

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

Shares Outstanding as of July 23, 2014

Common Stock, par value \$0.001 per share

751.2 million

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STARBUCKS CORPORATION

FORM 10-Q

For the Quarterly Period Ended June 29, 2014

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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, 2014	Jun 30, 2013	Jun 29, 2014	Jun 30, 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, 2014	Jun 30, 2013	Jun 29, 2014	Jun 30, 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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STARBUCKS CORPORATION
 CONDENSED CONSOLIDATED BALANCE SHEETS
 (in millions, except per share data)
 (unaudited)

	Jun 29, 2014	Sep 29, 2013
ASSETS		
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
TOTAL ASSETS	\$ 10,385.3	\$ 11,516.7
LIABILITIES AND EQUITY		
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, 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
TOTAL LIABILITIES AND EQUITY	\$ 10,385.3	\$ 11,516.7
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, 2014	Jun 30, 2013
OPERATING ACTIVITIES:		
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
INVESTING ACTIVITIES:		
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)
FINANCING ACTIVITIES:		
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
CASH AND CASH EQUIVALENTS:		
Beginning of period	2,575.7	1,188.6
End of period	\$1,019.4	\$1,430.8
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		

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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) Included in AOCI		Net Gains/(Losses) Expected to be Reclassified from AOCI into Earnings within 12 Months	Contract Remaining Maturity (Months)
	Jun 29, 2014	Sep 29, 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)	
	Recognized in OCI Before		Reclassified from AOCI to Earnings		Recognized in OCI Before		Reclassified from AOCI to Earnings	
	Reclassifications	Reclassifications	Reclassifications	Reclassifications	Reclassifications	Reclassifications	Reclassifications	Reclassifications
	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 Jun 29, 2014	Fair Value Measurements at Reporting Date Using Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (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 Sep 29, 2013	Fair Value Measurements at Reporting Date Using Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Cash and cash equivalents	\$2,575.7	\$ 2,575.7	\$ —	\$ —
Short-term investments:				
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	—
Prepaid expenses and other current assets:				
Derivative assets	12.5	—	12.5	—
Long-term investments:				
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
Other assets:				
Derivative assets	11.4	—	11.4	—
Total	\$3,316.0	\$ 2,995.2	\$ 307.4	\$ 13.4
Liabilities:				
Accrued liabilities:				
Derivative liabilities	\$3.5	\$ —	\$ 3.5	\$ —
Other long-term liabilities:				
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 ⁽¹⁾	
		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				

⁽¹⁾ 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					
	Available-for-Sale Securities	Cash Flow Hedges	Net Investment Hedges	Translation Adjustment	Total	
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 / Asia Pacific	Channel Development	All Other Segments	Segment 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	\$	