common stock available for issuance pursuant to future equity-based compensation awards and 7.5 million shares available for issuance under our employee stock purchase plan.

Stock-based compensation expense recognized in the consolidated statements of earnings (in millions):

|                                 | Quarter Ended |              | Three Quarters Ended |              |
|---------------------------------|---------------|--------------|----------------------|--------------|
|                                 | Jun 29, 2014  | Jun 30, 2013 | Jun 29, 2014         | Jun 30, 2013 |
| Options                         | \$9.9         | \$8.3        | \$32.4               | \$28.1       |
| Restricted Stock Units ("RSUs") | 41.1          | 26.4         | 110.2                | 77.5         |
| Total stock-based compensation  | \$51.0        | \$34.7       | \$142.6              | \$105.6      |

Stock option and RSU transactions from September 29, 2013 through June 29, 2014 (in millions):

|  | Stock Options | RSUs    |
|--|---------------|---------|
| Options outstanding/Nonvested RSUs, September 29, 2013   | 22.0          | 5.8     |
| Granted  | 3.1           | 2.5     |
| Options exercised/RSUs vested  | (4.1          | ) (2.5  |
| Forfeited/expired  | (0.4          | ) (0.6  |
| Options outstanding/Nonvested RSUs, June 29, 2014  | 20.6          | 5.2     |
| Total unrecognized stock-based compensation expense, net of estimated forfeitures, as of June 29, 2014 | \$43.6        | \$126.7 |

## Note 9: Earnings Per Share

Calculation of net earnings per common share ("EPS") — basic and diluted (in millions, except EPS):

|  | Quarter Ended |              | Three Quarters Ended |              |
|--|---------------|--------------|----------------------|--------------|
|  | Jun 29, 2014  | Jun 30, 2013 | Jun 29, 2014         | Jun 30, 2013 |
| Net earnings attributable to Starbucks   | \$512.6       | \$417.8      | \$1,480.3            | \$1,240.3    |
| Weighted average common shares outstanding (for basic calculation)                         | 751.8         | 749.7        | 753.9                | 748.3        |
| Dilutive effect of outstanding common stock options and RSUs                               | 9.2           | 12.2         | 10.0                 | 13.2         |
| Weighted average common and common equivalent shares outstanding (for diluted calculation) | 761.0         | 761.9        | 763.9                | 761.5        |
| EPS — basic  | \$0.68        | \$0.56       | \$1.96               | \$1.66       |
| EPS — diluted  | \$0.67        | \$0.55       | \$1.94               | \$1.63       |

Potential dilutive shares consist of the incremental common shares issuable upon the exercise of outstanding stock options (both vested and non-vested) and unvested RSUs, calculated using the treasury stock method. The calculation of dilutive shares outstanding excludes out-of-the-money stock options (i.e., such options' exercise prices were greater than the average market price of our common shares for the period) because their inclusion would have been antidilutive. Out-of-the-money stock options totaled approximately 2.9 million and 0.1 million as of June 29, 2014 and June 30, 2013, respectively.

## Note 10: Commitments and Contingencies

## Legal Proceedings

On November 12, 2013, the arbitrator in our arbitration with Kraft Foods Global, Inc. (now known as Kraft Foods Group, Inc.) ("Kraft") ordered Starbucks to pay Kraft \$2,227.5 million in damages plus prejudgment interest and attorneys' fees. We estimated prejudgment interest, which included an accrual through the estimated payment date, and attorneys' fees to be approximately \$556.6 million. As a result, we recorded a litigation charge of \$2,784.1 million in our fiscal 2013 operating results.



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In the first quarter of fiscal 2014, Starbucks paid all amounts due to Kraft under the arbitration, including prejudgment interest and attorneys' fees, and fully extinguished the litigation charge liability. Of the \$2,784.1 million litigation charge accrued in the fourth quarter of fiscal 2013, \$2,763.9 million was paid and the remainder was released as a litigation credit to reflect a reduction to our estimated prejudgment interest payable as a result of paying our obligation earlier than anticipated.

Starbucks is party to various other legal proceedings arising in the ordinary course of business, including, at times, certain employment litigation cases that have been certified as class or collective actions, but is not currently a party to any legal proceeding that management believes could have a material adverse effect on our consolidated financial position, results of operations or cash flows.

## Note 11: Segment Reporting

Segment information is prepared on the same basis that our ceo, who is our chief operating decision maker, manages the segments, evaluates financial results, and makes key operating decisions.

The table below presents financial information for our reportable operating segments and All Other Segments for the quarter and three quarters ended June 29, 2014 and June 30, 2013, including reclassifications resulting from the correction of the immaterial error discussed in Note 1. The reclassifications for fiscal years 2013 and 2012 were \$21.8 million and \$19.2 million for the Channel Development segment, respectively, and \$3.6 million and \$3.5 million for All Other Segments, respectively. The reclassifications for the quarter and three quarters ended June 30, 2013 were \$5.4 million and \$16.3 million for the Channel Development segment, respectively, and \$1.0 million and \$2.8 million for All Other Segments, respectively.

## Quarter Ended

| (in millions)                          | Americas  | EMEA    | China /<br>Asia Pacific | Channel<br>Development | All Other<br>Segments | Segment<br>Total |
|--|-----------|---------|-------------------------|------------------------|-----------------------|------------------|
| June 29, 2014                          |           |         |                         |                        |                       |                  |
| Total net revenues                     | \$3,057.7 | \$323.5 | \$287.6                 | \$375.3                | \$109.6               | \$4,153.7        |
| Depreciation and amortization expenses | 119.5     | 15.1    | 11.3                    | 0.4                    | 3.9                   | 150.2            |
| Income from equity investees           | —         | 1.1     | 46.3                    | 25.5                   | —                     | 72.9             |
| Operating income/(loss)                | 728.5     | 29.2    | 100.8                   | 139.3                  | (18.9)                | 978.9            |
| June 30, 2013                          |           |         |                         |                        |                       |                  |
| Total net revenues                     | \$2,776.5 | \$287.2 | \$233.7                 | \$331.0                | \$106.9               | \$3,735.3        |
| Depreciation and amortization expenses | 105.2     | 13.7    | 8.6                     | 0.2                    | 3.6                   | 131.3            |
| Income from equity investees           | —         | —       | 40.3                    | 23.1                   | —                     | 63.4             |
| Operating income/(loss)                | 619.3     | 9.3     | 84.7                    | 96.3                   | (9.4)                 | 800.2            |
| Three Quarters Ended                   |           |         |                         |                        |                       |                  |
| (in millions)                          | Americas  | EMEA    | China /<br>Asia Pacific | Channel<br>Development | All Other<br>Segments | Segment<br>Total |
| June 29, 2014                          |           |         |                         |                        |                       |                  |
| Total net revenues                     | \$8,939.4 | \$973.0 | \$819.8                 | \$1,146.8              | \$388.1               | \$12,267.1       |
| Depreciation and amortization expenses | 346.6     | 44.5    | 33.4                    | 1.2                    | 11.3                  | 437.0            |
| Income from equity investees           | —         | 3.0     | 116.8                   | 64.1                   | —                     | 183.9            |
| Operating income/(loss)                | 2,066.0   | 80.5    | 268.8                   | 385.5                  | (13.0)                | 2,787.8          |
| June 30, 2013                          |           |         |                         |                        |                       |                  |
| Total net revenues                     | \$8,221.2 | \$866.6 | \$661.4                 | \$1,043.5              | \$285.4               | \$11,078.1       |
|  | 316.2     | 41.6    | 24.4                    | 0.9                    | 7.9                   | 391.0            |

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Depreciation and amortization  
expenses

|                              |         |      |       |       |       |           |
|------------------------------|---------|------|-------|-------|-------|-----------|
| Income from equity investees | 2.4     | —    | 105.3 | 62.7  | —     | 170.4     |
| Operating income/(loss)      | 1,759.2 | 36.9 | 225.3 | 287.1 | (18.0 | ) 2,290.5 |

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Reconciliation of total segment operating income to consolidated earnings before income taxes (in millions):

|  | Quarter Ended |              | Three Quarters Ended |              |
|--|---------------|--------------|----------------------|--------------|
|  | Jun 29, 2014  | Jun 30, 2013 | Jun 29, 2014         | Jun 30, 2013 |
| Total segment operating income           | \$978.9       | \$800.2      | \$2,787.8            | \$2,290.5    |
| Unallocated corporate operating expenses | (210.4        | ) (185.0     | ) (561.5             | ) (500.6     |
| Consolidated operating income            | 768.5         | 615.2        | 2,226.3              | 1,789.9      |
| Interest income and other, net           | 19.4          | 3.5          | 57.0                 | 51.4         |
| Interest expense                         | (16.4         | ) (6.3       | ) (47.7              | ) (19.0      |
| Earnings before income taxes             | \$771.5       | \$612.4      | \$2,235.6            | \$1,822.3    |

## Note 12: Subsequent Events

In May 2014, we entered into an agreement to sell our Australian company-operated retail store assets and operations to the Withers Group, which will convert these operations to a fully licensed market. This agreement is contingent upon Starbucks fulfilling its performance obligation to obtain a minimum number of lease assignment consents from landlords, which had not been obtained by the end of the third quarter of fiscal 2014 or as of the date of this filing. Additionally, this transaction is subject to customary closing conditions and working capital adjustments. If this transaction closes, we expect it will result in a loss that will not be material to our financial statements.

In July 2014, we entered into an agreement to sell our 50% equity interest in our Malaysian joint venture, Berjaya Starbucks Coffee Sdn. Bhd., to our joint venture partner, Berjaya Food Berhad, for a total purchase price of \$88.0 million, which is subject to customary closing conditions and working capital adjustments. We currently believe this transaction will be recognized in the fourth quarter of fiscal 2014 and will result in a gain.

## Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

## CAUTIONARY STATEMENT PURSUANT TO THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995

Certain statements herein, including statements regarding trends in or expectations relating to the expected effects of our initiatives and plans, as well as trends in or expectations regarding earnings per share, revenues, operating margins, comparable store sales, sales leverage, sales growth, profitability, expenses, dividends, share repurchases, other financial results, net benefits from the sale of retail operations that may close in the fourth quarter of fiscal 2014, capital expenditures, scaling and expansion of international operations, shifts in our store portfolio to more licensed stores in EMEA and to more company-operated stores in CAP, establishing China as our largest market outside the U.S., profitable growth models and opportunities, emerging businesses, strategic acquisitions, commodity costs and our mitigation strategies, liquidity, cash flow from operations, use of cash and cash requirements, repatriation of cash to the U.S., the potential issuance of debt and applicable interest rate, anticipated store openings and closings, the health and growth of our business overall and of specific businesses or markets, benefits of recent initiatives, increased traffic to our stores, operational efficiencies, product innovation, offerings and distribution, tax rates, and economic conditions in the US and international markets, constitute "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Such statements are based on currently available operating, financial and competitive information and are subject to various risks and uncertainties. Actual future results and trends may differ materially depending on a variety of factors, including, but not limited to, coffee, dairy and other raw materials prices and availability, successful execution of our initiatives, successful execution of internal plans, fluctuations in US and international economies and currencies, the impact of competitors' initiatives, the effect of legal proceedings, and other risks detailed in our filings with the SEC, including in Part I Item IA "Risk Factors" in the 10-K. A forward-looking statement is neither a prediction nor a guarantee of future events or circumstances, and those future events or circumstances may not occur. You should not place undue reliance on the forward-looking statements, which speak only as of the date of this report. We are under no obligation to update or alter any forward-looking

statements, whether as a result of new information, future events or otherwise.

This information should be read in conjunction with the condensed consolidated financial statements and the notes included in Item 1 of Part I of this 10-Q and the audited consolidated financial statements and notes, and Management's Discussion and Analysis of Financial Condition and Results of Operations, contained in the 10-K.

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### General

Our fiscal year ends on the Sunday closest to September 30. All references to store counts, including data for new store openings, are reported net of store closures, unless otherwise noted.

### Overview

Starbucks third quarter results reflect an acceleration of top-line growth and meaningful contributions from all segments. Consolidated total net revenues increased 11% to \$4.2 billion, driven by global comparable store sales growth of 6% and incremental revenue from 1,654 net new store openings over the last 12 months. Consolidated operating income increased \$153 million, or 25%, to \$769 million. Operating margin expanded 200 basis points to 18.5%, driven by sales leverage and favorable commodity costs, mainly coffee. Earnings per share of \$0.67 increased 22% over the prior year quarter earnings per share of \$0.55.

The Americas segment continued its solid performance in the third quarter, growing revenues by 10% to \$3.1 billion, primarily driven by comparable store sales growth of 6%, comprised of a 4% increase in average ticket and a 2% increase in number of transactions. Expanded food offerings, including the continued rollout of our La Boulange™ food platform in the US, the impact of price increases in our retail stores and successful promotional beverages contributed to the growth in comparable store sales. Operating margin expanded 150 basis points to 23.8%, primarily due to sales leverage. Looking forward, we expect to continue to drive revenue growth and margin expansion through new stores and expanded product offerings, targeted at driving growth across all dayparts. We plan to continue to expand our beverage platforms and elevate our food program, in part with the completion of the rollout of La Boulange™ bakery items in our US stores in the fourth quarter of fiscal 2014 and continued enhancements to our lunch options.

In the EMEA segment, the turnaround of the segment continues to progress, resulting in increased profitability. Revenues grew 13% to \$323 million, driven by favorable foreign currency exchange and comparable store sales growth of 3%. Incremental revenues from 166 net new licensed store openings over the past year also contributed. Sales leverage, largely driven by our strategic portfolio shift to higher-margin licensed stores, and continued cost management drove the increase in operating margin of 580 basis points over the prior year quarter, to 9.0%. We expect our continued disciplined licensed store expansion and focus on the customer experience in this region will result in improved operating performance as we progress on our plan towards mid-teens operating margin over time.

The China/Asia Pacific segment results reflect the growth and strong performance of new stores in the region, including 238 company-operated and 502 licensed net new store openings over the past year. New store growth, along with a 7% increase in comparable store sales, drove a 23% increase in revenues to \$288 million. The 7% growth in comparable store sales was driven by a 6% increase in number of transactions. Operating income grew 19%, to \$101 million, while operating margin declined 120 basis points to 35.0%. The operating margin decline was primarily driven by the unfavorable margin impact of the portfolio shift toward more company-operated stores in this segment and unfavorable foreign currency exchange from a weaker Yen, partially offset by leverage from strong sales during the quarter. We expect this segment will become a more significant contributor to overall company profitability in the future, as we look forward to continued new store openings and establishing China as our largest market outside of the US.

Channel Development segment revenues grew 13% for the quarter to \$375 million, primarily due to increased sales of premium single serve products, driven by sales of Starbucks- and Tazo-branded K-Cup® portion packs, and higher sales volumes of packaged coffee. Operating income grew \$43 million, or 45%, to \$139 million. Operating margin increased 800 basis points to 37.1% for the third quarter of fiscal 2014, driven by lower coffee costs and improved inventory management compared to the prior year. As we continue to expand customer occasions outside of our retail stores, including growing our presence in the premium single serve category, we expect this segment to become a more significant contributor to future growth.

### Fiscal 2014 — Financial Outlook for the Year

For fiscal year 2014, we expect revenue growth will be driven by mid-single digit comparable store sales growth, net new store openings, and continued growth in the Channel Development business. Approximately one-half of new store openings will be in China / Asia Pacific, with the remaining half coming primarily from the Americas.

We expect full-year consolidated operating margin improvement of 200 basis points over fiscal 2013 and strong EPS growth, when excluding the Kraft litigation charge and gains from the sales of our equity in our Mexico, Chile and

Argentina joint ventures in fiscal 2013, as well as the benefit recognized from a litigation credit in the first quarter of fiscal 2014 and the estimated net benefit from the sale of certain retail operations that may close in the fourth quarter of fiscal 2014.

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## Fiscal 2015 — Financial Outlook for the Year

For fiscal year 2015, we expect revenue growth driven by mid-single digit comparable store sales growth and approximately 1,600 net new store openings. Approximately one-half of new store openings will be in China / Asia Pacific, with the remaining half coming primarily from the Americas.

We expect EPS growth over fiscal 2014 results, reflecting the strength of our global business and multiple layers of profitable growth initiatives.

## Comparable Store Sales

Starbucks comparable store sales for the third quarter and the first three quarters of fiscal 2014:

|                    | Quarter Ended Jun 29, 2014 |                        |                  | Three Quarters Ended Jun 29, 2014 |                        |                  |
|--------------------|----------------------------|------------------------|------------------|-----------------------------------|------------------------|------------------|
|                    | Sales Growth               | Change in Transactions | Change in Ticket | Sales Growth                      | Change in Transactions | Change in Ticket |
| Consolidated       | 6%                         | 2%                     | 4%               | 6%                                | 3%                     | 3%               |
| Americas           | 6%                         | 2%                     | 4%               | 6%                                | 3%                     | 3%               |
| EMEA               | 3%                         | 2%                     | 2%               | 5%                                | 3%                     | 1%               |
| China/Asia Pacific | 7%                         | 6%                     | 1%               | 7%                                | 6%                     | 1%               |

Our comparable store sales represent the growth in revenue from Starbucks® company-operated stores open 13 months or longer. Comparable store sales exclude the effect of fluctuations in foreign currency exchange rates.

## Results of Operations (in millions)

## Revenues

|                            | Quarter Ended |              |          | Three Quarters Ended |              |          |
|----------------------------|---------------|--------------|----------|----------------------|--------------|----------|
|                            | Jun 29, 2014  | Jun 30, 2013 | % Change | Jun 29, 2014         | Jun 30, 2013 | % Change |
| Company-operated stores    | \$3,290.5     | \$2,986.3    | 10.2     | \$9,702.3            | \$8,783.7    | 10.5     |
| Licensed stores            | 408.1         | 342.0        | 19.3     | 1,166.1              | 1,014.2      | 15.0     |
| CPG, foodservice and other | 455.1         | 407.0        | 11.8     | 1,398.7              | 1,280.2      | 9.3      |
| Total net revenues         | \$4,153.7     | \$3,735.3    | 11.2     | \$12,267.1           | \$11,078.1   | 10.7     |

Total net revenues for the third quarter and the first three quarters of fiscal 2014 increased \$418 million and \$1.2 billion, respectively, primarily due to increased revenues from company-operated stores (contributing \$304 million and \$919 million, respectively). An increase in comparable store sales was the primary driver of the increase in company-operated store revenues (approximately 6% for both periods, or \$181 million for the third quarter and \$493 million for the first three quarters). Also contributing to net revenue growth for both periods were incremental revenues from 549 net new Starbucks® company-operated store openings over the past 12 months (approximately \$140 million for the third quarter and \$395 million for the first three quarters).

Licensed store revenue growth also contributed to the increase in total net revenues for the third quarter and the first three quarters of fiscal 2014 (approximately \$66 million for the third quarter and \$152 million for the first three quarters). The increase for both periods was primarily due to increased product sales to and royalty revenues from our licensees, as a result of improved comparable store sales and the opening of 1,074 net new licensed stores over the past 12 months.

CPG, foodservice and other revenues increased \$48 million and \$119 million for the third quarter and the first three quarters of fiscal 2014, respectively. These increases were primarily due to increased sales of premium single serve products (approximately \$26 million and \$74 million, respectively). For the third quarter of fiscal 2014, increased sales volumes of packaged coffee (approximately \$16 million) also contributed.

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## Operating Expenses

|   | Quarter Ended   |                 |                 |                 | Three Quarters Ended |                 |                 |                 |                            |                            |
|---|-----------------|-----------------|-----------------|-----------------|----------------------|-----------------|-----------------|-----------------|----------------------------|----------------------------|
|   | Jun 29,<br>2014 | Jun 30,<br>2013 | Jun 29,<br>2014 | Jun 30,<br>2013 | Jun 29,<br>2014      | Jun 30,<br>2013 | Jun 29,<br>2014 | Jun 30,<br>2013 | % of Total<br>Net Revenues | % of Total<br>Net Revenues |
| Cost of sales including occupancy costs             | \$1,711.5       | \$1,597.6       | 41.2            | % 42.8          | % \$5,135.7          | \$4,748.6       | 41.9            | % 42.9          | %                          |                            |
| Store operating expenses                            | 1,176.5         | 1,084.1         | 28.3            | 29.0            | 3,486.1              | 3,212.2         | 28.4            | 29.0            |                            |                            |
| Other operating expenses                            | 120.6           | 98.9            | 2.9             | 2.6             | 346.3                | 330.8           | 2.8             | 3.0             |                            |                            |
| Depreciation and amortization expenses              | 180.1           | 153.3           | 4.3             | 4.1             | 524.2                | 455.3           | 4.3             | 4.1             |                            |                            |
| General and administrative expenses                 | 269.4           | 249.6           | 6.5             | 6.7             | 752.6                | 711.7           | 6.1             | 6.4             |                            |                            |
| Litigation charge/(credit)                          | —               | —               | —               | —               | (20.2)               | ) —             | (0.2)           | ) —             |                            |                            |
| Total operating expenses                            | 3,458.1         | 3,183.5         | 83.3            | 85.2            | 10,224.7             | 9,458.6         | 83.4            | 85.4            |                            |                            |
| Income from equity investees                        | 72.9            | 63.4            | 1.8             | 1.7             | 183.9                | 170.4           | 1.5             | 1.5             |                            |                            |
| Operating income                                    | \$768.5         | \$615.2         | 18.5            | % 16.5          | % \$2,226.3          | \$1,789.9       | 18.1            | % 16.2          | %                          |                            |
| Store operating expenses as a % of related revenues |                 |                 | 35.8            | % 36.3          | %                    |                 | 35.9            | % 36.6          | %                          |                            |

Cost of sales including occupancy costs as a percentage of total net revenues decreased 160 basis points and 100 basis points for the third quarter and first three quarters of fiscal 2014, respectively, primarily driven by lower commodity costs (approximately 80 basis points for both periods), mainly coffee. For the third quarter of fiscal 2014, sales leverage (approximately 50 basis points), primarily on occupancy costs, also contributed to the decrease.

Store operating expenses as a percentage of total net revenues decreased 70 basis points and 60 basis points for the third quarter and for the first three quarters of fiscal 2014, respectively. Store operating expenses as a percentage of company-operated store revenues decreased 50 basis points for the third quarter and 70 basis points for the first three quarters of fiscal 2014. The decrease for the third quarter was primarily driven by sales leverage. The decrease for the first three quarters of fiscal 2014 was primarily driven by higher litigation charges in the first quarter of the prior year period (approximately 30 basis points) and a decrease in marketing (approximately 20 basis points).

Other operating expenses as a percentage of total net revenues increased 30 basis points for the third quarter and decreased 20 basis points for the first three quarters of fiscal 2014. Excluding the impact of company-operated store revenues, other operating expenses increased 80 basis points for the third quarter and decreased 90 basis points for the first three quarters of fiscal 2014. The increase for the third quarter was primarily driven by increased marketing (approximately 50 basis points). The decrease for the first three quarters was primarily driven by sales leverage (approximately 40 basis points).

General and administrative expenses as a percentage of total net revenues decreased 20 basis points and 30 basis points for the third quarter and for the first three quarters of fiscal 2014, respectively. The decrease for the third quarter was primarily driven by sales leverage. The decrease for the first three quarters was primarily due to lapping our leadership conference held in the first quarter of the prior year period.

The \$20.2 million litigation credit (contributing approximately 20 basis points for the first three quarters of fiscal 2014) reflects a reduction to our estimated prejudgment interest payable associated with the Kraft arbitration in the first quarter of fiscal 2014, as a result of paying our obligation earlier than anticipated. The \$2.8 billion litigation charge was accrued in the fourth quarter of fiscal 2013 and fully extinguished in the first quarter of fiscal 2014.

The combination of these changes resulted in an overall increase in operating margin of 200 basis points for the third quarter and 190 basis points for the first three quarters of fiscal 2014.



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## Other Income and Expenses

|   | Quarter Ended   |                 |                 |                 | Three Quarters Ended |                 |                 |                 |                 |                 |
|---|-----------------|-----------------|-----------------|-----------------|----------------------|-----------------|-----------------|-----------------|-----------------|-----------------|
|   | Jun 29,<br>2014 | Jun 30,<br>2013 | Jun 29,<br>2014 | Jun 30,<br>2013 | Jun 29,<br>2014      | Jun 30,<br>2013 | Jun 29,<br>2014 | Jun 30,<br>2013 | Jun 29,<br>2014 | Jun 30,<br>2013 |
|   |                 |                 | % of Total      |                 | % of Total           |                 | % of Total      |                 | % of Total      |                 |
|   |                 |                 | Net Revenues    |                 | Net Revenues         |                 | Net Revenues    |                 | Net Revenues    |                 |
| Operating income  | \$768.5         | \$615.2         | 18.5            | % 16.5          | % \$2,226.3          | \$1,789.9       | 18.1            | % 16.2          | %               |                 |
| Interest income and other,<br>net                           | 19.4            | 3.5             | 0.5             | 0.1             | 57.0                 | 51.4            | 0.5             | 0.5             |                 |                 |
| Interest expense  | (16.4 )         | (6.3 )          | (0.4 )          | (0.2 )          | (47.7 )              | (19.0 )         | (0.4 )          | (0.2 )          |                 |                 |
| Earnings before income<br>taxes                             | 771.5           | 612.4           | 18.6            | 16.4            | 2,235.6              | 1,822.3         | 18.2            | 16.4            |                 |                 |
| Income taxes  | 259.0           | 194.6           | 6.2             | 5.2             | 755.4                | 581.4           | 6.2             | 5.2             |                 |                 |
| Net earnings including<br>noncontrolling interests          | 512.5           | 417.8           | 12.3            | 11.2            | 1,480.2              | 1,240.9         | 12.1            | 11.2            |                 |                 |
| Net earnings attributable<br>to noncontrolling interests    | (0.1 )          | —               | —               | —               | (0.1 )               | 0.6             | —               | —               |                 |                 |
| Net earnings attributable<br>to Starbucks                   | \$512.6         | \$417.8         | 12.3            | % 11.2          | % \$1,480.3          | \$1,240.3       | 12.1            | % 11.2          | %               |                 |
| Effective tax rate<br>including noncontrolling<br>interests |                 |                 | 33.6            | % 31.8          | %                    |                 | 33.8            | % 31.9          | %               |                 |

For the third quarter and first three quarters of fiscal 2014, net interest income and other increased \$16 million and \$6 million, respectively. These increases were primarily driven by favorable fair value adjustments from derivatives used to manage our risk of commodity price fluctuations (approximately \$4 million for the third quarter and \$21 million for the first three quarters) and increased income associated with unredeemed gift cards (approximately \$6 million for the third quarter and \$9 million for the first three quarters), primarily due to growth in the Starbucks Card program. For the first three quarters of fiscal 2014, an increase in unrealized gains on our trading securities portfolio (approximately \$5 million) and net favorable foreign exchange fluctuations (approximately \$5 million) also contributed to the overall increase in such period. The increase for the first three quarters of fiscal 2014 was partially offset by lapping the gain on the sale of our equity in the joint venture that operates Starbucks® stores in Mexico in the second quarter of the prior year period (approximately \$35 million).

Interest expense increased \$10 million for the third quarter and \$29 million for the first three quarters of fiscal 2014, respectively, due to interest on the long-term debt we issued in the first quarter of fiscal 2014 and the fourth quarter of fiscal 2013.

The effective tax rate for the quarter ended June 29, 2014 was 33.6% compared to 31.8% for the same quarter in fiscal 2013. The increase in the rate was primarily driven by lapping benefits from releasing certain tax reserves in the prior year period primarily related to expiration of statutes of limitation and the outcome of a federal audit. The effective tax rate for the three quarters ended June 29, 2014 was 33.8% compared to 31.9% for the same period in fiscal 2013. The increase in the rate for the first three quarters of fiscal 2014 was primarily due to lapping the recognition of a net tax benefit in the first quarter of fiscal 2013 primarily from state income tax expense adjustments for returns filed in prior years and lapping benefits from releasing certain tax reserves in the third quarter of fiscal 2013.

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## Segment Information

Results of operations by segment (in millions):

## Americas

|  | Quarter Ended   |                 |                               |                 | Three Quarters Ended |                 |                               |                 |
|--|-----------------|-----------------|-------------------------------|-----------------|----------------------|-----------------|-------------------------------|-----------------|
|  | Jun 29,<br>2014 | Jun 30,<br>2013 | Jun 29,<br>2014               | Jun 30,<br>2013 | Jun 29,<br>2014      | Jun 30,<br>2013 | Jun 29,<br>2014               | Jun 30,<br>2013 |
|  |                 |                 | % of Americas<br>Net Revenues |                 |                      |                 | % of Americas<br>Net Revenues |                 |
| Total net revenues                                     | \$3,057.7       | \$2,776.5       |                               |                 | \$8,939.4            | \$8,221.2       |                               |                 |
| Cost of sales including<br>occupancy costs             | 1,130.0         | 1,051.2         | 37.0 %                        | 37.9 %          | 3,353.8              | 3,143.6         | 37.5 %                        | 38.2 %          |
| Store operating expenses                               | 1,002.4         | 934.8           | 32.8                          | 33.7            | 2,965.9              | 2,786.6         | 33.2                          | 33.9            |
| Other operating expenses                               | 26.2            | 23.0            | 0.9                           | 0.8             | 75.2                 | 74.1            | 0.8                           | 0.9             |
| Depreciation and<br>amortization expenses              | 119.5           | 105.2           | 3.9                           | 3.8             | 346.6                | 316.2           | 3.9                           | 3.8             |
| General and administrative<br>expenses                 | 51.1            | 43.0            | 1.7                           | 1.5             | 131.9                | 143.9           | 1.5                           | 1.8             |
| Total operating expenses                               | 2,329.2         | 2,157.2         | 76.2                          | 77.7            | 6,873.4              | 6,464.4         | 76.9                          | 78.6            |
| Income from equity<br>investees                        | —               | —               | —                             | —               | —                    | 2.4             | —                             | —               |
| Operating income                                       | \$728.5         | \$619.3         | 23.8 %                        | 22.3 %          | \$2,066.0            | \$1,759.2       | 23.1 %                        | 21.4 %          |
| Store operating expenses<br>as a % of related revenues |                 |                 | 36.2 %                        | 36.8 %          |                      |                 | 36.5 %                        | 37.2 %          |

## Revenues

Americas total net revenues for the third quarter and the first three quarters of fiscal 2014 increased \$281 million, or 10%, and \$718 million, or 9%, respectively. These increases were primarily due to higher revenues from company-operated stores (contributing \$235 million and \$621 million, respectively) and licensed stores (contributing \$47 million and \$103 million, respectively).

The increase in company-operated store revenues for both periods was driven by an increase in comparable store sales (approximately 6% for both periods, or \$161 million for the third quarter and approximately \$427 million, for the first three quarters). Also contributing were incremental revenues from 316 net new Starbucks® company-operated store openings over the past 12 months (approximately \$101 million and \$280 million, respectively). Partially offsetting these increases was unfavorable foreign currency exchange (approximately \$16 million and \$53 million, respectively), primarily driven by the strengthening of the US dollar against the Canadian dollar.

The increases in licensed store revenues were primarily due to increased product sales to and higher royalty revenues from our licensees as a result of improved comparable store sales and the opening of 440 net new licensed stores over the past 12 months.

## Operating Expenses

Cost of sales including occupancy costs as a percentage of total net revenues decreased 90 basis points and 70 basis points for the third quarter and the first three quarters of fiscal 2014, respectively. These decreases were primarily driven by sales leverage (approximately 50 basis points for the third quarter and 40 basis points for the first three quarters), primarily on occupancy costs. Lower commodity costs (approximately 30 basis points for the third quarter and 40 basis points for the first three quarters), mainly coffee, also contributed.

Store operating expenses as a percentage of total net revenues decreased 90 basis points and 70 basis points for the third quarter and the first three quarters of fiscal 2014, respectively. Store operating expenses as a percentage of company-operated store revenues decreased 60 basis points and 70 basis points for the third quarter and for the first three quarters of fiscal 2014, respectively. The decrease for the third quarter was primarily driven by sales leverage. The decrease for the first three quarters was primarily driven by higher litigation charges in the first quarter of the prior year period (approximately 30 basis points) and a decrease in marketing (approximately 20 basis points).

General and administrative expenses as a percentage of total net revenues increased 20 basis points for the third quarter and decreased 30 basis points for the first three quarters of fiscal 2014. The increase for the third quarter was primarily driven by

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higher compensation-related costs (approximately 20 basis points). The decrease for the first three quarters was primarily due to lapping our leadership conference held in the first quarter of the prior year period (approximately 30 basis points).

The combination of these changes resulted in an overall increase in operating margin of 150 basis points for the third quarter and 170 basis points for the first three quarters of fiscal 2014.

## EMEA

|   | Quarter Ended   |                 |                           |                 | Three Quarters Ended |                 |                           |                 |
|---|-----------------|-----------------|---------------------------|-----------------|----------------------|-----------------|---------------------------|-----------------|
|   | Jun 29,<br>2014 | Jun 30,<br>2013 | Jun 29,<br>2014           | Jun 30,<br>2013 | Jun 29,<br>2014      | Jun 30,<br>2013 | Jun 29,<br>2014           | Jun 30,<br>2013 |
|   |                 |                 | % of EMEA<br>Net Revenues |                 |                      |                 | % of EMEA<br>Net Revenues |                 |
| Total net revenues                                  | \$323.5         | \$287.2         |                           |                 | \$973.0              | \$866.6         |                           |                 |
| Cost of sales including occupancy costs             | 161.4           | 147.5           | 49.9 %                    | 51.4 %          | 487.9                | 440.8           | 50.1 %                    | 50.9 %          |
| Store operating expenses                            | 91.4            | 85.8            | 28.3                      | 29.9            | 280.1                | 259.3           | 28.8                      | 29.9            |
| Other operating expenses                            | 12.5            | 9.9             | 3.9                       | 3.4             | 35.9                 | 29.0            | 3.7                       | 3.3             |
| Depreciation and amortization expenses              | 15.1            | 13.7            | 4.7                       | 4.8             | 44.5                 | 41.6            | 4.6                       | 4.8             |
| General and administrative expenses                 | 15.0            | 21.0            | 4.6                       | 7.3             | 47.1                 | 59.0            | 4.8                       | 6.8             |
| Total operating expenses                            | 295.4           | 277.9           | 91.3                      | 96.8            | 895.5                | 829.7           | 92.0                      | 95.7            |
| Income from equity investees                        | 1.1             | —               | 0.3                       | —               | 3.0                  | —               | 0.3                       | —               |
| Operating income                                    | \$29.2          | \$9.3           | 9.0 %                     | 3.2 %           | \$80.5               | \$36.9          | 8.3 %                     | 4.3 %           |
| Store operating expenses as a % of related revenues |                 |                 | 36.3 %                    | 37.6 %          |                      |                 | 36.6 %                    | 37.0 %          |

## Revenues

EMEA total net revenues increased \$36 million, or 13%, for the third quarter of fiscal 2014 and increased \$106 million, or 12%, for the first three quarters of fiscal 2014. These increases were primarily due to higher revenues from company-operated stores (contributing \$24 million and \$66 million, respectively), primarily due to favorable foreign currency exchange (approximately \$18 million and \$36 million, respectively), primarily driven by the weakening of the US dollar against the British pound and the Euro, and an increase in comparable store sales (approximately 3%, or \$8 million, for the third quarter and approximately 5%, or \$32 million, for the first three quarters).

Licensed store revenues grew (approximately \$11 million, or 23%, for the third quarter and \$36 million, or 26%, for the first three quarters), due to increased equipment and product sales to and higher royalty revenues from our licensees, primarily from the opening of 166 net new licensed stores over the past 12 months and improved comparable store sales.

## Operating Expenses

Cost of sales including occupancy costs as a percentage of total net revenues decreased 150 basis points for the third quarter and 80 basis points for the first three quarters of fiscal 2014. The decrease for the third quarter was primarily due to sales leverage (approximately 80 basis points), largely driven by the shift to more licensed stores in the region. Also contributing to the decrease for the third quarter were favorable foreign currency fluctuations (approximately 60 basis points) and lower coffee costs (approximately 50 basis points). The decrease for the first three quarters was primarily driven by lower coffee costs (approximately 60 basis points), sales leverage (approximately 50 basis points) and improved inventory management (approximately 40 basis points). The decreases for both periods were partially offset by lapping a reduction to the estimated asset retirement obligations of our store leases in the region in fiscal 2013 (approximately 70 basis points for the third quarter and 80 basis points for the first three quarters).

Store operating expenses as a percentage of total net revenues decreased 160 basis points and 110 basis points for the third quarter and the first three quarters of fiscal 2014, respectively. As a percentage of company-operated store

revenues, store operating expenses decreased 130 basis points for the third quarter and 40 basis points for the first three quarters of fiscal 2014. The decrease for the third quarter was primarily due to decreased marketing (approximately 90 basis points). The decrease for the first three quarters was primarily due to sales leverage (approximately 40 basis points).

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Other operating expenses as a percentage of total net revenues increased 50 basis points and 40 basis points for the third quarter and the first three quarters of fiscal 2014, respectively. Excluding the impact of company-operated store revenues, other operating expenses increased 60 basis points for the third quarter and was flat for the first three quarters. The increase in the third quarter was primarily driven by higher performance-based compensation (approximately 60 basis points).

General and administrative expenses as a percentage of total net revenues decreased 270 basis points and 200 basis points for the third quarter and the first three quarters of fiscal 2014, respectively. These decreases were primarily due to sales leverage and reduced support costs, largely driven by the shift to more licensed stores (approximately 250 basis points for the third quarter and 190 basis points for the first three quarters of fiscal 2014).

The combination of these changes resulted in an overall increase in operating margin of 580 basis points for the third quarter and 400 basis points for the first three quarters of fiscal 2014.

## China / Asia Pacific

|  | Quarter Ended   |                 |                          |                 | Three Quarters Ended |                 |                          |                 |
|--|-----------------|-----------------|--------------------------|-----------------|----------------------|-----------------|--------------------------|-----------------|
|  | Jun 29,<br>2014 | Jun 30,<br>2013 | Jun 29,<br>2014          | Jun 30,<br>2013 | Jun 29,<br>2014      | Jun 30,<br>2013 | Jun 29,<br>2014          | Jun 30,<br>2013 |
|  |                 |                 | % of CAP<br>Net Revenues |                 |                      |                 | % of CAP<br>Net Revenues |                 |
| Total net revenues                                     | \$287.6         | \$233.7         |                          |                 | \$819.8              | \$661.4         |                          |                 |
| Cost of sales including<br>occupancy costs             | 137.8           | 112.5           | 47.9 %                   | 48.1 %          | 398.0                | 323.9           | 48.5 %                   | 49.0 %          |
| Store operating expenses                               | 54.8            | 42.2            | 19.1                     | 18.1            | 158.5                | 121.9           | 19.3                     | 18.4            |
| Other operating expenses                               | 13.2            | 12.0            | 4.6                      | 5.1             | 34.8                 | 33.7            | 4.2                      | 5.1             |
| Depreciation and<br>amortization expenses              | 11.3            | 8.6             | 3.9                      | 3.7             | 33.4                 | 24.4            | 4.1                      | 3.7             |
| General and administrative<br>expenses                 | 16.0            | 14.0            | 5.6                      | 6.0             | 43.1                 | 37.5            | 5.3                      | 5.7             |
| Total operating expenses                               | 233.1           | 189.3           | 81.1                     | 81.0            | 667.8                | 541.4           | 81.5                     | 81.9            |
| Income from equity<br>investees                        | 46.3            | 40.3            | 16.1                     | 17.2            | 116.8                | 105.3           | 14.2                     | 15.9            |
| Operating income                                       | \$100.8         | \$84.7          | 35.0 %                   | 36.2 %          | \$268.8              | \$225.3         | 32.8 %                   | 34.1 %          |
| Store operating expenses as<br>a % of related revenues |                 |                 | 25.3 %                   | 24.6 %          |                      |                 | 25.5 %                   | 25.5 %          |

China/Asia Pacific total net revenues for the third quarter and the first three quarters of fiscal 2014 increased \$54 million, or 23%, and \$158 million, or 24%, respectively, primarily due to increased revenues from company-operated stores (contributing \$45 million for the third quarter and \$143 million for the first three quarters). The increases in company-operated store revenues were primarily driven by the opening of 238 net new company-operated stores over the past 12 months (approximately \$38 million for the third quarter and \$115 million for the first three quarters) and an increase in comparable store sales (approximately 7% for both periods, or \$12 million for the third quarter and \$35 million for the first three quarters).

## Operating Expenses

Cost of sales including occupancy costs as a percentage of total net revenues decreased 20 basis points for the third quarter of fiscal 2014 and 50 basis points for the first three quarters of fiscal 2014. The decrease for the third quarter was primarily due to company-operated store revenue growth outpacing licensed store revenue growth (approximately 20 basis points). The decrease for the first three quarters was primarily due to sales leverage (approximately 30 basis points).

Store operating expenses as a percentage of total net revenues increased 100 basis points for the third quarter and 90 basis points for the first three quarters of fiscal 2014. As a percentage of company-operated store revenues, store

operating expenses increased 70 basis points for the third quarter, primarily driven by higher costs associated with supporting store growth (approximately 60 basis points), such as salaries and benefits. Store operating expenses as a percentage of company-operated store revenues were flat for the first three quarters.

Other operating expenses as a percentage of total net revenues decreased 50 basis points for the third quarter of fiscal 2014 and 90 basis points for the first three quarters of fiscal 2014. Excluding the impact of company-operated store revenues, other

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operating expenses decreased 60 basis points for the third quarter and 90 basis points for the first three quarters, primarily due to sales leverage and cost management.

Income from equity investees increased \$6 million for the third quarter of fiscal 2014 and \$12 million for the first three quarters of fiscal 2014, driven by higher income from our joint venture operations, mainly in South Korea and China. Higher income from our Japan joint venture also contributed to the third quarter increase. The increase for the first three quarters was partially offset by unfavorable foreign currency fluctuations due to the weakening of the Yen against the US dollar. These fluctuations, paired with the accelerated growth in segment revenues resulting from the shift in the composition of the store portfolio to more company-operated stores, resulted in income from equity investees declining as a percentage of total net revenues.

The changes in the above items resulted in an overall decrease in operating margin of 120 basis points for the third quarter and 130 basis points for the first three quarters of 2014.

## Channel Development

|  | Quarter Ended   |                 |   |                 | Three Quarters Ended |                 |   |                 |                 |                 |
|--|-----------------|-----------------|---|-----------------|----------------------|-----------------|---|-----------------|-----------------|-----------------|
|  | Jun 29,<br>2014 | Jun 30,<br>2013 | Jun 29,<br>2014                             | Jun 30,<br>2013 | Jun 29,<br>2014      | Jun 30,<br>2013 | Jun 29,<br>2014                             | Jun 30,<br>2013 | Jun 29,<br>2014 | Jun 30,<br>2013 |
|  |                 |                 | % of Channel<br>Development<br>Net Revenues |                 |                      |                 | % of Channel<br>Development<br>Net Revenues |                 |                 |                 |
| Total net revenues                     | \$375.3         | \$331.0         |   |                 | \$1,146.8            | \$1,043.5       |   |                 |                 |                 |
| Cost of sales                          | 208.3           | 213.1           | 55.5  | % 64.4          | % 667.5              | 660.9           | 58.2  | % 63.3          | %               |                 |
| Other operating expenses               | 48.3            | 39.0            | 12.9  | 11.8            | 142.9                | 140.5           | 12.5  | 13.5            |                 |                 |
| Depreciation and amortization expenses | 0.4             | 0.2             | 0.1   | 0.1             | 1.2                  | 0.9             | 0.1   | 0.1             |                 |                 |
| General and administrative expenses    | 4.5             | 5.5             | 1.2   | 1.7             | 13.8                 | 16.8            | 1.2   | 1.6             |                 |                 |
| Total operating expenses               | 261.5           | 257.8           | 69.7  | 77.9            | 825.4                | 819.1           | 72.0  | 78.5            |                 |                 |
| Income from equity investees           | 25.5            | 23.1            | 6.8   | 7.0             | 64.1                 | 62.7            | 5.6   | 6.0             |                 |                 |
| Operating income                       | \$139.3         | \$96.3          | 37.1  | % 29.1          | % \$385.5            | \$287.1         | 33.6  | % 27.5          | %               |                 |
| Revenues                               |                 |                 |   |                 |                      |                 |   |                 |                 |                 |

Total Channel Development net revenues for the third quarter and the first three quarters of fiscal 2014 increased \$44 million, or 13%, and \$103 million, or 10%, respectively, primarily driven by increased sales of premium single serve products (approximately \$26 million for the third quarter and \$74 million for the first three quarters). Contributing to increased revenues in the third quarter was an increase in US packaged coffee sales (approximately \$16 million) driven by increased sales volumes compared to the prior year period. Increased foodservice revenues (approximately \$5 million for the third quarter and \$18 million for the first three quarters) driven by increased sales volumes, also contributed.

## Operating Expenses

Cost of sales as a percentage of total net revenues decreased 890 basis points for the third quarter and 510 basis points for the first three quarters of fiscal 2014. The decrease was primarily driven by lower coffee costs (approximately 540 basis points for the third quarter and 460 basis points for the first three quarters). Also contributing to the decrease in the third quarter was improved inventory management compared to the prior year period (approximately 170 basis points).

Other operating expenses as a percentage of total net revenues increased 110 basis points for the third quarter and decreased 100 basis points for the first three quarters of fiscal 2014. The increase for the third quarter was primarily driven by increased marketing (approximately 70 basis points), largely due to the timing of product launches. The decrease for the first three quarters was primarily driven by sales leverage.

Income from equity investees increased \$2 million for the third quarter and \$1 million for the first three quarters of fiscal 2014. The increase for both periods was driven by higher income from our North American Coffee Partnership

joint venture, primarily due to strong sales of bottled Frappuccino®. The growth in segment revenues resulted in our joint venture income declining as a percentage of total net revenues. The combination of these changes resulted in an overall increase in operating margin of 800 basis points for the third quarter and 610 basis points for the first three quarters of fiscal 2014.

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## All Other Segments

|  | Quarter Ended   |                 |             | Three Quarters Ended |                 |             |    |
|--|-----------------|-----------------|-------------|----------------------|-----------------|-------------|----|
|  | Jun 29,<br>2014 | Jun 30,<br>2013 | %<br>Change | Jun 29,<br>2014      | Jun 30,<br>2013 | %<br>Change |    |
| Total net revenues                     | \$109.6         | \$106.9         | 2.5         | % \$388.1            | \$285.4         | 36.0        | %  |
| Cost of sales                          | 65.9            | 66.5            | (0.9        | ) 217.2              | 172.5           | 25.9        |    |
| Store operating expenses               | 27.9            | 21.3            | 31.0        | 81.6                 | 44.4            | 83.8        |    |
| Other operating expenses               | 20.5            | 15.2            | 34.9        | 58.1                 | 53.8            | 8.0         |    |
| Depreciation and amortization expenses | 3.9             | 3.6             | 8.3         | 11.3                 | 7.9             | 43.0        |    |
| General and administrative expenses    | 10.3            | 9.7             | 6.2         | 32.9                 | 24.8            | 32.7        |    |
| Total operating expenses               | 128.5           | 116.3           | 10.5        | 401.1                | 303.4           | 32.2        |    |
| Operating income/(loss)                | \$(18.9         | ) \$(9.4        | ) 101.1%    | \$(13.0              | ) \$(18.0       | ) (27.8     | )% |

All Other Segments includes Teavana, Seattle's Best Coffee, Evolution Fresh, and Digital Ventures.

Total net revenues for All Other Segments increased \$3 million for the third quarter of fiscal 2014 and \$103 million for the first three quarters of fiscal 2014. The increase for the third quarter was primarily driven by increased sales in our emerging businesses. The increase for the first three quarters was primarily driven by having an additional quarter of Teavana revenues in fiscal 2014 as Teavana was acquired at the beginning of the second quarter of fiscal 2013 (approximately \$92 million).

Total operating expenses increased \$12 million for the third quarter and \$98 million for the first three quarters of fiscal 2014. The increase for the third quarter was driven by investments to support growth in our emerging businesses. The increase for the first three quarters was primarily due to having an additional quarter of Teavana expenses in fiscal 2014 as Teavana was acquired at the beginning of the second quarter of fiscal 2013.

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## Quarterly Store Data

Our store data for the periods presented is as follows:

|                                   | Net stores opened/(closed) during the period |                 |                      |                 | Stores open as of |                 |
|-----------------------------------|--|-----------------|----------------------|-----------------|-------------------|-----------------|
|                                   | Quarter Ended                                |                 | Three Quarters Ended |                 | Jun 29,           | Jun 30,         |
|                                   | Jun 29,<br>2014                              | Jun 30,<br>2013 | Jun 29,<br>2014      | Jun 30,<br>2013 | Jun 29,<br>2014   | Jun 30,<br>2013 |
| Americas                          |  |                 |                      |                 |                   |                 |
| Company-operated stores           | 69   | 62              | 155                  | 112             | 8,233             | 7,914           |
| Licensed stores                   | 80   | 96              | 264                  | 228             | 5,679             | 5,239           |
| Total Americas                    | 149  | 158             | 419                  | 340             | 13,912            | 13,153          |
| EMEA <sup>(1)</sup>               |  |                 |                      |                 |                   |                 |
| Company-operated stores           | (3   | ) 1             | 1                    | (23             | ) 839             | 844             |
| Licensed stores                   | 40   | 42              | 132                  | 95              | 1,263             | 1,097           |
| Total EMEA                        | 37   | 43              | 133                  | 72              | 2,102             | 1,941           |
| China / Asia Pacific              |  |                 |                      |                 |                   |                 |
| Company-operated stores           | 45   | 48              | 159                  | 161             | 1,065             | 827             |
| Licensed stores                   | 115  | 71              | 384                  | 230             | 3,360             | 2,858           |
| Total China / Asia Pacific        | 160  | 119             | 543                  | 391             | 4,425             | 3,685           |
| All Other Segments <sup>(2)</sup> |  |                 |                      |                 |                   |                 |
| Company-operated stores           | 10   | 27              | 21                   | 336             | 378               | 350             |
| Licensed stores                   | (12  | ) (6            | ) (20                | ) 4             | 46                | 80              |
| Total All Other Segments          | (2   | ) 21            | 1                    | 340             | 424               | 430             |
| Total Company                     | 344  | 341             | 1,096                | 1,143           | 20,863            | 19,209          |

<sup>(1)</sup> EMEA store data has been adjusted for the transfer of certain company-operated stores to licensed stores in the second quarter of fiscal 2014.

<sup>(2)</sup> Net new stores for the three quarters ended June 30, 2013 includes 337 Teavana stores acquired in the second quarter of fiscal 2013.

## Financial Condition, Liquidity and Capital Resources

## Investment Overview

Starbucks cash and investments totaled \$2.0 billion and \$3.3 billion as of June 29, 2014 and September 29, 2013, respectively. As discussed below, in the first quarter of fiscal 2014 we paid \$2.8 billion for the Kraft arbitration matter that was accrued in the fourth quarter of fiscal 2013. We actively manage our cash and investments in order to internally fund operating needs, make scheduled interest and principal payments on our borrowings, and return cash to shareholders through common stock cash dividend payments and share repurchases. Our investment portfolio primarily includes highly liquid available-for-sale securities, including government treasury securities (foreign and domestic), corporate bonds, mortgage and asset-backed securities, state and local government obligations, certificates of deposit and agency obligations. As of June 29, 2014, approximately \$1.3 billion of our cash and investments were held in foreign subsidiaries.

## Borrowing Capacity

In December 2013, we issued \$400 million of 3-year 0.875% Senior Notes ("the 2014 3-year notes") due December 2016, and \$350 million of 5-year 2.000% Senior Notes ("the 2014 5-year notes") due December 2018, in an underwritten registered public offering, to fund a portion of the payment required by the arbitration award in the Kraft litigation matter. The remaining net proceeds will be used for general corporate purposes, which may include business expansion, payment of cash dividends on our common stock, the repurchase of common stock under our ongoing share repurchase program, or financing of possible acquisitions. Interest on the notes is payable semi-annually on June 5 and December 5 of each year, commencing on June 5, 2014. See Note 6, Debt, to the condensed consolidated financial statements included in Item 1 of Part I of this 10-Q for details of the components of our long-term debt.



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The indentures under which all of our Senior Notes were issued require us to maintain compliance with certain covenants, including limits on future liens and sale and leaseback transactions on certain material properties. As of June 29, 2014, we were in compliance with all applicable covenants.

Our \$750 million unsecured, revolving credit facility with various banks, of which \$150 million may be used for issuances of letters of credit, is available for working capital, capital expenditures and other corporate purposes, including acquisitions and share repurchases, and is currently set to mature on February 5, 2018. Starbucks has the option, subject to negotiation and agreement with the related banks, to increase the maximum commitment amount by an additional \$750 million. Borrowings under the credit facility will bear interest at a variable rate based on LIBOR, and, for US dollar-denominated loans under certain circumstances, a Base Rate (as defined in the credit facility), in each case plus an applicable margin. The applicable margin is based on the better of (i) the Company's long-term credit ratings assigned by Moody's and Standard & Poor's rating agencies, and (ii) the Company's fixed charge coverage ratio, pursuant to a pricing grid set forth in the credit facility. The current applicable margin is 0.795% for Eurocurrency Rate Loans and 0.00% for Base Rate Loans. The credit facility contains provisions requiring us to maintain compliance with certain covenants, including a minimum fixed charge coverage ratio, which measures our ability to cover financing expenses. As of June 29, 2014, we were in compliance with all applicable covenants. No amounts were outstanding under our credit facility as of June 29, 2014.

Under our commercial paper program, as approved by our Board of Directors, we may issue unsecured commercial paper notes up to a maximum aggregate amount outstanding at any time of \$1 billion, with individual maturities that may vary but not exceed 397 days from the date of issue. Amounts outstanding under the commercial paper program are to be backstopped by available commitments under our credit facility. Currently, we may issue up to \$727 million under our commercial paper program (the \$750 million committed credit facility amount, less \$23 million in outstanding letters of credit). The proceeds from borrowings under our commercial paper program may be used for working capital needs, capital expenditures and other corporate purposes, including acquisitions and share repurchases. In the first quarter of fiscal 2014, we issued and subsequently repaid commercial paper borrowings of \$225 million to fund a portion of the \$2.8 billion payment for the Kraft arbitration matter. We had no borrowings under our commercial paper program during the third quarter of fiscal 2014.

Use of Cash

In the first quarter of fiscal 2014, Starbucks paid all amounts due to Kraft under the arbitration, including prejudgment interest and attorneys' fees, and fully extinguished the litigation charge liability. Of the \$2,784.1 million litigation charge accrued in the fourth quarter of fiscal 2013, \$2,763.9 million was paid and the remainder was released as a litigation credit to reflect a reduction to our estimated prejudgment interest payable as a result of paying our obligation earlier than anticipated.

We expect to use additional available cash and short-term investments, including additional potential future borrowings under the credit facility and commercial paper program, to invest in our core businesses, including new product innovations and related marketing support, as well as other new business opportunities related to our core businesses. We believe that future cash flows generated from operations and existing cash and short-term investments both domestically and internationally will be sufficient to finance capital requirements for our core businesses in those respective markets as well as shareholder distributions for the foreseeable future.

We consider the majority of undistributed earnings of our foreign subsidiaries and equity investees as of June 29, 2014 to be indefinitely reinvested and, accordingly, no US income and foreign withholding taxes have been provided on such earnings. We have not, nor do we anticipate the need to, repatriate funds to the US to satisfy domestic liquidity needs; however, in the event that we need to repatriate all or a portion of our foreign cash to the US we would be subject to additional US income taxes, which could be material. We do not believe it is practical to calculate the potential tax impact of repatriation, as there is a significant amount of uncertainty around the calculation, including the availability and amount of foreign tax credits at the time of repatriation, tax rates in effect, and other indirect tax consequences associated with repatriation.

We may use our available cash resources to make proportionate capital contributions to our equity method and cost method investees. We may also seek strategic acquisitions to leverage existing capabilities and further build our business in support of our growth agenda. Acquisitions may include increasing our ownership interests in our equity

method and cost method investees. Any decisions to increase such ownership interests will be driven by valuation and fit with our ownership strategy. Significant new joint ventures, acquisitions and/or other new business opportunities may require additional outside funding.

Other than normal operating expenses, cash requirements for the remainder of fiscal 2014 are expected to consist primarily of capital expenditures for remodeling and refurbishment of, and equipment upgrades for, existing company-operated stores; new company-operated stores; systems and technology investments in the stores and in the support infrastructure; and additional investments in manufacturing capacity. Total capital expenditures for fiscal 2014 are expected to be approximately \$1.2 billion.

During the third quarter of fiscal 2014, our Board of Directors declared a quarterly cash dividend to shareholders of \$0.26 per share to be paid on August 22, 2014 to shareholders of record as of the close of business on August 7, 2014. We repurchased

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8.2 million shares of common stock (\$595.2 million) during the first three quarters of fiscal 2014 under share repurchase authorizations. The number of remaining shares authorized for repurchase as of June 29, 2014 totaled 18.1 million.

**Cash Flows**

Cash used by operating activities was \$133.4 million for the first three quarters of fiscal 2014, compared to cash provided by operating activities of \$2.0 billion for the same period in fiscal 2013. The decrease was driven by the first quarter payment of \$2.8 billion for the Kraft arbitration matter discussed above. This was partially offset by cash provided by operating activities of \$2.6 billion resulting from increased earnings and improvements in working capital accounts.

Cash used by investing activities for the first three quarters of fiscal 2014 totaled \$1.1 billion, compared to \$998.4 million for the same period in fiscal 2013. The change was primarily due to increased investments in long-term securities during the first three quarters of fiscal 2014, partially offset by the use of cash to acquire Teavana in the second quarter of fiscal 2013.

Cash used by financing activities for the first three quarters of fiscal 2014 totaled \$295.7 million, compared to \$783.8 million for the same period in fiscal 2013. The change was primarily due to the proceeds from the issuance of long-term debt in the first quarter of fiscal 2014, partially offset by a decrease in the excess tax benefit from the exercise of stock options as a result of fewer option exercises during the period. An increase in cash returned to shareholders through higher dividend payments also contributed.

**Contractual Obligations**

In Management's Discussion and Analysis of Financial Condition and Results of Operations included in the 10-K, we disclosed that we had \$10.0 billion in total contractual obligations as of September 29, 2013. Other than the items discussed below, there have been no material changes to this total obligation during the period covered by this 10-Q outside of the ordinary course of our business.

In the first quarter of fiscal 2014, we issued \$750 million of debt, as described in Note 6 to the condensed consolidated financial statements included in Item 1 of Part I of this 10-Q. In addition, the \$2.8 billion that was accrued for the Kraft arbitration matter as of September 29, 2013 was removed from total contractual obligations, as this obligation was fully extinguished in the first quarter of fiscal 2014.

**Off-Balance Sheet Arrangements**

There has been no material change in our off-balance sheet arrangements discussed in Management's Discussion and Analysis of Financial Condition and Results of Operations included in the 10-K.

**Commodity Prices, Availability and General Risk Conditions**

Commodity price risk represents our primary market risk, generated by our purchases of green coffee and dairy products, among other items. We purchase, roast and sell high quality whole bean arabica coffee and related products and risk arises from the price volatility of green coffee. In addition to coffee, we also purchase significant amounts of dairy products to support the needs of our company-operated stores. The price and availability of these commodities directly impact our results of operations and we expect commodity prices, particularly coffee, to impact future results of operations. For additional details see Product Supply in Item 1 of the 10-K, as well as Risk Factors in Item 1A of the 10-K.

**Seasonality and Quarterly Results**

Our business is subject to seasonal fluctuations, including fluctuations resulting from the holiday season in December. Excluding the impact of our \$2.8 billion cash payment in the first quarter of fiscal 2014 related to the Kraft arbitration matter, our cash flows from operations are considerably higher in the first fiscal quarter than the remainder of the year. This is largely driven by cash loaded onto Starbucks Cards during the holiday season. Since revenues from the Starbucks Card are recognized upon redemption and not when purchased, seasonal fluctuations on the consolidated statements of earnings are much less pronounced. Quarterly results are affected by the timing of the opening of new stores and the closing of existing stores. For these reasons, results for any quarter are not necessarily indicative of the results that may be achieved for the full fiscal year.

**RECENT ACCOUNTING PRONOUNCEMENTS**

See Note 1 to the condensed consolidated financial statements included in Item 1 of Part I of this 10-Q.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

There has been no material change in the commodity price risk, foreign currency exchange risk, equity security price risk, or interest rate risk discussed in Item 7A of the 10-K.

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## Item 4. Controls and Procedures

We maintain disclosure controls and procedures that are designed to ensure that material information required to be disclosed in our periodic reports filed or submitted under the Securities Exchange Act of 1934, as amended (the “Exchange Act”), is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms. Our disclosure controls and procedures are also designed to ensure that information required to be disclosed in the reports we file or submit under the Exchange Act is accumulated and communicated to our management, including our principal executive officer and principal financial officer as appropriate, to allow timely decisions regarding required disclosure.

During the third quarter of fiscal 2014, we carried out an evaluation, under the supervision and with the participation of our management, including our chief executive officer and our chief financial officer, of the effectiveness of the design and operation of the disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act. Based upon that evaluation, our chief executive officer and chief financial officer concluded that our disclosure controls and procedures were effective, as of the end of the period covered by this report (June 29, 2014). There were no changes in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) of the Exchange Act) during our most recently completed fiscal quarter that materially affected or are reasonably likely to materially affect internal control over financial reporting.

The certifications required by Section 302 of the Sarbanes-Oxley Act of 2002 are filed as exhibits 31.1 and 31.2 to this 10-Q.

## PART II — OTHER INFORMATION

## Item 1. Legal Proceedings

See Note 10 to the condensed consolidated financial statements included in Item 1 of Part I of this 10-Q for information regarding certain legal proceedings in which we are involved.

## Item 1A. Risk Factors

There have been no material changes to the risk factors previously disclosed in the 10-K.

## Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Information regarding repurchases of our common stock during the quarter ended June 29, 2014:

| Period <sup>(1)</sup>           | Total<br>Number of<br>Shares<br>Purchased | Average<br>Price<br>Paid per<br>Share | Total Number<br>of Shares<br>Purchased as<br>Part of Publicly<br>Announced<br>Plans or<br>Programs | Maximum<br>Number of<br>Shares that May<br>Yet Be<br>Purchased<br>Under the Plans<br>or Programs <sup>(2)</sup> |
|---------------------------------|---|---------------------------------------|--|---|
| March 31, 2014 — April 27, 2014 | 1,926,430                                 | \$70.87                               | 1,926,430  | 20,364,914  |
| April 28, 2014 — May 25, 2014   | 2,149,647                                 | 70.35                                 | 2,149,647  | 18,215,267  |
| May 26, 2014 — June 29, 2014    | 83,200                                    | 74.98                                 | 83,200   | 18,132,067  |
| Total                           | 4,159,277                                 | \$70.68                               | 4,159,277  |   |

<sup>(1)</sup> Monthly information is presented by reference to our fiscal months during the third quarter of fiscal 2014.

The share repurchase program is conducted under authorizations made from time to time by our Board of

<sup>(2)</sup> Directors. On November 15, 2012, we publicly announced the authorization of up to an additional 25 million shares. This authorization has no expiration date.

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## Item 6. Exhibits

| Exhibit No. | Exhibit Description   | Incorporated by Reference |          |                | Exhibit Number | Filed Herewith |
|-------------|---|---------------------------|----------|----------------|----------------|----------------|
|             |   | Form                      | File No. | Date of Filing |                |                |
| 3.1         | Restated Articles of Incorporation of Starbucks Corporation   | 10-Q                      | 0-20322  | 5/12/2006      | 3.1            |                |
| 3.2         | Amended and Restated Bylaws of Starbucks Corporation (As amended and restated through November 13, 2012)  | 10-K                      | 0-20322  | 11/16/2012     | 3.2            |                |
| 31.1        | Certification of Principal Executive Officer Pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, As Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002  | —                         | —        | —              | —              | X              |
| 31.2        | Certification of Principal Financial Officer Pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, As Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002  | —                         | —        | —              | —              | X              |
| 32*         | Certifications of Principal Executive Officer and Principal Financial Officer Pursuant to 18 U.S.C. Section 1350, As Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002  | —                         | —        | —              | —              | —              |
| 101         | The following financial statements from the Company's 10-Q for the fiscal quarter ended June 29, 2014, formatted in XBRL: (i) Condensed Consolidated Statements of Earnings, (ii) Condensed Consolidated Statements of Comprehensive Income, (iii) Condensed Consolidated Balance Sheets, (iv) Condensed Consolidated Statements of Cash Flows and (v) Notes to Condensed Consolidated Financial Statements | —                         | —        | —              | —              | X              |

\* Furnished herewith.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

July 29, 2014

STARBUCKS CORPORATION

By: /s/ Scott Maw  
Scott Maw  
executive vice president and chief  
financial officer  
Signing on behalf of the registrant and  
as  
principal financial officer