STARBUCKS CORP
Form 10-Q
August 02, 2012
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549
FORM 10-Q

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the Quarterly Period Ended July 1, 2012
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 Incorporation or Organization) | (IRS Employer 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 x 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 x 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 x | 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 x
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 25, 2012 |
|---|---|
| Common Stock, par value $0.001 per share | 760.0 million |

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FORM 10-Q
For the Quarterly Period Ended July 1, 2012
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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 | |
|---|---|---|---|---|
| | Jul 1, 2012 | Jul 3, 2011 | Jul 1, 2012 | Jul 3, 2011 |
| Net revenues: | | | | |
| Company-operated stores | $2,615.6 | $2,417.3 | $7,868.6 | $7,162.1 |
| Licensed stores | 308.2 | 248.7 | 905.1 | 740.8 |
| CPG, foodservice and other | 379.8 | 266.2 | 1,161.7 | 765.8 |
| Total net revenues | 3,303.6 | 2,932.2 | 9,935.4 | 8,668.7 |
| Cost of sales including occupancy costs | 1,446.1 | 1,237.5 | 4,354.1 | 3,601.0 |
| Store operating expenses | 976.0 | 917.1 | 2,928.3 | 2,672.2 |
| Other operating expenses | 105.9 | 100.0 | 317.9 | 289.0 |
| Depreciation and amortization expenses | 136.7 | 129.5 | 408.6 | 386.1 |
| General and administrative expenses | 199.0 | 190.2 | 597.4 | 557.0 |
| Total operating expenses | 2,863.7 | 2,574.3 | 8,606.3 | 7,505.3 |
| Income from equity investees | 51.7 | 44.3 | 148.8 | 116.9 |
| Operating income | 491.6 | 402.2 | 1,477.9 | 1,280.3 |
| Interest income and other, net | 9.7 | 16.0 | 68.2 | 50.3 |
| Interest expense | (8.9) | (8.5) | (26.2) | (23.5) |
| Earnings before income taxes | 492.4 | 409.7 | 1,519.9 | 1,307.1 |
| Income taxes | 159.1 | 129.9 | 494.2 | 417.2 |
| Net earnings including noncontrolling interests | 333.3 | 279.8 | 1,025.7 | 889.9 |
| Net earnings attributable to noncontrolling interests | 0.2 | 0.7 | 0.6 | 2.5 |
| Net earnings attributable to Starbucks | $333.1 | $279.1 | $1,025.1 | $887.4 |
| Earnings per share - basic | $0.44 | $0.37 | $1.36 | $1.19 |
| Earnings per share - diluted | $0.43 | $0.36 | $1.33 | $1.15 |
| Weighted average shares outstanding: | | | | |
| Basic | 758.9 | 750.5 | 753.8 | 748.8 |
| Diluted | 776.8 | 771.9 | 772.9 | 770.1 |
| Cash dividends declared per share | $0.17 | $0.13 | $0.51 | $0.39 |

See Notes to Condensed Consolidated Financial Statements

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STARBUCKS CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS
(in millions, except per share data)
(unaudited)

| | Jul 1, 2012 | Oct 2, 2011 |
|---|---|---|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | $1,501.3 | $1,148.1 |
| Short-term investments | 996.3 | 902.6 |
| Accounts receivable, net | 433.0 | 386.5 |
| Inventories | 1,249.2 | 965.8 |
| Prepaid expenses and other current assets | 172.9 | 161.5 |
| Deferred income taxes, net | 216.9 | 230.4 |
| Total current assets | 4,569.6 | 3,794.9 |
| Long-term investments | 140.1 | 107.0 |
| Equity and cost investments | 414.3 | 372.3 |
| Property, plant and equipment, net | 2,444.2 | 2,355.0 |
| Other assets | 404.0 | 409.6 |
| Goodwill | 336.7 | 321.6 |
| TOTAL ASSETS | $8,308.9 | $7,360.4 |
| LIABILITIES AND EQUITY | | |
| Current liabilities: | | |
| Accounts payable | $402.2 | $540.0 |
| Accrued liabilities | 935.6 | 940.9 |
| Insurance reserves | 159.6 | 145.6 |
| Deferred revenue | 520.8 | 449.3 |
| Total current liabilities | 2,018.2 | 2,075.8 |
| Long-term debt | 549.6 | 549.5 |
| Other long-term liabilities | 353.1 | 347.8 |
| Total liabilities | 2,920.9 | 2,973.1 |
| Shareholders' equity: | | |
| Common stock ($0.001 par value) — authorized, 1,200.0 shares; issued and outstanding, 759.8 and 744.8 shares, respectively (includes 3.4 common stock units in both periods) | 0.8 | 0.7 |
| Additional paid-in capital | 450.9 | 40.5 |
| Retained earnings | 4,935.8 | 4,297.4 |
| Accumulated other comprehensive income | (2.5) | 46.3 |
| Total shareholders' equity | 5,385.0 | 4,384.9 |
| Noncontrolling interests | 3.0 | 2.4 |
| Total equity | 5,388.0 | 4,387.3 |
| TOTAL LIABILITIES AND EQUITY | $8,308.9 | $7,360.4 |

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 | |
|---|---|---|
| | Jul 1, 2012 | Jul 3, 2011 |
| OPERATING ACTIVITIES: | | |
| Net earnings including noncontrolling interests | $1,025.7 | $889.9 |
| Adjustments to reconcile net earnings to net cash provided by operating activities: | | |
| Depreciation and amortization | 427.7 | 408.2 |
| Deferred income taxes, net | 33.6 | 58.4 |
| Income earned from equity method investees, net of distributions | (37.7) | (30.9) |
| Stock-based compensation | 114.8 | 108.2 |
| Other | 10.0 | 20.8 |
| Cash provided/(used) by changes in operating assets and liabilities: | | |
| Inventories | (285.1) | (308.5) |
| Accounts payable | (139.1) | 55.5 |
| Accrued liabilities | (13.8) | (82.3) |
| Deferred revenue | 71.8 | 73.5 |
| Prepaid expenses, other current assets and other assets | (81.0) | (66.1) |
| Net cash provided by operating activities | 1,126.9 | 1,126.7 |
| INVESTING ACTIVITIES: | | |
| Purchase of investments | (1,578.6) | (169.7) |
| Maturities and calls of investments | 1,452.9 | 333.7 |
| Acquisitions, net of cash acquired | (29.7) | — |
| Additions to property, plant and equipment, net | (516.5) | (372.4) |
| Other | (12.3) | (8.6) |
| Net cash used by investing activities | (684.2) | (217.0) |
| FINANCING ACTIVITIES: | | |
| Purchase of noncontrolling interest | — | (27.5) |
| Proceeds from issuance of common stock | 155.2 | 187.4 |
| Excess tax benefit from exercise of stock options | 156.5 | 87.3 |
| Cash dividends paid | (384.0) | (292.1) |
| Repurchase of common stock | (15.7) | (321.9) |
| Other | (0.5) | (0.6) |
| Net cash used by financing activities | (88.5) | (367.4) |
| Effect of exchange rate changes on cash and cash equivalents | (1.0) | 14.5 |
| Net increase in cash and cash equivalents | 353.2 | 556.8 |
| CASH AND CASH EQUIVALENTS: | | |
| Beginning of period | 1,148.1 | 1,164.0 |
| End of period | $1,501.3 | $1,720.8 |
| SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION: | | |
| Cash paid during the period for: | | |
| Interest, net of capitalized interest | $17.2 | $17.2 |
| Income taxes | $311.4 | $287.4 |

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 July 1, 2012, and for the quarter and three quarters ended July 1, 2012 and July 3, 2011, 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 July 1, 2012 and July 3, 2011 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 October 2, 2011 is derived from our audited consolidated financial statements and notes for the fiscal year ended October 2, 2011 ("fiscal 2011"), included in Item 8 in the Fiscal 2011 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.

In the second quarter of fiscal 2012, we renamed our Global Consumer Products Group ("CPG") segment "Channel Development."

The results of operations for the quarter and three quarters ended July 1, 2012 are not necessarily indicative of the results of operations that may be achieved for the entire fiscal year ending September 30, 2012 ("fiscal 2012").

Recent Accounting Pronouncements

In September 2011, the Financial Accounting Standards Board ("FASB") issued guidance that revises the requirements around how entities test goodwill for impairment. The guidance allows companies to perform a qualitative assessment before calculating the fair value of the reporting unit. If entities determine, on the basis of qualitative factors, that the fair value of the reporting unit is more likely than not greater than the carrying amount, a quantitative calculation would not be needed. We early-adopted this guidance effective for our fiscal 2012 annual goodwill impairment test, which we performed during the third fiscal quarter. The adoption of this guidance resulted in a change in how we performed our goodwill impairment assessment; however, it did not have a material impact on our financial statements.

In June 2011, the FASB issued guidance that revises the manner in which entities present comprehensive income in their financial statements. The guidance requires entities to report the components of comprehensive income in either a single, continuous statement or two separate but consecutive statements. The guidance will become effective for us at the beginning of our first quarter of fiscal 2013. The adoption of this new guidance will result in a change in how we present the components of comprehensive income, which is currently presented within our consolidated statements of equity.

In May 2011, the FASB issued guidance to amend the fair value measurement and disclosure requirements. The guidance requires the disclosure of quantitative information about unobservable inputs used, a description of the valuation processes used, and a qualitative discussion around the sensitivity of the measurements. The guidance became effective for us at the beginning of our second quarter of fiscal 2012. The adoption of this new guidance did not have a material impact on our financial statements.

Reclassifications

Change in shared service allocations

Effective at the beginning of fiscal 2012, we implemented the previously announced strategic realignment of our organizational structure designed to accelerate our global growth strategy. A president for each region, reporting directly to our chief executive officer, now oversees the company-operated retail business working closely with both the licensed and joint-venture business partners in each market. The regional presidents also work closely with our Channel Development team to continue building out our brands and channels in each region.

In connection with the changes to our organizational structure and reporting, we have changed the accountability for, and reporting of, certain indirect overhead costs. Certain indirect merchandising, manufacturing costs and back-office

shared service costs, which were previously allocated to segment level costs of sales and operating expenses, are now managed at a corporate level and will be reported within unallocated corporate expenses. These expenses have therefore been removed from the segment level financial results. In order to conform prior period classifications with the new alignment, the historical

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consolidated financial statements have been recast with the following adjustments to previously reported amounts:

| | Quarter Ended July 3, 2011 | | | Three Quarters Ended July 3, 2011 | | |
|---|---|---|---|---|---|---|
| | As Filed | Reclass | As Adjusted | As Filed | Reclass | As Adjusted |
| Total net revenues | $2,932.2 | $— | $2,932.2 | $8,668.7 | $— | $8,668.7 |
| Cost of sales including occupancy costs | 1,246.1 | (8.6) | 1,237.5 | 3,626.9 | (25.9) | 3,601.0 |
| Store operating expenses | 934.5 | (17.4) | 917.1 | 2,725.4 | (53.2) | 2,672.2 |
| Other operating expenses | 102.4 | (2.4) | 100.0 | 296.2 | (7.2) | 289.0 |
| Depreciation and amortization expenses | 129.5 | — | 129.5 | 386.1 | — | 386.1 |
| General and administrative expenses | 161.8 | 28.4 | 190.2 | 470.7 | 86.3 | 557.0 |
| Total operating expenses | 2,574.3 | — | 2,574.3 | 7,505.3 | — | 7,505.3 |
| Income from equity investees | 44.3 | — | 44.3 | 116.9 | — | 116.9 |
| Operating income | $402.2 | $— | $402.2 | $1,280.3 | $— | $1,280.3 |

There was no impact on consolidated net revenues, total operating expenses, operating income, or net earnings as a result of this change. Additional discussion regarding the change in our organizational structure and segment results is included at Note 12.

Note 2: Acquisition

On November 10, 2011, we acquired the outstanding shares of Evolution Fresh, Inc., a super-premium juice company, to expand our portfolio of product offerings and enter into the super-premium juice market. We acquired Evolution Fresh for a purchase price of $30 million in cash. The fair value of the net assets acquired on the acquisition date included $18 million of goodwill.

Evolution Fresh is its own operating segment and is reported in “Other” along with our Seattle’s Best Coffee operating segment, our Digital Ventures business, and unallocated corporate expenses.

Note 3: Derivative Financial Instruments

Foreign Currency

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. Net derivative losses from cash flow hedges of $5.0 million and $11.1 million, net of taxes, were included in accumulated other comprehensive income as of July 1, 2012 and October 2, 2011, respectively. Of the net derivative losses accumulated as of July 1, 2012, $2.6 million pertains to derivative instruments that will be dedesignated as cash flow hedges within 12 months and will also continue to experience fair value changes before affecting earnings. Outstanding contracts will expire within 15 months.

We also enter into net investment derivative instruments to hedge our equity method investment in Starbucks Coffee Japan, Ltd., to minimize foreign currency exposure. Net derivative losses from net investment hedges of $31.2 million and $34.2 million, net of taxes, were included in accumulated other comprehensive income as of July 1, 2012 and October 2, 2011, respectively. Outstanding contracts will expire within 32 months.

In addition to the hedging instruments above, to mitigate the translation risk of certain balance sheet items, we enter into certain foreign currency swap contracts that are not designated as hedging instruments. These contracts are recorded at fair value, with the changes in fair value recognized in net interest income and other on the consolidated statements of earnings. Gains and losses from these instruments are largely offset by the financial impact of translating foreign currency denominated payables and receivables, which is also recognized in net interest income and other.

Coffee

Depending on market conditions, we also enter into futures contracts to hedge a portion of anticipated cash flows under our price-to-be-fixed green coffee contracts, which are described further in Note 5. Net derivative losses of $35.0 million, net of taxes, were included in accumulated other comprehensive income as of July 1, 2012 related to coffee hedges. Of the net derivative losses accumulated as of July 1, 2012, $22.2 million pertains to derivative instruments that will be dedesignated as cash flow hedges within 12 months and will also continue to experience fair value changes before affecting earnings. Outstanding contracts will expire within 13 months. There was insignificant

coffee hedge activity in the first three quarters of fiscal 2011.

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Dairy

To mitigate the price uncertainty of a portion of our future purchases of dairy products, we enter into certain futures contracts that are not designated as hedging instruments. These contracts are recorded at fair value, with the changes in fair value recognized in net interest income and other. Gains and losses from these instruments are largely offset by price fluctuations on our dairy purchases which are included in cost of sales.

Diesel Fuel

To mitigate the price uncertainty of a portion of our future purchases of diesel fuel, we enter into certain swap contracts that are not designated as hedging instruments. These contracts are recorded at fair value, with the changes in fair value recognized in net interest income and other. Gains and losses from these instruments are largely offset by the financial impact of diesel fuel fluctuations on our shipping costs which are included in operating expenses.

The following tables present the pretax effect of derivative contracts designated as hedging instruments on earnings and other comprehensive income ("OCI") for the quarter and three quarters ended (in millions):

| | Foreign Currency | | Coffee | |
|---|---|---|---|---|
| Quarter Ended: | Jul 1, 2012 | Jul 3, 2011 | Jul 1, 2012 | Jul 3, 2011 |
| Cash Flow Hedges: | | | | |
| Gain/(Loss) recognized in earnings | $(2.8) | $(4.7) | $(1.3) | $— |
| Gain/(Loss) recognized in OCI | $(1.9) | $(5.4) | $(20.6) | $0.1 |
| Net Investment Hedges: | | | | |
| Gain/(Loss) recognized in earnings | $— | $— | | |
| Gain/(Loss) recognized in OCI | $(5.4) | $(5.2) | | |

| | Foreign Currency | | Coffee | |
|---|---|---|---|---|
| Three Quarters Ended: | Jul 1, 2012 | Jul 3, 2011 | Jul 1, 2012 | Jul 3, 2011 |
| Cash Flow Hedges: | | | | |
| Gain/(Loss) recognized in earnings | $(8.6) | $(10.8) | $(1.3) | $— |
| Gain/(Loss) recognized in OCI | $1.0 | $(13.4) | $(40.0) | $0.1 |
| Net Investment Hedges: | | | | |
| Gain/(Loss) recognized in earnings | $— | $— | | |
| Gain/(Loss) recognized in OCI | $4.9 | $(5.1) | | |

The amounts shown in the above tables as recognized in earnings for foreign currency and coffee hedges represent the realized gains/(losses) reclassified from OCI to net earnings during the year. The amounts shown as recognized in OCI are prior to these reclassifications.

The following table presents the pretax effect of derivative contracts not designated as hedging instruments on earnings for the quarter and three quarters ended (in millions):

| | Foreign Currency | | Dairy | | Diesel Fuel | |
|---|---|---|---|---|---|---|
| | Jul 1, 2012 | Jul 3, 2011 | Jul 1, 2012 | Jul 3, 2011 | Jul 1, 2012 | Jul 3, 2011 |
| Gain/(Loss) recognized in earnings for the quarter ended | $4.2 | $(0.3) | $1.2 | $2.2 | $(0.9) | $(0.2) |
| Gain/(Loss) recognized in earnings for the three quarters ended | $— | $(3.9) | $2.0 | $5.0 | $0.7 | $1.1 |

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Notional amounts of outstanding derivative contracts as of July 1, 2012:
- $384 million in foreign currency contracts
- $183 million in coffee contracts
- $41 million in dairy contracts
- $29 million in diesel fuel contracts

Note 4: Fair Value Measurements
Assets and Liabilities Measured at Fair Value on a Recurring Basis (in millions):

| | | Fair Value Measurements at Reporting Date Using | | |
|---|---|---|---|---|
| | Balance at July 1, 2012 | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| Assets: | | | | |
| Short-term investments: | | | | |
| Available-for-sale securities | | | | |
| Agency obligations | $100.0 | $ — | $ 100.0 | $ — |
| Commercial paper | 193.9 | — | 193.9 | — |
| Corporate debt securities | 80.8 | — | 80.8 | — |
| Government treasury securities | 499.6 | 499.6 | — | — |
| Certificates of deposit | 65.9 | — | 65.9 | — |
| Total available-for-sale securities | 940.2 | 499.6 | 440.6 | — |
| Trading securities | 56.1 | 56.1 | — | — |
| Total short-term investments | 996.3 | 555.7 | 440.6 | — |
| Long-term investments: | | | | |
| Agency obligations | 4.0 | — | 4.0 | — |
| Corporate debt securities | 73.6 | — | 73.6 | — |
| State and local government obligations | 28.4 | — | — | 28.4 |
| Certificates of deposit | 34.1 | — | 34.1 | — |
| Total long-term investments | 140.1 | — | 111.7 | 28.4 |
| Total | $1,136.4 | $ 555.7 | $ 552.3 | $ 28.4 |
| Liabilities: | | | | |
| Short-term derivatives: | | | | |
| Foreign Currency | $8.4 | $ — | $ 8.4 | $ — |
| Coffee | 25.7 | — | 25.7 | — |
| Total short-term derivatives | 34.1 | — | 34.1 | — |
| Long-term derivatives: | | | | |
| Foreign Currency | 2.3 | — | 2.3 | — |
| Coffee | 3.8 | — | 3.8 | — |
| Total long-term derivatives | 6.1 | — | 6.1 | — |
| Total | $40.2 | $ — | $ 40.2 | $ — |

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| | | Fair Value Measurements at Reporting Date Using | | |
|---|---|---|---|---|
| | Balance at October 2, 2011 | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| Assets: | | | | |
| Short-term investments: | | | | |
| Available-for-sale securities | | | | |
| Agency obligations | $20.0 | $ — | $ 20.0 | $ — |
| Commercial paper | 87.0 | — | 87.0 | — |
| Corporate debt securities | 78.0 | — | 78.0 | — |
| Government treasury securities | 606.0 | 606.0 | — | — |
| Certificates of deposit | 64.0 | — | 64.0 | — |
| Total available-for-sale securities | 855.0 | 606.0 | 249.0 | — |
| Trading securities | 47.6 | 47.6 | — | — |
| Total short-term investments | 902.6 | 653.6 | 249.0 | — |
| Long-term investments: | | | | |
| Corporate debt securities | 67.0 | — | 67.0 | — |
| State and local government obligations | 28.0 | — | — | 28.0 |
| Certificates of deposit | 12.0 | — | 12.0 | — |
| Total long-term investments | 107.0 | — | 79.0 | 28.0 |
| Total | $1,009.6 | $ 653.6 | $ 328.0 | $ 28.0 |
| Liabilities: | | | | |
| Short-term derivatives: | | | | |
| Foreign Currency | $20.1 | $ — | $ 20.1 | $ — |
| Coffee | 1.2 | — | 1.2 | — |
| Total short-term derivatives | 21.3 | — | 21.3 | — |
| Long-term derivatives: | | | | |
| Foreign Currency | 9.9 | — | 9.9 | — |
| Total long-term derivatives | 9.9 | — | 9.9 | — |
| Total | $31.2 | $ — | $ 31.2 | $ — |

Short-term and long-term derivatives are included in other accrued liabilities, and other long-term liabilities, respectively.

Gross unrealized holding gains and losses were not material as of July 1, 2012 and October 2, 2011.

Changes in Level 3 Instruments Measured at Fair Value on a Recurring Basis

Financial instruments measured using Level 3 inputs described above are comprised entirely of our auction rate securities (“ARS”).

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.

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During the quarter and three quarters ended July 1, 2012 and July 3, 2011, we recognized fair market value adjustments with a charge to earnings for these assets as follows (in millions):

| | Quarter Ended July 1, 2012 | | | Three Quarters Ended July 1, 2012 | | |
|---|---|---|---|---|---|---|
| | Carrying Value before adjustment | Fair value adjustment | Carrying value after adjustment | Carrying Value before adjustment | Fair value adjustment | Carrying value after adjustment |
| Property, plant and equipment (1) | $1.1 | $(0.7) | $0.4 | $4.4 | $(2.7) | $1.7 |

| | Quarter Ended July 3, 2011 | | | Three Quarters Ended July 3, 2011 | | |
|---|---|---|---|---|---|---|
| | Carrying Value before adjustment | Fair value adjustment | Carrying value after adjustment | Carrying Value before adjustment | Fair value adjustment | Carrying value after adjustment |
| Property, plant and equipment (1) | $1.7 | $(1.2) | $0.5 | $2.8 | $(2.1) | $0.7 |
| Other assets (2) | $1.6 | $(1.6) | $— | $22.1 | $(22.1) | $— |

(1) These assets primarily consist of leasehold improvements in underperforming stores. The fair value was determined using a discounted cash flow model based on expected future store revenues and operating costs, using internal projections. The resulting impairment charge was included in store operating expenses.

(2) The fair value was determined using a discounted cash flow model based on future expected revenues and operating costs, using internal projections. The resulting impairment charge was included in other operating expenses.

Fair Value of Other Financial Instruments

The estimated fair value of the $550 million of 6.25% Senior Notes based on the quoted market price (Level 2) was approximately $667 million and $648 million as of July 1, 2012 and October 2, 2011, respectively.

Note 5: Inventories (in millions)

| | Jul 1, 2012 | Oct 2, 2011 | Jul 3, 2011 |
|---|---|---|---|
| Coffee: | | | |
| Unroasted | $749.1 | $431.3 | $423.3 |
| Roasted | 225.8 | 246.5 | 190.5 |
| Other merchandise held for sale | 133.4 | 150.8 | 116.0 |
| Packaging and other supplies | 140.9 | 137.2 | 126.9 |
| Total | $1,249.2 | $965.8 | $856.7 |

Inventory levels vary due to seasonality, commodity market supply and price fluctuations. Also contributing to the increase in inventory over the prior year period was the growth of our Channel Development business.

As of July 1, 2012, we had committed to purchasing green coffee totaling $463 million under fixed-price contracts and an estimated $384 million under price-to-be-fixed contracts. As of July 1, 2012, approximately $183 million of our price-to-be-fixed contracts were effectively fixed through the use of futures contracts. Price-to-be-fixed contracts are purchase commitments whereby the quality, quantity, delivery period, and other negotiated terms are agreed upon, but the date 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.

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Note 6: Supplemental Balance Sheet Information (in millions)

| Property, Plant and Equipment, net | Jul 1, 2012 | Oct 2, 2011 |
|---|---|---|
| Land | $44.8 | $44.8 |
| Buildings | 222.6 | 218.5 |
| Leasehold improvements | 3,808.7 | 3,617.7 |
| Store equipment | 1,185.1 | 1,101.8 |
| Roasting equipment | 308.6 | 295.1 |
| Furniture, fixtures and other | 799.8 | 757.8 |
| Work in progress | 210.3 | 127.4 |
| Property, plant and equipment, gross | 6,579.9 | 6,163.1 |
| Less accumulated depreciation | (4,135.7) | (3,808.1) |
| Property, plant and equipment, net | $2,444.2 | $2,355.0 |

| Other Assets | Jul 1, 2012 | Oct 2, 2011 |
|---|---|---|
| Other intangible assets | $117.8 | $111.9 |
| Other | 286.2 | 297.7 |
| Total other assets | $404.0 | $409.6 |

| Accrued Liabilities | Jul 1, 2012 | Oct 2, 2011 |
|---|---|---|
| Accrued compensation and related costs | $350.3 | $364.4 |
| Accrued occupancy costs | 125.7 | 148.3 |
| Accrued taxes | 99.7 | 109.2 |
| Accrued dividend payable | 129.1 | 126.6 |
| Other | 230.8 | 192.4 |
| Total accrued liabilities | $935.6 | $940.9 |

| Other Long-Term Liabilities | Jul 1, 2012 | Oct 2, 2011 |
|---|---|---|
| Deferred rent | $206.7 | $215.2 |
| Unrecognized tax benefits | 74.3 | 56.7 |
| Asset retirement obligations | 53.8 | 50.1 |
| Other | 18.3 | 25.8 |
| Total other long-term liabilities | $353.1 | $347.8 |

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Note 7:Goodwill

Changes in the carrying amount of goodwill by reportable operating segment are as follows (in millions):

| | Americas | EMEA | China / Asia Pacific | Channel Development | Other | Total |
|---|---|---|---|---|---|---|
| Balance at October 2, 2011 (1) | | | | | | |
| Goodwill prior to impairment | $162.9 | $63.0 | $74.8 | $ 23.8 | $5.7 | $330.2 |
| Accumulated impairment charges | (8.6) | — | — | — | — | (8.6) |
| Goodwill | $154.3 | $63.0 | $74.8 | $ 23.8 | $5.7 | $321.6 |
| Acquisitions | 11.8 | — | — | — | 5.8 | 17.6 |
| Purchase price adjustment of previous acquisitions | — | — | — | — | — | — |
| Impairment | — | — | — | — | — | — |
| Other (2) | 0.9 | (3.6) | 0.2 | — | — | (2.5) |
| Balance at July 1, 2012 | | | | | | |
| Goodwill prior to impairment | $175.6 | $59.4 | $75.0 | $ 23.8 | $11.5 | $345.3 |
| Accumulated impairment charges | (8.6) | — | — | — | — | (8.6) |
| Goodwill | $167.0 | $59.4 | $75.0 | $ 23.8 | $11.5 | $336.7 |

(1) In conjunction with the change in reportable operating segments, we reclassified goodwill by segment as of October 2, 2011.

(2) Other is primarily comprised of changes in the goodwill balance as a result of foreign exchange fluctuations.

Note 8: Equity

Changes in total equity (in millions):

| | Three Quarters Ended | |
|---|---|---|
| | Jul 1, 2012 | Jul 3, 2011 |
| Beginning balance of total equity | $4,387.3 | $3,682.3 |
| Net earnings including noncontrolling interest | 1,025.7 | 889.9 |
| Other comprehensive income / (loss) | (48.8) | 40.3 |
| Comprehensive income | 976.9 | 930.2 |
| Stock-based compensation expense | 116.3 | 109.8 |
| Exercise of stock options | 295.6 | 255.4 |
| Sale of common stock | 14.3 | 14.1 |
| Repurchase of common stock | (15.7) | (321.9) |
| Cash dividends declared | (386.7) | (292.9) |
| Purchase of noncontrolling interest: | | |
| Included in additional paid-in capital | — | (28.0) |
| Included in noncontrolling interests | — | (7.5) |
| Ending balance of total equity | $5,388.0 | $4,341.5 |

Components of accumulated other comprehensive income, net of tax (in millions):

| | Jul 1, 2012 | Oct 2, 2011 |
|---|---|---|
| Net unrealized gains / (losses) on available-for-sale securities | $(0.5) | $(0.5) |
| Net unrealized gains / (losses) on hedging instruments | (71.1) | (45.3) |
| Translation adjustment | 69.1 | 92.1 |
| Accumulated other comprehensive income | $(2.5) | $46.3 |

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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 July 1, 2012.

Share repurchase activity (in millions, except for average price data):

| | Three Quarters Ended | |
|---|---|---|
| | Jul 1, 2012 | Jul 3, 2011 |
| Number of shares acquired | 0.4 | 9.2 |
| Average price per share of acquired shares | $36.49 | $35.12 |
| Total cost of acquired shares | $15.7 | $321.9 |

As of July 1, 2012, 24.0 million shares remained available for repurchase under the current authorization.

During the third quarter of fiscal 2012, Starbucks Board of Directors declared a quarterly cash dividend to shareholders of $0.17 per share to be paid on August 24, 2012 to shareholders of record as of the close of business on August 8, 2012.

Note 9: Employee Stock Plans

As of July 1, 2012, there were 32.4 million shares of common stock available for issuance pursuant to future equity-based compensation awards and employee stock purchase plans.

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

| | Quarter Ended | | Three Quarters Ended | |
|---|---|---|---|---|
| | Jul 1, 2012 | Jul 3, 2011 | Jul 1, 2012 | Jul 3, 2011 |
| Options | $11.2 | $14.3 | $35.4 | $46.8 |
| Restricted Stock Units (“RSUs”) | 27.6 | 22.7 | 79.4 | 61.4 |
| Total stock-based compensation | $38.8 | $37.0 | $114.8 | $108.2 |

Value of awards granted and exercised during the period:

| | Quarter Ended | | Three Quarters Ended | |
|---|---|---|---|---|
| | Jul 1, 2012 | Jul 3, 2011 | Jul 1, 2012 | Jul 3, 2011 |
| Estimated fair value per option granted | $14.58 | $10.28 | $12.79 | $9.53 |
| Weighted average option grant price | $54.93 | $35.86 | $44.07 | $31.18 |
| Weighted average price per option exercised | $17.23 | $15.79 | $15.90 | $13.98 |
| Weighted average RSU grant price | $55.38 | $35.77 | $43.93 | $30.94 |

Stock option and RSU transactions from October 2, 2011 through July 1, 2012 (in millions):

| | Stock Option | RSUs |
|---|---|---|
| Options outstanding/Nonvested RSUs, October 2, 2011 | 45.3 | 8.3 |
| Granted | 3.3 | 4.0 |
| Options exercised/RSUs vested | (12.4) | (4.0) |
| Forfeited/expired | (1.7) | (0.8) |
| Options outstanding/Nonvested RSUs, July 1, 2012 | 34.5 | 7.5 |
| Total unrecognized stock-based compensation expense, net of estimated forfeitures, as of July 1, 2012 | $44.1 | $104.4 |

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Note 10: Earnings Per Share

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

| | Quarter Ended | | Three Quarters Ended | |
|---|---|---|---|---|
| | July 1, 2012 | July 3, 2011 | July 1, 2012 | July 3, 2011 |
| Net earnings attributable to Starbucks | $333.1 | $279.1 | $1,025.1 | $887.4 |
| Weighted average common shares and common stock units outstanding (for basic calculation) | 758.9 | 750.5 | 753.8 | 748.8 |
| Dilutive effect of outstanding common stock options and RSUs | 17.9 | 21.4 | 19.1 | 21.3 |
| Weighted average common and common equivalent shares outstanding (for diluted calculation) | 776.8 | 771.9 | 772.9 | 770.1 |
| EPS — basic | $0.44 | $0.37 | $1.36 | $1.19 |
| EPS — diluted | $0.43 | $0.36 | $1.33 | $1.15 |

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 million as of July 3, 2011. There were no out-of-the-money stock options as of July 1, 2012.

Note 11: Commitments and Contingencies

Legal Proceedings

In the first quarter of fiscal 2011, Starbucks notified Kraft Foods Global, Inc. ("Kraft") that we were discontinuing our distribution arrangement with Kraft on March 1, 2011 due to material breaches by Kraft of its obligations under the Supply and License Agreement between the Company and Kraft, dated March 29, 2004 (the "Agreement"), which defined the main distribution arrangement between the parties. Through our arrangement with Kraft, Starbucks sold a selection of Starbucks and Seattle's Best Coffee branded packaged coffees in grocery and warehouse club stores throughout the US, and to grocery stores in Canada, the UK and other European countries. Kraft managed the distribution, marketing, advertising and promotion of these products.

Kraft denies it has materially breached the Agreement. On November 29, 2010, Starbucks received a notice of arbitration from Kraft putting the commercial dispute between the parties into binding arbitration pursuant to the terms of the Agreement. In addition to denying it materially breached the Agreement, Kraft further alleges that if Starbucks wished to terminate the Agreement it must compensate Kraft as provided in the Agreement in an amount equal to the fair value of the Agreement, with an additional premium of up to 35% under certain circumstances.

On December 6, 2010, Kraft commenced a federal court action against Starbucks, entitled Kraft Foods Global, Inc. v. Starbucks Corporation, in the U.S. District Court for the Southern District of New York (the "District Court") seeking injunctive relief to prevent Starbucks from terminating the distribution arrangement until the parties' dispute is resolved through the arbitration proceeding. On January 28, 2011, the District Court denied Kraft's request for injunctive relief. Kraft appealed the District Court's decision to the Second Circuit Court of Appeals. On February 25, 2011, the Second Circuit Court of Appeals affirmed the District Court's decision. As a result, Starbucks is in full control of our packaged coffee business as of March 1, 2011.

While Starbucks believes we have valid claims of material breach by Kraft under the Agreement that allowed us to terminate the Agreement and certain other relationships with Kraft without compensation to Kraft, there exists the possibility of material adverse outcomes to Starbucks in the arbitration or to resolve the matter. Although Kraft disclosed to the press and in federal court filings a $750 million offer Starbucks made to Kraft in August 2010 to avoid litigation and ensure a smooth transition of the business, the figure is not a proper basis upon which to estimate a possible outcome of the arbitration but was based upon facts and circumstances at the time. Kraft rejected the offer immediately and did not provide a counter-offer, effectively ending the discussions between the parties with regard to any payment. Moreover, the offer was made prior to our investigation of Kraft's breaches and without consideration of Kraft's continuing failure to comply with material terms of the agreements.

On April 2, 2012, Starbucks and Kraft exchanged expert reports regarding alleged damages on their affirmative claims. Starbucks claims damages of up to $62.9 million from the loss of sales resulting from Kraft's failure to use commercially reasonable efforts to market Starbucks® coffee, plus attorney fees. Kraft's expert opined that the fair market value

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of the Agreement was $1.9 billion. After applying a 35% premium and 9% interest, Kraft claims damages of up to $2.9 billion, plus attorney fees. The arbitration commenced on July 11, 2012 and is in progress. It is possible the arbitration may extend beyond the originally scheduled timeframe and, based on scheduling constraints, the timing of a decision may extend into fiscal 2013.

At this time, Starbucks believes an unfavorable outcome with respect to the arbitration is not probable, but as noted above is reasonably possible. As also noted above, Starbucks believes we have valid claims of material breach by Kraft under the Agreement that allowed us to terminate the Agreement without compensation to Kraft. In addition, Starbucks believes Kraft's damage estimates are highly inflated and based upon faulty analysis. As a result, we cannot reasonably estimate the possible loss. Accordingly, no loss contingency has been recorded for this matter.

Starbucks is party to various other legal proceedings arising in the ordinary course of business, including certain employment litigation cases that have been certified as class or collective actions, but, except as noted above, 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 12: Segment Reporting

Segment information is prepared on the same basis that our management reviews financial information for operational decision-making purposes. Beginning with the first quarter of fiscal 2012, we redefined our reportable operating segments to align with the three-region leadership and organizational structure of our retail business that took effect at the beginning of fiscal 2012.

The three-region structure includes: 1) Americas, inclusive of the US, Canada, and Latin America; 2) China / Asia Pacific ("CAP"); and 3) Europe, Middle East, and Africa, collectively referred to as the "EMEA" region. Our ceo, who is our chief operating decision maker ("CODM") manages these businesses, evaluates financial results, and makes key operating decisions based on the new organizational structure. Accordingly, beginning with the first quarter of fiscal 2012, we revised our reportable operating segments from 1) US, 2) International, and 3) Global Consumer Products Group to the following four reportable segments: 1) Americas, 2) CAP, 3) EMEA, and 4) Global Consumer Products Group. In the second quarter of fiscal 2012, we renamed our Global Consumer Products Group segment "Channel Development." Segment revenues as a percentage of total net revenues for the first three quarters of fiscal 2012 were as follows: Americas (75%), EMEA (9%), China / Asia Pacific (5%), and Channel Development (10%).

Concurrent with the change in reportable operating segments, we revised our prior period financial information to reflect comparable financial information for the new segment structure. Historical financial information presented herein reflects this change.

Americas

Americas operations sell coffee and other beverages, complementary food, whole bean coffees, and a focused selection of merchandise through company-operated stores and licensed stores. The Americas segment is our most mature business and has achieved significant scale.

Europe, Middle East, and Africa

EMEA operations sell coffee and other beverages, complementary food, whole bean coffees, and a focused selection of merchandise through company-operated stores and licensed stores. Certain markets within EMEA operations are in the early stages of development and require a more extensive support organization, relative to the current levels of revenue and operating income, than Americas.

China / Asia Pacific

China /Asia Pacific operations sell coffee and other beverages, complementary food, whole bean coffees, and a focused selection of merchandise through company-operated stores and licensed stores. Certain markets within China / Asia Pacific operations are in the early stages of development and require a more extensive support organization, relative to the current levels of revenue and operating income, than Americas.

Channel Development

Channel Development operations sell a selection of whole bean and ground coffees as well as a selection of premium Tazo® teas globally. Channel Development operations also produce and sell a variety of ready-to-drink beverages, Starbucks VIA® Ready Brew, Starbucks® coffee and Tazo® tea K-Cup® portion packs, and Starbucks® ice creams. The US foodservice business, which is included in the Channel Development segment, sells coffee and other related

products to institutional foodservice companies.

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Other

Other includes Seattle's Best Coffee, Evolution Fresh, Digital Ventures, and unallocated corporate expenses that pertain to corporate administrative functions that support the operating segments but are not specifically attributable to or managed by any segment, and are not included in the reported financial results of the operating segments.

The tables below presents financial information for our reportable operating segments and Other for the quarter and three quarters ended July 1, 2012 and July 3, 2011, including the reclassifications discussed in Note 1 (in millions):

Quarter Ended

| | Americas | EMEA | China / Asia Pacific | Channel Development | Other | Total |
|---|---|---|---|---|---|---|
| July 1, 2012 | | | | | | |
| Total net revenues | $2,471.2 | $282.0 | $181.8 | $ 316.4 | $52.2 | $3,303.6 |
| Depreciation and amortization expenses | 97.2 | 14.3 | 5.8 | 0.3 | 19.1 | 136.7 |
| Income (loss) from equity investees | — | — | 30.1 | 21.2 | 0.4 | 51.7 |
| Operating income/(loss) | 512.1 | 2.6 | 61.4 | 86.5 | (171.0) | 491.6 |
| July 3, 2011 | | | | | | |
| Total net revenues | $2,275.9 | $257.9 | $138.6 | $ 218.4 | $41.4 | $2,932.2 |
| Depreciation and amortization expenses | 96.3 | 12.4 | 4.6 | 0.5 | 15.7 | 129.5 |
| Income (loss) from equity investees | — | 1.8 | 23.5 | 19.6 | (0.6) | 44.3 |
| Operating income/(loss) | 450.9 | 4.9 | 44.9 | 69.3 | (167.8) | 402.2 |

Three Quarters Ended

| | Americas | EMEA | China / Asia Pacific | Channel Development | Other | Total |
|---|---|---|---|---|---|---|
| July 1, 2012 | | | | | | |
| Total net revenues | $7,424.4 | $857.5 | $523.3 | $ 973.7 | $156.5 | $9,935.4 |
| Depreciation and amortization expenses | 291.4 | 42.8 | 16.4 | 1.0 | 57.0 | 408.6 |
| Income (loss) from equity investees | 2.1 | 0.3 | 90.7 | 55.4 | 0.3 | 148.8 |
| Operating income/(loss) | 1,538.3 | 16.7 | 188.9 | 247.7 | (513.7) | 1,477.9 |
| July 3, 2011 | | | | | | |
| Total net revenues | $6,768.8 | $756.7 | $391.1 | $ 618.3 | $133.8 | $8,668.7 |
| Depreciation and amortization expenses | 292.5 | 37.6 | 13.2 | 1.9 | 40.9 | 386.1 |
| Income (loss) from equity investees | 1.6 | 6.0 | 62.3 | 48.5 | (1.5) | 116.9 |
| Operating income/(loss) | 1,398.1 | 37.8 | 134.6 | 207.5 | (497.7) | 1,280.3 |

The following table reconciles the total of operating income in the table above to consolidated earnings before income taxes (in millions):

| | Quarter Ended | | Three Quarters Ended | |
|---|---|---|---|---|
| | July 1, 2012 | July 3, 2011 | July 1, 2012 | July 3, 2011 |
| Operating income | $491.6 | $402.2 | $1,477.9 | $1,280.3 |
| Interest income and other, net | 9.7 | 16.0 | 68.2 | 50.3 |
| Interest expense | (8.9) | (8.5) | (26.2) | (23.5) |
| Earnings before income taxes | $492.4 | $409.7 | $1,519.9 | $1,307.1 |

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Note 13: Subsequent Event

In the fourth quarter of fiscal 2012, we acquired Bay Bread, LLC and its La Boulange® bakery brand (collectively "La Boulange"), to elevate our core food offerings and build a premium, artisanal bakery brand. We acquired La Boulange for a purchase price of $100 million in cash. Because of the timing of when this acquisition closed, the initial accounting for this acquisition is still in process, including determining the fair value of the net assets acquired. La Boulange is a wholly-owned subsidiary of Starbucks Corporation.

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 income, operating margins, comparable store sales, sales leverage, expenses, dividends, share repurchases, other financial results, capital expenditures, scaling and expansion of international operations, profitable growth opportunities, strategic acquisitions, changes to the organizational and leadership structures, commodity costs and our mitigation strategies, the transition from our distribution arrangement with Kraft to a direct distribution model, liquidity, cash flow from operations, 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 and distribution, tax rates, and economic conditions in the US and international markets all 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.

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 results for the third quarter of fiscal 2012 continue to demonstrate the strength of our financial foundation and diversified growth model. Total net revenues increased 13% to $3.3 billion driven by global comparable store sales growth of 6%, comprised of a 5% increase in traffic and a 2% increase in average ticket. Also contributing to the revenue growth was an increase in revenues from our Channel Development segment (formerly "Global Consumer Products Group" segment) of 45%, driven by the launch of Starbucks® and Tazo® branded K-Cup® portion packs and increased packaged coffee sales due primarily to the launch of Starbucks® Blonde Roast. Diluted earnings per share increased 19% to $0.43, despite continued pressure from commodity costs, which negatively impacted operating income and operating margin by approximately $38 million and 110 basis points, respectively.

The Americas segment performed well for the third quarter with a 9% increase in revenues over the prior year, primarily due to strong comparable store sales growth of 7%, driven by an increase in traffic of 5%. Contributing to

the comparable store sales growth was the continued expansion of our warming program, incremental sales from our new Starbucks® Blonde Roast and continued store efficiencies in the morning daypart. In addition to growth in company-operated stores, revenues from licensed stores grew 24% in the quarter. This success gives us confidence in our licensed operations as we continue to expand our licensed store portfolio. While the growth in our Americas segment remains encouraging, we are mindful of the impact that

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ongoing economic challenges will continue to have on this segment. As a result of a weakened consumer environment in June, while sales and traffic growth continued in our target range, the rate of growth slowed. However, we believe our plans for continued store efficiencies, accelerating new store development, and expanding our pipeline of new product offerings to increase revenues throughout all dayparts will drive growth in the future.

EMEA segment results reflect both the investments we have begun making as part of our transformation plan for the region, as well as the macro-economic headwinds we, and others, face there. We are starting to see the benefit of our consumer driven initiatives, including our focus on improving the quality and local relevancy of our products and overall store experience. While we recognize that this turnaround will not be a quick one, these early indicators are encouraging. Our EMEA segment delivered flat comparable store sales and operating income of $2.6 million for the quarter. We expect the investments we are making will result in improved operating performance as we progress on our plan towards mid-teens operating margin; however, this turnaround will take time to gain traction.

CAP segment revenues increased 31% compared to the same quarter in the prior year, driven by net new store growth and comparable store sales growth of 12%. This segment continues to grow rapidly and is becoming a more meaningful contributor to overall company profitability. We expect continued growth will be from a mix of store openings and comparable store sales growth. China continues to be a significant growth opportunity for us as we remain on track to reach our goal of 1,500 stores in 2015. In addition, other key markets such as Japan, Korea, Thailand, Singapore and Indonesia all continue to be profitable and provide a solid foundation for continued growth in the region.

Our Channel Development segment represents another important, profitable growth opportunity for us. Channel Development results continued to be a solid contributor to overall revenue growth with a 45% increase in revenues primarily due to sales of Starbucks® and Tazo® branded K-Cup® portion packs. High commodity costs continued to be a significant drag on operating margin; however, despite these higher costs, operating income increased $17 million to $86 million for the third quarter of fiscal 2012. We expect continued innovation and new product offerings such as the Verismo™ system by Starbucks and Starbucks Refreshers™ beverages will drive further growth and profitability within this segment over time.

Comparable Store Sales

Comparable store sales for the third quarter and the first three quarters of fiscal 2012 are as follows:

| | Quarter Ended Jul 1, 2012 | | | Three Quarters Ended Jul 1, 2012 | | |
|---|---|---|---|---|---|---|
| | Sales Growth | Change in Transactions | Change in Ticket | Sales Growth | Change in Transactions | Change in Ticket |
| Consolidated | 6% | 5% | 2% | 8% | 6% | 1% |
| Americas | 7% | 5% | 2% | 8% | 6% | 1% |
| EMEA | —% | —% | —% | 1% | —% | —% |
| China / Asia Pacific | 12% | 8% | 4% | 17% | 12% | 4% |

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

Fiscal 2012 — Financial Outlook for the Year

For fiscal year 2012, we expect revenue growth driven by mid-single-digit comparable store sales growth, net new store openings and strong growth in the Channel Development business. Licensed stores will comprise between one-half and two-thirds of new store openings in the Americas, EMEA and China / Asia Pacific regions.

We expect modest consolidated operating margin and EPS improvement compared to fiscal 2011, given our current revenue expectations, along with ongoing higher commodity costs.

We expect increased capital expenditures in fiscal 2012 compared to fiscal 2011, reflecting additional investments in store renovations and in manufacturing capacity.

Fiscal 2013 — Financial Outlook for the Year

For fiscal year 2013, we expect revenue growth driven by mid-single-digit comparable store sales growth, approximately 1,200 net new store openings, and continued strong growth in the Channel Development business.

Licensed stores will comprise approximately one-half of new store openings in the Americas and approximately two-thirds of new store openings in China / Asia Pacific and EMEA.

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We expect full-year consolidated operating margin improvement of 50 to 100 basis points and EPS growth of 15% to 20% compared to fiscal 2012.
We expect approximately $1 billion in capital expenditures in fiscal 2013, reflecting both new store growth and an increase in production capacity to support recently-announced initiatives.

Results of Operations (in millions)
Revenues

| | Quarter Ended | | | Three Quarters Ended | | | |
|---|---|---|---|---|---|---|---|
| | Jul 1, 2012 | Jul 3, 2011 | % Change | Jul 1, 2012 | Jul 3, 2011 | % Change | |
| Company-operated stores | $2,615.6 | $2,417.3 | 8.2 % | $7,868.6 | $7,162.1 | 9.9 | % |
| Licensed stores | 308.2 | 248.7 | 23.9 | 905.1 | 740.8 | 22.2 | |
| CPG, foodservice and other | 379.8 | 266.2 | 42.7 | 1,161.7 | 765.8 | 51.7 | |
| Total net revenues | $3,303.6 | $2,932.2 | 12.7 % | $9,935.4 | $8,668.7 | 14.6 | % |

Total net revenues for the third quarter and the first three quarters of fiscal 2012 increased $371 million and $1.3 billion, respectively, primarily driven by increased revenues from company-operated stores (contributing $198 million and $707 million, respectively). An increase in comparable store sales was the primary driver of the increase in company-operated store revenues for both periods (approximately 6%, or $149 million, for the third quarter and approximately 8%, or $532 million, for the first three quarters).

Also contributing to the increase in total net revenues was higher revenues from licensed stores of $60 million and $164 million, for the third quarter and the first three quarters of fiscal 2012, respectively. These increases were primarily due to higher product sales to and royalty revenues from our licensees, resulting from improved comparable store sales and the opening of 383 net new licensed stores over the last 12 months.
CPG, foodservice and other revenue increased $114 million and $396 million, for the third quarter and the first three quarters of fiscal 2012, respectively. These increases were primarily due to sales of Starbucks® and Tazo® branded K-Cup® portion packs launched in the CPG channel on November 1, 2012 (approximately $55 million for the third quarter and approximately $174 million for the first three quarters). For the third quarter of fiscal 2012, increased packaged coffee sales (approximately $20 million), driven by the launch of Starbucks® Blonde Roast, and increased foodservice revenues (approximately $14 million) also contributed. For the first three quarters of fiscal 2012, the benefit of recognizing full revenue from packaged coffee and tea sales under the direct distribution model (approximately $78 million) and increased foodservice revenues (approximately $43 million) also contributed.
Operating Expenses

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| | Quarter Ended | | | | Three Quarters Ended | | | |
|---|---|---|---|---|---|---|---|---|
| | Jul 1, 2012 | Jul 3, 2011 | Jul 1, 2012 | Jul 3, 2011 | Jul 1, 2012 | Jul 3, 2011 | Jul 1, 2012 | Jul 3, 2011 |
| | | | % of Total Net Revenues | | | | % of Total Net Revenues | |
| Cost of sales including occupancy costs | $1,446.1 | $1,237.5 | 43.8 % | 42.2 % | $4,354.1 | $3,601.0 | 43.8 % | 41.5 % |
| Store operating expenses | 976.0 | 917.1 | 29.5 | 31.3 | 2,928.3 | 2,672.2 | 29.5 | 30.8 |
| Other operating expenses | 105.9 | 100.0 | 3.2 | 3.4 | 317.9 | 289.0 | 3.2 | 3.3 |
| Depreciation and amortization expenses | 136.7 | 129.5 | 4.1 | 4.4 | 408.6 | 386.1 | 4.1 | 4.5 |
| General and administrative expenses | 199.0 | 190.2 | 6.0 | 6.5 | 597.4 | 557.0 | 6.0 | 6.4 |
| Total operating expenses | 2,863.7 | 2,574.3 | 86.7 | 87.8 | 8,606.3 | 7,505.3 | 86.6 | 86.6 |
| Income from equity investees | 51.7 | 44.3 | 1.6 | 1.5 | 148.8 | 116.9 | 1.5 | 1.3 |
| Operating income | $491.6 | $402.2 | 14.9 % | 13.7 % | $1,477.9 | $1,280.3 | 14.9 % | 14.8 % |
| Store operating expenses as a % of related revenues | | | 37.3 % | 37.9 % | | | 37.2 % | 37.3 % |

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Cost of sales including occupancy costs as a percentage of total net revenues increased 160 basis points and 230 basis points for the third quarter and the first three quarters of fiscal 2012, respectively, driven by increased commodity costs (approximately 110 basis points for the third quarter and approximately 210 basis points for the first three quarters), primarily due to higher coffee costs.

Store operating expenses as a percentage of total net revenues decreased 180 basis points for the third quarter and 130 basis points for the first three quarters of fiscal 2012, primarily due to increased Channel Development revenues and licensed store revenues. Store operating expenses as a percentage of company-operated store revenues decreased 60 basis points for the third quarter and 10 basis points for the first three quarters, primarily due to increased sales leverage. For the first three quarters of fiscal 2012, the favorability from increased sales leverage was partially offset by higher debit card transaction fees (approximately 20 basis points).

Other operating expenses as a percentage of total net revenues decreased 20 basis points for the third quarter and 10 basis points for the first three quarters of fiscal 2012. Excluding the impact of company-operated store revenues, other operating expenses decreased 400 basis points for the third quarter and 380 basis points for the first three quarters. The decrease was primarily driven by increased sales leverage for the third quarter. For the first three quarters, the decrease was primarily driven by the absence of charges in fiscal 2012 related to the Seattle's Best Coffee store closures in Borders bookstores (approximately 140 basis points) and increased sales leverage.

Income from equity investees increased $7.4 million for the third quarter and $31.9 million for the first three quarters of fiscal 2012, primarily due to improved performance from our joint venture operations in Japan and China, as well as in our North American Coffee Partnership joint venture which produces, bottles and distributes our ready to drink beverages.

Also contributing to the operating margin favorability for the third quarter and the first three quarters of fiscal 2012 was sales leverage on general and administrative expenses and depreciation and amortization. The combination of these changes resulted in an increase in operating margin of 120 basis points for the third quarter and 10 basis points for the first three quarters of fiscal 2012.

Other Income and Expenses

| | Quarter Ended | | | | Three Quarters Ended | | | |
|---|---|---|---|---|---|---|---|---|
| | Jul 1, 2012 | Jul 3, 2011 | Jul 1, 2012 | Jul 3, 2011 | Jul 1, 2012 | Jul 3, 2011 | Jul 1, 2012 | Jul 3, 2011 |
| | | | % of Total Net Revenues | | | | % of Total Net Revenues | |
| Operating income | $491.6 | $402.2 | 14.9 % | 13.7 % | $1,477.9 | $1,280.3 | 14.9 % | 14.8 % |
| Interest income and other, net | 9.7 | 16.0 | 0.3 | 0.5 | 68.2 | 50.3 | 0.7 | 0.6 |
| Interest expense | (8.9) | (8.5) | (0.3) | (0.3) | (26.2) | (23.5) | (0.3) | (0.3) |
| Earnings before income taxes | 492.4 | 409.7 | 14.9 | 14.0 | 1,519.9 | 1,307.1 | 15.3 | 15.1 |
| Income taxes | 159.1 | 129.9 | 4.8 | 4.4 | 494.2 | 417.2 | 5.0 | 4.8 |
| Net earnings including noncontrolling interests | 333.3 | 279.8 | 10.1 | 9.5 | 1,025.7 | 889.9 | 10.3 | 10.3 |
| Net earnings (loss) attributable to noncontrolling interest | 0.2 | 0.7 | — | — | 0.6 | 2.5 | — | — |
| Net earnings attributable to Starbucks | $333.1 | $279.1 | 10.1 % | 9.5 % | $1,025.1 | $887.4 | 10.3 % | 10.2 % |
| Effective tax rate including noncontrolling interest | | | 32.3 % | 31.7 % | | | 32.5 % | 31.9 % |

For the third quarter and the first three quarters of fiscal 2012, net interest income and other decreased $6 million and increased $18 million, respectively. The decrease in income for the third quarter of fiscal 2012 was primarily due to

the absence of the gain recognized in the third quarter of fiscal 2011 resulting from the sale of our Hong Kong investment. The increase in income for the first three quarters of fiscal 2012 was primarily due to the recognition of additional income associated with unredeemed gifts cards in the second quarter of fiscal 2012 (approximately $29 million), following a recent court ruling related to state unclaimed property laws.

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The effective tax rate for the quarter ended July 1, 2012 was 32.3% compared to 31.7% for the same quarter in fiscal 2011. The increase in the rate was primarily due to benefits recognized in fiscal 2011 from releasing certain tax reserves. The effective tax rate for the three quarters ended July 1, 2012 was 32.5% compared to 31.9% for the same period in fiscal 2011. The increase in the rate was due to benefits recognized in fiscal 2011 from releasing certain tax reserves, partially offset by increased income in certain foreign jurisdictions with lower tax rates in fiscal 2012.

Segment Information

Segment information is prepared on the same basis that our management reviews financial information for operational decision-making purposes. The following tables summarize the results of operations by segment (in millions):

Americas

| | Quarter Ended | | | | Three Quarters Ended | | | |
|---|---|---|---|---|---|---|---|---|
| | Jul 1, 2012 | Jul 3, 2011 | Jul 1, 2012 | Jul 3, 2011 | Jul 1, 2012 | Jul 3, 2011 | Jul 1, 2012 | Jul 3, 2011 |
| | | | % of Americas Net Revenues | | | | % of Americas Net Revenues | |
| Total net revenues | $2,471.2 | $2,275.9 | | | $7,424.4 | $6,768.8 | | |
| Cost of sales including occupancy costs | 965.1 | 880.8 | 39.1 % | 38.7 % | 2,913.4 | 2,602.3 | 39.2 % | 38.4 % |
| Store operating expenses | 858.1 | 813.3 | 34.7 | 35.7 | 2,570.3 | 2,378.9 | 34.6 | 35.1 |
| Other operating expenses | 20.2 | 18.9 | 0.8 | 0.8 | 59.4 | 55.5 | 0.8 | 0.8 |
| Depreciation and amortization expenses | 97.2 | 96.3 | 3.9 | 4.2 | 291.4 | 292.5 | 3.9 | 4.3 |
| General and administrative expenses | 18.5 | 15.7 | 0.7 | 0.7 | 53.7 | 43.1 | 0.7 | 0.6 |
| Total operating expenses | 1,959.1 | 1,825.0 | 79.3 | 80.2 | 5,888.2 | 5,372.3 | 79.3 | 79.4 |
| Income from equity investees | — | — | — | — | 2.1 | 1.6 | — | — |
| Operating income | $512.1 | $450.9 | 20.7 % | 19.8 % | $1,538.3 | $1,398.1 | 20.7 % | 20.7 % |
| Store operating expenses as a % of related revenues | | | 38.0 % | 38.7 % | | | 37.9 % | 38.0 % |

Revenues

Americas total net revenues for the third quarter and the first three quarters of fiscal 2012 increased 9%, or $195 million, and 10%, or $656 million, respectively. These increases were primarily driven by increased revenues from company-operated stores (contributing $154 million for the third quarter and $530 million for the first three quarters) and licensed stores (contributing $41 million for the third quarter and $125 million for the first three quarters).

An increase in comparable store sales was the primary driver of the increase in company-operated store revenues for both periods (approximately 7%, or $139 million, for the third quarter and approximately 8%, or $486 million, for the first three quarters). The increase in licensed store revenues was primarily due to increased product sales to and royalty revenues from licensees (approximately $40 million for the third quarter and approximately $116 million for the first three quarters), primarily resulting from improved comparable store sales.

Operating Expenses

Cost of sales including occupancy costs as a percentage of total net revenues increased 40 basis points and 80 basis points for the third quarter and the first three quarters of fiscal 2012, respectively. These increases were driven by higher commodity costs (approximately 70 basis points for the third quarter and approximately 150 basis points for the first three quarters), primarily due to higher coffee costs, partially offset by increased sales leverage on occupancy costs (approximately 50 basis points for the third quarter and approximately 60 basis points for the first three quarters).

Store operating expenses as a percentage of total net revenues decreased 100 basis points for the third quarter and 50 basis points for the first three quarters of fiscal 2012. Increased licensed stores revenues contributed approximately 30

basis points and approximately 40 basis points for the third quarter and the first three quarters, respectively. Store operating expenses as a percentage of company-operated store revenues decreased 70 basis points for the third quarter and 10 basis points for the first three quarters of fiscal 2012. These decreases were primarily due to increased sales leverage. For the third quarter, decreased

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marketing expenses (approximately 30 basis points) partially offset by higher debit card transaction fees (approximately 10 basis points) also contributed. For the first three quarters, the increased sales leverage was partially offset by higher debit card transaction fees (approximately 30 basis points).

Also contributing to the change in operating margin for the third quarter and the first three quarters of fiscal 2012 was increased sales leverage resulting in lower depreciation and amortization expenses as a percentage of total net revenues (contributing 30 basis points for the third quarter and 40 basis points for the first three quarters). The combination of these changes resulted in an overall increase in operating margin of 90 basis points for the third quarter of fiscal 2012. Operating margin for the first three quarters of fiscal 2012 did not change from the same period in the prior year.

EMEA

| | Quarter Ended | | | | Three Quarters Ended | | | |
|---|---|---|---|---|---|---|---|---|
| | Jul 1, 2012 | Jul 3, 2011 | Jul 1, 2012 | Jul 3, 2011 | Jul 1, 2012 | Jul 3, 2011 | Jul 1, 2012 | Jul 3, 2011 |
| | | | % of EMEA Net Revenues | | | | % of EMEA Net Revenues | |
| Total net revenues | $282.0 | $257.9 | | | $857.5 | $756.7 | | |
| Cost of sales including occupancy costs | 149.8 | 133.1 | 53.1 % | 51.6 % | 444.2 | 377.4 | 51.8 % | 49.9 % |
| Store operating expenses | 88.2 | 82.1 | 31.3 | 31.8 | 274.0 | 236.3 | 32.0 | 31.2 |
| Other operating expenses | 8.4 | 9.0 | 3.0 | 3.5 | 26.0 | 24.9 | 3.0 | 3.3 |
| Depreciation and amortization expenses | 14.3 | 12.4 | 5.1 | 4.8 | 42.8 | 37.6 | 5.0 | 5.0 |
| General and administrative expenses | 18.7 | 18.2 | 6.6 | 7.1 | 54.1 | 48.7 | 6.3 | 6.4 |
| Total operating expenses | 279.4 | 254.8 | 99.1 | 98.8 | 841.1 | 724.9 | 98.1 | 95.8 |
| Income from equity investees | — | 1.8 | — | 0.7 | 0.3 | 6.0 | — | 0.8 |
| Operating income | $2.6 | $4.9 | 0.9 % | 1.9 % | $16.7 | $37.8 | 1.9 % | 5.0 % |
| Store operating expenses as a % of related revenues | | | 37.2 % | 37.0 % | | | 37.3 % | 36.1 % |

Revenues

EMEA total net revenues for the third quarter and the first three quarters of fiscal 2012 increased 9%, or $24 million, and 13%, or $101 million, respectively, primarily driven by increased revenues from company-operated stores (contributing $15 million for the third quarter and $80 million for the first three quarters). These increases in company-operated store revenues were primarily due to the acquisition of the remaining interest in our previous joint venture operations in Switzerland and Austria in the fourth quarter of fiscal 2011 (approximately $25 million for the third quarter and approximately $80 million for the first three quarters), partially offset by unfavorable foreign currency fluctuations (approximately $12 million for the third quarter and approximately $19 million for the first three quarters). An increase in licensed store revenues also contributed (contributing $7 million for the third quarter and $18 million for the first three quarters).

Operating Expenses

Cost of sales including occupancy costs as a percentage of total net revenues increased 150 basis points for the third quarter and 190 basis points for the first three quarters of fiscal 2012. These increases were primarily driven by higher costs related to the transition to a consolidated food and dairy distribution model in the UK (approximately 180 basis points for both periods), which are expected to decline over time as the full benefits of the transition are realized. Also contributing to the increases were higher commodity costs (approximately 30 basis points for the third quarter and approximately 40 basis points for the first three quarters), primarily coffee.

Store operating expenses as a percentage of total net revenues decreased 50 basis points for the third quarter and increased 80 basis points for the first three quarters of fiscal 2012. Increased licensed stores revenues contributed approximately 70 basis points and approximately 40 basis points for the third quarter and the first three quarters, respectively. Store operating expenses as a percentage of company-operated store revenues increased 20 basis points for the third quarter and 120 basis points for the

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first three quarters of fiscal 2012. These increases were primarily driven by the loss of sales leverage on salaries and benefits expenses. For the third quarter, the loss of sales leverage on salaries and benefits expenses was partially offset by lower business taxes (approximately 110 basis points).

Other operating expenses as a percentage of total net revenues decreased 50 basis points and 30 basis points for the third quarter and the first three quarters of fiscal 2012, respectively. These increases were primarily driven by increased sales leverage from higher licensed store revenues.

Income from equity investees declined to $0 million for the third quarter and $0.3 million for the first three quarters of fiscal 2012, due to the acquisition of the remaining interest in our previous joint venture operations in Switzerland and Austria.

The above changes contributed to a decrease in operating margin of 100 basis points for the third quarter and 310 basis points for the first three quarters of fiscal 2012.

China / Asia Pacific

| | Quarter Ended | | | | Three Quarters Ended | | | |
|---|---|---|---|---|---|---|---|---|
| | Jul 1, 2012 | Jul 3, 2011 | Jul 1, 2012 % of CAP Net Revenues | Jul 3, 2011 | Jul 1, 2012 | Jul 3, 2011 | Jul 1, 2012 % of CAP Net Revenues | Jul 3, 2011 |
| Total net revenues | $181.8 | $138.6 | | | $523.3 | $391.1 | | |
| Cost of sales including occupancy costs | 91.5 | 69.7 | 50.3 % | 50.3 % | 262.7 | 198.3 | 50.2 % | 50.7 % |
| Store operating expenses | 29.7 | 21.7 | 16.3 | 15.7 | 84.0 | 57.0 | 16.1 | 14.6 |
| Other operating expenses | 11.3 | 10.3 | 6.2 | 7.4 | 32.4 | 26.2 | 6.2 | 6.7 |
| Depreciation and amortization expenses | 5.8 | 4.6 | 3.2 | 3.3 | 16.4 | 13.2 | 3.1 | 3.4 |
| General and administrative expenses | 12.2 | 10.9 | 6.7 | 7.9 | 29.6 | 24.1 | 5.7 | 6.2 |
| Total operating expenses | 150.5 | 117.2 | 82.8 | 84.6 | 425.1 | 318.8 | 81.2 | 81.5 |
| Income from equity investees | 30.1 | 23.5 | 16.6 | 17.0 | 90.7 | 62.3 | 17.3 | 15.9 |
| Operating income | $61.4 | $44.9 | 33.8 % | 32.4 % | $188.9 | $134.6 | 36.1 % | 34.4 % |
| Store operating expenses as a % of related revenues | | | 24.4 % | 23.3 % | | | 24.0 % | 22.5 % |

Revenues

China / Asia Pacific total net revenues for the third quarter and the first three quarters of fiscal 2012 increased 31%, or $43 million, and 34%, or $132 million, respectively, primarily driven by increased revenues from company-operated stores (contributing $29 million for the third quarter and $97 million for the first three quarters). Also contributing to the increase in revenues was an increase in licensed store revenues, driven by increased royalty revenues from and product sales to licensees (approximately $14 million for the third quarter and approximately $30 million for the first three quarters).

The increase in company-operated store revenues was primarily due to the opening of 116 net new stores in the past 12 months (approximately $18 million for the third quarter and approximately $51 million for the first three quarters)

and an increase in comparable store sales (approximately 12%, or $11 million, for the third quarter and approximately 17%, or $42 million, for the first three quarters).

Operating Expenses

Cost of sales including occupancy costs as a percentage of total net revenues did not change for the third quarter of fiscal 2012 and decreased 50 basis points for the first three quarters of fiscal 2012. For the third quarter of fiscal 2012, increased sales leverage on occupancy costs offset increased commodity costs (approximately 90 basis points). For the first three quarters of fiscal 2012, increased sales leverage on occupancy costs was partially offset by increased commodity costs (approximately 140 basis points). Higher coffee costs drove the increase in commodity costs for both periods.

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Store operating expenses as a percentage of total net revenues increased 60 basis points and 150 basis points for the third quarter and the first three quarters of fiscal 2012, respectively. These increases were primarily driven by increased costs associated with the expansion efforts of company-operated stores in mainland China.
Other operating expenses as a percentage of total net revenues decreased 120 basis points and 50 basis points for the third quarter and the first three quarters of fiscal 2012, respectively. These increases were primarily driven by increased sales leverage from higher licensed store revenues.
Income from equity investees increased $7 million for the third quarter and $28 million for the first three quarters of fiscal 2012, driven by improved performance of our joint venture operations in Japan and China.
The changes in the above line items combined with sales leverage on general and administrative expenses (approximately 120 basis points for the third quarter and approximately 50 basis points for the first three quarters) and depreciation and amortization (approximately 10 basis points for the third quarter and approximately 30 basis points for the first three quarters), contributed to an overall increase in operating margin of 140 basis points for the third quarter and an increase of 170 basis points for the first three quarters of fiscal 2012.

Channel Development

| | Quarter Ended | | | | Three Quarters Ended | | | |
|---|---|---|---|---|---|---|---|---|
| | Jul 1, 2012 | Jul 3, 2011 | Jul 1, 2012 | Jul 3, 2011 | Jul 1, 2012 | Jul 3, 2011 | Jul 1, 2012 | Jul 3, 2011 |
| | | | % of Channel Development Net Revenues | | | | % of Channel Development Net Revenues | |
| Total net revenues | $316.4 | $218.4 | | | $973.7 | $618.3 | | |
| Cost of sales | 201.1 | 128.0 | 63.6 % | 58.6 % | 626.5 | 347.9 | 64.3 % | 56.3 % |
| Other operating expenses | 47.8 | 38.2 | 15.1 | 17.5 | 147.3 | 104.8 | 15.1 | 16.9 |
| Depreciation and amortization expenses | 0.3 | 0.5 | 0.1 | 0.2 | 1.0 | 1.9 | 0.1 | 0.3 |
| General and administrative expenses | 1.9 | 2.0 | 0.6 | 0.9 | 6.6 | 4.7 | 0.7 | 0.8 |
| Total operating expenses | 251.1 | 168.7 | 79.4 | 77.2 | 781.4 | 459.3 | 80.3 | 74.3 |
| Income from equity investees | 21.2 | 19.6 | 6.7 | 9.0 | 55.4 | 48.5 | 5.7 | 7.8 |
| Operating income | $86.5 | $69.3 | 27.3 % | 31.7 % | $247.7 | $207.5 | 25.4 % | 33.6 % |

Revenues
Total Channel Development net revenues for the third quarter and the first three quarters of fiscal 2012 increased 45%, or $98 million, and 58%, or $355 million, respectively, primarily due to sales of Starbucks® and Tazo® branded K-Cup® portion packs (approximately $55 million for the third quarter and approximately $174 million for the first three quarters). For the third quarter, increased packaged coffee sales (approximately $20 million), primarily driven by the launch of Starbucks® Blonde Roast, also contributed. For the first three quarters, the benefit of recognizing full revenue from packaged coffee and tea sales under the direct distribution model through the second quarter of fiscal 2012 (approximately $70 million) and increased foodservice revenues (approximately $29) million also contributed. The fiscal third quarter marks the first full year-over-year comparison period under the direct distribution model. Accordingly, the change to the direct distribution model did not impact the third quarter of fiscal 2012.
Operating Expenses

Cost of sales as a percentage of total net revenues increased 500 basis points for the third quarter and 800 basis points for the first three quarters of fiscal 2012, respectively, driven by increased commodity costs (approximately 500 basis points for the third quarter and approximately 690 basis points for the first three quarters), primarily due to higher coffee costs.

Other operating expenses as a percentage of total net revenues decreased 240 basis points for the third quarter and 180 basis points for the first three quarters of fiscal 2012. These decreases were primarily due to increased sales leverage largely related to increased revenues from the addition of Starbucks® and Tazo® branded K-Cup® packs.

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Income from equity investees increased $2 million for the third quarter and $7 million for the first three quarters of fiscal 2012, driven by increased income of our North American Coffee Partnership joint venture.

The changes in the above line items combined with sales leverage on general and administrative expenses (approximately 30 basis points for the third quarter and approximately 10 basis points for the first three quarters) and depreciation and amortization (approximately 10 basis points for the third quarter and approximately 20 basis points for the first three quarters), contributed to an overall decrease in operating margin of 440 basis points for the third quarter and 820 basis points for the first three quarters of fiscal 2012.

Other

| | Quarter Ended | | | Three Quarters Ended | | |
|---|---|---|---|---|---|---|
| | Jul 1, 2012 | Jul 3, 2011 | % Change | Jul 1, 2012 | Jul 3, 2011 | % Change |
| Total net revenues | $52.2 | $41.4 | 26.1 % | $156.5 | $133.8 | 17.0 % |
| Cost of sales | 38.6 | 25.9 | 49.0 | 107.3 | 75.1 | 42.9 |
| Other operating expenses | 18.2 | 23.6 | (22.9) | 52.8 | 77.6 | (32.0) |
| Depreciation and amortization expenses | 19.1 | 15.7 | 21.7 | 57.0 | 40.9 | 39.4 |
| General and administrative expenses | 147.7 | 143.4 | 3.0 | 453.4 | 436.4 | 3.9 |
| Total operating expenses | 223.6 | 208.6 | 7.2 | 670.5 | 630.0 | 6.4 |
| Income/(loss) from equity investees | 0.4 | (0.6) | nm | 0.3 | (1.5) | nm |
| Operating loss | $(171.0) | $(167.8) | 1.9 % | $(513.7) | $(497.7) | 3.2 % |

Other includes operating results from Seattle's Best Coffee, Evolution Fresh, Digital Ventures, and expenses pertaining to corporate administrative functions that support our operating segments but are not specifically attributable to, or managed by, any segment and are not included in the reported financial results of the operating segments.

Total Other net revenues for the third quarter and the first three quarters of fiscal 2012 increased $11 million and $23 million, respectively, primarily due to incremental revenues from Evolution Fresh, which was acquired during the first quarter of fiscal 2012.

Total operating expenses increased $15 million and $41 million for the third quarter and the first three quarters of fiscal 2012, respectively. These increases in expenses were primarily due to increased cost of sales resulting from higher commodity costs, primarily coffee, and higher general and administrative expenses to support the growth of the business.

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Fiscal Third Quarter 2012 Store Data

Our store data for the periods presented is as follows:

| | Net stores opened/(closed) during the period | | | | | |
|---|---|---|---|---|---|---|
| | Quarter Ended | | Three Quarters Ended | | Stores open as of | |
| | Jul 1, 2012 | Jul 3, 2011 | Jul 1, 2012 | Jul 3, 2011 | Jul 1, 2012 | Jul 3, 2011 |
| Americas | | | | | | |
| Company-operated stores | 47 | — | 83 | 4 | 7,706 | 7,584 |
| Licensed stores | 36 | 52 | 171 | (105) | 4,947 | 4,939 |
| | 83 | 52 | 254 | (101) | 12,653 | 12,523 |
| EMEA | | | | | | |
| Company-operated stores [1] | 2 | 15 | 7 | 21 | 903 | 891 |
| Licensed stores [1] | 34 | 21 | 71 | 55 | 933 | 839 |
| | 36 | 36 | 78 | 76 | 1,836 | 1,730 |
| China / Asia Pacific | | | | | | |
| Company-operated stores | 32 | 14 | 95 | 52 | 607 | 491 |
| Licensed stores | 80 | 53 | 221 | 133 | 2,555 | 2,274 |
| | 112 | 67 | 316 | 185 | 3,162 | 2,765 |
| Total | 231 | 155 | 648 | 160 | 17,651 | 17,018 |

(1) EMEA store data has been adjusted for the acquisition of store locations in Austria and Switzerland in the fourth quarter of fiscal 2011, by reclassifying historical information from Licensed stores to Company-operated stores.

Financial Condition, Liquidity and Capital Resources

Investment Overview

Starbucks cash and short-term investments totaled $2.5 billion and $2.1 billion as of July 1, 2012 and October 2, 2011, respectively. As of July 1, 2012, approximately $663.5 million of cash was held in foreign subsidiaries. Of our cash held in foreign subsidiaries, $335.8 million is denominated in the US dollar. We actively manage our cash and short-term 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 short-term investments consist predominantly of US Treasury securities, commercial paper, corporate bonds, US Agency securities, and certificates of deposit.

Our portfolio of long-term available for sale securities consists predominantly of high investment-grade corporate bonds, diversified among industries and individual issuers, as well as certificates of deposits. We also have investments in auction rate securities (“ARS”), all of which are classified as long-term. ARS totaling $28.4 million and $28.0 million were outstanding as of July 1, 2012 and October 2, 2011, respectively.

Borrowing Capacity

Starbucks $500 million unsecured credit facility is available for working capital, capital expenditures and other corporate purposes, including acquisitions and share repurchases. 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 July 1, 2012 and October 2, 2011, we were in compliance with each of these covenants. The $550 million of 10-year 6.25% Senior Notes 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 July 1, 2012 and October 2, 2011, we were in compliance with each of these covenants.

Use of Cash

We expect to use our cash and short-term investments, including any potential future borrowings under the credit facility and our commercial paper program, to invest in our core businesses, including product innovations and related marketing support, and 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

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future. However, in the event that we need to repatriate all or a portion of our international cash to the US we would be subject to additional US income taxes.

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.

As discussed further in Note 11, we are in arbitration with Kraft Foods Global, Inc. (“Kraft”) for a commercial dispute relating to a distribution agreement we previously held with Kraft. As a part of those proceedings Kraft has claimed damages inclusive of a premium and interest for terminating the arrangement. We believe we have valid claims of material breach by Kraft under the Agreement. We also believe Kraft’s claim is highly inflated and based upon faulty analysis. However, should the arbitration result in an unfavorable outcome, we believe we have adequate liquidity.

Other than normal operating expenses, cash requirements for the remainder of fiscal 2012 are expected to consist primarily of capital expenditures for remodeling and refurbishment of, and equipment upgrades for, existing company-operated stores; systems and technology investments in the stores and in the support infrastructure; new company-operated stores; and additional investments in manufacturing capacity. Total capital expenditures for fiscal 2012 are expected to be approximately $900 million.

During the third quarter of fiscal 2012, Starbucks Board of Directors declared a quarterly cash dividend to shareholders of $0.17 per share to be paid on August 24, 2012 to shareholders of record as of the close of business on August 8, 2012. Starbucks repurchased 0.4 million shares of common stock ($15.7 million) during the first three quarters of fiscal 2012 under share repurchase authorizations. The number of remaining shares authorized for repurchase as of July 1, 2012 totaled 24.0 million.

Cash Flows

Cash provided by operating activities was $1.1 billion for the first three quarters of fiscal 2012, compared to $1.1 billion for the same period in fiscal 2011. Higher net earnings for the period were offset by increased payments on accounts payable.

Cash used by investing activities for the first three quarters of fiscal 2012 totaled $684.2 million, compared to $217.0 million for the same period in fiscal 2011. The increase was primarily due to the net investment of cash into new investment securities. An increase in capital expenditures, primarily for remodeling and renovating existing company-operated stores and opening new retail stores, and cash paid to acquire Evolution Fresh also contributed.

Cash used by financing activities for the first three quarters of fiscal 2012 totaled $88.5 million, compared to $367.4 million for the same period in fiscal 2011. The decrease was primarily due to a decrease in common share repurchases in the first three quarters of fiscal 2012 and an increase in the excess tax benefit from exercise of stock options, as a result of more option exercises during the period. The overall decrease was partially offset by an increase in cash returned to shareholders through higher dividend payments.

Contractual Obligations

There have been no material changes during the period covered by this 10-Q, outside of the ordinary course of our business, to the contractual obligations specified in the table of contractual obligations included in Management’s Discussion and Analysis of Financial Condition and Results of Operations included in the 10-K.

Off-Balance Sheet Arrangements

We have no material off-balance sheet arrangements.

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

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Our business is subject to seasonal fluctuations, including fluctuations resulting from the holiday season. 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 received as Starbucks Cards are purchased and loaded 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 in 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.

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 2012, 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 (July 1, 2012).

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, respectively, to this 10-Q.

PART II — OTHER INFORMATION

Item 1. Legal Proceedings

In the first quarter of fiscal 2011, Starbucks notified Kraft Foods Global, Inc. ("Kraft") that we were discontinuing our distribution arrangement with Kraft on March 1, 2011 due to material breaches by Kraft of its obligations under the Supply and License Agreement between the Company and Kraft, dated March 29, 2004 (the "Agreement"), which defined the main distribution arrangement between the parties. Through our arrangement with Kraft, Starbucks sold a selection of Starbucks and Seattle's Best Coffee branded packaged coffees in grocery and warehouse club stores throughout the US, and to grocery stores in Canada, the UK and other European countries. Kraft managed the distribution, marketing, advertising and promotion of these products.

Kraft denies it has materially breached the Agreement. On November 29, 2010, Starbucks received a notice of arbitration from Kraft putting the commercial dispute between the parties into binding arbitration pursuant to the terms of the Agreement. In addition to denying it materially breached the Agreement, Kraft further alleges that if Starbucks wished to terminate the Agreement it must compensate Kraft as provided in the Agreement in an amount equal to the fair value of the Agreement, with an additional premium of up to 35% under certain circumstances.

On December 6, 2010, Kraft commenced a federal court action against Starbucks, entitled Kraft Foods Global, Inc. v. Starbucks Corporation, in the U.S. District Court for the Southern District of New York (the “District Court”) seeking

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injunctive relief to prevent Starbucks from terminating the distribution arrangement until the parties' dispute is resolved through the arbitration proceeding. On January 28, 2011, the District Court denied Kraft's request for injunctive relief. Kraft appealed the District Court's decision to the Second Circuit Court of Appeals. On February 25, 2011, the Second Circuit Court of Appeals affirmed the District Court's decision. As a result, Starbucks is in full control of our packaged coffee business as of March 1, 2011.

While Starbucks believes we have valid claims of material breach by Kraft under the Agreement that allowed us to terminate the Agreement and certain other relationships with Kraft without compensation to Kraft, there exists the possibility of material adverse outcomes to Starbucks in the arbitration or to resolve the matter. Although Kraft disclosed to the press and in federal court filings a $750 million offer Starbucks made to Kraft in August 2010 to avoid litigation and ensure a smooth transition of the business, the figure is not a proper basis upon which to estimate a possible outcome of the arbitration but was based upon facts and circumstances at the time. Kraft rejected the offer immediately and did not provide a counter-offer, effectively ending the discussions between the parties with regard to any payment. Moreover, the offer was made prior to our investigation of Kraft's breaches and without consideration of Kraft's continuing failure to comply with material terms of the agreements.

On April 2, 2012, Starbucks and Kraft exchanged expert reports regarding alleged damages on their affirmative claims. Starbucks claims damages of up to $62.9 million from the loss of sales resulting from Kraft's failure to use commercially reasonable efforts to market Starbucks® coffee, plus attorney fees. Kraft's expert opined that the fair market value of the Agreement was $1.9 billion. After applying a 35% premium and 9% interest, Kraft claims damages of up to $2.9 billion, plus attorney fees. The arbitration commenced on July 11, 2012 and is in progress. It is possible the arbitration may extend beyond the originally scheduled timeframe and, based on scheduling constraints, the timing of a decision may extend into fiscal 2013.

At this time, Starbucks believes an unfavorable outcome with respect to the arbitration is not probable, but as noted above is reasonably possible. As also noted above, Starbucks believes we have valid claims of material breach by Kraft under the Agreement that allowed us to terminate the Agreement without compensation to Kraft. In addition, Starbucks believes Kraft's damage estimates are highly inflated and based upon faulty analysis. As a result, we cannot reasonably estimate the possible loss. Accordingly, no loss contingency has been recorded for this matter.

Starbucks is party to various other legal proceedings arising in the ordinary course of business, including certain employment litigation cases that have been certified as class or collective actions, but, except as noted above, 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.

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

Starbucks did not repurchase any shares during the third quarter of fiscal 2012. As of the end of the quarter, the maximum number of shares that may yet be purchased under our current share repurchase program was 24,015,356 shares. Our share repurchase program is conducted under authorizations made from time to time by our Board of Directors. On March 24, 2010 we publicly announced the authorization of up to an additional 15 million shares; on November 15, 2010 we publicly announced the authorization of up to an additional 10 million shares; and on November 3, 2011 we publicly announced the authorization of up to an additional 20 million shares. These authorizations have no expiration date.

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Item 6. Exhibits

| Exhibit No. | Exhibit Description | Incorporated by Reference | | | | Filed Herewith |
|---|---|---|---|---|---|---|
| | | Form | File No. | Date of First Filing | Exhibit | |
| 31.1 | Certification of Principal Executive Officer Pursuant to Rule 13a-14 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 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 USC. 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 July 1, 2012, formatted in XBRL: (i) Condensed Consolidated Statements of Earnings, (ii) Condensed Consolidated Balance Sheets, (iii) Condensed Consolidated Statements of Cash Flows and (iv) 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.

August 2, 2012

STARBUCKS CORPORATION

By: /s/ Troy Alstead
Troy Alstead
chief financial officer
and chief administrative officer
Signing on behalf of the registrant and as
principal financial officer